



SLOVENIAN SOVEREIGN HOLDING

# ANNUAL REPORT – MANAGEMENT OF CAPITAL ASSETS OF RS AND SSH FOR 2016

SSH Report to National Assembly of RS







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## **ANNUAL REPORT - MANAGEMENT OF CAPITAL ASSETS OF RS AND SSH FOR 2016**

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

Ljubljana, October 2017



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## KEY HIGHLIGHTS FOR 2016

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**55** active capital assets  
owned by RS in 2016.

**EUR 9,629,202,985**  
is the book value of shareholdings  
pertaining to RS capital assets as of  
31 December 2016.

ROE of RS portfolio  
amounted to

**5.7 %**  
in 2016.

The amount of dividends paid out to RS in 2017  
(for the financial year of 2016) amounted to

**EUR 211,125,192.**

From **2013** up to the September of **2017**,  
**11** significant SOEs were sold: Elan, d. d., Fotona, d. d.,  
Helios, d. d., Aerodrom Ljubljana, d. d., Letrika, d. d.,  
Žito, d. d., Nova KBM, d. d., Adria Airways Tehnika, d. d.,  
Adria Airways, d. d., Paloma, d. d., Cimos, d. d.

From 1 January 2016 until 31 December 2016, **117** General Meetings  
of Shareholders were executed and the founder's resolutions were  
passed in companies with capital assets of SSH or RS.

# 26

active capital assets  
owned by SSH in  
2016.

## EUR 818,973,832

is the book value of shareholdings  
pertaining to SSH capital assets as of  
31 December 2016.

ROE of SSH portfolio amounted to

## 9.9 %

in 2016.

The amount of dividends paid out to SSH in 2017  
(for the financial year of 2016) amounted to

## EUR 45,924,487.

## 19.5 %

of women were members  
of Supervisory Boards of SOEs,

while only **9.7 %** of women  
were members of Management  
Boards of SOEs in 2016.

SSH organized **14** free-of-charge  
monthly training sessions for  
members of Supervisory Boards of  
SOEs in 2016.

ROE of combined RS's and  
SSH's portfolios amounted to  
**6.0%** in **2016**.

The total book-value of capital assets in direct  
ownership of RS and SSH, amounted to  
**EUR 10.4 billion** at the end of 2016.

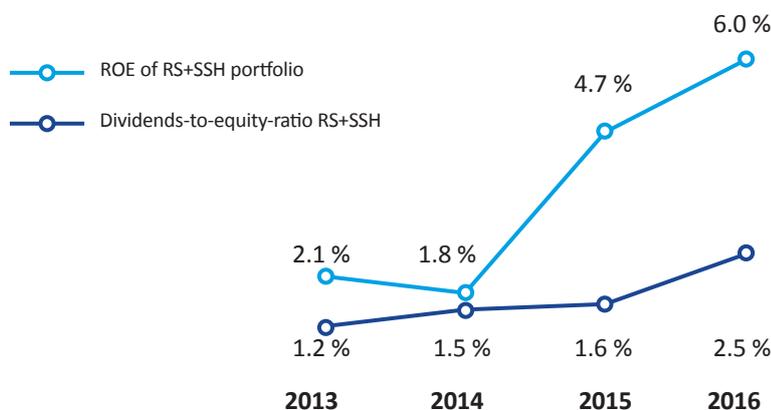


## KEY PERFORMANCE HIGHLIGHTS - ENTERPRISES DIRECTLY OWNED BY THE REPUBLIC OF SLOVENIA AND SLOVENIAN SOVEREIGN HOLDING

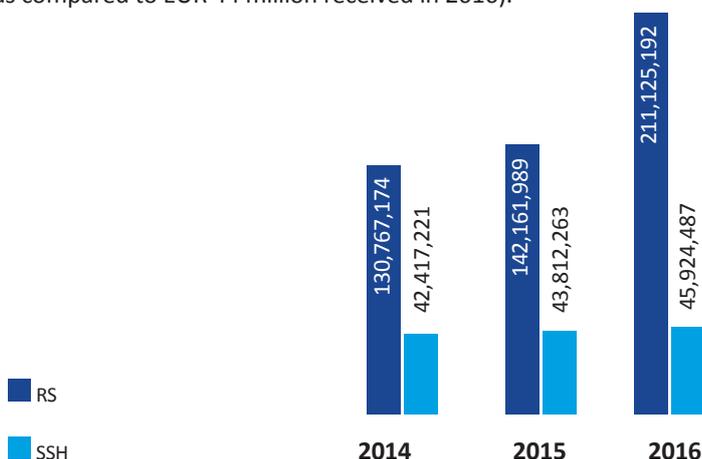
As of 31 December 2016, Slovenian Sovereign Holding managed capital assets owned by RS and SSH in **98 enterprises**. Out of this number, there were **68 active capital assets** and 3 mutual funds owned by RS and SSH, in addition to 27 inactive capital assets, that is companies in bankruptcy proceedings or in liquidation. In 2016, equity stakes were sold in the following companies: Adria Airways, Nova KBM, together with seven smaller (portfolio) capital assets.

In 2016, the value of RS capital assets, measured at the book-keeping value, decreased by EUR 1.2 billion to amount to EUR 9.6 billion, which was mainly the result of the sale of stake in Nova KBM and of the modification of the recording of the management of RS's asset in KAD. The value of SSH capital assets increased by EUR 38.1 million to amount to EUR 819 million. **The total value of capital assets** in direct ownership of RS and SSH thus amounted to **EUR 10.4 billion** as of 31 December 2016.

**Net ROE** of the portfolio of companies in direct ownership of RS and SSH repeatedly increased in 2016. Taking into account one-off events considered in the calculation of ROE for 2015, ROE of RS's direct assets in the portfolio increased by 1.5 percentage points, rising to 5.7 %, while ROE of the SSH portfolio of direct assets slightly decreased, i.e., by 0.2 percentage points, to stand at 9.9%; and, ROE of the total portfolio of state capital assets under SSH management increased from 4.7 % to **6.0%**.



The **dividend paid-outs** increased substantially. The dividend revenue received by RS hit a record high in 2017 - for the financial year of 2016, RS received dividends in the amount of EUR 211 million (as compared to EUR 142 million in 2015), whereas SSH received dividends in the amount of EUR 46 million (as compared to EUR 44 million received in 2015).



## LETTER BY SSH MANAGEMENT BOARD

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At the end of 2015 when the following important documents were adopted: State Assets Management Strategy, Criteria for Measuring Performance of SOEs and Asset Management Annual Plan, the formation of the corporate governance system for SOEs in Slovenia was completed and the quality of the system is now expected to be improved in the future. These key documents have provided SSH with the relevant basis for pursuing the role of an active owner who sets goals to its companies on an annual basis (Asset Management Annual Plan) and oversees the attainment of these goals. The State is an important shareholder/company member in numerous important Slovenian companies which is why SSH 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**

In order to realise 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.

The data regarding the performance of companies for 2016 show that after 2015 the growth in the profitability of equity stakes of RS and SSH continued in 2016, approaching the target ROE indicators set in the State Assets Management Strategy. The total ROE of RS's and SSH's portfolios amounted to 4.7 % in 2015 while it increased to 6.0% in 2016. It is worth pointing out that high returns on equity for both portfolios have been achieved despite the fact that the RS's portfolio includes two thirds of strategic assets whose priority is the attainment of strategic goals, that is, the realisation of important social interest such as the provision of the relevant level and accessibility of infrastructure, rendering public services, ensuring security objectives, development objectives and the realisation of other significant social interest. The State Assets Management Strategy has set strategic goals for companies with state capital assets which have been defined as strategic or important and an overall economic objective in regard to state capital assets in the form of targeted profitability of the portfolio. It must be taken into account that both of the above mentioned objectives - the attainment of certain strategic goals which are often connected with public funds, and high profitability - are often mutually exclusive which hampers the attainment of high profitability arising from the state capital assets portfolio.

In addition to good work carried out by Management Boards, Supervisory Boards and employees employed in SOEs, improved economic conditions also contributed to the successful business performance of companies under SSH management (3.1% GDP growth in 2016, increased employment and household spending), and following extensive capital increases in banks in the 2013-2015 period, the two largest state-owned banks started to show good results, paying out record-high dividends for 2016. Asset management related results are good only from the aspect of the growth in the profitability of equity stakes in regard to previous years but also from the aspect of dividend pay-outs. The profitability of some significant companies from the portfolio grew faster when compared to benchmarked companies. This demonstrates the role of SSH functioning as an active owner which, while paying attention to development goals of companies and with specific knowledge of their operations, sets ambitious goals to companies and oversees their achievement.

**Successfully closed processes of sale and activities for acquisition of capital assets.**

By the end of 2016, eight companies were sold which were stated on the list of 15 companies to be sold and which was approved by the National Assembly in 2013. In 2016, shares in Adria Airways, d. d., were sold, and the sale of Nova KBM, d. d. was also finally completed. SSH also sold minor assets held in seven companies which have been defined as portfolio assets.

In 2017, two important transactions were also closed, specifically the sales of shares of Paloma, d. d., and of Cimos, d. d. SSH took part in activities connected with the process of transforming the legal organizational status of Geoplin, d. o. o., and signed an Equity Swap



**Lidija Glavina,**  
*President of the Management Board*



**Mag. Nada Drobne Popovič,**  
*MSc, Member of the Management Board*

Agreement (not yet realised) on the basis of which Petrol, d. d., will become a majority owner of Geoplin, d. o. o. and RS a majority owner of Plinovodi, d. o. o. with RS maintaining a 25-ownership stake in Geoplin, d. o. o., Ljubljana.

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

The largest asset in regard to which, in 2016 and in the first half of 2017, SSH intensively pursued preparatory activities in connection with its sale is Nova Ljubljanska banka, d. d. which is wholly owned by RS. In the process for the initial public offering (“IPO”) of the NLB Share, the SSH General Meeting, represented by the Government of the Republic of Slovenia, refused to grant its consents to the minimum offer price and to the offer price range for the share of Nova Ljubljanska banka, d. d. which is why SSH did not continue the process of the sale.

**In 2017, RS received the total of EUR 200 million of dividends.**

From the aspect of dividends received, 2017 was a record-hitting year. For the financial year of 2016, companies with RS’s direct ownership stake and managed by SSH paid out dividends in the amount of EUR 211 million, which was by EUR 69 million or 49% more than in the preceding year. The highest dividends were paid out by both banks wholly owned by the state, i.e. Abanka, d. d., and NLB, d. d., specifically, the total of EUR 133 million. On account of the participation in the profit generated by companies in which SSH holds ownership stake, in 2017 (for FY 2016), SSH received dividends amounting to EUR 46 million or by EUR 2.1 million (4.8 %) more than in the preceding year.

**In the future, the main focus will be placed on the quality of asset management, on providing support for transformation of companies and on attaining goals set.**

Slovenian Sovereign Holding is highly active in implementing its most important mission, 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, 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.

SSH regularly strives to improve the quality and analytical value of information system platforms 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.

Numerous companies in SSH’s portfolio face great changes due to (digital) transformations. Thus, in 2016, some important companies, with the support given by SSH, adopted revised strategies with the focus on business transformations and within this scope digitalization aimed at maintaining competitiveness in an increasingly demanding and complex business environment. The attainment of ambitious goals and the maintenance of competitiveness of numerous companies will not be possible only by implementing gradual changes but a decisive transformation will be needed in terms of strategies, business models, organisation, processes and personnel at all levels of an organization. SSH will continue to provide support to all companies from the portfolio to tackle such turning point in an efficient manner in order to provide for long-term growth and employment.



# VISION, MISSION, STRATEGIC POLICIES, OBJECTIVES AND VALUES

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## Vision

Generating value from capital assets for the owner.

## Mission

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

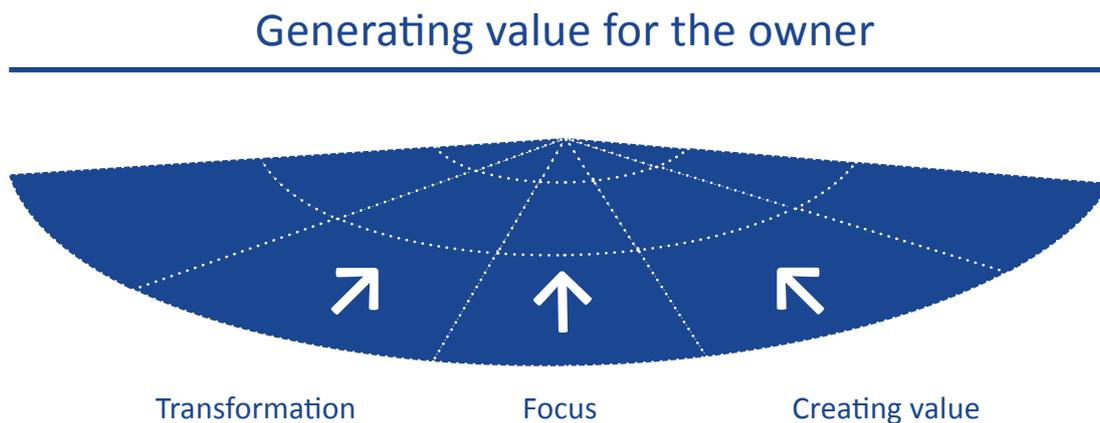
SSH also takes part in denationalisation proceedings and provides for a reliable and full settlement of all statutory liabilities due to beneficiaries.

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

## SSH Strategic Policies

Strategic policies are directions selected for coming close to the SSH vision in the next long-term period. They are the foundation for defining the operation of SSH as an integrated organisation with a duty to manage capital assets and perform other tasks.

Figure 1: SSH Strategic Policies



## Transformation

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

- the restructuring of the portfolio of assets under management for achieving objectives laid down in the State Assets Management Strategy,
- the improvement of the SSH operating model including all factors involved in the model, i.e., the management structure, business processes, human resources, technology, knowledge, corporate culture;

- providing for the professional competence and expertise of the management by setting high standards and applying the best practices in the management of enterprises and implementing constant activities for increasing the culture of corporate governance in SSH and companies managed by SSH.

### Focus

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

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

### Creating value

Creating value is the most important direction for achieving the SSH vision and the main principle in the operation of SSH. The main factors included in the said 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;
- 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's objectives related to state asset management

The main directions in the operation of Slovenian Sovereign Holding are:

- improving the image of Slovenian Sovereign Holding as a professional state assets manager by constantly and consistently observing and implementing the statutory asset management principles and the State Assets Management Strategy;
- constant development and improvements of standards and tools for corporate governance of SOEs,
- increasing the quality and analytical value of information platforms needed for the management of capital assets and playing an active role in the financial and corporate restructuring of assets, with the aim of increasing the value of assets, providing for comparable rates of returns and achieving other legitimate strategic goals;
- continuing the privatisation processes and increasing the efficiency of the disposition of assets and prudent acquisition of new assets;
- improving the quality of risk management and internal controls;
- conducting professional and traceable communication activities and exchanging viewpoints with representatives of all the most important stakeholders of SSH, in accordance with ZSDH-1.

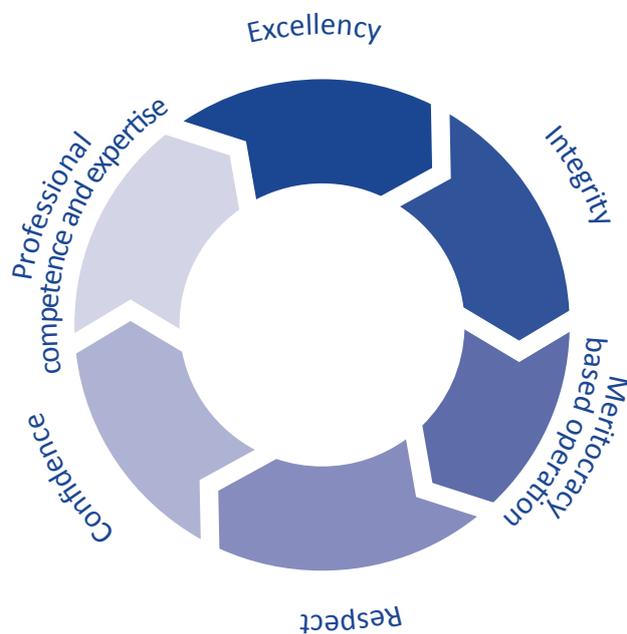
The objectives pursued by SSH in state asset management are: the increasing of the value of assets, the provision of the highest possible returns to the owners and the attainment of other business-financial and strategic objectives regarding the assets which are defined by way of governance documents. 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 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 set expectations 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.

### SSH Values

The values on which the operation of SSH is founded are inter-related and are the foundation for activities pursued and decisions made by SSH.

Figure 2: SSH Values



- Excellency in all aspects of operation within SSH and in the environment in which SSH operates.
- 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 in people.
- Professional competence and expertise as the main criteria for managing and implementing the Strategy.





# 1 CAPITAL ASSET MANAGEMENT SYSTEM



## 1.1 SSH - COMPANY DETAILS



SLOVENIAN SOVEREIGN HOLDING

<b>Corporate name:</b>	Slovenian Sovereign Holding
<b>Registered office:</b>	Mala ulica 5, 1000 Ljubljana
<b>Telephone No.:</b>	++386 1 300 91 13
<b>Web site and e-mail:</b>	www.sdh.si; info@sdh.si
<b>Activity code:</b>	K 64.990
<b>VAT ID:</b>	SI 46130373
<b>Registration No.:</b>	5727847
<b>Date of incorporation:</b>	19 February 1993
<b>Date of company transformation from SOD into SSH:</b>	11 June 2014
<b>Registered legal form:</b>	Public limited company registered before Ljubljana District Court, under the Reg. Entry No. 1/21883/00
<b>Share capital:</b>	EUR 260,166,917.04
<b>No. of employees as of 31 December 2016:</b>	70

**Management Board:** Mr. Marko Jazbec, President of the Management Board (until 14 July 2016, inclusive),  
 \* Mrs. Lidia Glavina, President of the Management Board (from 15 July 2016),  
 Mrs. Nada Drobne Popovič, MSc, Member of the Management Board  
 Mrs. Nada Strojín Štampar, MSc., MBA, Member of the Management Board (until 10 October 2016)

**Members of Supervisory Board:** Mr. Damjan Belič, President of the Supervisory Board  
 Mr. Duško Kos, Vice President,  
 Mr. Igor Kržan, Member (from 24 April 2017).  
 Dr. Andrej Bertonec, Member (from 20 June 2017).

In 2016, SSH SB also included the following members:

Mr. Drago Ferfolja, Vice President, (until 12 December 2016),  
 Mrs. Lidia Glavina, Member,  
 (until 14 July 2016, due to taking over the function of the President of Management Board),  
 Dr. Barbara Smolnikar, Member (until 21 June 2017).

**Members of Nomination Committee:** Mr. Luka Gaberščik, President,  
 \*\*Mrs. Jagoda Vitez, Member, Deputy President  
 Mrs. Brigita Vončina, Member (from 5 April 2016).

In 2016, the Nomination Committee also included the following members:

Maja Fesl Kamenik (do 5. 4. 2016)

**Members of ECESA:** Mrs. Lidia Jerkič, President,  
 Mr Zdenko Lorber, Vice President,  
 Members: Mr. Miroslav Garb,  
 Mr. Branimir Štrukelj,  
 Mr. Franc Zupanc,  
 Mrs. Nevija Pečar,  
 Mr. Jakob Počivavšek.

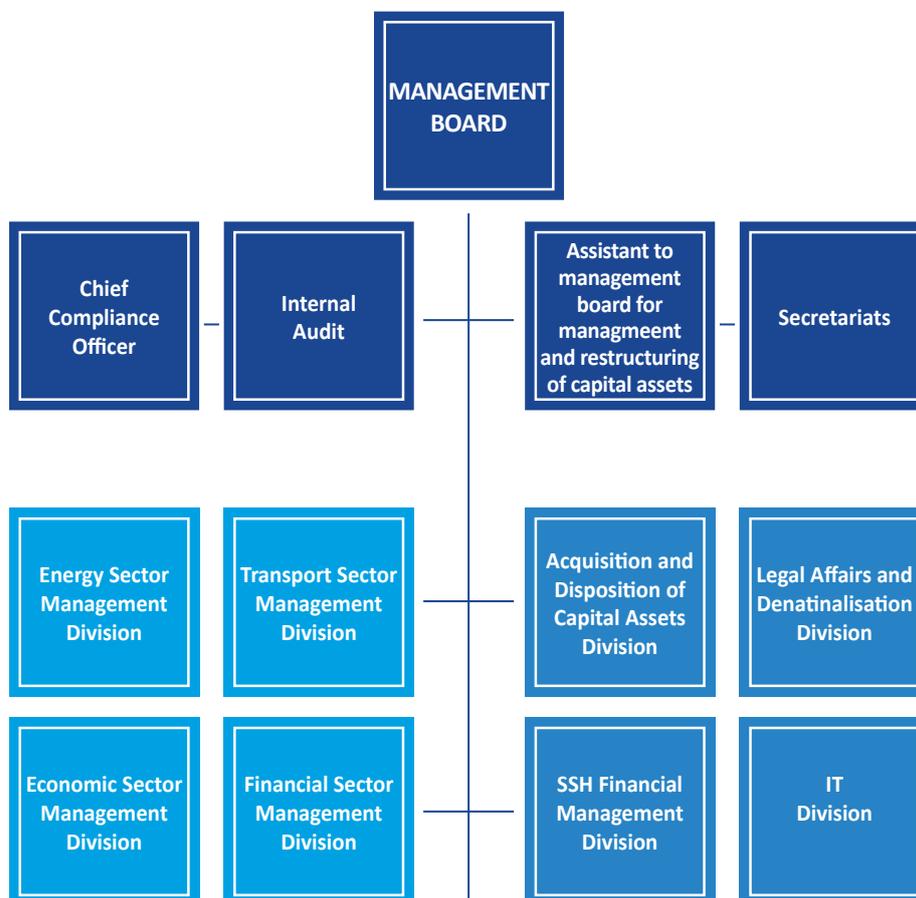
\* Appointed on 22 February 2017 for a four year term of office.

\*\*Started to carry out the function of a Vice-President on 5 May 2016.



## 1.2 ORGANISATIONAL STRUCTURE OF SLOVENIAN SOVEREIGN HOLDING

Scheme 1: Organisational Structure and Employees of the Slovenian Sovereign Holding as of 31 December 2016.



## 1.3 ABOUT SLOVENIAN SOVEREIGN HOLDING

### 1.3.1 The legal form and organisational structure of SSH

Slovenian Sovereign Holding (hereinafter referred to as: “SSH”) holds the status of public limited company with a two-tier management system. It has four bodies: the General Meeting, the Supervisory Board, the Management Board, and the Expert Committee for Economic and Social Affairs (hereinafter referred to as: “ECESA”). The founder and sole shareholder of SSH is the Republic of Slovenia (hereinafter referred to as: “RS”). The powers and duties held by the SSH General Meeting are carried out by the Government of the Republic of Slovenia. The SSH Supervisory Board consists of five members who are all appointed by the National Assembly of the Republic of Slovenia upon a proposal by the Government of the Republic of Slovenia. The SSH Management Board consists of three members. The President and two members are appointed by the SSH Supervisory Board. The Expert Committee for Economic and Social Affairs is a seven-member consultation body of the SSH’s Management Board. Its members are appointed by the Slovenia’s representative trade unions and confederations who are members of the Economic and Social Council. Their appointment is approved by the SSH Management Board. There are two committees operating within the SSH Supervisory

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

Scheme 2: SSH's bodies and their working and consultation bodies



### 1.3.2 Purpose of SSH establishment

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

### 1.3.3 SSH duties related to state asset management

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

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

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

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

## 1.4 BROADER DECISION-MAKING SYSTEM ON STATE ASSETS MANAGEMENT AND SYSTEM OF SUPERVISION IN SSH AND OVER SSH

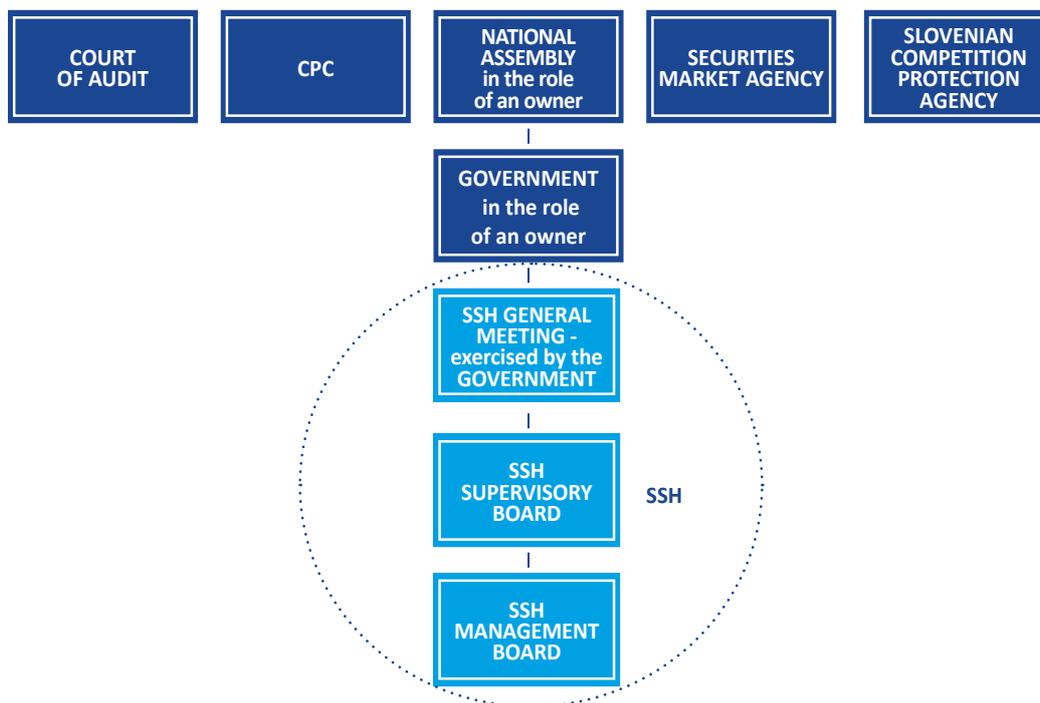
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Slovenian Sovereign Holding manages assets (shares and equity holdings in companies) of great value.

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

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

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



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

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

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





## **2 SUPERVISORY BOARDS OF SOEs AND CANDIDACY PROCEDURES**

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

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

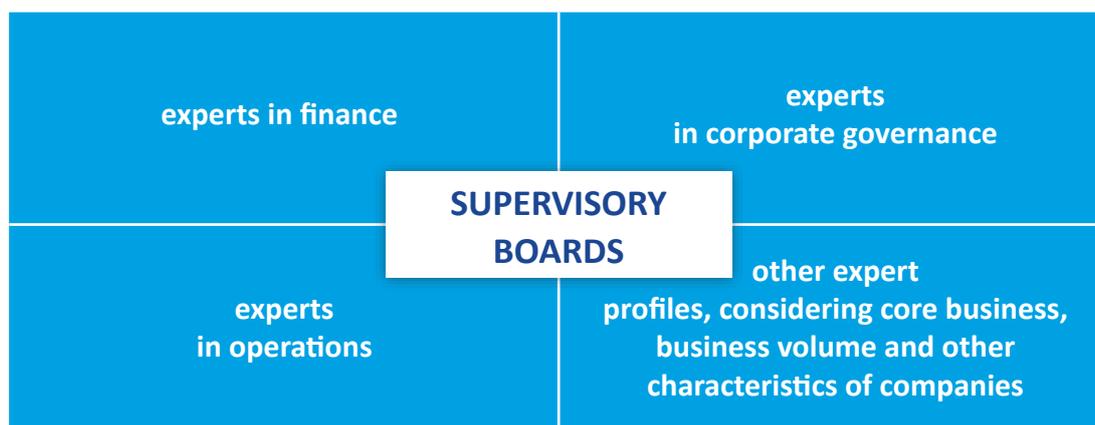
- personal integrity and business ethics,
- business successfulness and reputation,
- qualification,
- work experience,
- integrated business and other relevant knowledge and expertise,
- knowledge of rights and obligations of a supervisory board member,
- operation in accordance with general interests of the company,
- availability in terms of time,
- availability when performing the function,
- no economical or personal or otherwise close connection with a company or its management board, and
- no conflict of interests.

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

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

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

Scheme 4: Targeted expert profiles for supervisory boards

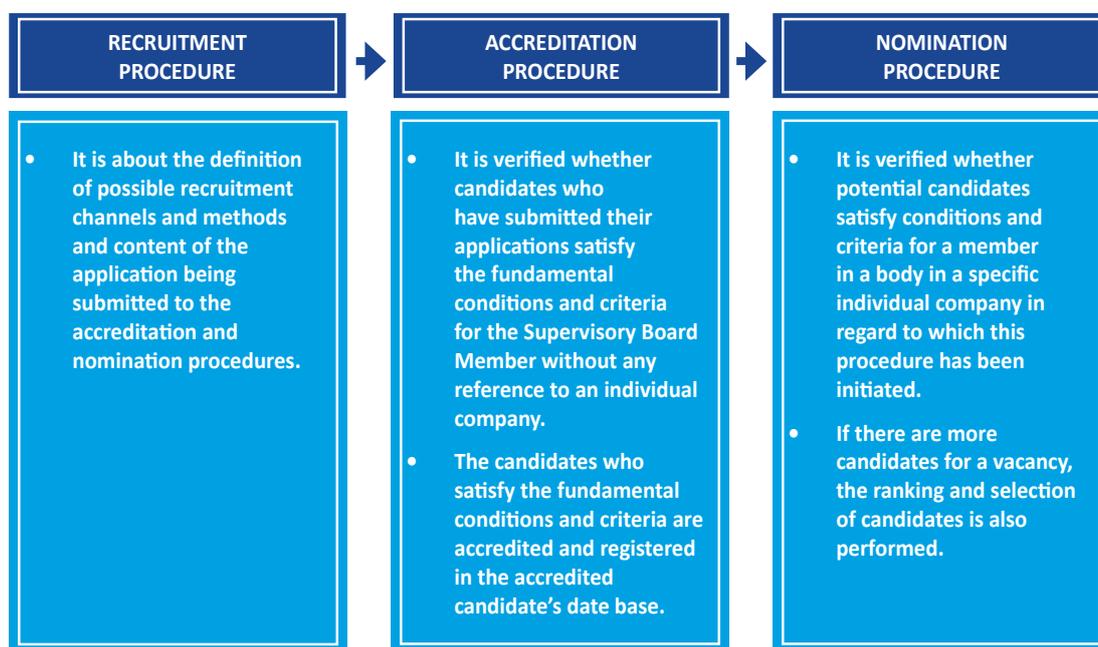


## 2.1 ABOUT SSH'S NOMINATION COMMITTEE

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The establishment of the Nomination Committee as a special consultation body of the SSH Management Board is laid down in ZSDH-1. The duty of the Nomination Committee is to carry out candidacy procedures, pursuant to the law and in accordance with the Asset Management Policy. The candidacy procedure is a collective term for actions carried out by the Nomination Committee for submitting to the SSH Management Board a suitable proposal of candidates for Supervisory Board Members of SOEs; it includes the recruitment procedure, the accreditation procedure and the nomination procedure.

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



## 2.2 WORK PERFORMED BY NOMINATION COMMITTEE IN 2016

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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 (nomination) and their accreditation. The Nomination Committee is a consultation body of the SSH Management Board and its opinion is binding for the SSH Management Board, except in some cases, specifically defined by the SSH Asset Management Policy. In 2016, the said Committee was composed of the following members: Mr. Luka Gaberščik, President, Mrs. Maja Fesel Kamenik, Deputy President, and Mrs. Jagoda Vitez, Member. On 5 April 2016, Mrs. Maja Fesel Kamenik, was replaced by Mrs. Brigita Vončina while Mrs. Jagoda Vitez took up the function of a Deputy President.

The Nomination Committee met at the total of 27 regular and 2 correspondence sessions at which 42 requests for carrying out nomination procedures for candidates for Supervisory Board's members of 30 companies were dealt with.

These companies included the following companies: Infra, d. o. o., Slovenske Železnice, d. o. o.,

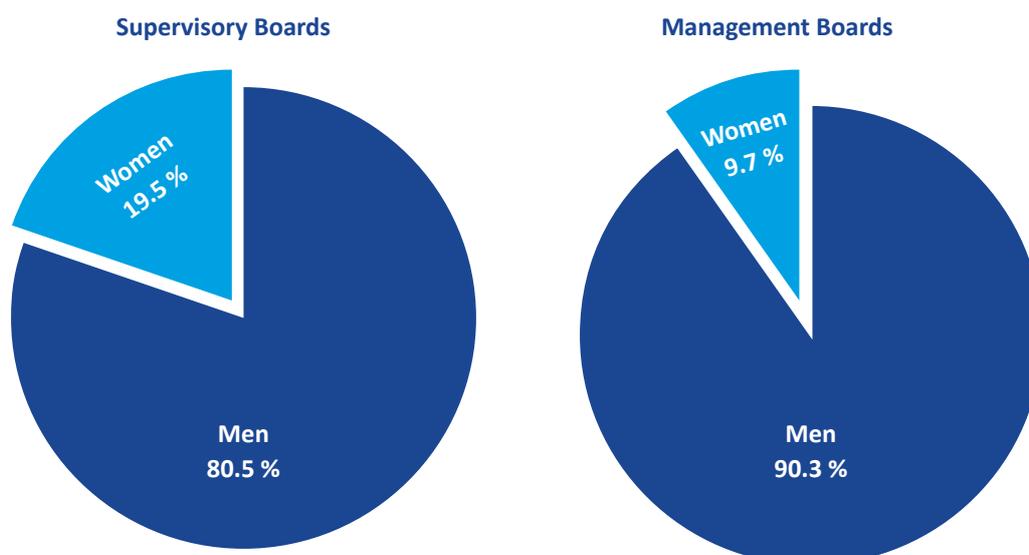
SIPCO, d. d., Nafta Lendava, d. o. o., HSE, d. o. o., Kapitalska družba, d. d., Abanka, d. d., Adria Airways, Slovenski letalski prevoznik, d. o. o., Elektrooptika, poslovne storitve, d. d., Zavarovalnica Triglav, d. d., Elektro Celje, d. d., Telekom Slovenije, d. d., Krka, d. d., Paloma, higienski papirji, 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 mentioned requests carried out in regard to relevant procedures, within the scope of which the Nomination Committee gives accreditation to a potential candidate, reviews the target profile of a Supervisory Board and takes part in SSH's public recruitment notices, in October 2016, in accordance with SSH Asset Management Policy, the said Committee revised the Rules of Procedure for the SSH Nomination Committee and the Rules on Supervisory Board Member Selection, and took an active part in the development of the web solution for the SSH Nomination Committee Portal designed for members of Supervisory Boards of companies under SSH's management.

## 2.3 COMPOSITION OF SUPERVISORY BOARD MEMBERS BY GENDER

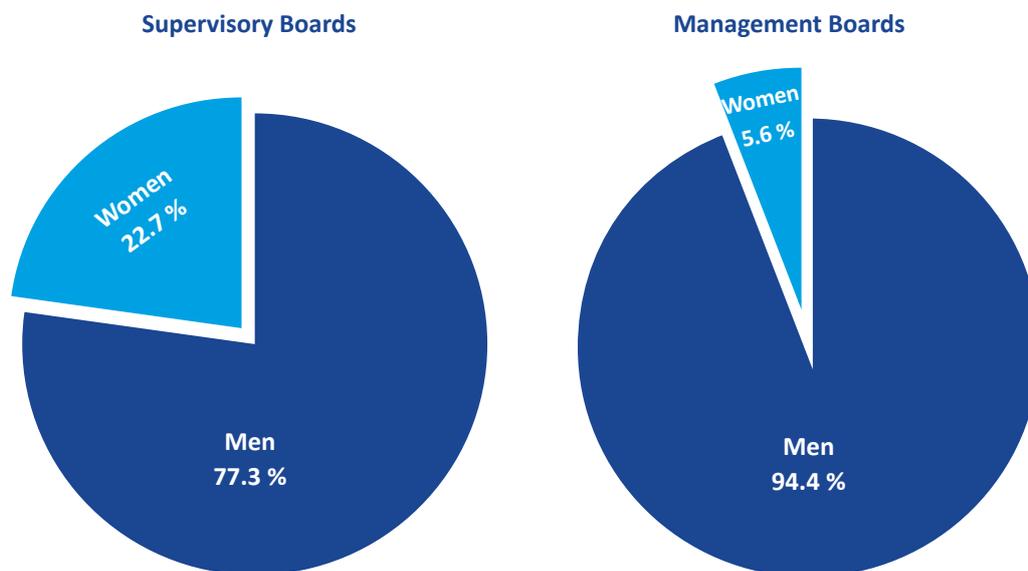
In 2016, the composition of Supervisory Boards and Management Boards by gender was highly imbalanced, with the male presence being still highly predominant. As of 31 December 2016, there were 80.5 % of men and 19.5 % of women sitting in supervisory boards of companies in direct ownership of the Republic of Slovenia and SSH (excluding the companies in bankruptcy or liquidation), but the inequality in gender presence was slightly greater in the case of management boards – among their members (including presidents) there were 90.3 % of men and only a solid 9.7 % of women.

Figure 3: The composition of Supervisory Boards and Management Boards of companies directly owned by the Republic of Slovenia and SSH by gender as of 31 December 2016 (excluding companies in bankruptcy and in liquidation)



A similar disproportion regarding the gender presence was noticed in presidency functions held in management and supervisory bodies. The Supervisory Boards of companies directly owned by the Republic of Slovenia and SSH were presided over by men in 77.3% of cases, while Management Boards had as many as 94.4% of male presidents.

Figure 4: The composition of presidency functions held in Supervisory Boards and Management Boards of companies directly owned by the Republic of Slovenia and SSH by gender as of 31 December 2016 (excluding companies in bankruptcy and in liquidation)



In 2016, as compared to the end of 2015, the relation in the gender presence in Supervisory Boards and of Management Boards turned in favour of men. While in 2015, there were 22.4 % of women present in the membership of Supervisory Boards, at the end of 2016, the proportion of women decreased to 19.5%, and to 9,7 % in case of Management Boards. However, the proportion of women in all other categories (presidency functions in Supervisory Boards and Management Boards) increased as compared to 2015.

Figure 5: Changes in the composition of Supervisory and Management Boards of companies directly owned by the Republic of Slovenia and SSH by gender as of 31 December 2015 and as of 31 December 2016 (excluding companies in bankruptcy and in liquidation)

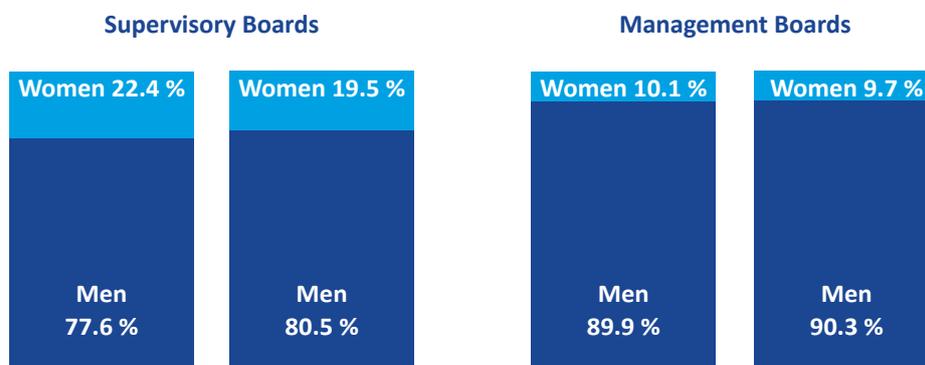
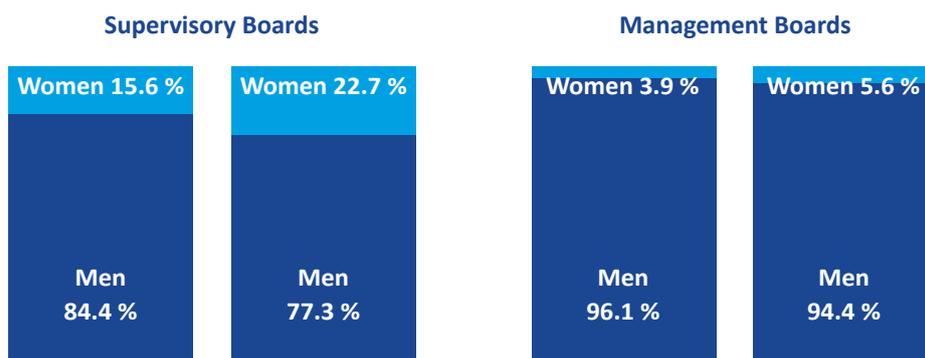


Figure 6: Changes in the composition of presidents of supervisory boards and management boards of companies directly owned by the Republic of Slovenia and SSH by gender as of 31 December 2015 and as of 31 December 2016 (excluding companies in bankruptcy and in liquidation)



## 2.4 CORPORATE GOVERNANCE-RELATED TRAINING ORGANISED FOR MEMBERS OF SUPERVISORY BOARDS – THE IMPROVEMENT OF PROFESSIONALISM AND THE PROMOTION OF GOOD PRACTICE

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

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 be constantly improved and upgraded which is why SSH, as a case of good practice, holds free-of-charge training sessions for Supervisory Board Members of SOEs and for other decision-makers in SOEs.

In 2016, SSH continued with the organisation of activities in regard to the training for members of supervisory boards and for representatives of companies. All 14 sessions were free of charge which ensured high participation among the interested companies' representative bodies.



The following topics were discussed:

- supervision over company's financial information,
- Annual Report,
- cooperation between auditors and the Audit Committee.
- financial statements,
- tax-related risks,
- restructuring of companies,

- access to public information and protection of business secret,
- innovation of SOEs,
- effective operation of Supervisory Boards and Committees
- how innovation becomes an integral part of company's culture,
- management of strategic IT risks,
- overseeing the implementation of business strategies in SOEs;
- the management of needs and zero-based budget planning,
- commitment and agility of an organisation, and
- digitalization and digital strategies.



## 2.5 SSH ORGANISED TWO SECTORAL STRATEGIC CONFERENCES FOR MANAGEMENT BOARDS AND SUPERVISORY BOARD MEMBERS OF SOEs

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In October 2016, SSH organised two separate sector-oriented strategic conferences for the first time, specifically, 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 conferences, 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 were thus informed in detail on the final formation of the Annual Asset Management Plan 2017.





### **3 ACTIVITIES FOR CONSTANT IMPROVEMENT OF CORPORATE GOVERNANCE IN SSH AND SOEs**

The main activities for raising the level of corporate governance in SOEs which were implemented in 2016 were:

- the adoption of the Annual Assets Management Plan 2017,
- regular monthly training sessions for SOEs,
- the adoption of revised SSH Recommendations and Expectations,
- a partial revision of the Corporate Governance Code for Companies with Capital Assets of the State which was developed by SSH in March 2016.

### 3.1 THE FRAMEWORK OF FUNCTIONING FOR SOES

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

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

## 3.2 THE CORPORATE GOVERNANCE SYSTEM OF SOES - PARTIALLY REVISED AND SUPPLEMENTED IN 2016

Legal documents regarding asset management the adoption of which is stipulated by ZSDH-1 are: the State Assets Management Strategy, the Assets Management Annual Plan, the Asset Management Policy and the Corporate Governance Code for SOEs. In 2016, SSH, holding powers for their adoption, slightly modified and supplemented the SSH Asset Management Policy and the Corporate Governance Code for SOEs. The State Capital Assets Management Strategy, the adoption of which falls under the responsibility of the National Assembly, remained unchanged in 2016. In 2016 saw the implementation of the Assets Management Annual Plan 2016 and in December 2016, the Government of the republic of Slovenia adopted the Asset Management Annual Plan 2017. In 2016, SSH slightly modified and supplemented the SSH Recommendations and Expectations. Another important document the adoption of which is stipulated by ZSDH-1 is the Criteria for Measuring Performance of SOEs which was revised at the end of 2016. The above mentioned six documents regarding the management of state capital assets are briefly presented in the remainder of the text.

ADOPTED BY	DOCUMENT	CONTENT
NATIONAL ASSEMBLY	Capital Assets Management Strategy	The definition and classification of assets into three types of assets: strategic, important and portfolio assets. Defines development policy of RS Defines individual strategic objectives.
GOVERNMENT OF RS	Asset Management Annual Plan	Objectives for managing individual assets are defined, together with measures and policies for achieving these objectives. It determines the expected cash flows.
	Criteria for Measuring Performance of SOEs	It must observe strategic objectives as determined by the strategy and it must determine economic and financial goals.
TOGETHER BY SSH MANAGEMENT AND SUPERVISORY BOARDS	Corporate Governance Code for SOEs	Principles and recommendations regarding good practice in asset management.
	Asset Management Policy	Principles, procedures and criteria for ensuring the transparency and traceability of decisions.
MANAGEMENT BOARD	SSH Recommendations and Expectations	Specific recommendations and expectations from SOEs following the "apply and explain" principle.

### 3.2.1 State Assets Management Strategy

On 17 July 2015, the National Assembly of the Republic of Slovenia adopted the Capital Assets Management Strategy by way of the Ordinance On State-Owned Capital Assets Management Strategy (OdsUKND, Official Gazette RS, No. 53/15 OF 17 July 2015; hereinafter referred to as: the "Asset Management Strategy"). By the law, the Strategy is envisaged as a principal asset management document by way of which, the Parliament communicates the state ownership policy regarding SOEs to the asset management company (SSH), the Government, investors, citizens and all the interested public groups. The content of the Asset Management Strategy refers to the definition and classification of state assets to individual types of assets (strategic, important and portfolio assets), the definition of development guidelines of the State as a shareholder in companies and the definition of individual strategic objectives pursued by the State with strategic assets. In the Asset Management Strategy, the Parliament has given a special emphasis to rising the corporate governance culture, to increasing effectiveness in disposition of assets, to carrying out sound and prudent acquisition of capital assets, to increasing return on equity and to considering listing companies on the regulated market. The said Asset Management Strategy remained unchanged in 2016. In principle, the said document is not implemented directly as it forms the basis and the guidelines for the preparation of the Assets Management Annual Plan.

### 3.2.2 Asset Management Annual Plan

On the basis of the Asset Management Strategy adopted in 2015 and in effect for several years, the Government was given the possibility to adopt the first integrated annual plan for capital assets management, specifically, for 2016. The Annual Asset Management Plan 2016 was adopted on 16 December 2015, when the Government of the Republic of Slovenia granted its consent to it. In 2016 the Assets Management Annual Plan was supplemented for the following companies: Geoplin, Petrol and Rudnik Zagorje v zapiranju, while for Adria Airways, a separate partial asset management plan was adopted. The Annual Assets Management Plan 2017 was adopted in December 2016. The Annual Asset Management Plan defines detailed objectives of the asset management company (SSH) in regard to the management of individual assets in an individual financial year which have to be moving within the scope of objectives set out in the Asset Management Strategy. The Annual Asset Management Plan, as it is clear from its title, also includes an actual plan of action (definition of measures and guidelines) for achieving detailed asset management goals. The forecasted cash flows generated from the state assets management are also determined in the Annual Plan.

### 3.2.3 Asset Management Policy

The SSH Asset Management Policy (hereinafter referred to as: the "Asset Management Policy") was adopted by SSH on 19 December 2014, and in December 2016, its amendments and modifications. The Asset Management Policy is a legal document which presents principles, procedures and criteria which are applied by SSH in carrying out its duties and activities which are stipulated by ZSDH-1. The Asset Management Policy is divided into two parts, a general part which includes the fundamental framework of the SSH's operation, together with some fundamental guidelines for SSH in performing its duties, and a special section. One special section of the Asset Management Policy is drawn up in the form of articles and it stipulates rules of conduct in individual situations, specifically, in candidacy procedures, in procedures related to the acquisition and disposition of the State's capital assets, and in some other cases. Both parts of the Asset Management Policy are binding for SSH. The purpose of the Asset Management Policy is to provide for transparency and traceability of decision made by SSH.

### 3.2.4 Corporate Governance Code for SOEs

The Corporate Governance Code for Companies with Capital Assets of the State (hereinafter referred to as: the “Code”) was adopted by SSH on 19 December 2014. This Code was first slightly revised in March 2016 and in May 2017 it was revised for the second time. The Code contains principles and recommendations for good practice in corporate governance of SOEs. The Code is addressed to SOEs. It should also be applied by subsidiaries in a Group of which a state-owned enterprise is a parent company. By analogy, the Code is used by SSH for its operation. Some principles are general and refer to all SOEs, while some recommendations refer to companies with specific legal form and organisational structure, taking into account the ownership structure of the company and whether the company’s shares are traded on the regulated market. The Code also includes certain general expectations on the part of SSH in relation to SOEs. The purpose of the Code is to set the standards of governance and supervision in SOEs and to develop a transparent and understandable system of corporate governance in SOEs. The Code is addressed to SOEs under the “apply and explain” principle. The Code is not a new document in the corporate governance system of state assets management and one part of its content is drawn from the above mentioned documents which were adopted by SOD, specifically, the Republic of Slovenia’s Capital Asset Management Code of 15 May 2013 and the Recommendations of the Asset Management Company of the Republic of Slovenia’s Direct and Indirect Capital Assets.

### 3.2.5 Other recommendations and viewpoints

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

In accordance with the above mentioned authorisation, in December 2014, the SSH Recommendations and Expectations were adopted by SSH in which, based on the “comply or explain” principle, the conduct in line with individual recommendations and expectations is expected from SOEs in regard to the following narrow areas: three-year business planning; periodic performance planning; transparency of procedures leading to the closing of business transactions which refer to companies’ expenditures (commissioning of goods and services, sponsorship and donation contracts); cost optimisation in 2015; achieving the quality and excellence in operations; and the area which refers to the General Meeting of Shareholders. These Recommendations mean a substantive improvement of a document adopted by SOD, specifically, the Recommendations of the Asset Management Company of the Republic of Slovenia’s Direct and Indirect Capital Assets. The Recommendation and Expectations was first slightly revised by SSH in February 2016 and in May 2017 the document was revised for the second time.

### 3.2.6 Criteria for Measuring Performance of SOEs

Pursuant to Paragraph 1 of Article 17 of ZSDH-1, on 21 December 2016, the revised Criteria for Measuring Performance of SOEs were adopted by SSH (hereinafter referred to as: the “Criteria for Measuring Performance”). The Criteria for Measuring Performance are a shareholder’s document which defines the indicators by way of which ambitious yet realistic expectations from SOEs are set by SSH in regard to future performance and business results; they are applied at the end of the year with the aim of assessing the results of companies’ performance. These indicators are divided into financial and non-financial indicators; they are determined individually for each company or a Group of companies, taking into account their specific characteristics. The Criteria for Measuring Performance determine only the type of relevant indicators for individual companies of Groups of companies, while the quantification of these indicators in the sense of specific expectations by SSH from SOEs is adopted in each Annual Asset Management Plan. The Criteria for Measuring Performance, as a shareholder’s document, should be distinguished from the companies’ business plans in which companies quantify the planned results differently than SSH, most frequently, in a less ambitious manner.

### 3.3 FUNDAMENTAL PRINCIPLES OF ASSET MANAGEMENT

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

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

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

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

#### **The principle of responsibility and due care**

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

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

#### **The principle of independence**

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

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

public law, are fully responsible for their decisions in accordance with the law regulating companies, and in accordance with ZSDH-1.

#### **The principle of transparency**

When managing assets, the adopted legal documents concerning asset management must be observed, together with regulated procedures and criteria for asset management related decision making. The transparency is ensured in making decisions and in providing for responsibility and accountability as well as the traceability of potential attempts in terms of pressures of a non-public nature which may be exercised on decisions made by SSH's corporate bodies.

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

#### **The principle of economy**

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

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

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

### **3.4 SSH REGULATORY COMPLIANCE AND INTEGRITY**

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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.

#### **3.4.1 Chief Compliance Officer**

In 2016, the Chief Compliance Officer carried out its duties until 1 April 2016, when he terminated his employment relationship with SSH. Until the selection of a new Chief Compliance Officer, the SSH Management Board appointed the Internal Auditor to take up the said function on a temporary basis by the end of 2016.

The Chief Compliance Officer reported to the SSH Supervisory Board on activities carried out and on the state of corporate compliance within SSH. The Chief Compliance Officer had the necessary support

provided by the SSH 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 Management Board's 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 Chief Compliance Officer 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 said Committee regularly reports to the SSH Management Board and informs the Supervisory Board on activities pursued.

### 3.4.2 Protection of data and of internal information

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

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

SSH regularly makes a list of state capital assets in connection with which any piece of confidential information has been obtained or in connection with information which is classified as proprietary information in accordance with the law governing financial instruments market. All employees and other persons who in SSH carry out tasks regarding asset management must be informed of the content of the list.



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

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

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

### **3.4.3 Reporting non-ethical or illegal conduct or influence**

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

The Chief Compliance Officer immediately informs the Commission for the Prevention of Corruption or any other responsible state authority about such piece of information.

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

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

### **3.4.4 Protection of persons reporting non-ethical or illegal conduct or influence**

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

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

The position of a protected person who has reported such irregularities is ensured to a person who

has requested the protection whereby the significance of the claimed irregularities is assessed, together with bona fide of a person reporting irregularities; the position of a protected person may also be granted by the Chief Compliance Officer to a person reporting irregularities who has not requested for the protected position on his/her own.

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

### **3.4.5 Disclosure of conflict of interest and its avoidance**

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

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

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

### **3.4.6 Restrictions to business transactions with related persons**

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

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

The conclusion of an individual business transaction with related persons is admissible on the basis of a decision taken by the SSH Supervisory Board which may grant a permission for concluding such

transaction on the basis of a proposal with reasoned arguments prepared by the SSH Management Board when it is assessed that such transaction is significant for economic interest of SSH and that risks against conflict of interest, corruption and abuse of proprietary information has been suitably managed, and the SSH integrity has been provided for.

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

### **3.4.7 Prohibition and restrictions in connection with receiving gifts**

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

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

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

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

The Chief Compliance Officer keeps a gift record.

### **3.4.8 Supervision of financial situation of top management and members of management and supervisory bodies**

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

### **3.4.9 Ethical Business Practice**

OECD Guidelines which are being followed by SSH recommend to supervisory boards and management boards of companies to use high ethical standards which are in the long-term interest of an enterprise as they contribute to their credibility and trustworthiness in operations. SOEs may be subject to deviations from high ethical standards, in particular due to potential interaction of business considerations with political and public policy ones and with other interest. Thus, a provision on the adoption and introduction of code of ethics has been installed into the Corporate

Governance Code for SOEs. Through the implementation of recommendations and expectation of the asset management company, SSH encourages SOEs to apply the model, developed by the European Foundation for Quality Management (hereinafter referred to as: the “EFQM model”), in which (ethical) leadership is one of its important pillars.

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

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

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

### **3.4.10 Instructions in regard to enhancing ethical conduct and integrity of all SSH employees**

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

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

## **3.5 ADDITIONAL MECHANISMS FOR THE SUPERVISION AND HANDLING OF IRREGULARITIES IN SOES**

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SSH strives for efficient, fair and competition-based operation of SOEs which will provide for long-term growth and employment. For exercising an organised and fair corporate governance of SOEs and for efficient supervision over SOEs, the system of anonymous submissions of irregularities is of high importance.

Irregularities and unlawful actions reduce the motivation and morale of employees, weaken the efficiency, business performance and competitiveness of a company and reduce the confidence of all stakeholders of an individual company, and lead to other negative consequences. That is why, on the SSH’s entry web page, there is a form published for the purpose of submitting an anonymous submission of irregularities in SOEs.

On 16 June 2015, the Committee for Handling Irregularities in SOEs was established which functions within the scope of Instructions On Actions in Cases of Alleged Irregularities and Protection of Persons Reporting Such Actions. The said Committee gives guidance for the work carried out by an individual case manager who obtains and verifies all significant fact in connection with the submission and is responsible to acquit an individual case or to handle it and to adopt relevant proposals of measures for addressing irregularities which, together with a report, are submitted to the Management Board for its adoption.

Measures for addressing irregularities mainly include the following actions:

- a procedure for a discharge and replacement of members of a Supervisory Board of an SOE through the General Meeting;
- a proposal for the discharge of members of a Supervisory Board of an SOE;
- a proposal for the GM resolution/ founder's resolution to carry out a special audit review, or in case of a limited liability company, to carry out a second audit review of transactions;
- a proposal by minority shareholders lodged before the Court to appoint a special auditor;
- a proposal for the GM resolution/ founder's resolution for bringing an action for the compensation of damages (and, when necessary, to appoint a special representative);
- an action by minority shareholders for compensation of damages;
- an action by a shareholder against a third person who has used his/her influence to induce the members of the management or supervisory bodies, the procurator or proxy to act to the detriment of the company or its shareholders;
- convocation of a General Meeting, extension of the GM Agenda;
- modifications to the remuneration system;
- the establishment of the reporting system;
- the acquisition of assets and disposition of assets;
- other relevant procedures for the protection of assets and interest of and individual SOE, RS and SSH (for example, non-granting a discharge and similar measures).

In 2016, the said Committee received 84 submissions, carried out 4 regular and 3 extraordinary and 1 correspondence session at which submissions of alleged irregularities in SOEs were dealt with, and adopted 16 decisions on dismissing the handling of submissions, 16 decisions on launching the handling of submissions and providing a guidance for a case manager to continue with the procedure, and 34 decisions on a completion of a procedure.



## **4** **CORPORATE GOVERNANCE OF SOEs IN 2016**

## 4.1 ON THE SOEs CORPORATE GOVERNANCE SYSTEM

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Organised corporate governance which is regulated 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. Slovenian Sovereign Holding has a central role in this regard as it deploys a systemic approach for the corporate governance of a great number of enterprises by introducing various mechanisms at various segments of governance. In doing so it takes into consideration both good international guidelines and practices in corporate governance, practices and standards which have been introduced in Slovenia upon the initiative of professional associations and its own experiences obtained through its legal predecessors (AUKN, SOD) within the scope of implementing tasks related to the management of SSH's and RS's capital assets.

The systemic approach towards corporate governance by SSH is mainly demonstrated by adopted documents which presents the foundations of the corporate governance and are an important condition for the transparency of corporate governance. These documents are: **the State Assets Management Strategy, the Criteria for Measuring Performance of SOEs, Annual Asset Management Plan, Corporate Governance Code for SOEs, 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.

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

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

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

Since the realisation and the attainment of goals set for a company depends on activities and expertise of company's bodies, one of very important tasks of SSH pursued within the scope of asset management is the appointment of suitable experts in supervisory bodies of SOEs. In order to ensure that adequate persons are appointed it is vital that SSH has in place both a standardised recruitment system and procedures for the accreditation and nomination of candidates and a properly established internal organisation system with the Nomination Committee playing an important role when, in accordance with the ZSDH-1 as the consultation body of the SSH Management Board, carries out the necessary recruitment procedures, evaluations and assessment of the suitability of candidates running for the members of supervisory bodies, and the procedures for their accreditation.

## 4.2 ASSESSMENTS AND RECOMMENDATIONS BY INTERNATIONAL INSTITUTIONS ON CORPORATE GOVERNANCE OF SOEs

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### 4.2.1 Assessment by the European Commission on progress on corporate governance of SOEs

In its document, Assessment of progress on structural reforms, prevention and correction of macroeconomic imbalances, and results of in-depth reviews under Regulation (EU) No 1176/2011, which was presented on 10 March 2017, the European Commission also dealt with the effectiveness of the corporate governance of SOEs.

When reviewing the progress for 2016, the Report, among other things, state as follows: “**Some progress** has been made regarding the governance of state-owned enterprises (SOEs).<sup>1</sup> The Slovenian Sovereign Holding (SSH) is managing SOEs in accordance with the regulatory framework in place. End-2015 results show an improved profitability of SOEs under SSH’s management. An asset management plan for 2017, quantifying the performance indicators for each separate SOE and updating a list of assets for divestment has been approved by the government in January 2017”.

Such assessment has been expected since the profitability of the portfolio of assets under management including RS’s and SSH’s assets has been improving for a few consecutive years. The main challenge to be faced by SSH in the future remains to include further improvement of the performance of the portfolio as a whole, 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 in management is required in the direction of attaining strategic goals.

### 4.2.2 OECD: the creation of Slovenian Sovereign Holding is a step in the right direction<sup>2</sup>

On 5 September 2017, the OECD Economic Survey of Slovenia 2017 was presented. Key recommendations which have been summarised in the published presentation and which refer to corporate governance of SOEs include the following:

- Strengthen SOE governance:
  - by directing them to focus on core activities,
  - allowing more management pay flexibility and
  - strengthening supervisory boards.
- Follow through with privatisation, and narrow the group of SOEs that are considered strategic.
- Implement effective separation of activities and non-discriminatory third party access to networks. Privatised competitive activities, except in sensitive sectors.
- Avoid technology biases in renewable-energy subsidies.

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<sup>1</sup>Note: The scale of categories for assessing progress presented on page 49 of the said Report include the following: no progress, limited progress, some progress, substantial progress, full implementation.

<sup>2</sup>Source: <http://www.oecd.org/economy/economic-survey-of-slovenia-2017.htm>, Remarks by Angel Gurría, OECD Secretary-General in <http://www.oecd.org/eco/surveys/Slovenia-2017-OECD-economic-survey-Boosting-investment-through-better-skills-and-regulation.pdf>

## 4.3 KEY ACTIVITIES PURSUED BY SSH WITHIN CORPORATE GOVERNANCE OF SOEs

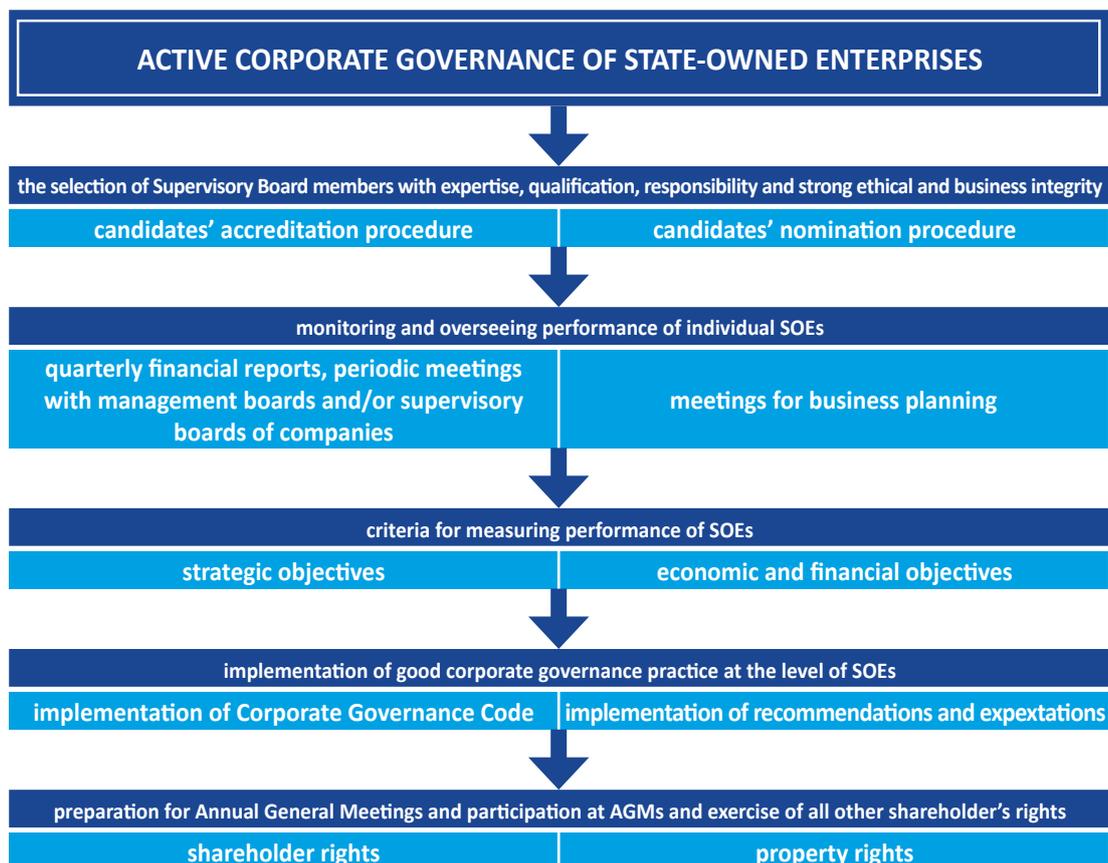
Slovenian Sovereign Holding manages state assets in accordance with ZSDH-1, the act governing companies and in accordance with the Asset Management Strategy and other legal documents related to asset management, taking into consideration the legal form of an individual company and its internal corporate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

With the aim of creating long-term value in capital asset management, SSH must strive to achieve the following: good relationships between companies and their owners; transparent operation of SOEs; the adoption of measures for measuring SOEs' performance and their presentation to SOEs Management Boards and the public; the formation of professional, heterogeneous and independent SOEs Supervisory Boards consisting of members without any conflict of interest; and developing such remuneration measures that will enable the value of companies to grow, while preventing the company from taking excessive risks.

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

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

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



### 4.3.1 SSH Premises for Voting on General Meetings of Shareholders in 2016

General Meetings of Shareholders are important corporate events for exercising the rights of shareholders. The SSH's goal is to vote for such resolutions which support the realisation of the State Assets Management Strategy and the attainment of other strategic or economic and financial goals defined by the Asset Management Annual Plan. These goals cover all key aspects which are important for the development and competitive position of enterprises.

Prior to the General Meetings, SSH develops Premises for Voting on General Meetings of Shareholders, and publishes the document publicly. This makes voting by SSH predictable, transparent and compliant with the legal documents on corporate governance. After a General Meeting is held, all SSH's voting standpoints are publicly published on the following web site: [www.sdh.si](http://www.sdh.si).

The above mentioned document includes premises in regard to the following:

- the participation at AGMs,
- the application to attend an AGM;
- the representation at AGMs,
- the convocation of AGMs,
- supplements to the Agenda of an AGM,
- voting at AGMs and the exercise of other shareholder rights,
- counter-proposals,
- the appointment of members of Supervisory Boards of companies,
- the remuneration policy for members of supervisory boards and management bodies of companies managed by SSH,
- the instrument to discharge the management or supervisory board members,
- the appropriation of distributable profit and the dividend pay-out,
- decisions in connection with the authorised capital,
- the acquisition of own shares on the basis of the authorisation by the General Meeting in accordance with the provision of Article 247, indent 8 of ZGD-1,
- a standpoint in regard to the one-tier management system,
- a standpoint in regard to audit reviews,
- the disclosure of decisions made at individual General Meetings of shareholders, the exercise of voting rights at General Meetings of SOEs on behalf and for the account of Kapitalaska družba pokojninskega in invalidskega zavarovanja, d. d. , in English, Pension Fund Management (hereinafter referred to as "KAD").

From 1 January until 31 December 2016, **117 General Meetings of Shareholders were executed and the founder's resolutions** were passed in companies with capital assets of SSH or RS. In accordance with ZSDH-1, SSH exercised shareholder rights on its behalf and on behalf of the Republic of Slovenia in regard to shares and shareholdings held in the above stated companies.

### 4.3.2 Special management activities carried out in 2016 which signify the implementation of strategic policies of Asset Management Strategy

In 2016, SSH also took part in activities which, in broader sense, form changes to the structure, in terms of the organisation and in terms of the content, of the portfolio of capital assets under management, as arising from strategic policies stated in the State Assets Management Strategy.

- **Geoplin, d. o. o.** (carving out of Plinovodi, d. o. o., and equity-swap): In accordance with the Ordinance On State-Owned Capital Assets Management Strategy, the strategic interest of RS is for the companies from the RS Group to acquire and maintain a majority (higher than 50%) shareholding in Plinovodi, d.o.o., which is currently in a 100-per cent ownership of Geoplin, d.o.o. This may be realized by carving out Plinovodi, d.o.o., from Geoplin, d.o.o. into a direct

ownership of shareholders of Geoplin. After the Plinovodi carve-out is carried out, the RS's assets in Geoplin, d.o.o., is considered to be important, and the RS's assets in Plinovodi, d.o.o. becomes strategic. In accordance with the above mentioned, in 2016, SSH carried very complex activities to attain the above mentioned goals. These included as follows: the conversion rate was negotiated; the Agreement on Equity 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 processes 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 shares, 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 debit the 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 income maximisation. 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 of 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.

### 4.3.3 Amendments to legal documents on corporate governance in 2016 and the aim of these amendments

One of the main duties of SSH is to promote and to ensure good quality corporate governance systems in SOEs, within the scope of its rights. SSH fulfils this mandate in various ways, among other things, by adopting and updating legal documents on corporate governance, and in a more direct way, by setting up relevant frameworks about management in Articles of Association of SOEs. Constant improvement of the corporate governance systems in companies with state capital assets is one way to attain management goals set for these assets as determined by the law regulating SSH and the Asset Management Strategy. By way of the continued improvement of corporate governance systems, and in a predetermined and transparent manner, SSH wishes to communicate to companies from the SSH's management portfolio what are the principles and recommendations of good practice for corporate governance of SOEs, while expecting from these companies to observe such principles and recommendations of good practice at all levels of their operation. In 2016, the following documents were slightly updated: the Corporate Governance Code for SOEs, the SSH Asset Management Policy, the SSH Recommendations and Expectations and Premises by SSH for Voting at General Meetings. Amendments and supplements to these legal documents are partially the result of amendments to legislation, partially the result of following certain changes in general recommendation of good practice, and partially these amendments are the result of the recognition by SSH on the necessary improvement of the content of documents adopted by SSH.

In 2016, **the Corporate Governance Code for SOEs** underwent both editorial and content-related modifications. Thus, the clarity of the Code improved in regard to the section which explains the use of the “apply and explain” principle. Instructions for SOEs on how to disclose the observance or the lack of observance of the Code are now written in greater detail, together with a more detailed explanation on how the observance of the Code is to be verified by SSH. Companies in 100% state ownership must also take full account of goals defined in the legal documents on asset management which are laid down for them by the State or SSH while companies in which the State is not a sole owner, should take account of such goals to the greatest possible extent. SSH expects from the members of management and supervisory bodies to be present at General Meetings, being available to answer all relevant questions. The powers and responsibilities of Supervisory Boards are now regulated in more detail, guidelines are given in regard to the following topics: internal management succession and talent pipeline, the composition of the Audit Committee, significant business transactions for which it is expected that a Supervisory Board grants its consent, and actions to be taken in case of conflict of interest. Guidelines are given for the Nomination Committee, for the predetermined establishment of a competence profile of members and the optimum size of a Supervisory Board and duties and powers of a President of a Supervisory Board. The revised Codes gives detailed definition of duties and responsibilities of Management Boards, avoidance of conflict of interest, membership of the management in Supervisory Boards outside the Group with a consent by the Supervisory Board. This provisions in regard to the transparency of operations and reporting have also been updated. The disclosure of membership in management or supervisory bodies in related and non-related companies is now expected from members of management and supervisory bodies of a company, income and other bonuses of an individual member of management or supervisory bodies should be specifically and clearly disclosed, together with income received by external members of Committees and data on the functioning of supervisory bodies and committees which must include the membership participation at sessions, whereby this detail in regard to the disclosure applies equally to all companies regardless of their size. Further on, duties and powers of the Audit Committee were defined in further detail.

**SSH Asset Management Policy** now defines the terms “independence” and “potential conflict of interest” in a slightly different manner, some editorial corrections were made in regard to activities pursued by SSH. The SSH Transparency Policy in regard to publication of participation and voting on General Meetings of companies is now laid down in further detail, together with the functioning of the Nomination Committee, actions in the case of a discharge of a Supervisory Board member, the

processes for the acquisition of capital assets owned by the State and SSH and their disposition, and the communication to the public in connection with these processes and the processes for SOEs' reconstructing.

**SSH Recommendations and Expectations** have similarly undergone some editorial corrections on account of greater clarity: instructions to companies in regard to the submission of three-year business plans are laid down in greater detail, as well as labour cost optimisation in regard to the payment of holiday and Christmas allowances awhile the recommendation in regard to the disclosure of income received by management and supervisory bodies have been taken out since it is described in detail in the Code.

**Premises for voting at General Meeting** have been supplemented in the section which deals with the submission of counter proposals, the implementation of provisions from the Code of Corporate Governance for SOEs and SSH Recommendations and Expectations into Articles of Association and Memorandums of Associations of companies, and in the section which deals with the process for the appointment of and discharge of members of supervisory bodies and with the voting on proposals by other owners in whose case the implementation of the accreditation and nomination procedure under the procedure regulated by SSH is impossible. A provision has been added in regard to voting premises for proposals on the participation of employees in profits of a company and the standpoint in regard to the appropriation of distributable profit has been given in which case, as a rule, half of the net profit of the current year is to be allocated for dividends. The standpoint in regard to audit reviews of financial statement has also been laid in further detail, specifically, in accordance with such standpoint, an audit firm should not carry out audit reviews in a single company for more than seven consecutive years.

#### 4.3.4 Revised Criteria for Measuring Performance of SOEs in 2016

The Criteria for Measuring Performance of SOEs were first produced and adopted at the end of 2015 and then revised and improved in 2016. The Government of the Republic of Slovenia granted its consent to the said document.

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

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

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

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

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



## 4.4 RISK MANAGEMENT IN REGARD TO CAPITAL ASSETS MANAGEMENT AND THEIR DISPOSITION AND IN REGARD TO CORPORATE RESTRUCTURING

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Risk management is an important feature of the Company's management and governance system in SSH with an important impact on business decisions.

Aiming at efficient risk management, SSH adopted the Risk Management Rules, a risk reporting protocol and a detailed register of all identified risks. SSH has established the 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 measures for minimising risks. 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 2016, SSH continued its standard practice of detailed risk monitoring and implementing measures for minimising risks. SSH's key risks in 2016 included liquidity and market risks, risks in regard to disposal and acquisition of capital assets, risks in managing and restructuring of capital assets, IT risks, risk in connection with influencing the independence and professional conduct of SSH and risk in connection with internal and external frauds.

**Risks in managing capital assets** arise from the processes for the selection and proposal of suitable members of supervisory boards and from the monitoring of their suitability during the mandate. 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 function 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. SSH regularly (i.e., on a monthly basis) updated the list of persons whose actions are compliant with RS and SSH, under ZPre-1. Risks in managing capital assets further refer to the processes for the monitoring, examining, analysing and documenting data and information and the preparation of various 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.

**Risks in connection with the restructuring of capital assets** arise from the 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, processes connected with the closing of the purchase of receivables, MRAs, SSAs, NFPPs and processes following the closing of the formal restructuring phase.

**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 the 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 a 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 the 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.

In 2016, SSH started to analyse risks and risk management systems in companies under SSH's management in a systematic manner which is a significant novelty in the integrated risk management. This area of work represents another field of risk management by way of which SSH will be informed of key risks which companies are exposed to, 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.

As the manager of its own capital assets and those owned by RS, in 2016, SSH implemented a methodology for identifying and quantifying key risks to which companies under management are exposed to. This methodology was successfully tested and the project was implemented in companies dealing with the generation, trading and distribution of electricity. All findings and analyses were presented to a narrow circle of stakeholders of the above mentioned companies, especially to Supervisory and Management Boards. SSH will continue to systematically analyse risks which companies are faced with. SSH's analyses will be presented to Management and Supervisory Boards of companies in order to obtain feedback about which risks are actually of key importance, what kind of risk management system exists in the company and how the system could be improved and how risks minimised by introducing additional measures.

## 4.5 GOALS FOR COMPANIES UNDER SSH MANAGEMENT

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In managing assets, in accordance with ZSDH-1, goals differ according to the classification of a company and state assets in strategic, important or portfolio asset.

All assets owned by SSH and RS are classified into one of three groups of assets with equal or similar characteristics, realising the same or similar goals. They are deemed to be fundamental goals of asset management.

Fundamental goals in asset management are as follows:

- Group No.1: STRATEGIC GOALS: realising important social interest such as providing the relevant level and accessibility of infrastructure, rendering public services, ensuring security objectives, development objectives and realising other significant social interest.
- Group No.2: DEVELOPMENT GOALS: maintaining key development factors in Slovenia;
- Group No.3: ECONOMIC GOALS: maximizing the value of assets and generating the highest return possible for an owner.

In regard to the above mentioned fundamental goals in asset management, capital assets are classified into three fundamental groups of assets, specifically:

- strategic assets are assets in regard to which strategic and economic goals are pursued. Under Article 14, Paragraph 1 of ZSDH-1, the minimum stake to be kept by the State in companies classified as strategic is 50 % plus one vote.
- important assets are assets in regard to which development and economic goals are pursued. Under Article 14, Paragraph 1 of ZSDH-1, the minimum stake to be kept by the State in companies classified as important is 25 % plus one vote.
- portfolio assets are assets in regard to which solely economic goals are pursued. SSH may freely dispose of portfolio assets.

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

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

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

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

For individual asset, specific goals set on the basis of criteria and indicators set are defined in every Asset Management Annual Plan (AMAP).

#### **4.5.1 Monitoring performance and attainment of goals**

The efficient supervision of operation of state-owned enterprises is one of the most important pillars of effective asset management. Slovenian Sovereign Holding thus regularly monitors performance of SOEs through quarterly financial reports and, on the basis of such reports, periodic meetings which are organized with Supervisory Boards and/or Management Boards of SOEs. Relevant business analyses and other necessary basis for thorough presentation and briefing on the state of affairs of a company are prepared by SSH for these meetings, together with the relevant bases for a constructive dialogue and substantiation of its viewpoints. The aim of these meetings is to review key operational results and to attain the owner’s expectations, to highlight key challenges in operation and in corporate governance, presentation of short-term and long-term plans of companies when business plans are discussed, everything with the aim of long-term development and the attainment of growth on key operational areas of the company, and from the perspective of the owner, the attainment of the main company’s objectives defined by the Asset Management Strategy and the Annual Asset Management

Plan. These periodic meetings are also important for SSH for presenting to company's bodies its view regarding company's performance and viewpoints and expectations in this regard.

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

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

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

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

For the necessary efficient monitoring of the success in regard to goals set for SOEs in the portfolio managed by SSH, all the adequate are deployed by SSH, together with data available, specifically:

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

## 4.6 EXPECTATIONS IN REGARD TO DIVIDENDS AND RETURNS ON EQUITY

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

When managing capital assets, SSH takes into account the specific characteristics of operations regarding individual companies, strives for increasing the profitability of individual companies and the portfolio as a whole – while simultaneously taking into account risks which are usually an intrinsic part of higher profitability. For this purpose, target values for an indicator showing the return on equity (ROE) or an indicator showing the return on assets employed (ROA) has been determined by SSH for every single state asset, while taking into account the above mentioned business factors and the value of this indicator generated by selected comparable companies.

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

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

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

## 4.7 STRATEGIC FOCUS AND FORWARD LOOKING STANCE

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In 2016, in addition to corporate activities connected with current operations and short-term business planning in companies, SSH dedicated special attention to strategic orientation of companies. Business environment is changing fast, consolidation of companies continues with the aim of providing for integrated, good quality and favourable services in the market, companies are taking advantages of their existing data bases on their clients in order to expand their services outside of their traditional areas of operation, new start-up companies are being established with business models which are more flexible in terms of costs, capturing market share from currently big players, market liberalisation and digitalization

continue. All these factors have an impact on operations of companies, particularly on future operations which is why a good quality strategic planning in companies with state capital assets is of key importance and an active and managerial role of SSH extremely important. In regard to strategic planning, SSH plays roles that differ in terms of their intensity, depending on a legal and organisational form of a company, a shareholding in its ownership and the strategic nature of a company under SSH management. Main guidelines are obviously provided with the applicable Asset Management Strategy, yet, as regards this task, SSH verifies with prudence all other important factors, characteristics and development trends of an industry in which a company operates, competitors and competitiveness on the market, the specific characteristics of a company and regulation of its activities and other factors. However, sincerely speaking, there is a specific circumstance that has to be pointed out as having an important impact on the work pursued by SSH, that is, companies mainly owned by the State experience problems in strategic planning since their current specific nature and regulation of their activities or the majority of their activities has not forced them to approach the creating of a business strategy in a serious and market-based manner.

An important challenge when creating a business strategy refers to a suitable balance between strategic and economic goals and expectations from companies. The State Assets Management Strategy has set strategic goals for companies with state capital assets which have been defined as strategic or important and an overall economic objective in regard to state capital assets in the form of targeted profitability of the portfolio. Past experiences have shown that there is a conflict between goals stated, which means that companies rendering services of strategic importance and are often connected with public funds cannot attain ROE of 8% , neither it is logical for them to attain it. This is why active engagement on the part of SSH in the field of corporate governance is of high importance as SSH's professional conduct and expertise may contribute to improved operations of companies and consequently to an increased value of assets for the owner, the State, while also contributing to the understanding of corporate governance by bodies which are responsible for the adoption of the Asset Management Strategy and other legal documents which have an impact on the operations of SOEs. In accordance with ZSDH-1, and considering relevant findings, SSH submitted well-reasoned proposals for modifications of the existing Asset Management Strategy, thus pursuing its mission to raise the level of corporate governance of SOEs.

## **4.8 CAPITAL INCREASES IN COMPANIES OWNED BY RS AND SSH CARRIED OUT IN 2016**

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RS implemented a capital increase in Polzela, d. d., for the amount of EUR 1.5 million whereas SSH carried out the capital increase in the said company in the amount of EUR 0.6 million.

Similarly, by way of a debt-to-equity swap amounting to EUR 14.7 million, SSH carried out a capital increase in Sava, d. d. After the repurchase of claims and bonds due by Sava, d. d., SSH and KAD converted outstanding non-collateralised receivables in the amount of EUR 29,349,915.27 (for SSH: EUR 14.674.957,64 into Sava's equity. In the compulsory settlement proceedings, on the basis of conversion of non-collateralised receivables, SSH and KAD acquired newly issued shares, specifically, SSH obtained 4,891,650 Sava shares which represents 22.56-per cent equity stake , while KAD obtained 4,891,651 Sava shares which represents 22.56-per cent equity stake in Sava. More about this activity is presented in the section on restructuring of capital assets.

RS recapitalised the following two companies: Adria Airways in the amount of EUR 3.1 million, thus increasing its equity stake from 69.87 % to 72.9 % , and Rudnik Zagorje v zapiranju, d. o. o., - in liquidation, in the amount of EUR 0.2 million.

At the end of 2015, RS implemented a capital increase in SSH in the amount of EUR 200 million.



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+12,00.50

## 5 ASSET RESTRUCTURING

In the processes of asset restructuring SSH wishes to assist companies owned by RS and SSH in establishing conditions for sustainable and long-term operation, together with ensuring profitable operation and the attainment of other strategic goals by way of operational turnaround. Attaining the above mentioned goals also ensures that the value of assets is maximised for the owner.

Given the nature of work and the intensity of restructuring processes, a very intense cooperation with management bodies of companies undergoing restructuring processes is typical; it may include cooperation in the preparation of the Grace Period Agreement, the Restructuring Agreement, the Financial and Business Restructuring Plan, a proposal for capital increase and other similar instruments. An important part of activities refers to verifying assumptions used in projections about company's operations. Restructuring processes require cooperation from all key stakeholders involved in restructuring (banks, creditors, potential investors, employees), the identification of key reasons for a given situation in the company for which restructuring measures are required, together with the drafting of proposals or an action plan of measures for tackling them. This area of work also includes monitoring over the implementation of agreements reached and their supervision.

In 2016, SSH played a very active role in dealing with capital assets of companies undergoing corporate restructuring processes. These include:

- **HSE, d. o. o.:** In regard to HSE, management activities were pursued which were directed towards 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 HSE Group was successfully completed in December 2016 when, after extremely hard negotiations and after obtaining a consent by the Ministry of Finance, HSE signed a Long-Term Loan Agreement with a syndicate of banks for a long-term loan in the amount of EUR 180 million and a revolving loan in the amount of EUR 40 million. On account of successful implementation of measures aimed at optimisation and streamlining of operations, in 2016, HSE Group managed to pay off early for approximately EUR 72 million of loans. Years to come will need to see a prudent supervision over the fulfilment of financial covenants given to banks as potential violations of agreements may result in a request for an early repayment of loans which might lead to insolvency of HSE Group or to the cashing-in of a State guarantee for loan given by the European Investment Bank in the amount of EUR 440 million. With a successful completion of financial restructuring, in the next period, a great deal of attention will be placed on carrying out measures for corporate restructuring and operational streamlining. A significant cost-cutting operation in HSE Group, resulting in a decrease of an average cost price for electricity generated by HSE Group, will continue to be focused on three categories of costs (also referred to as controlled costs), that is, labour costs, costs of services and costs of materials. At the organisational level, HSE Group will try to come closer to the structure of a group as much as possible, particularly within the homogeneous activities of electricity production and sale of electricity; in this pursuit, HSE Group will strive to bring to the Group a great deal of the value chain, from increasing the scope of internal procurement (at the supply side) up to increasing its share with final customers (vertical integration up to retail). Activities will also be directed towards the integration of support function which will result in better transparency and comparability of operations of individual companies in HSE Group and better management of joint risks. SSH, in the capacity of a 100-per cent shareholder, takes an active part in the integrated restructuring of HSE Group.
- **Nafta Lendava, d. o. o.:** In accordance with the agreement concluded with banks - creditors, Nafta Lendava 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 debt claims 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 debt claims 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 Debt Claims Purchase Agreement and in the drawing up of the agreement on the regulation of mutual relations. The debt claims 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 debt claims. 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 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 StudFarm) 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 filling 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 the Decision on Initiation of Bankruptcy Proceedings was issued (Ref. No. - 5144/2016).
- **Polzela, d. o. o.:** In 2016, SSH carried out all activities necessary for the purchase of debt claims from creditors of Polzela, d. d. After the purchase of debt claims 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 to participate 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 Polzela, d. d. Considering the above mentioned, 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 (Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act). On 23 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 Sava's debt claims from BAMC. The major part of SSH's activities included the following tasks:
  - the evaluation of economic justification for the purchase of the said debt claims,
  - the evaluation of collateral for the said debt claims,
  - the communication with regulators in connection with the notification of concentration, and
  - the harmonisation of 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., in English - Pension Fund Management (hereinafter referred to as: , "KAD") and SSH (hereinafter referred to as: "Agreement"). By entering into this Agreement, SSH and KAD 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 KAD, 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 KAD obtained newly issued shares; specifically, 4,891,650 Sava shares were obtained by SSH which represents 22.56 % ownership stake, while KAD 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 and between SSH and KAD and 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, 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.

- **RTH, Rudnik Trbovlje-Hrastnik, d. o. o.:** Considering the Financial Liabilities Restructuring Agreement concluded with banks in 2014, 2016 saw an intensive implementation of activities planned and measures envisaged which were focused on providing for the necessary liquidity assets and the timely sale of company's assets.
- **CSS:** 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. In light of the above mentioned, the restructuring programme could not be implemented on the basis of the plan envisaged. Another operational issue refers to insufficient maintenance and rather outdated equipment, together with financial burdens accumulated from previous years. CSS thus has to tackle liquidity issues. The new director prepared a new restructuring programme for the company; the said programme is based on an capital increase of the said company by way of a monetary contribution in the sum assessed to amount to EUR 500,000, and an envisaged disposal of current land and the relocation of production facilities. The proposed restructuring programme is in the process of being examined by SSH, together with economic justification of capital increase. Subsequent processes will take place in 2017.
- **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. Core business pursued by the company is not profitable which is why, in 2016, SSH proposed to reclassify this asset from a portfolio into strategic asset. By reclassifying the said company and by modifications of the legislation which regulates subsidies granted to student and secondary-school students' dormitories, further operation of the company would be enabled.



## **6 SALE OF CAPITAL ASSETS OWNED BY SSH AND/OR RS AND ACQUISITION OF CAPITAL ASSETS**

## 6.1 HOW IS THE SALE OF SOEs CONDUCTED?

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The disposal of capital assets held in the ownership of SSH and the Republic of Slovenia, including the sale and swaps of capital assets, represents one of the main activities related to the management of capital assets performed by SSH. In the continuation of the text, the term, »disposition of assets« is replaced by the term »sale of SOEs«.

SSH strives for the sale processes to run in an efficient, transparent and competitive manner and in line with international practice. For this purpose and with the aim of increasing its credibility with investors, SSH leads the sales processes regarding the largest capital assets in cooperation with renowned international financial and legal advisors specialised in financial advisory services.

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

## 6.2 SSH RUNS PROCEDURES IN ACCORDANCE WITH THE ASSET MANAGEMENT POLICY AND INTERNATIONAL STANDARDS FOR THE SALE OF CAPITAL ASSETS

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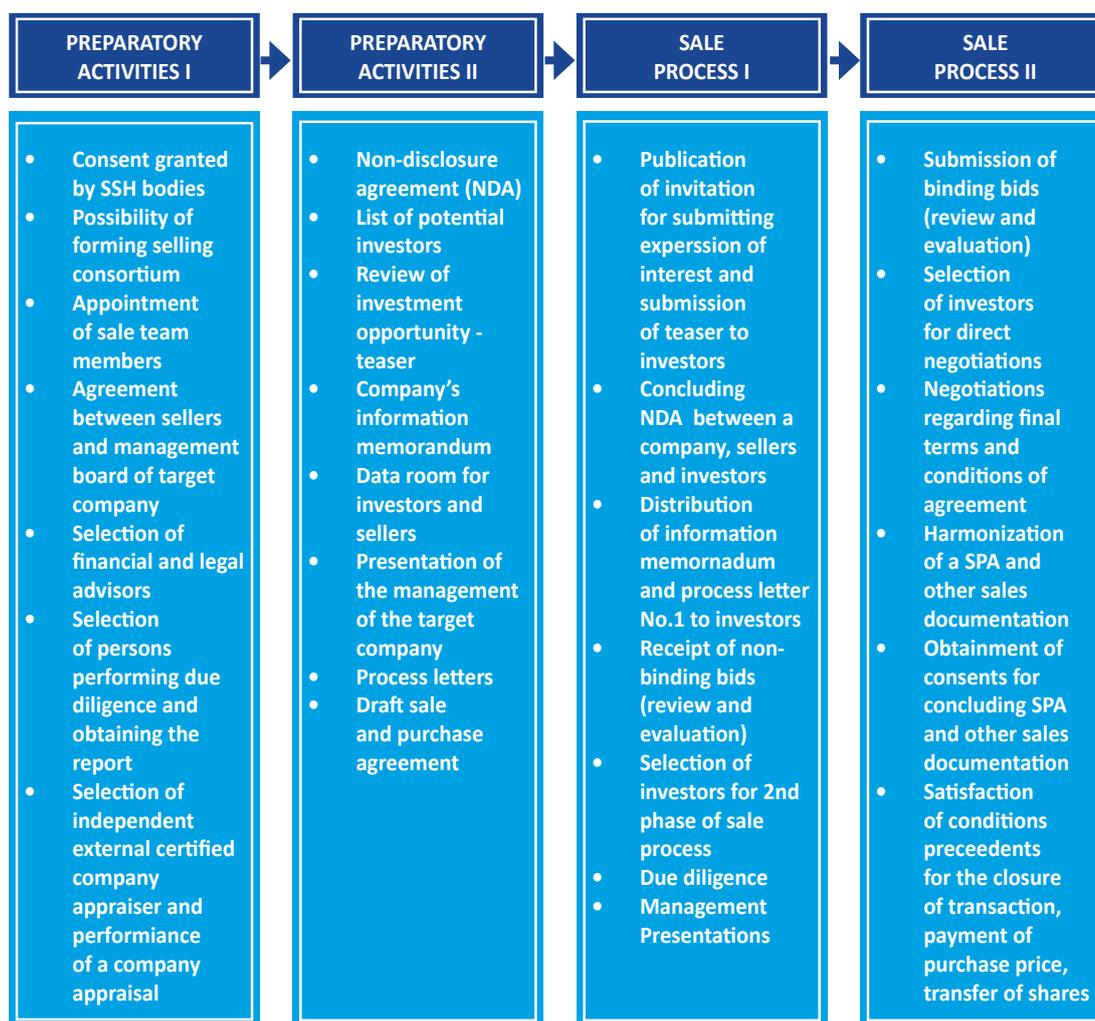
The SSH Annual Assets Management Policy was adopted in December 2014 and supplemented in December 2016. The Asset Management Policy is a legal document which includes principles, procedures and criteria applied by SSH in the performance of its duties laid down by ZSDH-1. The purpose of the Asset Management Policy is to provide for transparency and traceability of decision made by SSH. One of the Policy's Chapters is dedicated to the processes for the disposition of assets and acquisition of capital assets. This Chapter presents the methods of sale of capital assets, regulates the communication method on disposition of capital assets, the structure of a sale process (in the case of the sale of majority shareholding and in the sale process in the case of the sale of minority shareholding), and the method for conducting the sale process. The said policy also includes some special provisions, among others, provisions in regard to hiring financial institutions and other advisors.

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

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

The following section presents key steps in individual phases of a sale process under the **M&A method** for large SOEs and under the method of **initial public offering (IPO) of shares**. The process is simplified in regard to a process which involves the sale of smaller SOEs.

## M&A method



## The Initial public offering method

The initial public offering (IPO) process can be divided in the pre-IPO preparation phase, which is of confidential nature, and the IPO execution phase which is launched with the publication of the Intention to float (ITF).

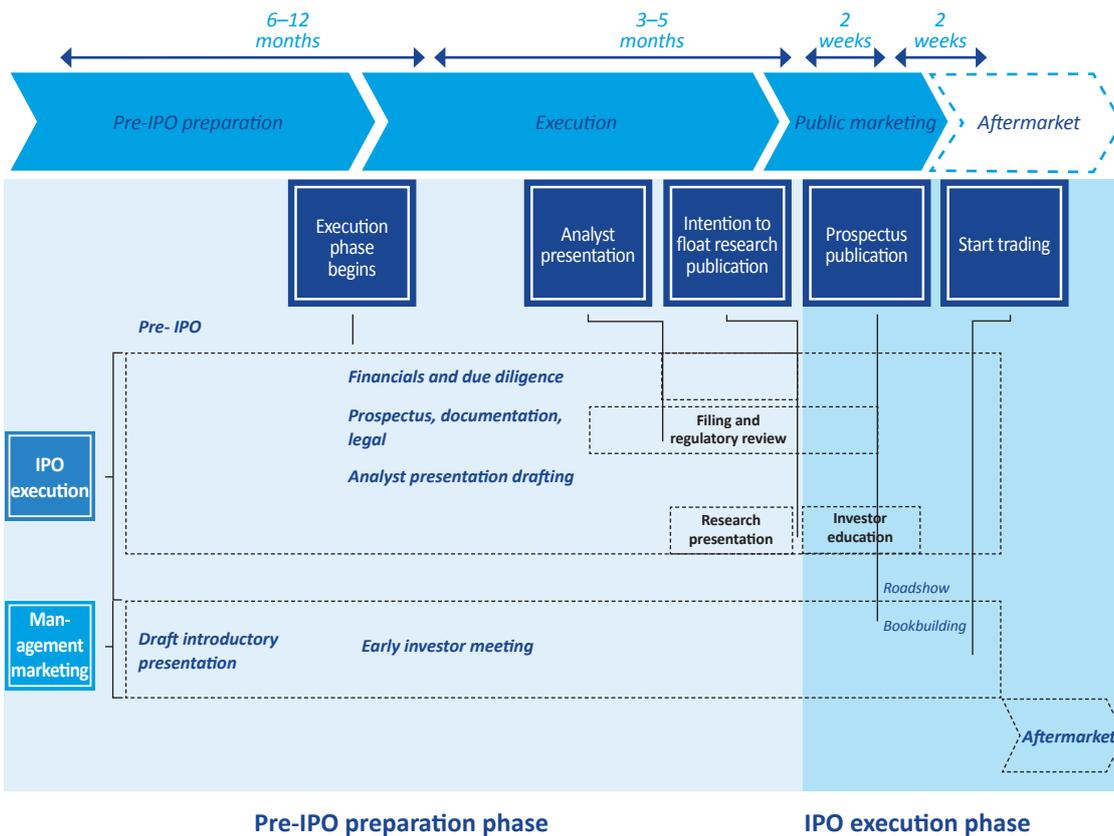
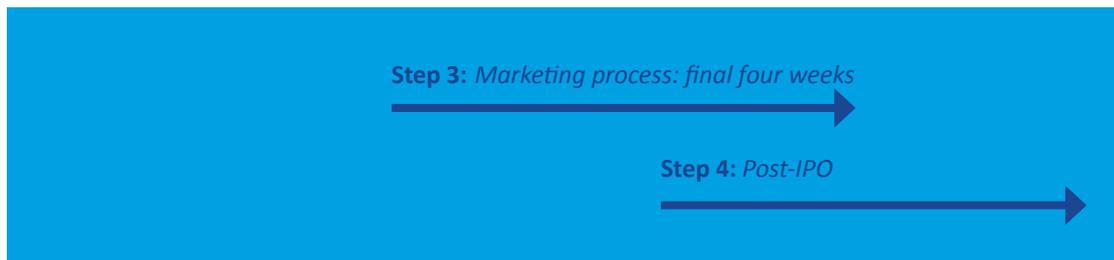
The pre-IPO preparation phase includes the entire internal preparation activities while the IPO execution process is focused on marketing the IPO to investors.

## Pre-IPO preparation phase



Press release - Intention to float

## IPO execution phase



In cases where there is a large number of owners of companies, sale processes related to the disposition of capital assets held in co-ownership by the Republic of Slovenia and SSH are conducted on the basis of Agreements on Joint Sale of Shares and Letters of Intent concluded by and between SSH and other shareholders and lienors. An effective implementation of sale process requires an active cooperation of the company which is the subject to the sale. With the aim of defining in detail the method of cooperation with the individual company subject to the sale process (submission of data, enabling due diligence reviews, payment of some costs related to the procedure, communication activities, etc.), the sellers usually conclude a special agreement on mutual relations in the sale process.

SSH and the remaining signatory parties to the Agreement, subject to capital assets undergoing the process of sale, also agree on the most appropriate medium to publish the invitation to submit an expression of interest for purchase of equity stakes (a daily newspaper circulating in Slovenia or abroad).

In cooperation with companies and advisors, sellers produce sales documentation about individual company (a teaser and Information Memorandum) which are received by investors who have demonstrated their interest in the sale and conclude a Non-Disclosure Agreement (NDA). Considering the size of a company which is being sold, SSH is obliged to obtain reports on financial and legal due diligence, and, in some cases, reports on other types of due diligence are required (Environmental, Technical Due Diligence Reports, etc.). Prior to the conclusion of the Purchase and Sale Agreements, SSH also obtained the appraisals of the company value produced by independent certified appraiser of company value.

In the processes for the sale of capital assets, Slovenian Sovereign Holding must take utmost account of the EU rules on state-aid.

## 6.3 OBSERVANCE OF EU RULES ON STATE-AID

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

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

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

When, in spite of facts mentioned above, a state vendor decides to include in the privatisation process non-financial commitments which imply state aid or it is likely to entail state aid, such privatisation process must be notified by the state vendor to the European Commission. Prior to the launch of the privatisation process, the European Commission must grant its approval to proposed non-financial

commitments. According to the statistical data from the Commission, such process lasts for 18 months, on average.

## 6.4 SSH SALES ACTIVITIES IN 2016

In 2016, SSH continued its activities pursued in regard to the sale of capital assets held in the ownership of the Republic of Slovenia and SSH, initiated in 2013 on the basis of the decision adopted by the National Assembly. In addition to these activities, SSH also managed other activities related to the sale of other capital assets held in the ownership of SSH and the Republic of Slovenia, in accordance with the State Assets Management Strategy which was adopted on 13 July 2015 and in accordance with the Annual Assets Management Plan 2016, to which the consent of the Government of the Republic of Slovenia was granted.

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

Until 31 December 2016, processes for the sale of eight capital assets stated in Table 1 were completed. Of these, six processes for the sale of the following companies: Aerodrom Ljubljana, d. d., Adria Airways Tehnika, d. d., Elan, d. o. o., Helios, d. d., Fotona, d. d., and Žito, d. d., were completed prior to 1 January 2016.

Table 1: The list of capital assets referred to in the consent granted by the National Assembly and ownership stakes of the Republic of Slovenia and of state assets management companies held in these companies

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

Legend:

■ Companies in direct ownership by the Republic of Slovenia or SSH ■ Closed sale

\* Current ownership stakes or stakes at the time of executing a Sale and Purchase Agreement (if assets have been sold) are presented.

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

In 2016, from among companies listed in Table 1, shares in Adria Airways, d. d., were sold, and the sale of Nova KBM, d. d. was also finally completed in regard to which the SPA was concluded in 2015. At the end of 2016, activities in connection with capital increase of Paloma, d. d., initiated by the Management Board of the said company, were in their final phase. At the General Meeting held in July 2016, SSH gave its support for the company's capital increase and the investor who had provided with fresh capital for Paloma, published a take-over bid at the end of 2016. In February 2017, SSH accepted the said take-over bid and in March received the purchase consideration by way of which the process for the sale of Paloma shares was completed.

The largest asset in regard to which SSH, in cooperation with the selected advisors, intensively pursued preparatory activities in connection with its sale in 2016 was Nova Ljubljanska banka, d. d. which is wholly owned by RS. SSH was also engaged in running activities in connection with the sale of shares of Cimos, d. d. and Mariborska livarna Maribor, d. d., and in connection with activities necessary for legal and organisational transformation of Geoplin d.o.o., In October 2016, SSH launched activities in connection with the seeking of strategic investor of Polzela, d. d.

The Sale and Purchase Agreement for Cimos shares was executed in October 2016 while the completion of the transaction was envisaged to take place in the first half of 2017, following the satisfaction of conditions precedent. In the process for the sale of shares of Mariborska livarna, d. d., in autumn of 2016, a decision was passed to suspend the sale process whereas no interest for the purchase of Polzela shares was demonstrated by any long-term investor.



Photo: Press conference held by the buyer and sellers upon the closure of the sale of Cimos, d. d. in May 2017. The Sale and Purchase Agreement was concluded in October 2016.

Table 2: Review of significant information in relation to the progress of processes of sale conducted in 2016 in relation to capital assets owned by SSH and/or RS in regard to which Sale and Purchase Agreements were concluded in 2016

		
SSH ownership stake (%)	1	0.0
RS ownership stake (%)	73	
Ownership stake subject to sale (%)	83	24.3
Agreement on Joint Sale of Shares	yes	yes
Financial advisor	KPMG	Ernst & Young
Legal advisor	Karanović & Nikolić, d. o. o.	C'M'S
Public announcement of invitation for submitting expressions of interest for the purchase of shares	July 2015	August 2015
Deadline for submitting non-binding bids	September 2015	September 2015
Phase of the process of sale at the end of 2016	transaction completed; purchase compensation monies paid in March 2016; following the execution of the Share Sale and Purchase Agreement, capital increase in the company was carried out by the buyer (EUR 1 million) and by RS (EUR 3.1 million)	SPA concluded in October 2016, activities in connection with the satisfaction of conditions precedent are in progress
Buyer	AA International Aviation Holding GmbH	TCH Europe, holdinška družba, d. o. o.

In 2016, SSH published a public invitation to submit an expression of interest for the potential acquisition of shareholdings in KDD, d. d., and two public invitations to submit bids for several smaller capital assets. The first public invitation referred to the sale of 13 capital assets owned by RS or SSH, while the second invitation referred to the sale of 5 capital assets owned by RS, SSH and KAD which had not been completed by the end of 2016.

More detailed information in connection with the realisation of these sale processes are presented in the continuation of the document.

Asset	Buyer	Date of signing the agreement	SSH ownership stake (%)	Proceeds from sale attributed to SSH (EUR)	RS ownership stake (%)	Proceeds from sale attributed to RS (EUR)
Energetika Črnomelj, d. o. o.	Petrol, d. d.	8. 7. 2016	/	/	49.3	
A-Cosmos, d. d.	A-Cosmos, d. d.	27. 6. 2016	/	/	0.8	
Telemach Tabor, d. d.	Telemach, d. o. o.	8. 8. 2016	/	/	0.04	
Dom upokojencev Idrija, d. o. o.	FMR, d. d.	8. 8. 2016	/	/	18.9	
Murka, d. d.	Finančna pot, d. d.	16. 9. 2016	/	/	0.2	
EKOEN, d. o. o.	Rok Suhodolnik	20. 9. 2016	/	/	49.1	
Počitniška skupnost Krško, d. o. o.	Labod PSK, d. o. o.	11. 10. 2016	/	/	1.5	
<b>Total</b>						<b>951,408.00</b>

## 6.5 ACQUISITION OF CAPITAL ASSETS FOR SSH AND/OR RS IN 2016

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

Considering the interest of SSH, and indirectly of RS, for the State to maintain the largest equity stake in Petrol, d. d., and given a threat demonstrating that the devaluation of equity stakes in direct and indirect ownership of the State might occur, the supplemented Asset Management Annual Plan for Petrol was approved in October 2016. On the basis of the public call by NLB to submit offers for the purchase of 3.03-per cent shareholding in Petrol, d. d., SSH submitted its offer for the purchase of the above mentioned shares, on behalf of and for account of RS.

In February 2017, NLB accepted the RS's offer for the purchase of 63,183 Petrol shares, thus acquiring 3.03 per-cent shareholding in Petrol.

In 2016, SSH also concluded agreements on the transfer of claims against payment, which is presented in detail in the Chapter on Asset Restructuring (specifically, for assets of Sava, d. d., and Polzela, d. d.).



## **7 ECONOMIC ENVIRONMENT IN 2016**

## 7.1 MACROECONOMIC ENVIRONMENT

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In 2016, Slovenia recorded similar economic growth levels as achieved in 2015, thus recording a GDP growth trend for the third consecutive year which indicates that Slovenian economy has successfully recovered after the period of crisis. Slovenia benefited from positive trends in the Euro area economy due to its export orientation. The growth in exports was driven by the growth in foreign demand and further improvement in competitiveness levels.

Exports contributed significantly to the **growth of gross domestic product** (3.1 % in 2016), and the growth in domestic consumption was enhanced although it still stood at pre-crisis levels. Domestic consumption is thus a partial answer to the question regarding the gap in the volume of export and import which remains to be high. In addition to higher quantity growth of export as compared to import, since 2013, improvements in trade conditions on account of falling prices of energy products and raw materials slightly contributed to the divide between export and import. Given macroeconomic conditions are reflected in high surplus of savings over investments which, in addition to export competitiveness, are shown in significant deleveraging of corporations and commercial banks. Corporate indebtedness has thus decreased to levels recorded before the accelerated growth in loans recorded in 2005 which minimizes vulnerability of companies to potential financial shocks. Since 2015, government deficit has been below 3% of GDP and is being decreased further, although expenses connected with demographic movements still remain to be a challenge. Regrettably, lagging behind the European average has increased with respect of the development of the financial system in the area of banking and capital markets. Such situation is not insignificant from the perspective of financing future economic growth. Gross external debt has been declining for two years; at the end of 2016, it was higher by EUR 2.9 billion as compared to the pre-crisis period; its structure, however, has changed significantly, as the government share of the debt now exceeds 50%. Compared to the pre-crisis period, this share of government debt increased to as much as 54.3% (which is by 44 percentage points higher than in 2008), particularly due to extensive long-term foreign debt with the aim of financing government deficit and measures aimed at the bailing out of domestic banks. On the other hand, commercial banks and corporations deleveraged abroad.

After a decline during the crisis period, **employment** improved in 2016 for the third consecutive year. Considering the structure of economic activity, it is no surprise that, in the last three years, higher employment was the result of export-oriented activities, yet, with the gradual recovery of private consumption, it was also underpinned by services. In 2016, the growth in employment was thus further enhanced. In addition to higher employment, in recent years, the calculation of the employment participation rate has been increasingly influenced by demographic trends, as the decline in working population increases the total rate of employment participation.

In 2016, the **added value** continued to grow in the majority of activities, recording negative trends only in the construction industry and financial services. Total growth of 2.6% for 2016 was thus slightly higher than in the previous year (2.3%). With the growth in foreign demand and further increases of market shares in trade partners, the added value was accelerated in processing activities, which stemmed from enhanced activity recorded in the major part of the sector, with the greatest contribution recorded in the production of ICT, equipment, and electronic devices, metals industry and rubber industry. High domestic production activity and revival of private consumption further enhanced the growth of the value added of the majority of important market services which was also encouraged by increased sales in foreign markets in some sectors (transport, hospitality industry computer programming services). With the fall in government investment, which is the result of the transition the new financial perspective as regards the absorption of EU funds, the fall of the added value in construction activity deepened even further. Further decline in the added value recorded in financial and insurance activities was mainly coming from the banking sector, although reducing the volume of loans stabilised. In public services, recording continued employment following the lessening of restrictions imposed during the crisis, growth in added value was enhanced.

Table 3: Overview of macroeconomic indicators for Slovenia in 2014, 2015 and 2016.

INDICATOR	2014	2015	2016
Annual inflation growth (in %)	0.2	-0.5	0.5
GDP – current prices (in million EUR)	37,615	38,837	40,418
GDP – constant prices, 2010 as the reference year (in million EUR)	36,158	36,975	38,139
GDP – real growth in %	3.0	2.3	3.1
GDP per citizen (in million EUR)	18,244	18,823	19,576
Gross salary (EUR)	1,545.53	1,555.89	1,584.66
Net salary (EUR)	1,008.85	1,013.23	1,030.16
Active working population	797,792	804,637	817,209
Registered unemployed persons	120,109	112,726	103,152
Registered unemployment rate in %	13.1	12.3	11.2
Registered survey-based unemployment rate in %	9.7	9.0	8.0
Export of goods (in million EUR)	22,935	23,940	24,971
Import of goods (in million EUR)	22,580	23,305	24,112
Trade balance (in million EUR)	355	635	859

Source: Statistical Office of the Republic of Slovenia

## 7.2 CAPITAL MARKETS

### 7.2.1 Global capital markets

In 2016, **stock markets** around the world rewarded investors with positive returns and the MSCI World index (a stock market index comprising companies from developed stock markets in the world) gained 8.50 % in value in 2016, calculated in the Euro (in 2015, a 8.30-per cent growth). In 2016, the S&P 500 index (the indicator of the conditions in the American stock market) recorded a 9.54% growth (measured in US Dollars), whereas in 2015, it amounted to -0.73 %. The stock market of Europe, measured by Eurostoxx 600, provided for no positive returns to investors in 2016 as it amounted to -1.20% while in 2015, the said index increased in its value by solid 6 %. On the other hand, after poor results recorded in 2015 (a -16.96-per cent return), emerging markets (measured by MSCI Emerging Markets index) recorded growth in the amount of 8.58 %, measured in the US Dollars.

In 2016, the global **bond market** recorded a 5.22% aggregate return in EUR (calculated according to the JPM Global Bond Index), while in 2015, such aggregate return amounted to 8.37%. The bond growth in the Euro area in 2016 lasted from the beginning of the year until the month of August, but a downward revision was recorded in the period from September to December. In 2016, the aggregate yield of IBOXX EUR Sovereigns Index stood at 3-27% (1.,63 %, in 2015) while the aggregate yield of IBOXX EUR Corporates was 4.72% (-0,66 % in 2015). In emerging markets in 2016, investors in bonds issued in local currencies gained 6.10 % of the investment value ( measured after the conversion into the US Dollars), while bonds from emerging markets issued in the US dollars increased by 10.81% .

In 2016, the Euro lost 2.94 % of its value in regard to the US Dollar, and stood at 1.0547 US Dollar to 1 EUR as of 31 December 2016 (in 2015, the Euro lost 10.2% of its value in regard to the US Dollar, with the exchange rate standing at 1.0866 US Dollar for 1 EUR as of 31 December 2015). To a certain extent, currency movements were shaped by the European Central Bank's monetary policy and market expectations in regard to the number of future FED's key interest rate hikes in the USA . Namely, in

December 2015, for the first time after the financial crisis, the FED increased its key interest rate by 25 basis points, followed by the second hike carried out in December 2016 (repeatedly, by 25 basis points). Thus, at the very beginning of the year of 2016, investors had to reconcile to the fact that the zero-rate era in the USA was over. As regards the movements in currency pair of the Euro against the Rouble, it should be noted that the Euro lost 18.47% of its value against the Rouble, but the total loss of the value of the Rouble against the Euro in the 2015-2016 period was significantly higher. The Swiss Franc to Euro closed the year of 2016 with a minimum increase in value as compared to the exchange rate recorded at the end of 2015.

Table 4: Review of EURIBOR interest rate movements in %

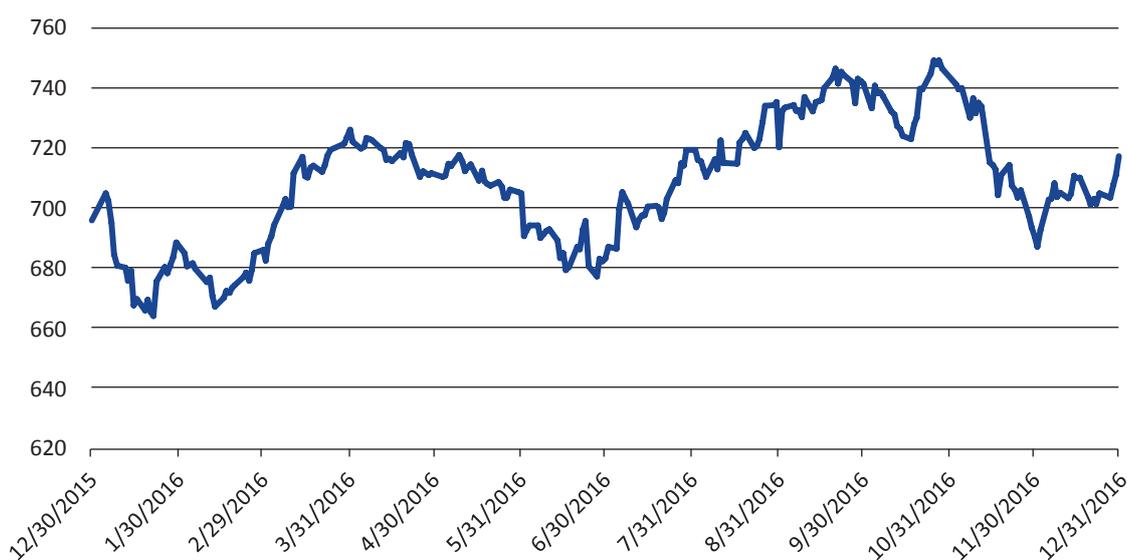
Value/Type:	31 December 2015	31 March 2016	30 June 2016	30 September 2016	30 December 2016
3M EURIBOR	-0.131	-0.244	-0.286	-0.301	-0.319
6M EURIBOR	-0.040	-0.132	-0.179	-0.203	-0.221
12M EURIBOR	0.060	-0.005	-0.051	-0.064	-0.082

Source: Bloomberg.

## 7.2.2 Capital Markets In Slovenia

In 2016, the total turnover on the **Ljubljana Stock Exchange** amounted to EUR 334 million, which is by 15% less than in 2015 when it amounted to EUR 393 million. The poor liquidity at LJSE was present in 2016, similarly as in 2015. The highest turnover was generated by trading in shares, with the aggregated turnover of the prime market, the standard market and the entry market amounting to EUR 313 million in 2016. The highest share market capitalisation was generated by shares of the prime market (EUR 4.6 billion), followed by entry market shares with EUR 0.3 billion of market capitalisation and shares of the standard market with EUR 0.1 billion of market capitalisation. The market capitalisation of shares of the prime market decreased by EUR 0.2 billion (-4.2%) in 2016 as compared to 2015.

Graph 1: SBITOP Index gained 3.08 % of its value in 2016



Source: Bloomberg.

The highest share market capitalisation was generated by Krka shares with EUR 1.7 billion, followed by Petrol, Zavarovalnica Triglav, Telekom Slovenije and Mercator shares (all aforementioned shares amounting to the market capitalisation between EUR 0.4 to EUR 0.7 billion). The highest share

turnover was generated by Krka shares and it amounted to EUR 109 million. The highest bond market capitalisation at the Ljubljana Stock Exchange amounted to EUR 21.1 billion and the highest turnover was generated by the 1st issue of Telekom Slovenije bonds (EUR 3 million). The turnover of the Slovenian Compensation Fund bond, the 2nd issue, amounted to EUR 91,251 in 2016. There was no turnover generated by treasury bills at the Ljubljana Stock Exchange in 2016, and the trading volume of commercial bills was modest, as its turnover amounted to only EUR 2.1 million.

The review of the bond market with the attention being paid to RS bonds shows that throughout the entire year of 2016, the required yield-to-maturity rates for Slovenian sovereign bonds were falling on account of favourable economic conditions and due to characteristics of the European debt markets. The required yield rates for Slovenia 10-year bond RS66 thus demonstrated an increased confidence experienced by investors in regard to the Republic of Slovenia in 2016. The Germany 10-year Government Bond, on the other hand, recorded negative values of the required yield rates in 2016. In 2016, ECB continued to implement its Quantitative Easing (QE) programme, i.e. covered bond purchase programme. In March 2016, its volume was increased, raising from EUR 60 billion to EUR 80 billion of monthly bond purchases. The ECB's monthly bond purchases of EUR 80 billion were planned to continue until March 2017. In December 2016, the ECB announced that the duration of the programme would continue until December 2017, whereby the value of monthly bond purchases would again amount to EUR 60 billion.

In 2016, RS expanded its existing bond issues by issuing new long-term bond (EUR 4.8 billion) in which regard the majority of the 2016 newly issued debt was dedicated to settle the outstanding principal amount (EUR 3.6 billion). In addition, bonds issued in the period from 2012 to 2015 with the required yields of over 5% were repurchased and replaced by long-term bonds for which lower rates of the required yield were achieved by RS. The implicit interest rate of the total debt, considering the impact of favourable borrowing conditions in 2016, thus amounted to 3.7%. In 2016, Standard and Poor's assigned A rating to the Republic of Slovenia (positive outlook), Moody's upgraded Slovenia's credit rating from Ba1 to Baa3 (positive outlook) and Fitch Ratings ranked RS with A- and a stable outlook. In June 2017, Standard and Poor's upgraded its rating to A+ (stable outlook).

Graph 2: Overview of the required yield rates for generic Slovenia 10-year bond in 2016



Source: Bloomberg.

Note: The highest required yield rates for generic Slovenia 10-year bond in 2016 amounted to 1.73% with the lowest rate amounting to 0.55% which was the result of improved economic conditions and effects of the ECB's QE programme.

As regards public finance, conditions have been improving recently and the government deficit has been decreasing since 2013. In 2015, it fell below 3% which is important from the aspect of the Stability and Growth Pact, thus, with the further decline in 2016 it reached only 1.8% of GDP. A positive

piece of news is the suspension of the increasing debt trend which had lasted from the middle of 2008; in 2016, the debt fell by 3.4 percentage points to stand at 79.7% of GDP. The debt also decreased in nominal amount, amounting to EUR 31.7 billion at the end of 2016. The reference ceiling imposed by the Stability and Growth Pact in regard to public debt is 60% of GDP. Considering improved conditions of the Slovenian economy and with favourable borrowing conditions in international financial markets, RS was successful in actively managing its debt which is shown in the extension of the average life of debt before its maturity and more favourable borrowing costs. A positive downward trend was also recorded in regard to the gross external debt as it fell down in the last two years although it was still higher by EUR 2.9 billion at the end of 2016 as compared to the pre-crisis period. However, the structure of debt changed significantly in the given period, since the share of government debt increased to 54.3% which is by 44 percentage points higher than in 2008. Slower trend of the growth in external government debt recorded in 2015 and 2016 and by taking into account the presented deleveraging process, had made the gross external debt to record the lowest levels in 2015 and 2016 as compared to the highest level recorded in 2014. The decline in the gross external debt of 2015 and 2016, considering the growth in foreign liabilities, thus resulted in the improvement of the net financial position. At the end of 2016, as regards international investments, the net debt position to foreign investors recorded amounted of EUR 13.7 billion, or 34.5 % of GDP.

## 7.3 REVIEW OF DEVELOPMENTS IN INDIVIDUAL INDUSTRIES

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### 7.3.1 Traffic, transport and infrastructure

#### Railway transport and infrastructure

In the Republic of Slovenia in 2016, the volume of land freight transport, of which railway freight transport is an important part, amounted to 99.3 million tonnes, which is by 5.1% higher than in 2015. The increase in railway transport was substantially higher (+6.1 %), than the increase in road transport (+4.8 %). The proportion of railway freight transport increased in 2016, rising to 21.7 %. Due to the enhanced competition of other railway carriers who are present on Slovenian railways, the proportion of freight transport held by Slovenske železnice in the railway freight market decreased to 89%, or by 2 of percentage points as compared to 2015, although it is still the highest. In perspective, due to the liberalization of the access to public railway infrastructure, the proportion of other rail carriers in the railway market is gradually being enhanced may lead to further reduction in the share held by Slovenske železnice; however, the route of two European rail freight corridors (that is, RFC5 – Baltic–Adriatic and RFC6– Mediterranean) over the territory of the Republic of Slovenia and the potential future RFC (Alpine – Western Balkans Corridor) provide for increases in long-distance rail freight transport due to more competitive prices and the shift of transport from road to railway.

Public passenger transport in 2016 saw the reduction in the share of railway transport, amounting to 25 %, and was mainly the result of increases in air transport and public road transport. An important factor for the aforementioned drop can be found in closures of railway lines owing to their maintenance and restoration, increases in travel time delays, and in other factors. In addition to the generally high proportion of individual transport by motor vehicle, which is the main competitor to rail journeys, the falling share was affected by low fuel prices resulting from the falling oil prices. Half of all passengers carried are daily train users (mostly secondary-school students and university students with subsidised tickets) which is why to further maintain the competitive position of passenger rail transport and of Slovenske železnice, the national policy for stimulating public passenger rail transport and the search for new market approaches in Slovenske železnice, particularly in regard to providing tourist rail journeys, are highly important.

### **Motorway infrastructure**

The area regarding the construction and management of motorways and expressways in the Republic of Slovenia falls under the responsibility of DARS, the Motorway Company in the Republic of Slovenia, in accordance with ZDARS-1. In 2016, activities for the implementation of the National Motorway Construction Programme (adopted in 2004) continued; among other things they included the following projects: the construction works at the Draženci-Gruškovje motorway section and at the Šmarje-Sap slip road, the restoration of 37.1 km of motorway carriageways and slip roads, procedures in regard to the spatial planning siting of 7 road sections, the setting of new noise barriers at 5 motorway sections. The contract for the project regarding the electronic toll collection system for freight transport was executed with the selected supplier and service provider of the said system. At the end of 2014, DARS managed and maintained 610.4km of motorways and highways, 140.7km of slip roads, 22.3 of turn-offs and 34.1km of roads of other categories.

### **Postal services**

In 2016, the postal network included 525 contact points of various organisational forms which places Slovenia among European countries with the higher level of access to the postal network. The trend of an increasing number of contractually-operated post units (146 units) and mobile post offices (24 units) was noted. Pošta Slovenije maintained its leading position in the activity of rendering postal services in 2016. It rendered services for EUR 955.2 million which is by EUR 24.6 lower than in 2015. The universal postal service as the most important section of its operation dropped by 4 % which is the result of the liberalisation of the postal market, the rationalisation of operations by larger senders, the substitution of postal services with other communication methods (e-commerce), and other developments. Other postal services recorded a 2-per cent drop. The trend of decreasing cash-related services continued in 2016 as a result of increased use of electronic banking. Further decline in the volume of postal services rendered by Pošta Slovenije is expected for 2017, specifically, by 5% although it is expected to be offset by the growth in operating revenues due to the introduction of new parcel-related and logistics services and information services.

### **Air traffic**

In light of the economic growth in the Euro area and the strengthening growth of the global economy, growth trends were recorded in air traffic, despite the growth in oil prices. In addition to positive economic growth and oil prices recorded in the global market, potential security events will have a significant impact on the growth in the industry and traffic flows; such events includes terrorists attracts and potential war zones, together with other extraordinary events and factors which may significantly affect the structure and the movement in traffic flows.

Eurocontrol's Seven-year Forecast (Statfor) of February 2017 has envisaged a 3.1 - per cent growth in the number of IFR flights in Europe, while, according to the movements in IFR flights, a slightly lower, i.e. 2.6-per cent growth in traffic has been forecasted for RS for 2017, as compared to 2016.

### **Marine traffic**

In Slovenia, marine traffic is carried out through the only port located in Koper, predominantly in the form of freight transport with a small portion being dedicated to passenger transport. In 2016, there were 2061 ships that entered the Port of Koper which carried and transhipped a record-hitting 22 million tonnes of cargo; this number, for example, included 844 thousand of ship containers and 749 thousand of personal vehicles. This result placed the Port of Koper among the TOP 3 ports of the Mediterranean specialised for vehicle transhipment. As regards the aggregate transhipment, 60% of the total cargo was carried to Slovenia's inland and to other rear countries by rail and 40% by road. In recent years, the number of tourist ships entering the port has been increasing. As compared to 2015, their number increased by 20 to stand at the total of 69 ships which carried 78,923 passengers.

## 7.3.2 General economic sector

### Tourism

Statistical data for 2016 show a very positive trend for the European and Slovenian tourism. Tourist establishments in Slovenia in 2016 recorded the highest number of arrivals (by 10% more than in 2015) and overnight stays of tourists (by 8% more than in 2015) recorded so far. In 2016, the growth in arrivals of foreign tourists amounted to 12% and it stood at 5% as regards domestic tourist arrivals. In 2016, foreign tourists generated 66 % of all overnight tourist stays. The key markets from which most overnight stays of foreign tourists in Slovenia were recorded in 2016 were the following: Italy (16 % of foreign tourist overnight stays), Austria (11 %), Germany (11 %), Croatia (5 %), the Netherlands, the United Kingdom and Hungary (each contributing 4 % of tourist overnight stays). Tourists from non-European countries generated 14 % of all foreign tourist overnight stays in Slovenia in 2016. The highest number of all tourist overnight stays recorded in 2016 was registered by municipalities in which spas are located (28% of all tourist overnight stays), followed by municipalities in the mountains (26%). On average, tourists stayed in tourist accommodation facilities for four days, the duration being the longest in the spa towns and municipalities. Globally speaking, in the 2010-2013 period, the number of travels in developing countries is forecasted to record a 4.4 - per cent annual growth, on average; with a reference to the same period of time, the number of travels in developed countries is estimated to record a 2.2 per cent growth per annum. As regards tourism, economic indicators forecasts for 2017, are favourable, although for low-cost segment of services and for cities and mountain towns and regions. In the last years, the greatest share of the increase in the number of overnight stays is generated by customers with lower purchasing power, staying their nights in youth hostels and private rooms.

### Gaming industry

The year of 2016 saw the end of the shrinking trend in primary gaming market which had been present since 2007. When in the period from 2007 to 2015, the market almost halved, reaching its bottom in 2015, the growth in the amount of 2.3% was recorded in 2016. The main market for Slovenian gaming providers is Italy with 85% to 90% of all visitors coming to gaming centres. In terms of the generated turnover, 2016 was worse for four Italian casinos than 2015 as they generated by 1.8% less sales revenue; the main cause for such result was poor economic growth in Italy in 2016. In 2017, no significant changes are to be expected which might have a positive impact on the operations of gaming providers. Further modernisation of services by all competitors is expected while no new casinos in Italy are planned to be opened neither are any remaining gaming services expected to be increased. The development of the industry in Slovenia will be mostly affected by economic growth and regulatory framework regulating the organisation of gaming activities.

### Water utility companies

They render services of general economic interest on the basis of a concession agreement. The Slovenian Water Agency, an authority within the Ministry of the Environment and Spatial Planning, should provide for efficient implementation of services of general economic interest in terms of finding sources of financing for efficient water management and for new investment activities in water infrastructure to provide for flood protection and safety. In 2016, the provision of such funds was insufficient for the second consecutive year. In addition, funds allocated to the aforementioned purposes are unevenly distributed; very little funds are thus distributed in the first half of the year, so practically no services of general economic interest are provided by water utility companies, when, on the other hand, additional assistance needs to be hired by water utility companies in the remaining part of the year, either by means of subcontractors or by hiring additional mechanical equipment, in order to be able to carry out works which should have been implemented on an ongoing basis throughout the year. This method of financing represents a burden to water utility companies and their business performance. The Ministry of the Environment and Spatial Planning should provide sufficient funds and even distribution of such funds throughout the entire year, in order to provide better for flood protection and for better business performance of water utility companies.

### **Pulp and paper industry**

For the pulp and paper industry, from the aspect of costs of material (mainly raw material), 2016 was better year than originally forecasted. Pulp prices were significantly affected by the Euro - US Dollar exchange rate, which made the pulp price being lower than forecasted. The prices for packaging were stable. Significant improvement of conditions (economic growth) and the available household income increased, resulted in increased consumer confidence which in 2016 was recorded at the highest level so far.

### **Pharmaceutical industry**

Conditions in pharmaceutical markets are demanding, pressures to reduce margins are increasing, regulation is becoming stricter while at the same time, global and local competition is increasing. On the other hand, the pharmaceutical sector has potentials due to the ageing of the population and simultaneous increases in life expectancy of the advanced countries. The profitability of the generic companies market was above average in the last ten years; the same is expected for the future - growth is expected in the next five years, mainly in markets with a low share of generic companies. Generic medicines will face the following challenges in the future: expiry of patents, optimum product mix, increase in global and local competition, increase in regulatory requirements (protectionism in some countries). The advanced markets (the USA, Germany) will see low growth rates, although there will be possibilities for operations to be profitable. Better outlook for generating growth in the sale of generic medicines are found in France, Italy, Spain, Japan - the share of generic medicine is low in these countries - and in the markets of East Europe, including the developing BRIC markets (Brazil, Russia, China and India). New products will also ensure opportunities to grow (for example, OTC-drugs sold in at the Pharmacist's without prescription, neurological drugs, biosimilars, and other medicines). Further consolidation of enterprises is expected in this industry.

### **Telecommunications**

Further decline in sales revenues and market shares is forecasted for the original operators in the most advanced telecommunication services markets due to increased competition, while the markets of the South-East Europe are entering the maturity stage. Revenues are to decline mainly due to the decreasing revenues generated by traditional mobile telephony, by text messages (SMS and MMS messages) and by fixed telephony; they are partially to be offset by high growth in M2M communications (but not entirely), in mobile data transmission and in a slightly delayed growth of fixed Broadband access and pay-tv. Smart phones will be present nearly everywhere by 2021. Telecommunication companies around the world are increasingly and at faster pace transferring from traditional services to new business models: by introducing new technologies and ensuring connectivity of various devices; they expand their portfolio of products and services, such as displaying video content, providing internet sites, mobile payments and managing devices and services. Smart use and inter-connectivity of various devices will expand, enabling the transfer to full digitalization. New opportunities in telecommunication markets are mainly given in the field of smart home (in the fields such as security and control, energy and lighting, entertainment and inter-connectivity, household appliances, health, and elsewhere). Digital marketing is gaining in significance (target marketing, video marketing, mobile marketing, programmatic buying).

### **Manufacturing activities**

The value of manufacturing activities in Slovenia in 2016 was higher by 6.6% as compared to the previous year. The main contribution to this increase was mainly due to companies from processing activities - these increased their production by 8%, while mining and quarrying sector recorded an increase of 2.3%, whereas in the electricity, gas and steam supply sector it was lower by 5.3% as compared to 2015. In 2016, the global automotive industry produced 95 million of vehicles which is by 4.7 % higher than in 2015. With the production of 51.5 million of vehicles, Asia kept the leading place; China achieved an extraordinary 14.8-per cent growth in production, thus strengthening its position of the largest vehicle producer. Economic growth forecasts are optimistic; according to analysts' assessment, European economies are relatively resistant to global economic, political and security challenges.

### 7.3.3 Financial sector

#### Banking sector

The year of 2016 passed without any turmoil in the Slovenian banking systems. Banks operated in the environment of still extremely low and falling interest rates, deflation and high liquidity. Improvements in some key indicators of economic climate in Slovenia continued (economic growth, growth in employment and average gross wage, growth in export and domestic consumption, growth in real-property investments). According to the data by the Bank of Slovenia,<sup>3</sup> the capital adequacy of Slovenian banks was further strengthened in 2016 (19.1 % at the consolidated bases), remaining above the average of the Euro area Member States. Large domestic banks have been achieving higher capital coefficients while smaller banks remain to be more vulnerable. Banks' credit portfolio has improved and the portion of deposits by non-banking sector as the prevailing source of finance has been increasing on the asset side (on average amounting to 71% as of the end of 2016) with sight deposits by households prevailing and increasing (63% of deposits of non-banking sector). Given the shrinking volume of operation and small room for manoeuvre in determining passive interest rates, net interest income has been increasing, thus banks have increased non-interest income and reduced operating costs. According to the data by the Bank of Slovenia, in 2016, Slovenian banks generated the total of EUR 364 million of profit before taxes, which is by EUR 205 million higher than in 2015. According to the data by the Bank Association, foreign banks increased their market share (measured by the bank sheet total) in the last year, so that it stands at 49.8% whereas market shares of large and small domestic banks decreased (to 44.4 or by 5.8%). The largest banks owned by RS and managed by SSH (NLB, Abanka and SID banka) recorded very good results in 2016. In case of all of the three above mentioned banks, ROE increased significantly as compared to the preceding year, in case of Abanka, on account of extraordinary events, ROE even exceeded 13%, thus contributing almost EUR 70 million of dividends to the RS's budget. Owing to extraordinary nature of business events which gave rise to the above mentioned profitability, similar results cannot be expected in 2017 for Abanka and SID banka; NLB, on the other hand, started the first quarter of 2017 with especially good results. In 2017, banks will continue to face similar challenges as in 2016: risks associated with high share of short-term sources of funds (sight deposits) and lack of suitable opportunities for investing these funds will remain - companies continue to be focused on deleveraging rather than on investments, but it is noted that private consumption and real estate investment may provide for a better potential. Additional issue in regard to operations of both banks which received state-aid at the end of 2013 is connected with some commitments which were made at their recapitalisation.

#### Insurance business

The insurance business market is strongly influenced by macroeconomic conditions and conditions in capital markets. Globally speaking, insurance and reinsurance undertakings are forced to operate in conditions of low economic growth, low inflation, volatile financial markets and low interest rates. Still globally speaking, according to the preliminary data by Swiss Re,<sup>4</sup> in 2016, the real growth in non-life insurance premium stood at 2.4 % which is lower than the growth recorded in 2015. In advanced markets, in 2016, the growth in premiums fell from 2.05% (in 2015) to 1.7% in which regard, causes for such drop may be found in weak economic growth and in price pressures experienced when developing insurance products. Conditions in the reinsurance markets continued to remain tense in 2016 as strong competition is present, a rather moderate growth is recorded in collected premiums, falling prices of reinsurance products are noted, the environment experiences low interest rates and the reinsurance industry is in the process of consolidation. Given the preliminary data, globally, in 2016, the growth in non-life insurance premiums of reinsurance products amounted to only 1% on the inflation-adapted basis while it stood at 1.4-per cent in 2015. In Slovenia, in 2016, insurance undertakings recorded the growth in the gross written premium which amounted to 1.48%, according to preliminary data.<sup>5</sup> Gross written premiums of non-life insurance products increased by 3.4% while gross written premiums of life insurance products decreased by 3.07%. The fall recorded in 2016 in the field of life insurance products can be partially explained by a higher base recorded in 2015 as then the level of growth amounted to as much as 5.71 %. As regards reinsurance business, the professional association records data for Pozavarovalnica Sava and Pozavarovalnica Triglav Re. Both reinsurance firms collect almost the total of gross written premium in the non-life insurance market. In 2016, gross written premium of non-life insurance products of both reinsurance firms fell in total by 0.91% - the explanation for this drop is found in conditions on global reinsurance market in which reinsurance service providers face falling prices of reinsurance products; indirectly, this provides for the focus of the strategy for acquiring business transactions to be based on the aspect of the profitability of transactions.

<sup>3</sup> Bank of Slovenia Annual Report for 2016. <sup>4</sup> Global insurance review 2016 and outlook 2017/18.

<sup>5</sup> Slovenian Insurance Association Only insurance firms - members of the Slovenian Insurance Association have been included.

## 7.3.4 Energy sector

### Crude oil and oil products

In spite of encouraging news on economic growth, the volatile price movements in energy products continued in the European markets in 2016. The energy products market was marked by price fluctuations with the crude oil continuing to play the most important role. In the beginning of 2016, for a short time, oil price fell below 30 USD/barrel to then gradually rise and move in the range between 40 and 50 USD/barrel. The price trend in the international coal market was similarly reversed. High drop in gas prices strengthened the competition in the production of electricity obtained from gas-fired power station which in consequence increased the demand for natural gas. From April 2016 onwards, prices for energy products thus experienced an upward trend which was then followed by electricity prices of future contracts. The exchange rate of EUR to USD in which the bulk of energy products is quoted was rather stable in 2016.

### Electricity

At the end of September 2016, electricity prices in Central Europe started to rise further on account of the news about the switching-off of nuclear power plants in France in connection with preventive- and security-related inspections. The wholesale electricity prices in Slovenia are highly affected by neighbouring markets, such as Germany, Italy, Hungary and other countries in the South East Europe, specifically, in addition to direct impact of wholesale prices in these markets, they are also affected by the quantities and by prices of cross-border transmission capacities. German and Hungarian market were mainly used for hedging the prices of price the selling portfolio in the region. Slovenian market shows a better correlation with the Hungarian market although it is characterized by low liquidity. Regardless, there is enough supply and demand present in the market so that trading in Hungary is found reasonable for the purpose of protecting the portfolio. In the EU, similarly as in previous years, in 2016, the trend of increasing the installed power of power plants generating electricity from renewable sources of energy. In this regard, the dominant role was played by wind power stations whereas the current growth trend recorded by solar power plants was slightly stabilised. As a result of large quantity of energy produced from renewable sources of energy and consequently due to low electricity prices in the market, the discontinuation/conservation of gas-powered and coal-powered stations continued, especially in Germany. According to plans submitted in November 2015 and which were approved by the European Commission in May 2016 as being compliant with the rules on state-aid, Germany is to phase-out and close eight lignite-fired power plants. The first of these plants is to discontinue in October 2016 while the last one is planned to close down in October 2019. Power plant operators will receive EUR 1.6 billion from the German state as the compensation for the loss of profit. The aforementioned eight power plants represent as much as 13% of the total capacity of German lignite-fired power plants.

### Renewable sources of energy

A large volume of new production facilities using renewable sources of energy and closing down of old and conventional sources of energy result in changes in the network. In the period of high-volume production generating from renewable sources of energy, high fluctuations are noticed in the network; it is increasingly more difficult to manage them. The increase in the electricity production generated by renewable sources of energy may result in the reduced reliability of operation of electricity systems; this is why more and more markets in Europe are pursuing activities for introducing capacity remuneration mechanisms (CRM) or similar mechanisms which, in addition to energy markets, would introduce the power market in order to enable the producer of electricity from conventional sources of energy to earn additional income. Continuing low electricity prices in the EU does not provide for a viable construction of new electricity facilities with the exception of those that are subject to support schemes. The effects of low electricity prices mainly affect producers of electricity generated from conventional sources. At the level of the European Union, the reorganisation of the electricity market is being seriously contemplated upon, and some countries had already introduced capacity remuneration mechanisms (CRM) in order to provide for the necessary stability of the electricity system which currently can only be provided by power plants utilizing conventional energy resources. Owing to increasing production costs and falling electricity prices, the majority of European energy producers had started some time ago to reorganize their operations and to deploy cost-cutting programmes which is a challenge being dealt with by HSE Group and GEN energija Group.



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

## 8.1 PORTFOLIO OF RS AND SSH CAPITAL ASSETS AS OF 31 DECEMBER 2016

As of 31 December 2016, out of the total of capital assets under SSH management, there were 68 active capital assets and 3 investments in mutual funds (as compared to 83 assets under management in 2015), in addition to 27 inactive capital assets, that is companies in bankruptcy proceedings or in liquidation. There were 55 active capital assets under direct ownership of RS and 15 inactive capital assets (as compared to 12 in 2015). SSH also managed 40 of its own capital assets (as compared to 43 in 2015), of which 26 were active (compared to 29 in 2015) and 14 inactive (similarly as in 2015 when there were 14 inactive capital assets).

Table 5: Portfolio of capital assets in direct ownership of RS and SSH as of 31 December 2016

Pillar, Capital asset	RS shareholding (in %)	SSH shareholding (in %)	Total %
<b>ENERGY SECTOR</b>			
ELEKTRO CELJE, D. D.	79.50	–	79.50
ELEKTRO GORENJSKA, D. D.	79.42	0.31	79.73
ELEKTRO LJUBLJANA D. D.	79.50	0.30	79.80
ELEKTRO MARIBOR, D. D.	79.50	–	79.50
ELEKTRO PRIMORSKA, D. D.	79.50	–	79.50
ELEKTROGOSPODARSTVO SLOVENIJE – RAZVOJ IN INŽENIRING, D. O. O.	100.00	–	100.00
GEN ENERGIJA, D. O. O.	100.00	–	100.00
GEOPLIN, D. O. O.	41.24	0.05	41.29
HSE, D. O. O.	100.00	–	100.00
INFRA, IZVAJANJE INVESTICIJSKE DEJAVNOSTI, D. O. O.	100.00	–	100.00
NAFTA LENDAVA, D. O. O.	100.00	–	100.00
PETROL, D. D.	–	19.75	19.75
RTH, D. O. O.	100.00	–	100.00
RŽV, JAVNO PODJETJE ZA ZAPIRANJE RUDNIKA URANA, D. O. O.	100.00	–	100.00
TOPLOTNA OSKRBA, D. O. O., LOČE	49.17	–	49.17
<b>FINANCIAL SECTOR</b>			
ABANKA, D. D.	100.00	–	100.00
D.S.U., D. O. O., LJUBLJANA	100.00	–	100.00
DTK MURKA, DRUŽBA TVEGANEGA KAPITALA, D. O. O.	49.00	–	49.00
GORENJSKA BANKA, D. D.	0.17	–	0.17
KDD, D. D., LJUBLJANA	–	19.23	19.23
META INGENIUM, DRUŽBA TVEGANEGA KAPITALA, D. O. O.	49.00	–	49.00
NLB, D. D.	100.00	–	100.00
POZAVAROVALNICA SAVA, D. D.	2.77	25.00	27.77
PRVI SKLAD, DRUŽBA TVEGANEGA KAPITALA, D. O. O.	48.90	–	48.90
SID BANKA, D. D.	99.41	–	99.41
STH VENTURES, D. O. O.	49.00	–	49.00
ZAVAROVALNICA TRIGLAV, D. D.	34.48	28.09	62.57

ECONOMY			
ADRIA, TURISTIČNO PODJETJE D. O. O., ANKARAN	–	11.74	11.74
BODOČNOST MARIBOR, D. O. O.	75.83	–	75.83
CASINO BLED, D. D., BLED	–	43.00	43.00
CASINO PORTOROŽ, D. D., PORTOROŽ	–	9.46	9.46
CETIS, D. D.	–	7.47	7.47
CIMOS, D. D.	24.26	–	24.26
CINKARNA CELJE, D. D., CELJE	–	11.41	11.41
CSS, D. O. O.	96.65	–	96.65
ELEKTROOPTIKA, D. D.	0.01	70.48	70.49
HIT, D. D.	–	20.00	20.00
INKOS, D. O. O., KRMELJ	2.54	–	2.54
KRKA, D. D.	0.01	16.20	16.21
INTERTRADE ITA, D. D., LJUBLJANA	–	7.69	7.69
JAVNO PODJETJE URADNI LIST REPUBLIKE SLOVENIJE, D. O. O.	100.00	–	100.00
LOTERIJA SLOVENIJE, D. D., LJUBLJANA	–	15.00	15.00
MARIBORSKA LIVARNA MARIBOR, D.D.	32.73	–	32.73
PALOMA, D. D.	0.01	30.35	30.36
PERUTNINA, D.D., PTUJ	0.01	–	0.01
POMGRAD – VODNOGOSPODARSKO PODJETJE, D. D.	25.01	–	25.01
PS ZA AVTO, D. O. O., LJUBLJANA	–	90.00	90.00
RRA REGIONALNA RAZVOJNA AGENCIJA CELJE, D. O. O.	5.89	–	5.89
SAVA, D. D.	–	22.57	22.57
SAVAPROJEKT, D. D.	3.34	–	3.34
SIJ, D. D.	25.00	–	25.00
STUDENTENHEIM KOROTAN GMBH	100.00	–	100.00
TELEKOM SLOVENIJE, D. D.	62.54	4.25	66.79
TELEMACH ROTOVŽ, D. D.	1.17	–	1.17
TERME OLIMIA, D. D.	–	4.01	4.01
UNIOR, D. D., ZREČE	–	39.43	39.43
VARNOST SISTEMI, D. O. O.	–	9.74	9.74
VGP KRANJ, D. D.	25.00	–	25.00
VODNOGOSPODARSKO PODJETJE DRAVA, D. O. O., PTUJ	25.00	–	25.00
VODNOGOSPODARSKO PODJETJE NOVO MESTO, D. D.	25.00	–	25.00

TRANSPORT			
2TDK, DRUŽBA ZA RAZVOJ PROJEKTA, D. O. O.	100.00	–	100.00
DRI UPRAVLJANJE INVESTICIJ, DRUŽBA ZA RAZVOJ INFRASTRUKTURE, D. O. O.	100.00	–	100.00
DRUŽBA ZA AVTOCESTE V REPUBLIKI SLOVENIJI (MOTORWAY COMPANY OF THE REPUBLIC OF SLOVENIA), D. D., CELJE	100.00	–	100.00
INTEREUROPA, D. D.	–	1.73	1.73
KONTROLA ZRAČNEGA PROMETA (SLOVENIA CONTROL, LIMITED), D. O. O.	100.00	–	100.00
LUKA KOPER, D. D.	51.00	11.13	62.13
POŠTA SLOVENIJE, D. O. O.	100.00	–	100.00
SLOVENSKE ŽELEZNICE, D. O. O.	100.00	–	100.00

Companies in bankruptcy or liquidation	RS shareholding (in %)	SSH shareholding (in %)	Total %
ABC TRGOVINA, D. D., LJUBLJANA - IN BANKRUPTCY	–	2.37	2.37
AERO, D. D. – IN BANKRUPTCY	–	1.44	1.44
CASINO MARIBOR, D. D. – IN BANKRUPTCY	–	22.83	22.83
DEKORATIVNA, D. O. O. – IN LIQUIDATION	–	100.00	100.00
DRUŽBA ZA SPODBUJANJE RAZVOJA TNP, D.D. – IN BANKRUPTCY	51.04	–	51.04
GIO, D. O. O, LJUBLJANA – IN LIQUIDATION	–	71.27	71.27
GLIN IPP, D. O. O. - IN BANKRUPTCY	16.06	–	16.06
GRADIS SKUPINA G, D.D. - IN BANKRUPTCY	–	1.36	1.36
IPOZ TRBOVLJE, D. O. O. – IN LIQUIDATION	–	1.20	1.20
LIPICA TURIZEM, D. O. O. - IN BANKRUPTCY	100.00	–	100.00
MAKSIMA HOLDING, D. D. – IN BANKRUPTCY	0.01	–	0.01
MAKSIMA INVEST, D. D. – IN BANKRUPTCY	0,00	–	0.00
MURA, D. D. – IN BANKRUPTCY	–	12.23	12.23
NFD HOLDING, D. D. – IN BANKRUPTCY	0,00	–	0.00
NOVOLES, D. D. – IN BANKRUPTCY	–	16.69	16.69
PEKO, D. D. – IN BANKRUPTCY	61.16	–	61.16
POLZELA, D. D. – IN BANKRUPTCY	71.43	28.57	100.00
PODJETJE ZA UREJANJE HUDOURNIKOV, D. D. – IN BANKRUPTCY	40.00	–	40.00
RIMSKE TERME, D. O. O. - IN BANKRUPTCY	3.83	13.55	17.38
RUDNIK KANIŽARICA V ZAPIRANJU, D. O. O., ČRNOMELJ – IN LIQUIDATION	100.00	–	100.00
RUDNIK SENOVO V ZAPIRANJU, D. O. O. - IN BANKRUPTCY	100.00	–	100.00
RUDNIK ZAGORJE V ZAPIRANJU, D. O. O. – IN LIQUIDATION	100.00	–	100.00
RUDNIK ŽIVEGA SREBRA IDRIJA V ZAPIRANJU, D. O. O. – IN LIQUIDATION	100.00	–	100.00
SVEA, D. D., ZAGORJE OB SAVI - IN BANKRUPTCY	–	15.57	15.57
TAM MARIBOR, D. D. – IN BANKRUPTCY	10.85	–	10.85
UNIVERZALE, D. D., DOMŽALE – IN BANKRUPTCY	–	8.53	8.53
VEGRAD D. D. – IN BANKRUPTCY	–	29.00	29.00

\*In accordance with the provision of Article 19 in connection with Article 88 of ZSDH-1, KAD and STA are not included in the list since, owing to the lack of management powers, SSH does not manage these assets (in both cases, the General Meeting of these two companies is the Government of the Republic of Slovenia).

Table 6: Five largest assets held by RS and SSH by book value of equity as of 31 December 2016

RS's Capital asset	Pillar	RS ownership stake as of 31 December 2016 (%)	Book value of shareholdings as of 31 December 2016 (EUR)	Proportion in the RS's portfolio (in %)
DARS, D. D., CELJE	TRANSPORT	100.0	2,665,453,020	27.7
NLB, D. D.	FINANCIAL SECTOR	100.0	1,525,660,000	15.8
HSE, D. O. O.	ENERGY SECTOR	100.0	1,015,220,355	10.5
GEN, D. O. O.	ENERGY SECTOR	100.0	755,519,495	7.8
ABANKA, D. D.	FINANCIAL SECTOR	100.0	616,828,000	6.4
<b>TOTAL</b>			<b>6,578,680,870</b>	<b>68.3</b>

SSH's Capital asset	Industry	SSH ownership stake as of 31 December 2016 (%)	Book value of shareholdings as of 31 December 2016 (EUR)	Proportion in the SSH portfolio (in %)
KRKA, D. D.	ECONOMY	16.2	233,999,928	28.6
ZAVAROVALNICA				
TRIGLAV, D. D.	FINANCIAL SECTOR	28.1	209,087,844	25.5
PETROL, D. D.	ENERGY SECTOR	19.8	117,644,764	14.4
POZAVAROVALNICA				
SAVA, D. D.	FINANCIAL SECTOR	25.0	74,259,582	9.1
UNIOR, D. D.	ECONOMY	39.4	60,152,013	7.3
<b>TOTAL</b>			<b>695,144,131</b>	<b>84.9</b>

## 8.2 OPERATIONS OF COMPANIES IN DIRECT OWNERSHIP OF THE REPUBLIC OF SLOVENIA

The assets of the Republic of Slovenia in the form of direct equity stakes in corporations decreased in 2016. This decrease in stakes held in companies and owned by RS is first mainly due to the sale of Nova KBM, d. d., as a result of which assets decreased by EUR 4,246 million, and secondly, due to the exclusion of KAD from the list, as a result of which assets decreased by EUR 1,184 million. As of 31 December 2016, the book-value of RS's capital assets (excluding SSH's assets) amounted to EUR 9.6 billion (EUR 10.8 billion in 2015), and is likewise the result of the above mentioned exclusions (in the case of Nova KBM, d. d., by EUR 623 million, and in the case of KAD, by EUR 1,004 million); otherwise, the value of remaining assets increased by EUR 415 million. The net profit of companies owned by RS (while taking into consideration the extraordinary write-off in HSE, d. o. o., carried out in 2015) was slightly lower than net profit recorded in 2015.

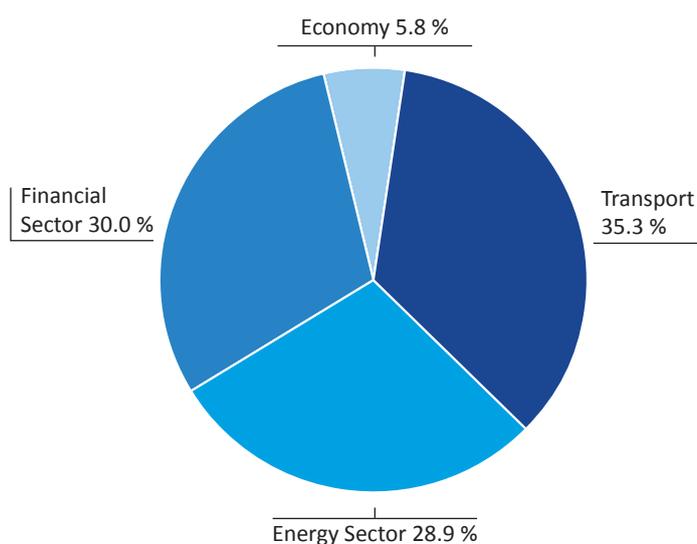
Table 7: Overview of key aggregated balance sheet data for companies with direct RS shareholding (in EUR)

Companies directly owned by RS (excl. companies in bankruptcy, liquidation or being wound-up) - in EUR	2016	2015	2014	2013
Assets (aggregated amounts)	42,648,564,044	48,193,371,734	47,701,359,767	47,277,868,408
Equity (aggregated amounts)	13,386,063,614	14,375,009,190	14,061,271,855	13,625,876,557
Net profit or loss*	821,105,452	882,577,779	474,029,022	322,515,000
<b>Total of book-value of assets</b>	<b>9,629,202,985</b>	<b>10,810,409,906</b>	<b>10,896,903,999</b>	<b>10,589,017,397</b>

\*In 2013, due to extraordinary events in banking sector, bank losses were not included (EUR 2.4 billion) and banks were nationalised at the end of 2013. In 2015, extraordinary write-offs in HSE linked to TEŠ 6 Project, amounting to EUR 474 million, were excluded. If extraordinary write-offs carried out in HSE were taken into consideration, the net profit or loss for 2015 would have amounted to EUR 408.6 million.

The assets of the Republic of Slovenia in the form of direct equity stakes in corporations were relatively concentrated in 2016, similarly as in previous years. Equity stakes of the three largest pillars (i.e., Transport, Financial and Energy sector) represent four fifths of the value of the entire portfolio.

Graph 3: The share of individual pillar in the RS's portfolio, measured at the book value as of 31 December 2016



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

Table 8: Overview of aggregated financial data for companies in direct ownership of the Republic of Slovenia, by pillar in FY 2016 (in EUR)

Pillar	Assets	Equity	Net profit or loss	Book value of RS's shareholding
Energy sector	5,372,867,628	3,188,073,073	121,524,993	2,779,384,806
Financial sector	25,154,963,330	3,883,799,157	331,279,092	2,889,834,870
Economy	5,058,488,743	2,754,430,829	183,816,289	562,892,424
Transport	7,062,244,343	3,559,760,555	184,485,078	3,397,090,884
<b>TOTAL</b>	<b>42,648,564,044</b>	<b>13,386,063,614</b>	<b>821,105,452</b>	<b>9,629,202,985</b>

\*Excluding companies in bankruptcy or liquidation.

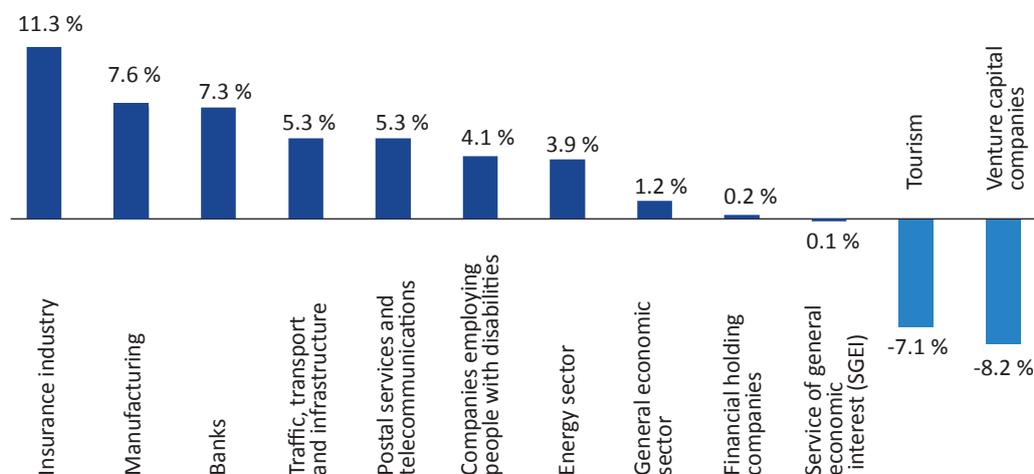
Table 8.a: Overview of aggregated financial data for companies in direct ownership of the Republic of Slovenia, by sector in FY 2016 (in EUR)

Sector*	Assets	Equity	Net profit or loss	Book value of RS's shareholding
Venture capital companies	26,427,895	26,164,906	-2,362,102	12,807,006
Energy sector	5,341,045,224	3,176,512,946	122,779,164	2,767,824,679
Financial holding companies	118,846,833	57,950,177	1,321,207	57,950,177
Service of General Economic Interest	23,066,794	16,543,804	-30,654	7,366,863
Sheltered workshops	4,258,371	2,075,501	83,894	1,628,552
Postal services, Telecommunications	1,663,896,258	941,910,628	50,333,503	659,910,174
Manufacturing	3,659,730,844	2,018,526,936	145,271,555	119,860,243
Traffic, transport and infrastructure	6,794,182,306	3,341,514,666	174,696,474	3,178,844,995
RRA (to be transferred to SRRP)	96,457	-1,129,235	-2,970,801	-66,512
General economic sector	3,147,009	2,393,639	58,269	82,548
Tourism	4,177,451	3,916,572	-395,044	3,916,572
Banking	19,763,614,000	2,758,295,000	217,070,000	2,554,197,933
Insurance business	5,246,074,602	1,041,388,074	115,249,987	264,879,754
<b>TOTAL</b>	<b>42,648,564,044</b>	<b>13,386,063,614</b>	<b>821,105,452</b>	<b>9,629,202,985</b>

\*Excluding companies in bankruptcy or liquidation.

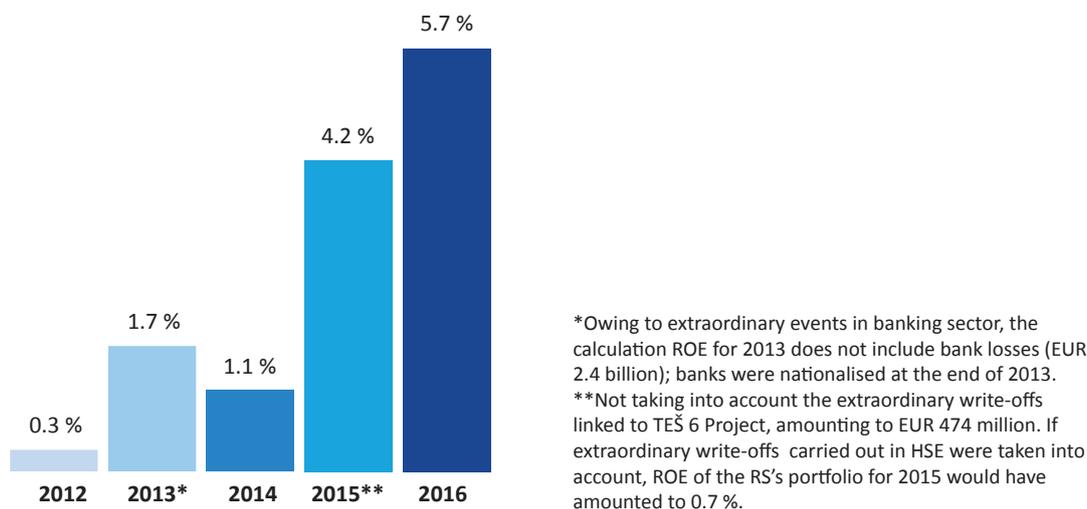
Taking into account the aggregate net profit (or loss) generated by companies in the RS's portfolio and their aggregate average equity capital in 2016, the highest ROE was recorded by companies from insurance industry (+11.34 %), banking (+7.37 %) and manufacturing (+7.19 %), while the lowest was achieved by companies from tourism industry (-7.13 %) and venture capital companies (-8.25 %).

Graph 4: Graph 4: ROE by sectors in 2016



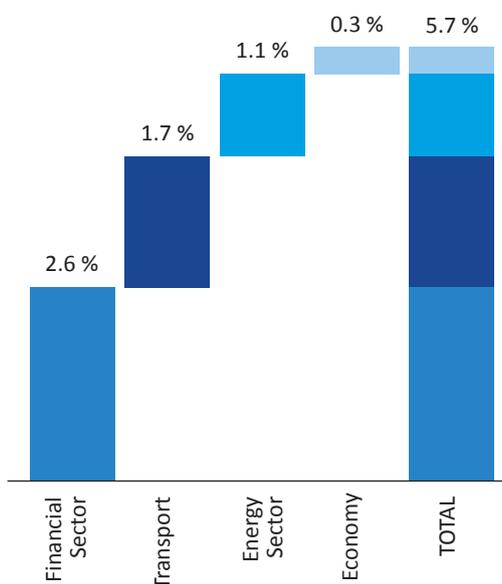
In 2016, ROE of the RS's portfolio increased significantly as compared to 2015 whereby the calculation for 2015 does not include one-off extraordinary write-off carried out by HSE in connection with the TEŠ 6 Project. The calculation of ROE of the RS's portfolio includes shareholdings held by the Republic of Slovenia in individual companies (book-values of shareholdings in equity). In 2016, ROE of the said portfolio amounted to 5.7 % which is one and a half percentage points higher than a year before.

Graph 5: ROE of RS's portfolio in 2012 up to 2016



The graph below presents sectors which contributed the most to the portfolio growth.

Graph 6: Contribution by an individual pillar to the ROE of RS's portfolio in 2016



Owing of high equity stake held by RS in banks and owing to their successful performance in the past year, the contribution of the Financial Pillar to ROE of the RS's portfolio stood at 2.6 percentage points, that is more than two fifths of the entire ROE. Companies from the Transport Pillar contributed additional 1.73 percentage point to ROE of the RS's portfolio, which is higher than in 2015 (when such contribution stood at 1.1 percentage point). Similarly as in 2015, companies from tourism industry and venture capital companies, in which equity capital held by RS is relatively low, were found on the negative side of the portfolio ROE performance.

## 8.3 OPERATIONS OF COMPANIES IN DIRECT OWNERSHIP OF SLOVENIAN SOVEREIGN HOLDING

In 2016, the aggregated sum of assets managed by companies in direct ownership of SSH decreased slightly more although the movement varied by individual sectors. The greatest increase in assets was recorded by the insurance business, to be followed by manufacturing and postal services and telecommunications. The greatest drop was recorded in transport and energy sector. On the other hand, the share of capital in sources of funds increased in average terms, along with the (total) net profit generated by companies. Profit generated in 2016 thus amounted to EUR 450 million, remaining at the same level as in the previous year. The sum of book-value of equity holdings also increased which is mainly the result of the growth of equity capital held in companies owned by SSH. As of 31 December 2016, the book-value of shareholdings held by SSH thus amounted to EUR 819 million and was higher by 4.9 % as at the end of 2015.

Table 9: Overview of key aggregated balance sheet data for companies with direct SSH shareholdings (in EUR)

Companies directly owned by SSH (excl. companies in bankruptcy or liquidation) – in EUR	2016	2015	2014	2013
Assets (aggregated amounts)	12,988,594,736	13,056,771,468	13,287,430,573	14,317,331,576
Equity (aggregated amounts)	5,544,940,610	5,268,589,963	5,042,611,650	4,955,221,844
Net profit or loss	449,773,664	450,431,084	308,750,331	215,078,729
<b>Total of book-value of assets</b>	<b>818,973,832</b>	<b>780,845,496</b>	<b>706,001,273</b>	<b>658,734,782</b>

In 2016, similar as the RS's portfolio of assets, the SSH's portfolio was highly concentrated in terms of sectors. However, the three largest pillars, measured by the sum of the book-value of shareholdings, held significantly different proportions of the portfolio when compared to the RS's portfolio. The greatest proportion was taken by the Economic Pillar, followed by the Financial Pillar and the Energy Sector Pillar. For comparison purposes, the Economic Pillar represents only 5.8% of the RS's portfolio.

Graph 7: The share of individual pillar in the portfolio of Slovenian Sovereign Holding, measured at the book value as of 31 December 2016

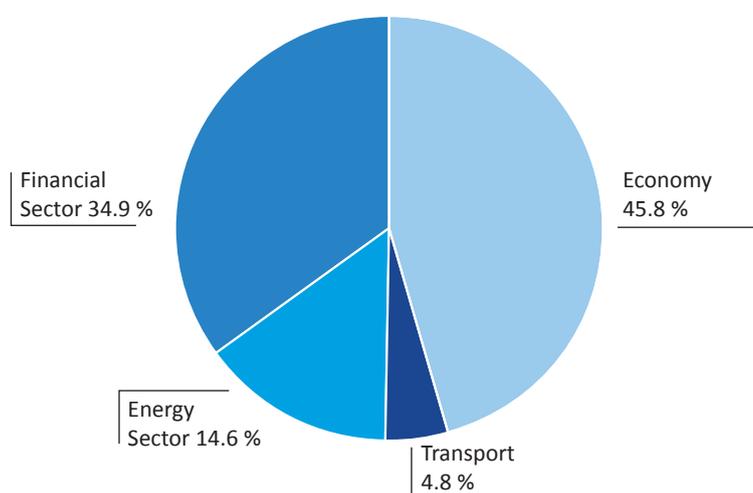


Table 10: Overview of aggregated financial data of companies in direct ownership of Slovenian Sovereign Holding, by sector in FY 2016 (in EUR)

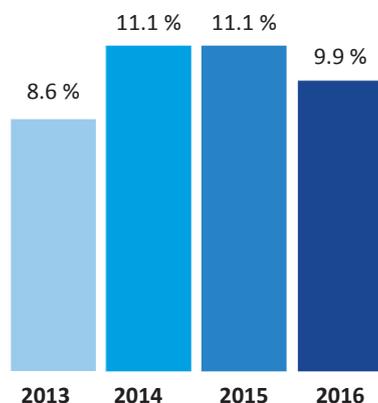
Pillar*	Assets	Equity	Net profit or loss	Qualifying Participation of SSH
Energy sector	2,697,445,498	1,364,323,897	108,259,424	119,178,417
Financial sector	5,259,733,257	1,053,690,863	116,807,703	285,713,252
Economy	4,285,694,884	2,656,761,929	181,934,238	374,742,309
Transport	745,721,097	470,163,921	42,772,299	39,339,854
<b>TOTAL</b>	<b>12,988,594,736</b>	<b>5,544,940,610</b>	<b>449,773,664</b>	<b>818,973,832</b>

\*Excluding companies in bankruptcy or liquidation.

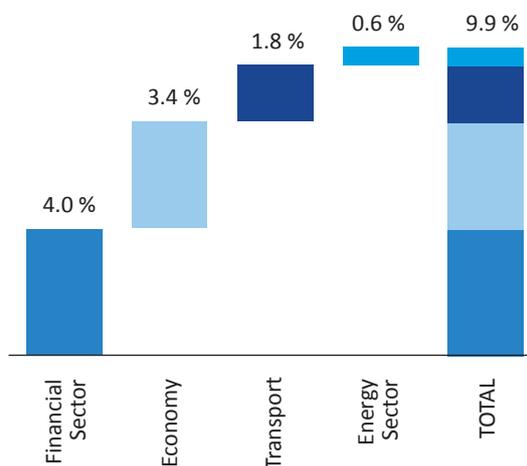
Owing to the size and relatively successful performance, similarly as in 2015, industries that contributed the most to ROE of the SSH's portfolio were: insurance business (Pozavarovalnica Sava, Zavarovalnica Triglav), manufacturing sector (Krka) and energy sector (Petrol). Contrary to FY 2015, there were no extraordinary impacts recorded, such as the extraordinary write-off in HSE on account of the investment in the TEŠ 6 Project.

ROE of SSH's portfolio slightly declined as compared to 2015. Such decline is mainly the result of a decline in the profitability of Krka Group which has a high impact (almost one third) on the SSH's portfolio on account of its high book value. Insurance business has a significant positive impact on the ROE of SSH's portfolio, accounting for more than one third, which, likewise recorded a decline in profitability in 2016.

Graph 8: ROE of SSH's portfolio in 2013 up to 2016



Graph 9: Contribution by an individual pillar to the ROE of SSH's portfolio in 2016



## 8.4 REVIEW OF KEY HIGHLIGHTS OF AGGREGATE PORTFOLIO OF RS AND SSH CAPITAL ASSETS

Table 11: Overview of aggregated financial data for companies managed by SSH (RS and SSH) in FY 2016 (in EUR)

RS + SSH	2013	2014	2015	2016
Total of book-value of assets	11,247,752,179	11,602,905,271	11,591,255,402	10,448,176,817
Dividend amount per year	147,154,814	173,184,394	185,983,252	257,049,679
<b>Dividends-to-equity ratio</b>	<b>1.3 %</b>	<b>1.5 %</b>	<b>1.6 %</b>	<b>2.5 %</b>
<b>Portfolio ROE</b>	<b>2.1 %</b>	<b>1.8 %</b>	<b>4.7 %</b>	<b>6.0 %</b>

Note: \*Owing to extraordinary events in banking sector, the calculation ROE for 2013 does not include bank losses (EUR 2.4 billion); banks were nationalised at the end of 2013. In 2015, extraordinary write-offs incurred by HSE and connected with the T€S 6 Project, amounting to EUR 474 million, were excluded. If extraordinary write-offs carried out in HSE were taken into account, ROE of the RS + SDH portfolio for 2015 would have amounted to 1.4%.

Table 12: ROE composition for RS's portfolio and SSH's portfolio by strategic nature of assets

Portfolio	Pillar - contribution to the Portfolio ROE	STRATEGIC	IMPORTANT	PORTFOLIO	TOTAL	CUMMULATIVE
RS	Energy sector	1.05 %	0.08 %	-0.04 %	1.09 %	1.09 %
RS	Financial sector	0.54 %	1.18 %	0.82 %	2.55 %	3.64 %
RS	Transport	1.73 %	0.00 %	0.00 %	1.73 %	5.37 %
RS	Economy	0.00 %	0.14 %	0.21 %	0.35 %	5.72 %
	<b>TOTAL</b>	<b>3.33 %</b>	<b>1.40 %</b>	<b>0.99 %</b>	<b>5.72 %</b>	
SSH	Energy sector	0.01 %	1.83 %	0.00 %	1.84 %	1.84 %
SSH	Financial sector	2.95 %	1.05 %	0.04 %	4.04 %	5.88 %
SSH	Transport	0.63 %	0.00 %	0.00 %	0.63 %	6.50 %
SSH	Economy	0.08 %	2.25 %	1.05 %	3.39 %	9.89 %
	<b>TOTAL</b>	<b>3.67 %</b>	<b>5.13 %</b>	<b>1.09 %</b>	<b>9.89 %</b>	
SSH + RS	Energy sector	0.97 %	0.22 %	-0.04 %	1.15 %	1.15 %
SSH + RS	Financial sector	0.73 %	1.17 %	0.76 %	2.66 %	3.80 %
SSH + RS	Transport	1.65 %	0.00 %	0.00 %	1.65 %	5.44 %
SSH + RS	Economy	0.01 %	0.30 %	0.27 %	0.58 %	6.04 %
	<b>TOTAL</b>	<b>3.35 %</b>	<b>1.69 %</b>	<b>1.00 %</b>	<b>6.04 %</b>	

Graph 10: Contribution by pillar to the ROE of RS'S and SSH's portfolio in 2016 in regard to the strategic nature of assets

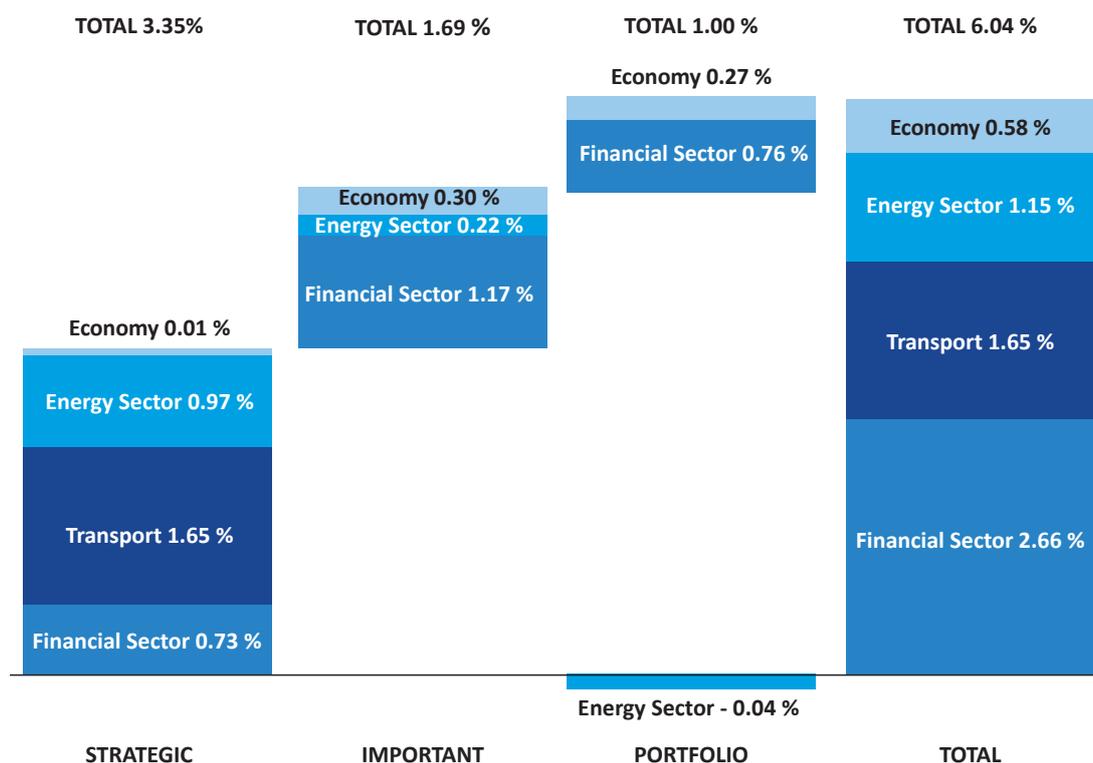


Table 13: Average weighted ROE for an individual pillar in regard to the strategic nature of assets in RS's portfolio and SSH's portfolio

Portfolio	Pillar – average ROE	STRATEGIC	IMPORTANT	PORTFOLIO	WEIGHTED AVERAGE
RS	Energy sector	3.8 %	5.9 %	-28.8 %	3.8 %
RS	Financial sector	7.9 %	7.1 %	13.3 %	8.6 %
RS	Transport	4.9 %			4.9 %
RS	Economy	2.9 %	12.8 %	4.3 %	5.8 %
	<b>WEIGHTED AVERAGE</b>	<b>4.8 %</b>	<b>7.4 %</b>	<b>8.9 %</b>	<b>5.7 %</b>
SSH	Energy sector	5.2 %	12.7 %		12.6 %
SSH	Financial sector	11.4 %	11.3 %	12.9 %	11.4 %
SSH	Transport	13.9 %		-1.1 %	12.9 %
SSH	Economy	18.1 %	7.8 %	6.7 %	7.5 %
	<b>WEIGHTED AVERAGE</b>	<b>11.8 %</b>	<b>9.8 %</b>	<b>6.6 %</b>	<b>9.9 %</b>
SSH + RS	Energy sector	3.8 %	9.1 %	-28.8 %	4.1 %
SSH + RS	Financial sector	8.8 %	7.3 %	13.3 %	8.9 %
SSH + RS	Transport	5.0 %		-1.1 %	5.0 %
SSH + RS	Economy	9.9 %	9.3 %	4.8 %	6.5 %
	<b>WEIGHTED AVERAGE</b>	<b>5.00 %</b>	<b>7.8 %</b>	<b>8.6 %</b>	<b>6.0 %</b>

Table 14: ROE of TOP 5 companies within an individual pillar in 2016

ROE TOP5 companies in a pillar	2016	2015	Changes in percentage points
<b>ENERGY SECTOR</b>			
HSE GROUP	2.2 %	-0.5 %	2.7
GEN GROUP	4.4 %	2.1 %	2.3
ELEKTRO LJUBLJANA GROUP	5.4 %	5.0 %	0.4
ELEKTRO MARIBOR GROUP	5.7 %	4.5 %	1.2
GEOPLIN GROUP	3.9 %	4.0 %	-0.1
<b>FINANCIAL SECTOR</b>			
NLB GROUP	7.5 %	6.6 %	0.9
ABANKA GROUP	13.3 %	9.8 %	3.5
ZAVAROVALNICA TRIGLAV GROUP	11.4 %	12.8 %	-1.4
SID BANKA GROUP	5.8 %	3.0 %	2.8
POZAVAROVALNICA SAVA GROUP	11.3 %	12.0 %	-0.7
<b>ECONOMY</b>			
TELEKOM SLOVENIJE GROUP	5.7 %	9.8 %	-4.1
KRKA GROUP	7.6 %	11.5 %	-3.9
SIJ GROUP	13.3 %	3.2 %	10.1
UNIOR GROUP	7.8 %	4.3 %	3.5
CINKARNA CELJE, D. D., CELJE	6.8 %	4.9 %	1.9
<b>TRANSPORT</b>			
DARS, D. D.	3.9 %	2.4 %	1.5
SŽ GROUP	8.4 %	9.7 %	-1.3
POŠTA SLOVENIJE GROUP	4.6 %	3.5 %	0.8
LUKA KOPER GROUP	13.9 %	10.9 %	3.0
DRI, D. O. O.	4.7 %	5.6 %	-0.9

Table 15: Portfolio's ROE - as expected and as realised - in 2014-2018 period

Pillar	ROE 2014	ROE 2015	ROE 2016	AAMP 2017	AAMP 2018
Energy sector	1.1 %	2.2 %	4.1 %	4.1 %	4.1 %
Financial sector	0.6 %	5.9 %	8.9 %	7.6 %	6.9 %
Transport	3.7 %	3.4 %	5.0 %	4.3 %	4.6 %
Economy	2.8 %	12.6 %	6.5 %	7.5 %	8.3 %
<b>PORTFOLIO</b>	<b>1.8 %</b>	<b>4.7 %</b>	<b>6.0 %</b>	<b>5.4 %</b>	<b>5.5 %</b>

Note: Data referred to in columns AAMP 2017 and AAMP 2018 refer to the Annual Asset Management Plan (AAMP) 2016 in which the outlook for 2018 and 2019 was included. At the time of drawing up this Report, AAMP 2017, which includes the outlook for 2018 and 2019, is being prepared.

## 8.5 PERFORMANCE OF COMPANIES MANAGED BY SSH - BENCHMARK ANALYSIS

Business environment is dynamic and constantly changing which is why, in case of an increased turmoil in the market in which an individual company managed by SSH operates, it is not possible to assess business performance solely on the basis of performance indicators set in a current Annual Asset Management Plan («AAMP») thus the benchmarking analysis proves to be one of the criteria to be applied in assessing business performance. Slovenian Sovereign Holding produced such analysis for the first time at the end of 2015 when financial statements and indicators for 2014 were used for the major part of benchmark analyses made. Owing to varied business environments, varied scope of operations and varied methods for carrying out an activity, benchmarking is sometimes difficult but it nevertheless enables SSH as the asset manager to raise a question whether an individual activity carried out by a company in the SSH's portfolio is optimally pursued given the circumstances and provides the answer to the question whether an individual company operates better and grows faster than benchmarked companies or not. It is within this context that the answer to the question - how to maximize the value of a company and how to generate the highest return possible for the owner - is sought for. It is also suitable to apply such method in cases of economic distress since the industry benchmark analysis shows fast which company's response is the most appropriate one, and, based on these data, analysis may continue to further find out whether an individual response to the shock is better than a response by benchmarked companies.

SSH also benchmarks the profitability of the portfolios managed for RS and for its own account against the profitability of other portfolios, particularly those generated by Scandinavian state assets managers; this benchmark analysis is, however, made rather difficult on account of various reasons (availability of data in annual reports and thus associated potential inconsistencies in profitability calculations, various asset management systems and other factors). At the time of drawing up this Annual Report, the data available for 2016 show that ROE for state assets portfolio achieved by the Finnish manager amounted to 8.3% while ROE recorded by the Swedish manager was negative, amounting to -1.7%. In regard to Norway, only the Annual Report 2015 was available which shows that -0.7% ROE was generated by the Norwegian state assets manager in 2015.

Table 16: Performance of companies managed by SSH - benchmark analysis by key indicators

ENERGY SECTOR	ROE (%)			EBITDA margin (in %)		
	2014	2015	2016	2014	2015	2016
ELEKTRO CELJE	5.7	5.2	5.1	20.9	17.6	15.5
ELEKTRO GORENJSKA	4.0	5.1	4.9	20.0	41.8	46.7
ELEKTRO LJUBLJANA	1.8	5.0	5.4	6.51	10.5	21.0
ELEKTRO MARIBOR	4.6	4.5	5.7	19.6	20.5	22.4
ELEKTRO PRIMORSKA	1.5	4.9	5.2	17.9	17.8	20.02
<b>The median for benchmarked EDC</b>	<b>9.0</b>	<b>8.4</b>	<b>9.6</b>	<b>23.7</b>	<b>26.1</b>	<b>27.5</b>
GEN ENERGIJA, D. O. O.	4.9	2.3	4.4	44.1	17.6	13.7
<b>The median for companies benchmarked against GEN</b>	<b>3.9</b>	<b>3.8</b>	<b>0.1</b>	<b>12.7</b>	<b>17.5</b>	<b>13.0</b>
HSE, D. O. O.	-2,4	-39,0	2,2	12,0	9,6	13,0
<b>The median for companies benchmarked against HSE</b>	<b>-2.6</b>	<b>1.3</b>	<b>-0.7</b>	<b>8.0</b>	<b>12.8</b>	<b>9.1</b>

TRANSPORT						
DARS, D. D., CELJE	2.8	2.4	3.9	80.6	74.6	80.1
The median for benchmarked motorway companies	12.6	13.9	16.1	70.9	70.8	72.5
LUKA KOPER, D. D.	10.7	10.9	13.9	38.9	38.9	37.1
The median for benchmarked ports	13.06	13.25	12.81	39.51	38.92	37.01
POŠTA SLOVENIJE, D. O. O.	3.4	4.8	4.6	10.2	10.8	11.7
The median for companies benchmarked against Pošta Slovenije	5.6	10.3	11.9	5.6	6.4	6.5
SLOVENSKE ŽELEZNICE, D. O. O.	9.6	10.4	8.4	10.6	12.5	12.2
The median for benchmarked railway companies	6.8	9.8	5.6	25.0	25.6	26.9
FINANCIAL SECTOR				CIR/CoR*	CIR/CoR*	CIR/CoR*
ABANKA, D. D.	-77.3	8.0	13.3	296.3	59.4	59.7
NLB, D. D.	4.8	6.6	7.5	59.4	61.6	60.9
The median for benchmarked banks	-7.0	5.1	7.4	64.9	60.0	60.9
POZAVAROVALNICA SAVA, D. D.	11.9	12.0	11.3	96.1	96.0	95.5
ZAVAROVALNICA TRIGLAV, D. D.	13.4	12.8	11.4	96.3	92.8	92.9
The median for benchmarked insurance firms	9.9	10.9	11.4	94.3	93.1	93.1
ECONOMY						
KRKA, D. D.	12.4	11.5	7.6	31.4	26.3	20.4
The median for benchmarked pharmaceutical companies	13.3	12.4	9.0	24.9	26.4	20.1
TELEKOM SLOVENIJE, D. D.	0.2	9.8	5.7	22.1	28.5	28.0
The median for benchmarked telecommunication companies	7.7	8.8	9.1	29.8	27.9	30.8

Note: In a case when consolidated statements were available, data for the Group were taken into account. Data for electricity distribution companies are not comparable to data presented in Table 19 since these are disclosed at the level of the parent.

Source: Bloomberg for public limited companies, data by companies, own calculations

**Energy sector.** The benchmark analysis regarding ROE attained by electricity distribution companies (EDC) shows that, on average, the profitability of operations of these companies is low, the growth rate of profitability varies significantly between individual companies, and yet these growth levels are higher than those achieved by benchmarked companies which demonstrates that, as regards ROE indicator, lagging behind the profitability of benchmarked companies is decreasing.

On average, the profitability of GEN Group is above the profitability of the benchmarked companies in the industry, the profitability of the industry is declining, however, the decline is faster for benchmarked companies than for GEN Group. The profitability of HSE Group is growing (obviously, excluding the write-off of investment in TEŠ 6 Project in 2015 from the calculation) and it turned positive in 2016 while the profitability of benchmarked companies is poor and declining.

**Transport sector.** In 2016, the profitability of Luka Koper was higher than the median profitability of benchmarked ports while it lagged behind in previous years. The profitability of Luka Koper is increasing whereas the median profitability of benchmarked ports is stable, standing around 13% ,

whereby all of the benchmarked companies recorded growth in profitability, with the exception of one company in which case the profitability declined in 2016. Yet, In the reporting period, the average profitability for benchmarked companies has been steadily higher than the profitability of Luka Koper.

The reported period shows that the profitability of DARS Group is significantly lower than the median of the benchmarked motorway companies, but it is increasing faster than the profitability of benchmarked companies.

The profitability of Pošta Slovenije is approximately one half lower than the profitability of benchmarked companies and it is increasing at a markedly slower pace as compared to the profitability of benchmarked companies.

The profitability of SŽ Group is above the profitability of benchmarked companies but is declining; likewise, benchmarked companies recorded declining profitability with a decline being faster than in the case of SŽ Group.

**Financial sector.** In the reported period, the profitability of Abanka was significantly lower as compared to the profitability of benchmarked companies, mainly as a result of extraordinary events taking place in 2014 when extraordinary capital increase was carried out.

The profitability of NLB Group is above the profitability of benchmarked banks although the profitability of benchmarked banks is growing faster and in 2016 it achieved the profitability recorded by NLB Group.

The profitability of insurance firms is above the profitability of benchmarked insurance companies, however, the profitability of benchmarked insurance firms is growing while the profitability of both insurance firms from the RS's portfolio has declined slightly.

**Economy.** The profitability of Krka Group is below the profitability recorded in the industry and the decline is faster than the decline in profits recorded by benchmarked companies.

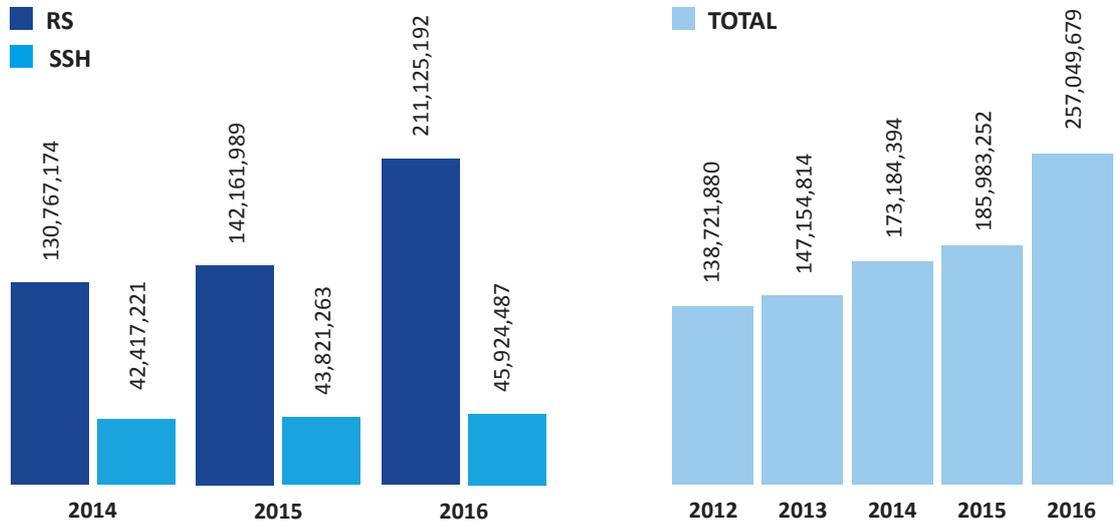
The profitability of Telekom Group is below the profitability recorded by benchmarked companies although it is worth pointing out that the profitability of Telekom Group varies considerably. The profitability of the industry is increasing and, on average, as regards the profitability indicator, Telekom is catching up with the industry.

## 8.6 DIVIDEND PAY-OUTS IN 2016

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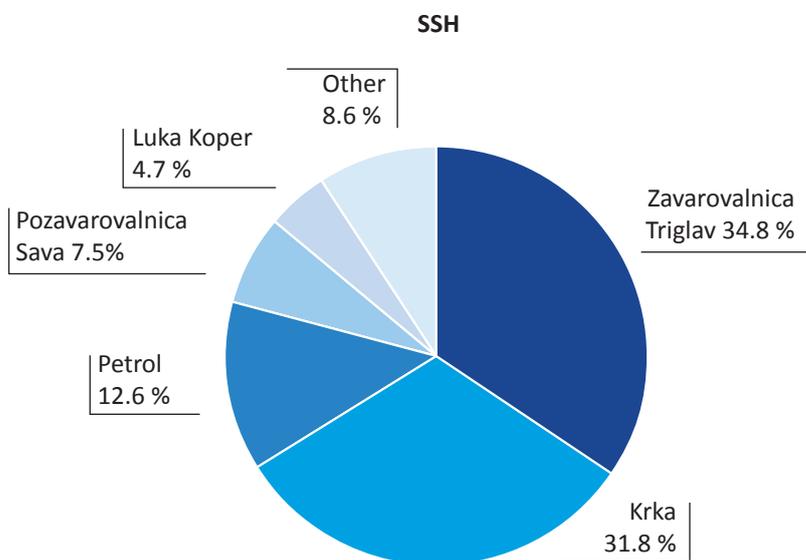
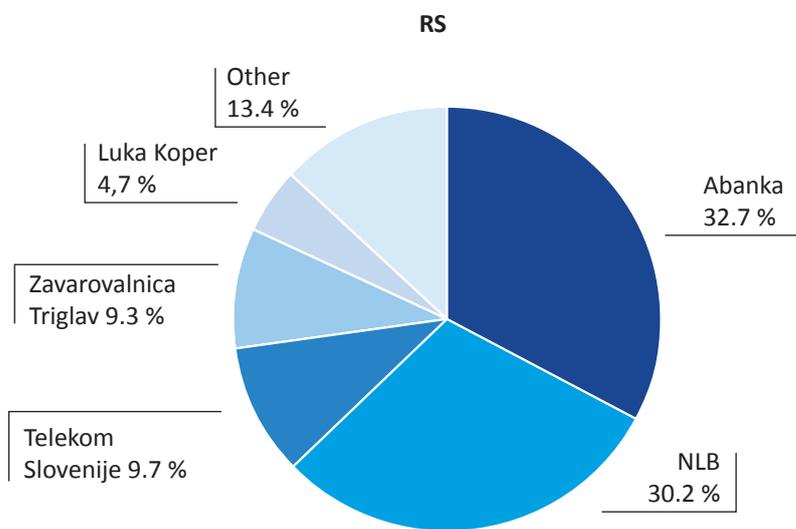
From the aspect of dividends received (dividend pay-outs for FY 2016), 2017 was the best year ever. Since 2011, when RS started to apply a centralised capital assets management system (by establishing the Capital Assets Management Agency of the Republic of Slovenia), the dividend amount paid out by state-owned companies has been steadily increasing and it almost doubled in 2017. In addition to efforts to introduce good quality corporate governance in SOEs and prudent supervision over their operations, this increase was also a result of improved economic conditions and effects of state-aid given to banks in 2013 and 2014. In 2017, the state budget recorded the dividend income (on account of the participation in the profit generated in FY 2016) amounting to EUR 211.1 million, which was by EUR 69 million or 49% higher than in the preceding year. In addition, in 2017, SSH recorded the dividend income from capital assets held in companies by SSH itself that amounts to EUR 45.9 million, which was by EUR 2.1 million or 4.8 % higher than in 2016 (for FY 2015).

Graphs 11: Dividend income for RS and for SSH for FYs 2014-2016 (in EUR) and dividend income for RS and SSH together for FYs 2012-2016



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

Graphs 12: The shares of companies in the sum of dividends received by RS and SSH in FY 2016.



Twenty-five companies paid out dividends to RS, of which almost two thirds were contributed to by both banks in 100-per cent state ownership, i.e., Abanka and NLB (the total of EUR 132.8 million), and the TOP 5 companies on the list according to the dividend pay-outs paid as much as 86.6 % of all dividend pay-outs for FY 2016. A similar concentration in dividend pay-outs is also recorded in the case of SSH capital assets; two companies which paid out the highest dividend amounts, Zavarovalnica Triglav and Krka, together contributed to exactly two thirds of all dividend pay-outs (EUR 30.6 million) and the five largest companies as much as 91.4 % of all dividends.

On account of high growth in dividend pay-outs and slightly lower book-value of capital assets under management (sale of assets or exclusion from the management), the ratio between the dividend received and the average book-value of capital assets under management - the dividends-to-equity ratio - surged. In 2016, the dividends-to-equity ratio for RS's capital assets amounted to 2.1 % while it stood at 5.7 % in the case of SSH's capital assets, and 2.47% for the entire portfolio of RS's and SSH's capital assets, which is by 0.87% percentage points higher than a year before.

Table 17: Dividends-to-equity ratio of RS's and SSH's portfolio of equity stakes in the 2014 -2016 period

in EUR 000	RS			SSH			RS+SSH		
	2014	2015	2016	2014	2015	2016	2014	2015	2016
Total of book-value of assets as of 31 December.	10,896,904	10,810,410	9,629,203	706,001	780,845	818,974	11,602,905	11,591,255	10,448,177
Dividend amount per year	130,767	142,162	211,125	42,417	43,821	45,924	173,184	185,983	257,050
<b>Dividends-to-equity ratio</b>	<b>1.2 %</b>	<b>1.3 %</b>	<b>2.1 %</b>	<b>6.0 %</b>	<b>5.9 %</b>	<b>5.7 %</b>	<b>1.5 %</b>	<b>1.6 %</b>	<b>2.5 %</b>

Table 18: Basic financial data for 20 largest companies in the RS's and SSH's portfolio as of 31 December 2016

Asset	RS's shareholding	SSH's shareholding	Book value of stakes by RS+SSH	Industry	Strategic orientation
DARS, D. D., CELJE	100	–	2,665,453,020	TRANSPORT	STRATEGIC
NLB, D. D.	100	–	1,525,660,000	FINANCIAL SECTOR	IMPORTANT
HSE, D. O. O.	100	–	1,015,220,355	ENERGY SECTOR	STRATEGIC
GEN ENERGIJA, D. O. O.	100	–	755,519,495	ENERGY SECTOR	STRATEGIC
ABANKA, D. D.	100	–	616,828,000	FINANCIAL SECTOR	PORTFOLIO
TELEKOM SLOVENIJE, D. D.	62.54	4.25	471,445,230	ECONOMY	PORTFOLIO
ZAVAROVALNICA TRIGLAV, D. D.	34.48	28.09	465,739,637	FINANCIAL SECTOR	STRATEGIC
SID BANKA, D. D.	99.41	–	411,366,533	FINANCIAL SECTOR	STRATEGIC
SLOVENSKE ŽELEZNICE, D. O. O.	100	–	305,586,451	TRANSPORT	STRATEGIC
ELEKTRO LJUBLJANA D. D.	79.5	0.3	242,680,387	ENERGY SECTOR	STRATEGIC
KRKA, D. D.	0.01	16.2	234,144,372	ECONOMY	IMPORTANT
POŠTA SLOVENIJE, D. O. O.	100	–	218,255,904	TRANSPORT	STRATEGIC
ELEKTRO MARIBOR, D. D.	79.5	–	214,278,885	ENERGY SECTOR	STRATEGIC
LUKA KOPER, D. D.	51	11.13	206,258,504	TRANSPORT	STRATEGIC
ELEKTRO CELJE, D. D.	79.5	–	169,585,077	ENERGY SECTOR	STRATEGIC
GEOPLIN, D. O. O.	41.24	0.05	130,026,095	ENERGY SECTOR	IMPORTANT
ELEKTRO PRIMORSKA, D. D.	79.5	–	121,876,388	ENERGY SECTOR	STRATEGIC
ELEKTRO GORENJSKA, D. D.	79.42	0.31	119,303,216	ENERGY SECTOR	STRATEGIC
PETROL, D. D.	–	19.75	117,644,764	ENERGY SECTOR	IMPORTANT
SIJ, D. D.	25	–	105,868,000	ECONOMY	IMPORTANT

Note: Financial data for all companies, except for DARS, are presented at the Group level (consolidated balance sheets). Data on EBITDA margin for electricity distribution companies are presented at the Group level and are not comparable to data presented in Table 19 in which they are presented at the level of the parent.

	Total assets	Equity	Net profit and loss for the period	EBITDA margin	ROE	Financial leverage
	5,680,666,379	2,665,453,020	102,448,010	80.12 %	3.92 %	2.13
	12,039,011,000	1,525,660,000	110,017,000	-	7.46 %	7.89
	2,156,756,540	1,015,220,355	21,660,852	12.98 %	2.16 %	2.12
	1,070,784,643	755,519,495	31,887,724	13.71 %	4.43 %	1.42
	3,614,833,000	616,828,000	77,514,000	-	13.28 %	5.86
	1,367,419,000	705,862,000	39,940,000	28.02 %	5.69 %	1.94
	3,574,885,423	744,349,747	82,331,774	-	11.37 %	4.80
	2,596,076,000	413,808,000	22,965,000	-	5.77 %	6.27
	554,747,800	305,586,451	25,055,578	12.21 %	8.37 %	1.82
	472,782,452	304,110,761	16,107,480	20.96 %	5.38 %	1.55
	1,911,518,000	1,444,444,000	108,456,000	20.38 %	7.61 %	1.32
	275,784,226	218,255,904	9,788,604	11.68 %	4.55 %	1.26
	381,664,254	269,533,189	15,092,354	22.37 %	5.69 %	1.42
	489,991,097	331,978,921	44,375,299	37.14 %	13.90 %	1.48
	314,273,205	213,314,562	10,747,578	15.52 %	5.11 %	1.47
	499,740,336	314,909,408	12,296,562	6.66 %	3.94 %	1.59
	220,621,236	153,303,633	7,822,141	20.02 %	5.18 %	1.44
	222,130,774	149,634,035	7,194,475	46.66 %	4.88 %	1.48
	1,502,791,936	595,669,693	72,660,907	3.63 %	12.71 %	2.52
	1,148,157,000	423,472,000	51,325,000	14.77 %	13.29 %	2.71

## 8.7 SUMMARY OF CRITERIA FOR MEASURING PERFORMANCE OF SOEs AND INFORMATION ON FULFILMENT OF CRITERIA IN 2016

The Annual Asset Management Plan (AAMP) was first prepared for 2016 (AAMP 2016) which is why this Annual Report gives the opportunity to compare the planned ratio values with the actually realised values for the first time.

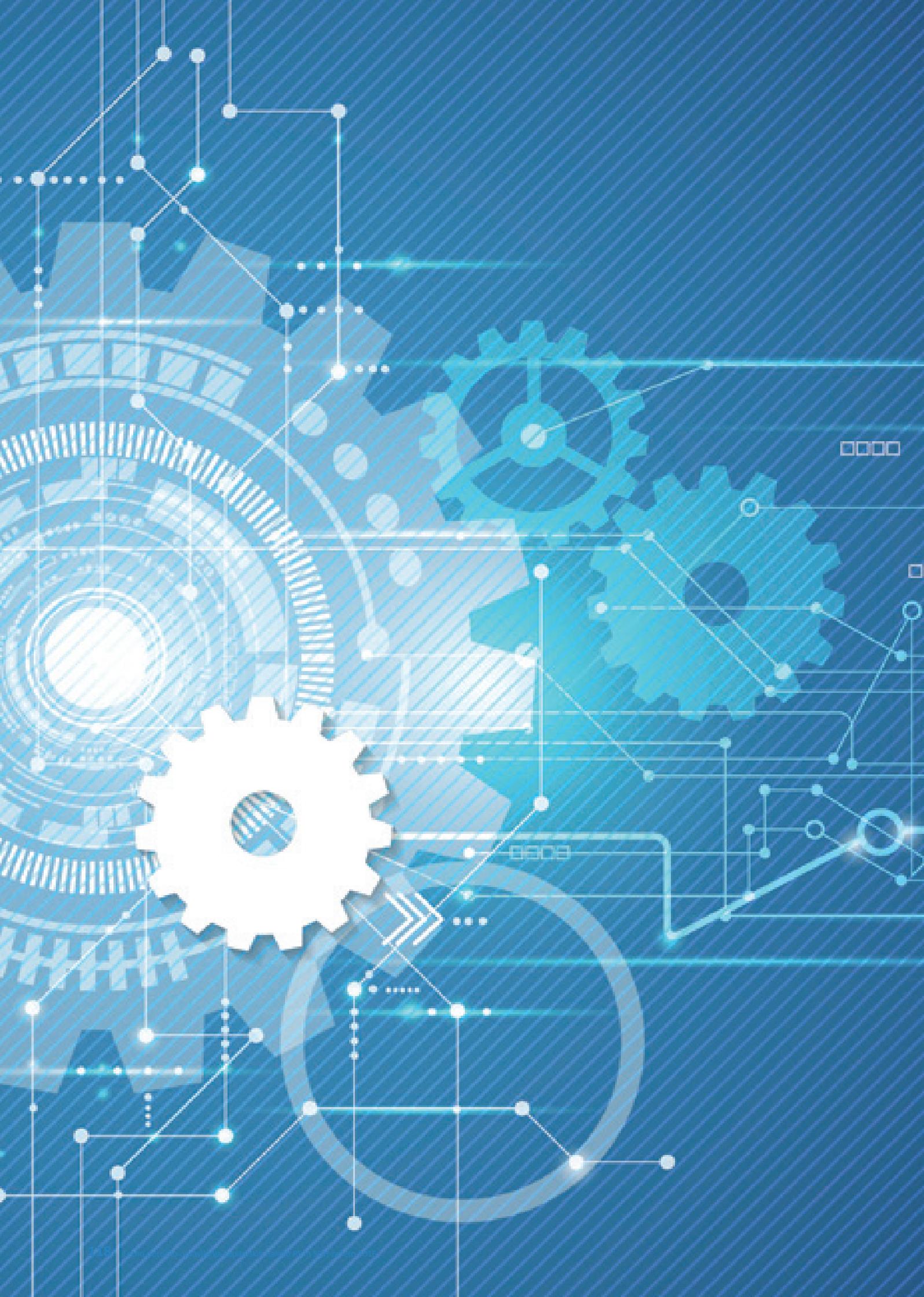
Table 19: Attainment of goals on the basis of criteria set in Annual Asset Management Plan 2016

Company	ROE*		EBITDA margin**	
	Realised 2016	AAMP 2016	Realised 2016	AAMP 2016
2TDK, DRUŽBA ZA RAZVOJ PROJEKTA, D. O. O.	-2.62	–	-33.11	–
ADRIA, TURISTIČNO PODJETJE D. O. O., ANKARAN	1.65	0.95	16.83	23.00
BODOČNOST MARIBOR, D. O. O.	3.37	4.61	9.10	8.46
CASINO BLEDE, D. D., BLEDE	14.48	43.50	8.44	17.44
CASINO PORTOROŽ, D. D., PORTOROŽ	7.64	15.00	15.11	17.00
CETIS, D. D.	6.09	1.14	9.38	9.42
CINKARNA CELJE, D. D., CELJE	6.82	5.92	15.24	12.54
CSS, D. O. O.	9.51	16.50	4.94	6.45
D.S.U., D. O. O., LJUBLJANA	2.28	3.30	0.00	63.20
DRI UPRAVLJANJE INVESTICIJ, DRUŽBA ZA RAZVOJ INFRASTRUKTURE, D. O. O.	4.66	5.00	10.12	11.50
DRUŽBA ZA AVTOCESTE V REPUBLIKI SLOVENIJI (MOTORWAY COMPANY OF THE REPUBLIC OF SLOVENIA), D. D., CELJE	3.92	2.91	80.12	79.15
ELEKTRO CELJE, D. D.	3.44	3.50	42.59	42.00
ELEKTRO GORENJSKA, D. D.	3.27	3.00	46.62	45.30
ELEKTRO LJUBLJANA D. D.	3.57	3.00	45.47	42.58
ELEKTRO MARIBOR, D. D.	3.66	3.00	40.61	40.10
ELEKTRO PRIMORSKA, D. D.	3.41	2.80	42.84	34.80
ELEKTROGOSPODARSTVO SLOVENIJE – RAZVOJ IN INŽENIRING, D. O. O.	-3.17	3.37	6.66	34.10
GEN ENERGIJA, D. O. O.	4.43	3.75	13.79	19.37
GEOPLIN, D. O. O.	3.94	5.90	52.75	10.40
HIT, D. D.	7.55	8.01	16.52	15.35
HSE, D. O. O.	2.16	0.04	11.96	14.64
INKOS, D. O. O., KRMELJ	n.m.	10.00	9.85	8.00
INTEREUROPA, D. D.	-1.12	2.00	9.65	11.50
INTERTRADE ITA, D. D., LJUBLJANA	0.07	1.24	-66.11	-67.12
JAVNO PODJETJE URADNI LIST REPUBLIKE SLOVENIJE, D. O. O.	2.93	0.93	13.90	13.34
KDD, D. D., LJUBLJANA	12.91	16.00	24.75	29.30
KONTROLA ZRAČNEGA PROMETA (SLOVENIA CONTROL, LIMITED), D. O. O.	11.57	9.00	16.84	17.00

KRKA, D. D.	7.61	13.50	19.40	32.00
LOTERIJA SLOVENIJE, D. D., LJUBLJANA	18.15	13.85	6.75	5.45
LUKA KOPER, D. D.	13.90	11.50	37.14	37.00
MARIBORSKA LIVARNA MARIBOR, D.D.	n.m.	0.00	4.58	0.00
NAFTA LENDAVA, D. O. O.	310.84	0.00	-10.21	-25.00
PALOMA, D. D.	7.63	35.00	16.10	8.30
PETROL, D. D.	12.71	13.80	3.63	3.50
POMGRAD – VODNOGOSPODARSKO				
PODJETJE, D. D.	1.35	5.00	4.90	9.00
POŠTA SLOVENIJE, D. O. O.	4.55	4.00	11.68	11.50
PS ZA AVTO, D. O. O., LJUBLJANA	0.52	3.10	-12.33	-33.33
RTH, D. O. O.	-33.68	6.37	17.07	33.16
RŽV, JAVNO PODJETJE ZA ZAPIRANJE				
RUDNIKA URANA, D. O. O.	92.59	-35.99	34.32	0.46
SAVA, D. D.	n.m.	5.00	19.58	21.00
SAVAPROJEKT, D. D.	1.95	–	5.65	–
SIJ, D. D.	13.29	8.70	14.77	10.97
SLOVENSKE ŽELEZNICE, D. O. O.	8.37	7.00	12.21	12.60
STUDENTENHEIM KOROTAN GMBH	-9.59	0.00	-28.43	1.27
TELEKOM SLOVENIJE, D. D.	5.69	6.40	28.02	27.20
TERME OLIMIA, D. D.	5.15	3.10	23.68	35.00
TOPLOTNA OSKRBA, D. O. O., LOČE	-2.59	0.00	43.47	14.40
UNIOR, D. D.	6.86	6.00	13.89	13.50
VODNOGOSPODARSKO				
PODJETJE DRAVA, D. O, O., PTUJ	13.09	15.20	10.86	6.90
VODNOGOSPODARSKO				
PODJETJE NOVO MESTO, D. D.	5.45	6.80	6.62	12.20
VGP KRANJ, D. D.	-33.24	5.00	-20.51	9.00
ABANKA, D. D.	13.14	3.80	59.70	68.57
NLB, D. D.	7.40	4.20	60.90	65.00
SID BANKA, D. D.	5.71	2.00	32.04	48.00
POZAVAROVALNICA SAVA, D. D.	11.28	12.00	94.64	95.00
ZAVAROVALNICA TRIGLAV, D. D.	11.37	12.00	92.90	94.00

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

\*\* In case of banks, instead of EBITDA margin, CIR ratio is given, and in case of insurance firms, combined ratio is presented.  
 "n.m." means that the data is not meaningful on account of the situation in the company (negative equity and similar facts).



## **9** **METHODOLOGICAL, LEGAL AND OTHER NOTES**

## Legal basis

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

## Operation performance data for SOEs

In a case when consolidated statements were available, data for the Group were taken into account. The audited financial statements were observed when such reports were available at the time of drawing up this Report.

Comprehensive company presentations have been developed for top 20 companies using the criteria of the total book value of SSH and RS shareholdings as of 31 December 2016.

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

- companies in bankruptcy or liquidation (a common list of all such companies has been developed),
- companies in which the equity stake of SSH or RS is lower than 1%, and
- companies for which from 1 January 2017, until the date of production of this documents, sale processes were completed or Sale and Purchase Agreements were concluded (i.e. Paloma, d. d., Cimos, d. d., Toplotna oskrba, d. o. o., Intertrade ITA, d. d., and Telemach Rotovž, d. d)

## Data used in benchmarking analysis

AA list of companies benchmarked against an individual company has been developed on the basis of a list submitted by a company in the SSH/RS portfolio or on the basis of a list made by SSH. The source of data is Bloomberg (in case of listed benchmarked companies), annual reports of benchmarked companies and data submitted by companies in the SSH/RS portfolio

## Definitions regarding main financial indicators used in the Annual Report

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

Comprehensive company presentations and other presentation of financial results of companies are considered at the level of the Group, when consolidated financial statements are made. Any potential deviations from this rule are disclosed separately.

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

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## Abbreviations

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





**SLOVENIAN SOVEREIGN HOLDING**

Annual Report - Management of Capital Assets of RS and SSH in 2016

SSH Report to the National Assembly of RS

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Due to the Report's extensive nature, the abbreviated version of the Annual Report - Management of Capital Assets of the Republic of Slovenia and Slovenian Sovereign Holding for 2016 has been translated, excluding thus the original Chapters 9 - Company Details for 20 Largest SOEs, and Chapter 10 - Company Details of Other Companies with Direct Ownership Stake by the Republic of Slovenia and Slovenian Sovereign Holding. In spite of the fact that the English version is abbreviated it includes all the most significant highlights and information from the original Annual Report in Slovenian.

### Limitation of liability

The Annual Report was produced by SSH in accordance with Article 67 of ZSDH-1, imposing on SSH the task of monitoring the effectiveness of SOEs' operation. The document has also been created in accordance with recommendations regarding good practice drawn in OECD Guidelines for Corporate Governance of State-Owned Enterprises, 2015 which in Item VI imposes on the company managing state assets to develop a consistent and aggregate reporting on state-enterprises and publish annually an aggregate report on SOEs. The publication of the report on the Company's website is advised with the aim of informing the general public. The Annual Report 2016 refers to the management of capital assets owned by the Republic of Slovenia and Slovenian Sovereign Holding. The 2016 Annual Report was developed in accordance with the principle of conscientiousness and fairness by applying the necessary expertise and in accordance with the principle of professional due diligence. The information on companies and Groups of companies used in the document were obtained from publicly accessible data bases and directly from companies (the right to information obtained is recognised to all other shareholders and an individual company is obliged to provide such pieces of information in a suitable manner). The information does not represent any inside information within the meaning of Article 373 of Financial Instruments Market Act. Any potential indicative value assessments are stated for informational purposes only and do not in any way bind SSH by way of any actions or decisions. The document does not represent a recommendation or a piece of advice for personal investment decisions or any other conduct and it is not an offer not an invitation to submit offers for the purchase of shares or shareholdings in direct or indirect ownership of the state. Users of information from this Report are advised by SSH to verify the data with other suitable sources and to consult with an expert of a relevant discipline about any investment decision into a company referred to in the document or in regard to any other action. Slovenian Sovereign Holding warns that information presented in the 2016 Annual Report is of informational nature and data error, linguistic and other errors might have occurred in the document which is why SSH is not held responsible in relation to users for consequences of any actions which might be based on the content of this document. Slovenian Sovereign Holding has put an effort into ensuring the correctness of the data provided. Any public publication, reproduction, sale, modification or transformation of the content is prohibited without the written consent being given by SSH. The original text of this document is written in Slovenian; in case of any doubt or misunderstanding, the Slovenian text shall therefore prevail.







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