

ANNUAL REPORT

SSH and SSH Group

for 2017



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April 2018

**Annual Report
SSH and SSH Group for 2017**

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Address:
Mala ulica 5, 1000 Ljubljana

Phone:
++386 1 300 91 13

E-mail:
info@sdh.si

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

Text:
Slovenian Sovereign Holding (SSH)

English translation & proofreading:
Maja Vitežnik & David Lillie

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CONTENTS

	INTRODUCTION	11
1	KEY HIGHLIGHTS FOR 2017	12
2	LETTER BY MANAGEMENT BOARD	13
3	SUPERVISORY BOARD'S REPORT	16
	BUSINESS REPORT	23
4	OVERVIEW OF IMPORTANT EVENTS AND PROJECTS UNDERTAKEN IN 2017	24
5	SSH CORPORATE GOVERNANCE	26
5.1	Corporate Governance Statement	26
6	PRESENTATION OF SSH GROUP AND SSH	36
6.1	Presentation of SSH Group	36
6.2	Presentation of Slovenian Sovereign Holding	37
6.3	SSH Vision, mission, and values	38
6.4	SSH Organisational structure	39
6.5	SSH Strategic policies, goals and criteria	39
6.5.1	<i>Goals</i>	40
6.5.2	<i>Criteria for measuring performance of SSH and attainment of goals</i>	41
7	SSH CORE BUSINESS ACTIVITIES	42
7.1	Macroeconomic environment and developments in the most important sectors of the portfolio	42
7.1.1	<i>Overview of selected macroeconomic data and of Slovenian capital market</i>	42
7.1.2	<i>Overview of developments by portfolio sectors</i>	44
7.2	Management of SSH and RS capital assets in 2017	48
7.2.1	<i>Active management off RS and SSH capital assets</i>	48
7.2.2	<i>Legal basis and asset management related documents</i>	49
7.2.3	<i>Active Preparation for Annual General Meetings and exercise of all other shareholder's rights</i>	49
7.2.4	<i>Monitoring operations of SOEs</i>	50
7.2.5	<i>Asset restructuring as an important part of asset management</i>	50
7.2.6	<i>Main activities and events in 2017 in regard to asset management</i>	51

7.2.7	<i>Main activities and events in 2017 in regard to asset management by individual companies</i>	51
7.2.8	<i>Asset management-related legal documents revised in 2017: Corporate Governance Code for SOEs and SSH Recommendations and Expectations</i>	54
7.2.9	<i>Composition and performance results of the SSH portfolio of assets</i>	56
7.3	Acquisition and disposition of capital assets in 2017	62
7.3.1	<i>Activities in connection with the disposition of capital assets</i>	63
7.3.2	<i>Activities in connection with the acquisition of capital assets</i>	65
7.4	Denationalisation and settlement of compensation under various bills	66
7.4.1	<i>SSH's role in denationalisation proceedings</i>	66
7.4.2	<i>Denationalisation procedures at the level of the Republic of Slovenia</i>	67
7.4.3	<i>Denationalisation procedures at the level of SSH</i>	67
7.4.4	<i>Significant decisions made and issues raised in denationalisation procedures</i>	68
7.4.5	<i>Implementation of denationalisation-related decisions and settlement of liabilities</i>	68
7.4.6	<i>Compensations to victims of war and post-war violence</i>	69
7.4.7	<i>Settlement of liabilities arising from compensation for confiscated property pursuant to the abrogation of property confiscation penalty</i>	70
7.4.8	<i>Settlement of liabilities under the Return of Investments in the Public Telecommunications Network Act</i>	70
8	FINANCIAL RESULT FOR SSH GROUP AND SSH	71
8.1	Primary focus of SSH investment policy	72
8.2	Cash flows and financial debt	72
8.3	Volume and structure of liquid investments portfolio	73
8.4	Profitability of liquid investments portfolio	73
8.5	Capital and long-term financial investments	73
9	ORGANISATIONAL DEVELOPMENT OF SSH	74
9.1	Compliance and corporate integrity	74
9.2	Respect of human rights	75
9.3	Internal Audit	75
9.4	Risk management	76
9.4.1	<i>Risk management system</i>	76
9.4.2	<i>Methodology for risk assessment and risk measurement</i>	77
9.4.3	<i>Key risks</i>	77
9.4.4	<i>Risk management in 2017</i>	80
9.4.5	<i>Goals for 2018</i>	80

9.5	Privacy Policy	80
10	SUSTAINABLE DEVELOPMENT OF SSH	81
10.1	Overview of stakeholders and inclusion of their needs and interests	84
10.2	Detailed overview of cooperation with stakeholders in 2017	86
10.2.1	<i>Relations with employees</i>	86
10.2.2	<i>Media relations</i>	89
10.2.3	<i>Investor relations – bond purchasers</i>	89
10.2.4	<i>Relations with social partners</i>	89
10.2.5	<i>Relations with state authorities: National Assembly of RS, Government of RS, sectoral ministries</i>	90
10.2.6	<i>Relations with business partners</i>	90
10.3	Diversity and profiles of candidates and SB members and MB members of SOEs by gender	91
10.3.1	<i>Basic analysis of candidates from SSH Nomination Committee's Portal</i>	91
10.3.2	<i>The composition of Supervisory and Management Boards of companies owned by the Republic of Slovenia by gender</i>	92
10.4	Responsibility towards environment	93
10.4.1	<i>Waste treatment</i>	93
	Events after balance sheet date	93
	ACCOUNTING REPORT	95
11	STATEMENT OF MANAGEMENT RESPONSIBILITY	96
12	INDEPENDENT AUDITOR'S REPORT	97
12.1	Slovenian Sovereign Holding	97
12.2	Slovenian Sovereign Holding Group	101
13	FINANCIAL STATEMENTS - SSH AND SSH GROUP	105
13.1	Statement of financial position/balance sheet	105
13.2	Statement of comprehensive income	106
13.3	Statement of cash flows	107
13.4	Statement of changes in equity	109
13.4.1	<i>Statement of changes in equity of SSH</i>	109
13.4.2	<i>Determination of accumulated profit/loss of SSH</i>	110
13.4.3	<i>Statement of changes in equity for SSH Group</i>	110

14	BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES	111
14.1	Reporting company	111
14.1.1	<i>Transfer of portion of SSH assets to the Republic of Slovenia</i>	112
14.1.2	<i>Changes in the Group</i>	112
14.2	Significant accounting policies	112
14.2.1	<i>Statement of compliance with IFRS</i>	112
14.2.2	<i>Basis of preparation</i>	112
14.2.3	<i>Currency reporting</i>	114
14.2.4	<i>Value estimates of individual items</i>	115
14.2.5	<i>Significant policies for Company and Group</i>	115
15	NOTES AND DISCLOSURES	121
15.1	Notes to financial statements	121
15.1.1	<i>Intangible assets of SSH/SSH Group</i>	121
15.1.2	<i>Long-term financial investments</i>	121
15.1.3	<i>Long-term available-for-sale assets</i>	128
15.1.4	<i>Short-term financial investments</i>	129
15.1.5	<i>Short-term operating receivables</i>	130
15.1.6	<i>Cash and cash equivalents</i>	130
15.1.7	<i>Equity</i>	131
15.1.8	<i>Long-term provisions and long-term accrued costs and deferred revenues</i>	133
15.1.9	<i>Long-term financial and operating liabilities</i>	135
15.1.10	<i>Short term financial liabilities</i>	136
15.1.11	<i>Short-term operating liabilities</i>	137
15.1.12	<i>Operating income</i>	138
15.1.13	<i>Costs of goods, materials and services</i>	139
15.1.14	<i>Labour costs</i>	139
15.1.15	<i>Depreciation and amortisation</i>	140
15.1.16	<i>Long-term provisions</i>	140
15.1.17	<i>Net profit or loss</i>	140
15.1.18	<i>Participation in profit/loss in associates</i>	142
15.1.19	<i>Taxes</i>	143
15.1.20	<i>Net earnings per share</i>	145
15.1.21	<i>Dividends per share</i>	145
15.1.22	<i>Note to the Cash Flow Statement</i>	145

15.2	Management of financial risks in SSH/SSH Group	146
15.2.1	<i>Credit risk</i>	146
15.2.2	<i>Interest rate volatility risk</i>	146
15.2.3	<i>Liquidity risks</i>	146
15.2.4	<i>Market risk</i>	148
15.3	Transactions with related entities	150
15.3.1	<i>Subsidiaries and associates</i>	150
15.3.2	<i>Management and members of Supervisory Board and Audit Committee</i>	150
15.3.3	<i>Transactions with the Government of the Republic of Slovenia, state authorities and enterprises controlled by the Government or in which its significant influence is exercised</i>	153
15.4	Operating segments	154
15.5	Contingent liabilities and contingent assets	154
15.6	Events after the balance sheet date	155
	<i>LIST OF ACRONYMS AND GLOSSARY OF TERMS</i>	157

A close-up photograph of a person's hand pointing at a document. The document features several blue square markers and some text, which is partially obscured by a blue overlay. The background is a blurred blue shirt.

DILIGENTLY

SSH acts 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 **diligently** oversees their achievement.



INTRODUCTION

1	KEY HIGHLIGHTS FOR 2017	12
2	LETTER BY MANAGEMENT BOARD	13
3	SUPERVISORY BOARD'S REPORT	16

1 KEY HIGHLIGHTS FOR 2017

MANAGEMENT OF RS AND SSH CAPITAL ASSETS PORTFOLIO

ROE of the both RS and SSH portfolios		
 Expected ROE of the both RS and SSH portfolios for 2017, as stated in Annual Asset Management Plan 5.2%	 *Estimated ROE of RS and SSH portfolios to be actually realised in 2017 6.1% <small>* Final data for 2017, based on audited consolidated statements, are expected in September 2018.</small>	 In 2016, ROE of the both RS and SSH portfolios amounted to 6.0% , while ROE of the SSH portfolio stood at 9.9% <small>(Annual Report - Management of Capital Assets of RS and SSH for 2016)</small>

DENATIONALISATION AND COMPENSATION PAYMENTS

EUR 2,878,515

of settled liabilities arising from denationalisation in 2017 (SZ-1 included)

EUR 10,475,048

of paid compensations on behalf of and for the account of RS under the following laws: ZPOZ, ZVJTO and ZIOOZP

SSH IN FIGURES AS AT 31 DECEMBER 2017

EUR 679.3 million

of assets

92.6%

of the SSH's total assets placed as equity investments (the portfolio is composed of 27 active capital assets owned by SSH)

EUR 280 million

of debt settled in 2017

EUR 45,924,487

of dividend income received by SSH in 2017 (for FY 2016)

EUR 491.8 million

of total capital of SSH

EUR 31.95 million

of net profit or loss of SSH in 2017

2 LETTER BY MANAGEMENT BOARD

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 and other goals set in SSH's corporate documents.

The data regarding the performance of companies for 2016 (only the estimated performance data for companies under SSH management for 2017 have been available to SSH at the time of drawing up this Report) show that, after 2015, the growth in the profitability of equity stakes (ROE) of RS and SSH investments continued in 2016 and came closer to the target ROE indicators set in the State Assets Management Strategy, i.e. 6.3% for 2016 and 7.1% for 2017. 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 the goal was achieved although the RS's portfolio includes two thirds of strategic assets whose priority is the attainment of strategic goals, that is, development goals and wider social goals which are linked to the performance of individual services of general economic interest. The attainment of strategic goals and economic goals is, however, often mutually exclusive, hampering the attainment of even higher ROE arising from the RS and SSH portfolios.

The first estimates in regard to the operations of companies in RS and SSH portfolios for 2017 show that ROE achieved by these companies **in 2017 will amount to 6.1%**, thus surpassing the ROE indicator of 5.2% planned for this year.

SSH supports the development and efficiency of operations of companies under its management, and, by means of its decisions made at General Meetings of Shareholders of companies, pursues a responsible approach to the dividend policy in terms of advocating a suitable balance between dividends and development needs of companies. From the aspect of dividends received, 2017 was a record-hitting year. For FY 2016, companies with RS's ownership stake (including the ZPIZ stake in Zavarovalnica Triglav) paid out dividends in the amount of EUR 211 million, which was by EUR 69 million or 49% higher than in the preceding year. 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%) higher amount than in the preceding year.**

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, and, considering the most recent data by SURS, 5% GDP growth recorded for 2017, in addition to 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 in 2017 (for FY 2016). ROE of some significant companies from the portfolio grew faster when compared to benchmarked companies. This demonstrates the role of SSH functioning as an active manager which, while paying attention to development goals of companies and with specific knowledge of their operations, sets ambitious goals to companies in every Annual Asset Management Plan and oversees their achievement.

Closed sale processes and other activities

In 2017, two important transactions were closed, involving companies with RS and SSH capital assets, 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., as a result of which, on the basis of the Equity Swap Agreement, Petrol d. d., became a majority owner of Geoplin d. o. o. and RS a majority owner of Plinhold d. o. o. (which holds a 100% ownership stake in Plinovodi d. o. o.), while RS kept a 25.01% stake in Geoplin d. o. o., Ljubljana.

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 June 2017, the Government of RS, in the capacity of the SSH General Meeting, refused to grant its consents to the minimum offering price and to the offering price range for the NLB share set in the process for the initial public offering («IPO») of the NLB share which is why SSH could not continue with the sale process.

Analysis of SSH operations

SSH was successful in 2017, since the operating profit and loss before taxes amounted to EUR 37.54 million, and following the deduction for deferred taxes, net profit and loss for the reported period amounted to EUR 31.95 million. The result is lower than in 2016 mainly due to newly formed reservations for satisfying denationalisation liabilities.

The business result was positively influenced by higher dividends and capital gains generated with the sale of shares in Paloma d. d., Intertrade ITA d. d. and with the dissolution of Dekorativna.

There was a EUR 62.72 million income generated, of which approximately 88.9% was attributed to financial income. Dividend income received was again the most significant revenue. Operating expenses amounted to EUR 20.98 million (of which reserves for denationalisation related liabilities totalled EUR 14,45 million), while interest expenses stood at EUR 4.17 million, which is lower than in 2016 mainly on account of having paid off high loans. Likewise, 2017 recorded no interest expenses for SOS2E bond which matured in 2016.

Settlement of liabilities due to denationalisation beneficiaries and significant reduction of indebtedness in 2017

SSH continues to actively participate in denationalisation proceedings, now mainly dealing only with the most complex cases. On behalf of and for the account of the Republic of Slovenia, SSH also settles liabilities under the following laws: ZPOZ, ZIOOZP and ZVJTO.

SSH provided monies for the coverage of its liabilities mainly with inflows from matured deposits and liquid (portfolio) assets as well as from other inflows. An important source of funds to cover SSH liabilities in 2017 were dividends of companies owned by SSH, revenue

from the sale of capital assets and the sale of UCITS units of mutual funds.

The capital increase in SSH realised by the Republic of Slovenia in December 2016, amounting to EUR 200 million, provided for a significant increase in the liquidity portfolio's balance. In 2017, SSH decreased its debt in the total amount of EUR 280 million which is by EUR 80 million higher than the capital increase carried out. The volume of financial debt is manageable, amounting to EUR 105 million at the end of 2017; SSH plans to further decrease its debt by additional EUR 5 million by the end of 2018.

At the end of 2017, SSH transferred free-of-payment one portion of SSH-owned capital assets to RS, totalling EUR 200 million; further transfer of assets to RS is envisaged to take place in 2020

ZSOS (Slovenian Compensation Fund Act) justifies the transfer of assets with the SSH capital increase and with the termination of denationalisation proceedings. ZSOS assumes that other strategic and important assets will be transferred from SSH to RS by the end of 2020. After 2020, SSH will have at its disposal only assets classified as portfolio assets which will be dedicated for the repayment of the remaining outstanding denationalisation liabilities. SSH estimates that nearly all dividend income, being its main source of income and providing for the necessary independence in asset management decision-making and financial stability, will be lost in 2020. Therefore, arranging for a suitable substitute for the SSH mission, that is, professional and active management of state-owned enterprises separated from the daily politics, will be one of the priority assignments for SSH in 2018. SSH believes that only a financially independent company can carry out its mission in an effective and efficient manner.

SSH introduces higher standards of non-financial reporting, strengthening its corporate integrity

SSH's endeavours for sustainability in business derive from strategic orientation of value creation. SSH has hereby committed itself to take its reporting to a higher level than required by regulations, as it is already shown in this Report.

SSH has a broad understanding of sustainable development in which regard the most important activity

needs to be pointed out, that is the SSH's contribution to formulating and implementing good practice in corporate governance at the level of companies owned by RS and SSH for which, by means of the established corporate governance system, which includes the Corporate Governance Code, Recommendations, Annual Asset Management Plan and other corporate documents, SSH defines for SOEs good practice, sets their goals and expects their attainment.

In 2017, among other things, the Chief Compliance Officer prepared a revised SSH Corporate Integrity Plan which defines in detail permanent and additional measures for managing corruption risks and for preventing illegal and unethical actions. The SSH Code of Ethics, defining the basic principles for permissible action and conduct of SSH employees, has been supplemented. Within the scope of activities pursued, SSH commits itself to do business in accordance with the highest ethical standards.

In the future, the main focus will be placed on the quality of management of RS and SSH assets, on providing support for transformation of companies and on attaining goals set

SSH is highly active in implementing its most important mission, i.e., the professional, active and independent management of capital assets owned by the Republic of Slovenia and SSH. The goal in respect of asset management includes efficient implementation of processes of sale in accordance with the adopted Annual Asset Management Plan, in addition to the realisation of financial, strategic and other goals associated 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 effective management of capital assets. In the future, SSH will 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. Furthermore, SSH expects monthly reports to be delivered from companies which are fully owned by RS in order to ensure better monitoring of their operations.

Numerous companies in SSH's portfolio face great changes due to (digital) transformation and due

to other changes in the environment. Thus, some important companies have adopted revised strategies with the focus on business transformation and, within this scope, their digitalization is aimed at maintaining their competitiveness in an increasingly demanding and highly 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 at all levels of an organization in terms of strategies, business models, organisation, processes and personnel. SSH will continue to provide support to all companies from the portfolio to tackle such turning points in an efficient manner in order to provide for long-term growth and employment.



Lidija Glavina,
President of the Management Board



Nada Drobne Popovič, MSc
Member of the Management Board

3 SUPERVISORY BOARD'S REPORT

The Supervisory Board of Slovenian Sovereign Holding (»SB«) is composed of five members, in accordance with Article 39 of ZSDH-1. In 2017, precisely, in the period from January to April, SB carried out its activities with three members after which, following the proposal by the SB's President, on 21 April 2017, the Ljubljana District Court issued a decision appointing Igor Kržan as the SB's Member. In order to fill up the board vacancies, on 20 June 2017, the National Assembly of the Republic of Slovenia appointed two new SB's members for a five year term of office, specifically, Mr. Igor Kržan and Dr. Andrej Bertoneclj. On 21 June 2017, Dr. Barbara Smolnikar resigned from the position of the SB's Board member as a result of which, in the period from June to December 2017, SB again functioned in a reduced composition of four members. On 14 December 2017, Mr. Janerz Vipotnik was appointed for a five-year term of office by the RS National Assembly, thus enabling the board to function in full.

Personnel decisions

In 2017, following the international call to apply for a management board vacancy, SB appointed Ms. Lidija Glavina as the President of the SSH Management Board for a full four-year term of office. She assumed her position on 23 February 2017. Ms. Lidija Glavina's tenure of a SSH Supervisory Board member was suspended from 15 July 2016 until her resignation from this post which came into effect on 22 February 2017. In implementing the selection procedure, SB followed the provisions of ZSDH-1 and the recommendations from the Corporate Governance Code for SOEs: it thus appointed the SB's Nomination Committee which was composed of all SSH SB Members, authorising it to carry out the procedure for selecting the fit and proper candidate for the President of and for a Member of the Management Board. The Nomination Committee defined duties and tasks, authorisation and responsibility, conditions and competences including the personal characteristics and capabilities to be held by a candidate for the President and for a Member of SSH Management Board, in addition to

satisfying the formal statutory criteria (determination of the target profile of the President or of a Member of SSH Management Board). An independent HR agency provided professional assistance in the evaluation of the four candidates who had been selected for the final round. In selecting and appointing the President and the Member of the SSH Management Board, the SSH Supervisory Board checked the satisfaction of statutory terms and conditions, as well as the meeting of other criteria and competences.

Most important topics discussed at SB sessions

An important task carried out by SB is to monitor the attainment of goals and the performance of asset management activities envisaged by the State Assets Management Strategy, by each Annual Asset Management Plan and by the adopted SSH Business and Financial Plan.

The financial year of 2017 was important from the aspect of the management of RS and SSH capital assets as it was the first year when it was possible to compare the performance results with asset management plans as adopted for individual capital assets in the Annual Asset Management Plan for 2016. SSH surpassed the target indicators stated in the SSH Performance Criteria for 2016, which were adopted by the Government of the Republic of Slovenia; detailed presentation is provided in the Chapter on Performance Criteria.

At its sessions, SB was regularly informed of the situation and of important activities pursued in the management of RS and SSH capital assets, it was briefed about the companies' attainment of goals in accordance with the Annual Asset Management Plan, about activities in connection with the disposal and acquisition of capital assets and it was reported about the SSH's quarterly Financial Statements.

Furthermore, SB's assignments in regard to the following matters have to be pointed out: the monitoring of the implementation of public authorisations under individual laws, the overseeing of the implementation of the Ordinance on State Asset Management Strategy

and of risk management. In accordance with SSH's Articles of Association and ZSDH-1, SB discussed proposals given by the Management Board, granted consents to Advisory Service Agreements concluded with financial, legal and other advisors, with providers of due diligence reviews and with providers of business valuation of companies involved in the processes for the disposal of capital assets, SB dealt with quarterly reports on activities carried out by the Compliance Manager, and, in accordance with ZGD-1, approved all documents prepared by the SSH's Internal Audit and other documents presented in this Report's Chapter on the work carried out by the Audit Committee.

The text below presents the most important decisions taken by SB by month, within the scope of their powers stipulated by the SSH's Articles of Association:

February 2017

- The appointment of Ms Lidia Glavina to assume the function of the President of the SSH Management Board on 23 February 2017;
- Endorsing the Proposal for Sale of Capital Assets held by SSH in Paloma d. d. – the adoption of the take-over bid.

March 2017

- The consent granted to the conclusion of the Appraisal Agreement for the appraisal of the value of NLB d. d.;
- The consent granted to the conclusion of the Engagement Letter for legal advisory services in the process of the sale of NLB shares;
- Information on the SSH Internal Audit Activity Report for 2017, Internal Audit Quality Assessment Report for 2016 and IA Realised Recommendation Review in connection with recommendations proposed by the Internal Audit in 2016.

April 2017

- The consent granted to the Amendment No. 2 to the Sale and Purchase Agreement relating to the shares issued by Cimos d. d.;
- In accordance with Article 54 of ZSDH-1, SB granted its preliminary consent to the appointment of the Chief Compliance Officer;
- SB adopted the SSH and SSH Group Annual Report for 2016.

May 2017

- The consent granted to the Amendment No. 3 to the Sale and Purchase Agreement relating to the shares issued by Cimos d. d.;
- The consent granted to the Addendum to the Appraisal Agreement for the appraisal of the value of NLB d. d.;
- Consideration of the Draft Prospectus relating to the public offering of NLB shares in the form of shares and global depositary Receipts and endorsing the key elements pertaining to the Prospectus content;
- endorsing the publication of the NLB's and SSH's joint statement relating to the Intention to float (ITF) NLB shares;
- the Consent granted to the amendments of the Corporate Governance Code for SOEs;
- SB refuses to grant its consent to the proposal by the SSH Management Board in regard to sale of RS capital assets in NLB, recommending the SSH Management Board to act in accordance with Article 281, Paragraph 5 of ZGD-1.

July 2017

- Endorsing the SSH SB's Code of Ethics;
- Information on the results of the Economic Analysis and Economic Opportunities Study relating to Luka Koper d. d.;
- Information on the results of the Economic Analysis and Economic Opportunities Study relating to Krka d. d.;
- The consent granted to the amendment to the Annual Asset Management Plan for 2017 relating to DARS d. d.

September 2017

- Consideration of the SSH and SSH Group Interim Report for 2017.
- The consent granted to the amendment to the Annual Asset Management Plan for 2017 relating to Slovenske železnice d. o. o. (Group) and Luka Koper, d. d. (Group).

October 2017

- Review of the Annual Report - Management of Capital Assets of RS and SSH in 2016 (SSH Report for RS National Assembly);
- Endorsing the amended SSH Corporate Integrity Plan.

November 2017

- The consent granted to the Annual Assets Management Plan 2018;
- The consent granted to Criteria for Measuring Performance of SOEs;
- The consent granted to Criteria for Measuring Performance of SSH;
- Endorsing the content of the international call to apply for the vacancy of the SSH Management Board Member and the appointment of the SB Nomination Committee.

December 2017

- The consent granted to the amended budget from the Business-Financial Plan for 2017;
- Consideration of the transfer of capital assets to the Republic of Slovenia;
- Consideration of the Benchmark Analysis relating to the performance of companies managed by SSH for 2016;
- The consent granted to the Business-Financial Plan for 2018.

SB, acting within the scope of its legislative and statutory powers adopted several internal legal documents regulating the work carried out by SB and its committees, was regularly informed on the SSH's adopted internal legal documents, in addition to being informed on the reorganisation and job systematisation process. SB members regularly monitored circumstances which might have led to conflict of interest, consistently avoiding any incidence of conflict of interest.

Work carried out by SB's Committees

More detailed information on the composition of all SB's Committees is presented in tables included in the Corporate Governance Statement.

Three SB's Committees were active in 2017: two permanent committees (i.e., Risk Committee and Audit Committee) and the Nomination Committee which was appointed by SB with the mandate to carry out the process to appoint a new Management Board member and was composed of all SB's Members and chaired by Mr. Duško Kos; unfortunately, no meeting was held by this Committee until January 2018 when the deadline to apply for a job from the international call expired.

The work carried out by the Risk Committee is focused on Risk Register, risk quantification, consideration of the SSH Risk Management Reports and SSH High Risk Reports. The Risk Committee was informed of the updated risk management related corporate documents, of the presentation of the activities planned in SSH in relation to risk management and the progress of the project calculating the riskiness of SSH and RS capital assets, while also considering risks exposed to by SSH during the satisfaction of its statutory obligations.

At its sessions, the Audit Committee considered the following matters: SSH Business and Financial Plan for

2018, Internal Audit Work Programme for 2018, the Multi-Annual Internal Audit Activity Plan for 2017-2019, the Final Audit Plan relating to Annual Financial Statements and presentation of the Draft Audit Report under new IFRS and the Internal Audit Activity Report for 2016, while discussing several times the audit review of the capital assets restructuring of Polzela d. d. In accordance with international guidelines and recommendations on activities carried out by the Audit Committee, the said Committee took part in the process for the selection of the auditor to audit the SSH and SSH Group Annual Report for 2017, discussed the proposals for amending internal policies on internal audit function for SB, took part in the procedure to select externally facilitated assessment of SSH internal audit function and considered the results obtained by such externally facilitated assessment. The Audit Committee also considered the Audited SSH and SSH Group Annual Report and the SSH and SSH Group Interim Report for 2017, took part in the formation of the draft agreement on auditing SSH and SSH Group Annual Financial Statements for 2017, discussed the audit review of the suitability and safety of the SSH Information System and dealt with the SSH Management Board Report on findings in connection with the acquisition of DRI d. o. o. and was informed of the report by the Committee for handling irregularities in SOEs.

The Audit Committee performed its assignments in accordance with ZGD-1 provisions and recommendations about the audit committee's work; during its operation, it actively cooperated with the SSH Internal Audit Department, while having regular contacts with the SSH's independent auditor. For the purpose of evaluating the current operation of the Board and to adopt measures for future work, the Audit Committee carried out a separate self-evaluation process.

In accordance with recommendations, the Audit Committee took part in the Audit Committee's Self-Evaluation process which is based on a questionnaire divided in sections included in the recommendations about the work to be carried out by the Audit Committee. On the basis of the filled-in questionnaires, the Secretary of the Audit Committee made the analysis on results obtained, comparing the results with the findings from the Audit Committee's self-evaluation process of the preceding year and drew up a summary with proposals for improvement measures. The Audit Committee then discussed those areas of work which have received poor results and adopted relevant

improvement measures. The comparison of the Audit Committee's self-evaluation results showed that the functioning of the Audit Committee has improved, however, further improvements to its operation will be made by way of the proposal to amend the Audit Committee's Rules of Procedures which will have to be endorsed by the SSH's SB.

Work carried out by Management and Supervisory Boards

In 2017 SB met at eleven regular and three extraordinary sessions, in addition to carrying out eleven correspondence sessions. The membership attendance at session, which was almost always full, is presented in the Table included in the Corporate Governance Statement.

SB is composed of members who complement each other in terms of their expertise and competences, the membership varies in regard to education, work experience and personal characteristics, enabling efficient exchange of opinions and standpoints at the SB's sessions. The work carried out by SB and its committees is professional and focused on effective and efficient performance of the function.

During its operation, SB took into account Slovenian and international recommendations as well as good practice in corporate governance. The Corporate Governance Code for SOEs, which applied for SSH in 2017 as the reference Code, was adhered to when carrying out SB's activities. In 2017, SB also adopted the SSH SB's Code of Ethics. The Code was adopted with the aim to consistently pursue ethical, professional and responsible actions and such method of functioning for SB Members. For evaluating the work carried out and to adopt improvements for future work, after the completion of the financial year, the SB Members conduct an annual self-evaluation review every year.

Irrespective of changes in the SB's membership in 2017, SB carried out the SB's self-evaluation process. The comparison of the current results with the past year results was unfortunately not possible because the majority of SB members has been changed. The self-evaluation review is an important indicator about the work carried out by SB. The self-assessment matrix developed by the Slovenian Directors' Association, adapted to special features of SSH, was applied in the process. On the basis of the analysis made, SB will focus on measures in areas of work which have

been assessed as poor. By adopting the improvement measures for areas under the SB influence, the work carried out by SB will be made more efficient. Similarly, on the basis of results obtained in the self-assessment process, the Supervisory Board will adopt proposals for improving the Supervisory Board's Rules of Procedure. In its forthcoming work, SB will regularly monitor the satisfaction of measures to improve the operation of the Board.

The amount of EUR 23,115 was spent for the operation of SB and its committee in 2017. The costs mainly refer to costs of drawing up a legal opinion, the proposal for judicial appointment of the SB Member and for services rendered and charged by the HR agency.

In 2017, the Management Board regularly attended the SB's sessions and prepared the necessary underlying material for decisions to be made by SB or reported information to SB, thus ensuring the necessary basis for making decisions.

Review of SSH and SSH Group Annual Report

The Audit Committee considered the SSH and SSH Group Annual Report for 2017 and the Independent Auditor's Report to the SSH shareholder, both of which include the audit opinion with no reservations, at its regular session held on 23 April 2018; with the aim to give a detailed presentation of the findings made by the independent auditors, the representatives of the independent auditor Deloitte revizija d. o. o. were invited to attend the said session and answered questions raised by the Audit Committee's members. After the in-depth consideration of the Annual Report, the Audit Committee, which did not have any special comments preventing the committee from submitting the proposal to the SB, proposed to SB to approve the SSH and SSH Group Annual Report for 2017, to discuss the Auditor's Reports for 2017 and to take a positive position in their regard.

By taking into account the Audit Committee's assessment and its proposals, at its session of 25 April 2018, SB reviewed and discussed the SSH Group and SSH Annual Report 2017, as well as the Auditor's Reports to the shareholder. Furthermore, at the said meeting, the Management Board presented to the SB individual sections from the SSH and SSH Group Annual Report for 2017. Thus, at its session of 25 April 2018, SB determined that the above mentioned Report includes all components required, it is drawn up in accordance with

ZGD-1 and International Financial Reporting Standards, that the Report is clear and transparent, presenting company's operations of the preceding year in a reliable manner and giving a true and fair view of the financial position, financial performance and cash flows of SSH/ the Group as at 31 December 2017. On that basis, SB adopted the following resolutions:

- SB adopts the SSH and SSH Group Annual Report for 2017;
- SB has taken a positive position on the Auditor's Reports for 2017 prepared by the audit firm Deloitte revizija d. o. o.;
- SB proposes to the SSH General Meeting, i.e. the Government of RS, to adopt the Resolution granting the discharge from liability to the SSH Management and Supervisory Boards for FY 2017, on the basis of the approved SSH and SSH Group Annual Report for 2017 and the positive position on the Auditor's Reports for 2017.

Position in regard to Independent Auditor's Reports

The Management Board presented to SB the SSH and SSH Group Annual Report for 2017 together with the report on the audit review of consolidated annual financial statements developed in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the European Union at the SB's session of 25 April 2018.

The report by the audit firm Deloitte revizija d. o. o. on SSH annual financial statements includes the audit opinion with no reservations - in all material aspects, financial statements give a true and fair view of the financial position, financial performance and cash flows of SSH as at 31 December 2017, in accordance with the International Financial Reporting Standards (IFRSs). Similarly, the audit opinion by the audit firm for the SSH Group holds no reservations - in all material aspects, the consolidated financial statements give a true and fair presentation of the financial position of the SSH Group as of 31 December 2017 as well as the Group's consolidated financial performance and consolidated cash flows as at 31 December 2017, in accordance with the International Financial Reporting Standards (IFRSs).

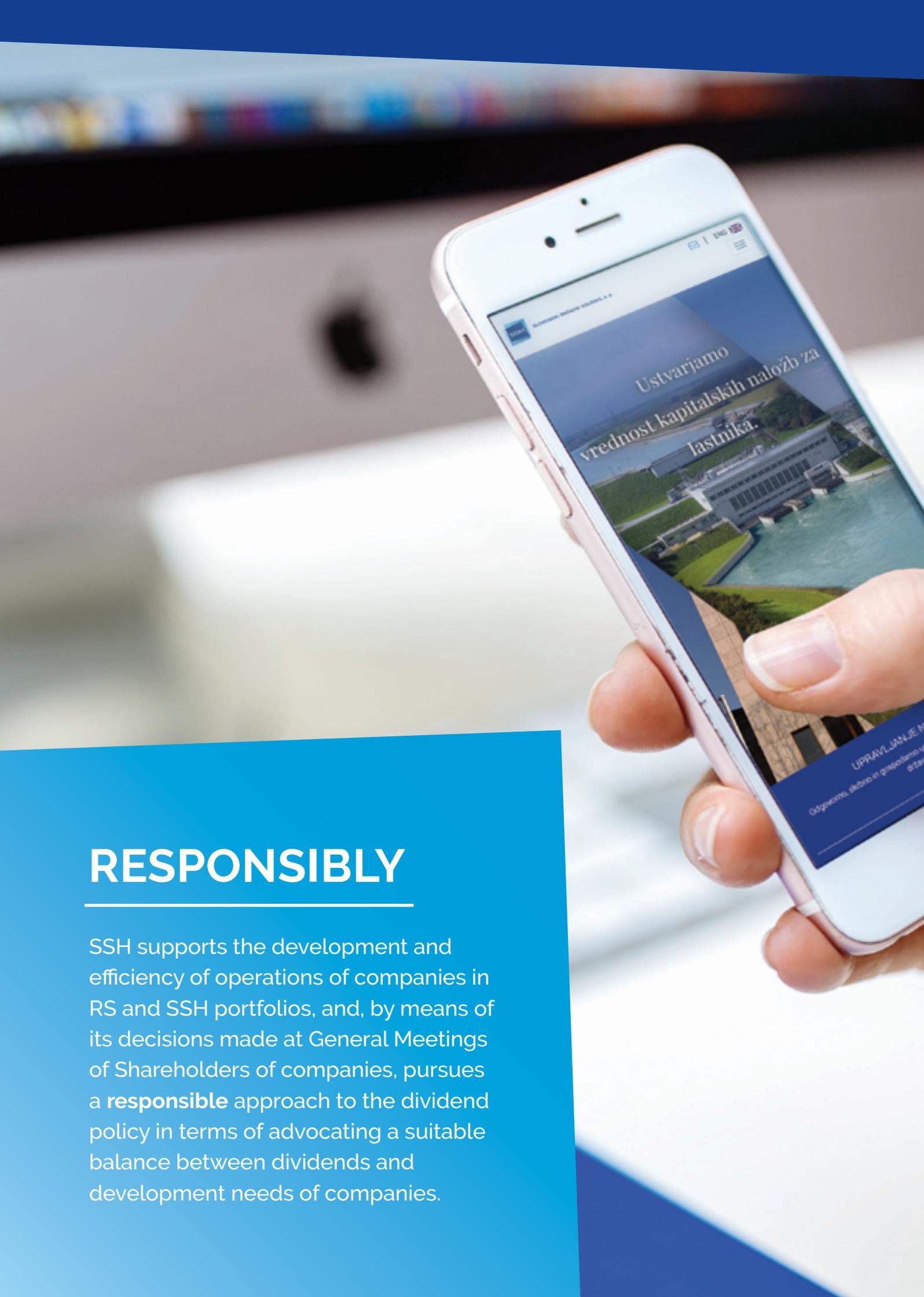
SB has taken a positive position on the Auditor's Reports for 2017 prepared by the audit firm Deloitte revizija d. o. o.

Endorsement of Audited Annual Report

On the basis of the final review of the Audited SSH and SSH Group Annual Report for 2017, including the accompanying Auditor's Report for 2017, SB hereby declares that no objections in regard to the said report have been made, and, pursuant to Article 282 of Companies Act, SB therefore endorses the SSH and SSH Group Annual Report for 2017.

A handwritten signature in black ink, appearing to read 'D. Belič', with a long horizontal stroke extending to the right.

Damjan Belič,
President of Supervisory Board



RESPONSIBLY

SSH supports the development and efficiency of operations of companies in RS and SSH portfolios, and, by means of its decisions made at General Meetings of Shareholders of companies, pursues a **responsible** approach to the dividend policy in terms of advocating a suitable balance between dividends and development needs of companies.



BUSINESS REPORT

4	OVERVIEW OF IMPORTANT EVENTS AND PROJECTS UNDERTAKEN IN 2017	24
5	SSH CORPORATE GOVERNANCE	26
6	PRESENTATION OF SSH GROUP AND SSH	36
7	SSH CORE BUSINESS ACTIVITIES	42
8	FINANCIAL RESULT FOR SSH GROUP AND SSH	71
9	ORGANISATIONAL DEVELOPMENT OF SSH	74
10	SUSTAINABLE DEVELOPMENT OF SSH	81

4 OVERVIEW OF IMPORTANT EVENTS AND PROJECTS UNDERTAKEN IN 2017



Business processes optimisation and digital transformation project

In line with the development plans for the process optimisation and digital transformation of SSH operations, the IT departments, together with users from individual operational areas optimised numerous internal processes, among other things, working time management, electronic travel forms, mail management, and introduced web portal dedicated for candidates for SB members of companies under SSH management. This portal is a friendly web site for candidates for SB members of companies under SSH management on which all accreditation-related activities may be performed. SSH continues to further develop the portal in order to make it more effective in two-way communication pursued between the candidates and SSH during the accreditation and nomination procedures.

The application of the SSH Nomination Committee's portal is accessible on the following web site: <https://kk.sdh.si/>.

Introduction of intranet

For the purpose of internal communication, the Intranet introduction project was completed in March 2017. The goal of the project was to improve the provision of information to employees, the transparency of documents and the flow of proprietary information. Intranet will be regularly upgraded and supplemented in line with internal needs.

Update of SSH Web Site www.sdh.si

In the second half of October 2017, SSH updated the Slovenian and English version of its web site www.sdh.si.

The goal of the renewed SSH web site was to:

- prepare user friendly access to information;
- expand the set of accessible information and increase clarity;
- update the visual image of the web site and ensure greater transparency.



SSH Conference for Management and Supervisory Boards of SOEs

On 23 October 2017, SSH organised the Conference for Management and Supervisory Boards of SOEs. The participants were addressed by Dr. Miro Cerar, Prime Minister, and Mrs. Mateja Vraničar Erman, MSc, Minister of Finance. At the conference, Mrs. Nada Drobne Popovič, the Member of SSH Management Board, presented the performance results of RS and SSH capital assets management in 2016, in addition to describing the SSH expectations from SOEs in 2017 and 2018.

The event also included the presentation of selected foreign models for state assets management and the panel discussion on the governance of companies during the time of transformations with many uncertainties moderated by Dr. Marko Jaklič from the Faculty of Economics and guests.

More than 270 invited representatives from management boards and supervisory boards of SOEs attended this high-profile event.

Training programmes for SB members of SOEs: knowledge for professional and responsible work

For several consecutive years, SSH has organised free-of-charge training programmes for SB members of SOEs and for other decision makers in the said companies. Topics discussed in 2017 included the following areas: innovation in the field of auditing, annual report preparation, integrated reporting, consolidated annual report and transition to International Financial Reporting Standards, pitfalls in financial statements and how to avoid them, self-evaluation of supervisory boards and audit committees, valuation of financial investments, effective and efficient risk management connected with outsourced providers, special training on cyber risks, while also dealing with topics relating to robotic process automation, health of employees and management of psychosocial risk factors and their influence on the performance results.

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 thus the company as a whole SSH organised 18 free-of-charge training sessions for SB members of SOEs in 2017, totalling 36 hours of supplementary training.

Other projects which refer to several areas of asset management are presented in individual Chapters.

5 SSH CORPORATE GOVERNANCE

5.1 Corporate Governance Statement

In accordance with the provision of Article 70, Paragraph 5 of ZGD-1, Slovenian Sovereign Holding hereby provides the Corporate Governance Statement which forms an integral part of this Business Report; the said Statement is available on the Company's web site: www.sdh.si. The Corporate Governance Statement refers to the period from 1 January to 31 December 2017.

SSH is the umbrella manager of state capital assets whose governance is specific and its fundamental principles are regulated in a special bill, that is ZSDH-1. By way of its adoption, the most parts of the OECD Guidelines for Corporate Governance of State-Owned Enterprises have been transposed into the Slovenian legal order. In regard to those aspects of asset management which are not regulated by ZSDH-1, the provisions of ZGD-1 apply in the subsidiary manner, following the »apply or explain« principle, principles and recommendations of the reference code, that is the Corporate Governance Code for SOEs adopted by SSH in accordance with ZSDH-1. SSH has also adopted the SSH Asset Management Policy to which it has to adhere to.

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

In accordance with ZSDH-1 and the SSH Asset Management Policy, adopted on 19 December 2014 and last supplemented on 14 December 2016, SSH uses the Corporate Governance Code for SOEs as the reference corporate governance code (*also available on SSH's web site <http://www.sdh.si/>*).

The Corporate Governance Code for SOEs is the legal document adopted by SSH in accordance with ZSDH-1 by way of which, SSH in the capacity of the umbrella manager of SOEs, recommends to these companies good practice in corporate governance and, partially, set expectations for them. The said Code is one of the most important legal documents regarding the system of capital asset management with which SSH aims to increase the general level of quality of corporate governance pursued by SOEs.

In 2017, SSH deviated from the following recommendations referred to in the reference Code:

1. Recommendations regarding remuneration for Supervisory Board members and members of Supervisory Board Committees for their services and attendance fees were not fully taken into account due to specific regime applied by ZSDH-1 (*a deviation from the reference Code*).
2. The recommendation regarding the preparation of the remuneration policy by the SSH Supervisory Board was not fully taken into account due to specific regime applied by ZSDH-1 (*a deviation from the reference Code*).
3. The Supervisory Board has not determined the mandate of Supervisory Board's Committees (these Committees are composed of Supervisory Board members and independent external experts) by passing a resolution. In accordance with the Rules of Procedure of the Audit Committee of the SSH Supervisory Board and the Rules of Procedure of the Risk Committee of the SSH Supervisory Board, the engagement of members for both committees is in line with the engagement term for which the Supervisory Board members have been elected. Similarly, the mandate of an independent external expert is linked to the mandate of a Supervisory Board member who has appointed the independent external expert (*a deviation from the reference code*).
4. The Supervisory Board failed to formally develop an efficient and timely succession plan for the members of the Management Board owing to special statutory provisions (ZSDH-1) which stipulate the procedure for the selection and appointment of the SSH's Management Board (*a deviation from the reference code*).
5. The Supervisory Board failed to prepare a competence profile for Supervisory Board members from the aspect of the Supervisory Board's optimum size and composition due to the fact that the procedure for appointing Supervisory Board members is regulated in ZSDH-1 and the SSH's General Meeting is authorised to ensure such profile (*a deviation from the reference code*).

6. The Supervisory Board and the Management Board failed to formally develop and adopt the Diversity Policy owing to special statutory provisions (ZSDH-1) which stipulate the procedure for the selection and appointment of SSH's Management and Supervisory Boards (a *deviation from the reference code*).

II. Description of main characteristics embedded in the internal control and risk management systems in connection with financial reporting and information technology

SSH has in place the internal control and risk management systems which are adapted to the SSH's development, to organisational and statutory changes and to good practice. Internal control system and risk management system include:

- a clear organisational structure with precisely defined powers and authorisations at all levels;
- mechanisms for prompt internal control and for preventing procedural errors which include suitable safety, administration and accounting procedures;
- the system for identifying, evaluating and measuring as well as for managing and monitoring risks;
- the system for assuring operational compliance with statutory requirements and high ethical standards.

The characteristics and the functioning of the risk management system are presented in detail in the Chapter on risk management.

Internal controls in connection with financial reporting are policies and procedures implemented by SSH in accordance with statutory regulations, relevant standards and the Rules on Accounting and Good Business Practice. The said Rules contribute to efficient management of risks connected with financial reporting and other areas of financial accounting. Internal controls provide for reliability and compliance of financial reporting with applicable laws and regulations.

Accounting controls are based on the principles of true presentation, responsibility, control of transactions, compliance of books of accounts with the true state of business, in addition to the principles of professionalism and independence.

The Information technology is an important factor when introducing the necessary systems and procedures for an effective and efficient internal control system. The cooperation of all levels of organisation with the IT department is vital as it is not only significant for efficient functioning of the internal control system but also for the optimisation of business processes at all levels.

In 2017, SSH profoundly renewed its information technology infrastructure, having introduced additional security systems to diminish or fully remove individual operational and cyber risks.

External Audit

In accordance with ZGD-1, SSH is obliged to have its financial statements audited. Since 2009, the external audit is carried out by the audit firm Deloitte revizija d. o. o.

The Internal Audit is an independent and unbiased function within SSH, providing assurances and advisory services and designed to add value to and improve the functioning of SSH. It assists SSH in achieving its goals by systematically and methodically assessing and improving the effectiveness of risk management, of control procedures and of its governance and management. It reports directly to the SSH Management Board and to the SSH Supervisory Board's Audit Committee or to the SSH Supervisory Board. The activities pursued by the Internal Audit is presented in the Chapter on Internal Audit activities.

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

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

1. **The structure of the SSH's share capital**
All SSH shares are ordinary, no-par value shares which grant their holders the right to participate in the management of the Company, the right to dividends and the right to the corresponding part of assets remaining after the dissolution of a company. All shares are one class shares and are issued in non-certified form.
2. **Restrictions regarding transfer of shares**
SSH shares are not freely transferable.
3. **Qualified holding as stipulated by Takeovers Act**
As at 31 December 2017, the holder of the qualified holding as stipulated by the Takeovers Act was the Republic of Slovenia, holding 155,866 shares, that is 100% of the share capital.
4. **Explanatory notes regarding the holder of securities with special controlling rights**
Slovenian Sovereign Holding has issued 155,866 ordinary, registered, no-par value shares of the same class with the same rights which means that the holder has no special controlling rights arising from the ownership of shares.

5. **Employee Share Scheme**

There are no Employee Share Schemes established in SSH.

6. **Agreements which could result in a restriction on the transfer of securities or voting rights**

There are no such agreements concluded. However, ZSDH-1 explicitly stipulates that RS is the sole shareholder of SSH which means that shares are not transferable without amendments being made to the legislation.

7. **SSH's Rules on the appointment and replacement of members of management and supervisory bodies and on amendments to Articles of Association**

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

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

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

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

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

9. **Major agreements, which take effect, are changed or cancelled following a change in control over the Company resulting from a public take-over bid**

There are no such agreements concluded.

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

There are no such agreements concluded.

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

In accordance with ZSDH-1, the function of the SSH's General Meeting is exercised by the RS Government. The General Meeting makes decisions on key issues pertaining to SSH which are defined in ZGD-1 and ZSDH-1, in addition to adopting measures for measuring performance of SOEs. A special feature of the SSH organisation is that the members of the SSH Supervisory Board are not appointed by the General Meeting but they are appointed or dismissed by the National Assembly of the Republic of Slovenia.

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

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

In accordance with ZGD-1, a two-tier management system has been introduced in SSH, comprising the Management and Supervisory Boards. The Management Board runs SSH and organizes its work and operation,

The Company's bodies and their working and consultation bodies

SSH GENERAL MEETING	SSH SUPERVISORY BOARD	SSH MANAGEMENT BOARD	ECESA
	AUDIT COMMITTEE	NOMINATION COMMITTEE	
	RISK COMMITTEE		

while the Supervisory Board oversees the running of SSH's businesses. The management of SSH is based on statutory provisions, on the Articles of Association which is the fundamental legal document, internal legal documents and on the established and generally accepted good business practices. Formally speaking, SSH does not pursue the diversity policy to be applied in connection with the presence in management and supervisory bodies as regards gender, age and education, however, regardless of the above stated, management and supervisory bodies are organized in a manner that the complementarity in knowledge, skills and experience of the board members is achieved, while also providing for the board's heterogeneous composition.

Management Board

The SSH Management Board organises and runs the operation of Slovenian Sovereign Holding; it is responsible for all management decisions taken in accordance with ZSDH-1. The adoption and implementation of all decisions is carried out in an independent manner, with the Board acting under their own responsibility. The Management Board represents the Slovenian Sovereign Holding. In line with the law, the Management Board is composed of the President of the Management Board and members of Management Board. In 2017, the Management Board was functioning in a two member-configuration. The Management Board carried out its work within the scope of Management Board sessions, and in addition to formal board sessions it exercised its powers and duties which are necessary for the daily operation of SSH, together with powers and responsibilities held in respect of the General Meeting, as laid down in ZGD-1 and ZSDH-1. Activities in respect of the Supervisory Board were carried out by the Management Board in accordance with the provisions of the law, the Articles of Association and the Rules on Procedure of the SSH Supervisory Board.

The Management Board is responsible for all decisions within its powers that refer to sustainable development, that is economic, environmental and social subject matters.

The President of the SSH Management Board represents SSH individually and without any restrictions, while

members of the SSH Management Board represent the Company jointly with the President. Regardless of the ZGD-1 provisions, the Supervisory Board cannot require a consent to be granted by the Supervisory Board, unless so stipulated in ZSDH-1 or the SSH Articles of Association. The Management Board is obliged to obtain the Supervisory Board's consent for the following transactions:

- for legal transactions in regard to approving short-term loans to entities not having the authorisation of the Bank of Slovenia for pursuing banking activities – regardless of the nominal amount of an individual transaction;
- for legal transactions in regard to issuing guarantees to third persons – regardless of the nominal amount of an individual transaction;
- for legal transactions in regard to obtaining or granting loans maturing within more than 365 calendar days – regardless of the nominal amount of an individual transaction;
- for acquiring and disposing of investments which exceed the book value of EUR 5 million as recorded in the share register;
- the adoption of the Criteria for Measuring the Effectiveness of State-Owned Enterprises,
- the adoption of the Annual Asset Management Plan;
- the adoption of the Asset Management Policy;
- the adoption of the Corporate Governance Code for Companies with Capital Assets of the State;
- for concluding agreements on the provision of advisory services, such as agreements concluded with legal and financial advisors, agreements for carrying out due diligence of a company, agreements for company's valuations in processes for the disposition of capital assets, the value of which exceeds EUR 5,000 per contractor.

The SSH Management Board is appointed by the SSH Supervisory Board in accordance with Article 46 of ZSDH-1, which also stipulates conditions and criteria for their appointment.

The membership of the SSH Management Board in 2017

	Ms. Lidija Glavina	Mrs. Nada Drobne Popovič, MSc
<i>Position held (president, member)</i>	President of the Management Board	Member of the Management Board
<i>Area of work covered within the Management Board</i>	disposal and acquisition of capital assets, legal affairs, denationalisation and the support functions of SSH	management, corporate restructuring and financial management of SSH
<i>First appointment to the position</i>	15 July 2016-22 February 2017 Ms. Lidia Glavina has been engaged as the Interim President of the SSH Management Board 23 February 2017 Ms Glavina was appointed for the full term of office	27 October 2015
<i>Conclusion of the position/term of office</i>	/	/
<i>Gender</i>	F	F
<i>Citizenship</i>	Slovenian, Italian	Slovenian
<i>Year of birth</i>	1969	1975
<i>Qualification</i>	the <i>Dottore Magistrale</i> degree obtained in the Republic of Italy (the degree is comparable to the second level of higher education in the Republic of Slovenia)	Master degree in government and European studies, Bachelor of Science in Economics
<i>Professional profile</i>	finance, running of companies and their governance, sale of companies	management of capital assets, finance, running the company
<i>Membership in supervisory bodies in companies not related to the company</i>	President of the Supervisory Board of Telekom Slovenije, d. d. Initiation of the term of office: 27 April 2017	2013–2017 the Supervisory Board member of Hit d. d. President of the Supervisory Board of Petrol, d. d. Initiation of the term of office: 11 April 2017

Management Board's Consultation Bodies

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

In 2017, the SSH Nomination Committee carried out its work in the following configuration:

Mr. Luka Gaberščik, President,

Ms. Jagoda Vitez, Member, Deputy President, and

Ms. Brigita Vončina, Member.

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

In 2017, ECESA was composed of the following members:

- Ms. Lidija Jerkič**, President,
- Mr. Zdenko Lorber**, Vice President,
- Mr. Miroslav Garb, MSc**,
- Mr. Branimir Štrukelj, MSc**,
- Mr. Franc Zupanc**,
- Ms. Nevija Pečar**, and
- Mr. Jakob Počivavšek**.

Supervisory Board

In accordance with ZSDH-1, the SSH Supervisory Board is appointed as a five-member body. Until 21 April 2017, the SSH Supervisory Board consisted of three members. On 21 April 2017, upon the proposal by the SSH's SB President, Mr. Damjan Belič, Mr. Igor Kržan was appointed as the SSH SB member by way of a judicial decision ordering that his term of office will last until the appointment of the SSH SB member is made by a

responsible body. On 20 June 2017, pursuant to ZSDH-1, the National Assembly of the Republic of Slovenia appointed Mr. Igor Kržan and Dr. Andrej Bertonecelj as new SB's members. The term of office of Dr. Barbara Smolnikar, in the capacity of the SSH SB's member, terminated on 21 June 2017 owing to her resignation from the post. On 14 December 2017, pursuant to ZSDH-1, the National Assembly of the Republic of Slovenia appointed Mr. Janez Vipotnik as new SB's member, with a five year tenure. There were two mandatory committees operating within the SSH Supervisory Board in 2017: the Audit Committee and the Risk Committee. On its session of 5 December 2017, for the purpose of carrying out the international call for SSH Management Board member job vacancy, the SSH SB appointed the SSH SB's Nomination Committee which is composed of the following members: Mr. Damjan Belič, Mr. Duško Kos, Mr. Igor Kržan and Dr. Andrej Bertonecelj.

Members of Audit Committee:

- Mr. Duško Kos**, President,
- Mr. Damjan Belič**, Member,
- Ms. Darinka Virant**, External Member.

Members of Risk Committee:

until 21 June 2017:

- Dr. Barbara Smolnikar**, President,
- Mr. Duško Kos**, Member,
- Ms. Darinka Virant**, External Member.

from 12 July 2017:

- Dr. Andrej Bertonecelj**, President,
- Mr. Igor Kržan**, Member,
- Ms. Darinka Virant**, External Member.

Review of terms of office of Supervisory Board members exercising their membership in 2017

	2015	2016	2017				2018
	17. JUL.		21. APR.	20. JUN.	21. JUN.	14. DEC.	ONGOING TERM OF OFFICE
Damjan Belič							
Duško Kos							
Igor Kržan							
Dr. Andrej Bertonecelj							
Janez Vipotnik							
Dr. Barbara Smolnikar					RESIGNATION		

Membership of Supervisory Board and membership of SB's Committees

	Damjan Belič	Duško Kos	Igor Kržan
<i>Position held (president deputy, member)</i>	President Supervisory Board	Deputy President of Supervisory Board	Member of Supervisory Board
<i>First appointment to the position</i>	17 July 2015	17 July 2015	21 April 2017 – appointment by judicial decision 20 June 2017 – regular appointment in accordance with ZSDH-1
<i>Conclusion of the position/term of office</i>	17 July 2020	17 July 2020	20 June 2022
<i>Representative of capital/employees</i>	appointed in accordance with ZSDH-	appointed in accordance with ZSDH-1	appointed in accordance with ZSDH-1
<i>Attendance at SB's session in regard to the total</i>	24/25	25/25	16/25 (on account of the subsequent assumption of office)
<i>Gender</i>	M	M	M
<i>Citizenship</i>	Slovenian	Slovenian	Slovenian
<i>Year of birth</i>	1968	1960	1961
<i>Qualification</i>	LL.M. with an MBA	University degree in sociology	Bachelor of Science in Economics, MBA
<i>Professional profile</i>	corporation law, corporate governance, asset management, insolvency law	corporation law, management of liabilities and assets	finance, corporate governance, management of liabilities and assets
<i>Independence under Article 23 of the Code (YES/NO)</i>	YES, appointed in accordance with ZSDH-1	YES, appointed in accordance with ZSDH-1	YES, appointed in accordance with ZSDH-1
<i>Existence of conflict of interest (YES/NO)</i>	NO	NO	NO
<i>Membership in supervisory bodies in other companies</i>	President of Supervisory Board of Thermana d. d., Laško	Member of the Supervisory Board of Talum, d. d. and Member of the Supervisory Board of Mladinska knjiga založba, d. d.	/

Dr. Andrej Bertonec	Janez Vipotnik	Dr. Barbara Smolnikar
Member of Supervisory Board	Member of Supervisory Board	Member of Supervisory Board
20 June 2017	14 December 2017	17 July 2015
20 June 2022	14 December 2022	21 June 2017 – resignation from the position
appointed in accordance with ZSDH-1	appointed in accordance with ZSDH-1	appointed in accordance with ZSDH-1
10/25 (on account of the subsequent assumption of office)	2/25 (on account of the subsequent assumption of office)	12/25 (on account of her exclusion from decision-making on NLB and due the early termination of office)
M	M	F
Slovenian	Slovenian	Slovenian
1957	1948	1967
PhD in Economics	Bachelor of Science in Economics	PhD in Economics
finance, corporate governance, management of liabilities and assets	finance, corporate governance, management of liabilities and assets	finance, corporate governance
YES, appointed in accordance with ZSDH-1	YES, appointed in accordance with ZSDH-1	YES, appointed in accordance with ZSDH-1
NO	NO	NO, except in regard to NLB
Member of Supervisory Board of Pokojninska družba A d. d.	/	/
Membership in the Audit Committee		
	<i>President/member</i>	<i>Attendance at sessions of SB's Committees in regard to the total number of SB's sessions</i>
Duško Kos	President of Audit Committee	9/11
Damjan Belič	Members of Audit Committee	11/11

Membership in Risk Committee

	<i>President/member</i>	<i>Attendance at sessions of SB's Committees in regard to the total number of SB's sessions</i>
Dr. Barbara Smolnikar	President of Risk Committee until 21 June 2017	2/3 (on account of the early termination of office)
Duško Kos	Member of Risk Committee until 11 July 2017	1/3 (on account of temporary term of office)
Dr. Andrej Bertoneclj	President of Risk Committee from 12 July 2017	1/3 (on account of the subsequent assumption of office)
Igor Kržan	Member of Risk Committee from 12 July 2017	1/3 (on account of the subsequent assumption of office)

Supervisory Board's Nomination Committee

	<i>President/member</i>	<i>Attendance at sessions of SB's Committees in regard to the total number of SB's sessions</i>
Duško Kos	President of Nomination Committee from 5 December 2017	In 2017, the Nomination Committee did not held any session and it met for the first time in January 2018 after the expiry of the deadline to apply to the international invitation to apply to job vacancy.
Damjan Belič	President of Nomination Committee from 5 December 2017	In 2017, the Nomination Committee did not held any session and it met for the first time in January 2018 after the expiry of the deadline to apply to the international job vacancy call.
Igor Kržan	Member of Nomination Committee from 5 December 2017	In 2017, the Nomination Committee did not held any session and it met for the first time in January 2018 after the expiry of the deadline to apply to the international invitation to apply to job vacancy.
Dr. Andrej Bertoneclj	Member of Nomination Committee from 5 December 2017	In 2017, the Nomination Committee did not held any session and it met for the first time in January 2018 after the expiry of the deadline to apply to the international invitation to apply to job vacancy.
Janez Vipotnik	Member of Nomination Committee from 14 December 2017	In 2017, the Nomination Committee did not held any session and it met for the first time in January 2018 after the expiry of the deadline to apply to the international invitation to apply to job vacancy.

External Members of Committees

	Darinka Virant	Darinka Virant
<i>Committee</i>	Audit Committee	Risk Committee from 12 July 2017
<i>Attendance at sessions of SB's Committees in regard to the total number of Committee's sessions</i>	11/11	3/3
<i>Gender</i>	F	F
<i>Citizenship</i>	Slovenian	Slovenian
<i>Qualification</i>	Bachelor of Science in Economics	Bachelor of Science in Economics
<i>Year of birth</i>	1954	1954
<i>Professional profile</i>	expert in financial, accounting and auditing reporting	external member of Audit Committees of Supervisory Boards of Eles, Talum, Elektro Celje and Mladinska knjiga
<i>Membership in supervisory bodies in companies not related to the company</i>	expert in financial, accounting and auditing reporting	external member of Audit Committees of Supervisory Boards of Eles, Talum, Elektro Celje and Mladinska knjiga

VI. Compliance and corporate integrity system

ZSDH-1 defines in detail measures to enhance corporate integrity, responsibilities and to minimise corruption-associated risks, conflicts of interest and abuse of proprietary information in managing state assets, in addition to providing definitions about tasks and responsibilities of the Chief Compliance Officer. In accordance with statutory provisions and good practice, SSH has established a comprehensive compliance and corporate integrity system.

SSH dedicates special attention to compliance and corporate integrity as, by setting an example and by giving recommendations, enforcing Codes and rules of conduct it wishes to have an active impact on the implementation of SSH mission with the main focus being placed on the management and disposition of state capital assets. Thus, SSH's priority goals in this regard are transparent operation setting an example of corporate governance and ethical conduct in accordance with the highest expectations and standards.

Ljubljana, April 2018



Lidija Glavina,
President of the Management Board



Nada Drobne Popovič, MSc
Member of the Management Board

6 PRESENTATION OF SSH GROUP AND SSH

6.1 Presentation of SSH Group

At 31 December 2017, SSH is the controlling company drawing up the consolidated annual report for companies within its Group. For the purpose of consolidation, these criteria are categorized into three groups:

- Subsidiaries;
- Associates;
- entities which are solely the subject of management and are owned by RS and/or SSH.

On the basis of analysis and measures adopted in accordance with IFRS 10, entities from the third group are not controlled by but only managed by SSH, in accordance with the statutory basis arising from ZSDH-1. On the basis of the analysis and measures, SSH carries

out the consolidation process at least once a year. The remaining part of the Chapter gives an overview of all subsidiaries and associates while entities with a minor SSH shareholding or being only managed by SSH are stated in the Chapter on governance.

The scheme below shows which **subsidiaries** were controlled by SSH and which, by SSH exercising a significant influence, are considered to be **associates**.

PS za avto d. o. o., Elektrooptika d. d. and GIO, d. o. o., Ljubljana – in liquidation, are not a significant company for the Group therefore their operation has not been included in the consolidated financial statements of SSH Group.

Equity interest of the controlling company in associates as at 31 December 2017

- Subsidiaries
- Associates



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

* On the basis of the Decision of RS Government of 21 December 2017, passed pursuant to Article 19(a) of ZSOS, on 22 December 2017, SSH transferred for the ownership of RS the following capital assets: 1,261,034 shares issued by Pozavarovalnica Sava d. d., 147,493 shares issued by Petrol d. d. and 2,362,194 shares issued by Krka d. d.

6.2 Presentation of Slovenian Sovereign Holding

SSH is the umbrella manager of capital assets of the State. It manages capital assets of RS and SSH with the total value of EUR 10.4 billion measured at book value as at 31 December 2017. Its comprehensive and diversified portfolio includes various sectors, specifically: energy industry, manufacturing, insurance businesses, banks, transport and infrastructure, general economic sector and other branches of industry. The management of state capital assets is SSH's core business.

SSH was established on 26 April 2014 when the Act entered into force regulating its establishment, status, tasks, asset management related topics and some other relevant matters (ZSDH-1). By transforming SOD, SSH continues to exercise all powers, responsibilities, rights and obligations which used to be held by SOD. SSH as a liable party to proceedings takes part in proceedings for determining compensation for nationalised assets and provides for regular settlement of liabilities arising from denationalised assets. In the capacity of the holder of public powers on behalf of and for the account of the Republic of Slovenia, SSH runs procedures for the issue of decisions on the compensation amount and settles liabilities under the following laws: ZPOZ, ZIOOZP and ZVJTO.

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

Company details – significant data

<i>Corporate name</i>	Slovenian Sovereign Holding, Ljubljana
<i>Registered office:</i>	Mala ulica 5, 1000 Ljubljana
<i>Telephone No.:</i>	++386 1 300 91 13
<i>Web site and e-mail:</i>	www.sdh.si; info@sdh.si
<i>Activity code:</i>	64.990
<i>VAT ID:</i>	SI 46130373
<i>Registration No.:</i>	5727847
<i>Date of incorporation:</i>	19 February 1993
<i>Date of company transformation from SOD into SSH:</i>	11 June 2014
<i>Registered legal form:</i>	Public limited company registered before Ljubljana District Court, under the Reg. Entry No. 1/21883/00
<i>Share capital:</i>	EUR 260,166,917.04
<i>No. of employees as at 31 December 2017:</i>	73
<i>Membership in other organisations:</i>	Directors' Association of Slovenia, Association of Employers of Slovenia
<i>Management Board:</i>	*Ms. Lidia Glavina, President of the Management Board (from 15 July 2016, inclusive), Ms. Nada Drobne Popovič, MSc, Member of the Management Board.
<i>Members of Supervisory Board:</i>	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), Mr. Igor Kržan, Member (from 14 December 2017). In 2017, the Supervisory Board also included the following members: Dr. Barbara Smolnikar, Member (until 21 June 2017)
<i>Members of the SB's Audit Committee:</i>	Mr. Duško Kos, President, Mr. Damjan Belič, Member Ms. Darinka Virant, External Member
<i>Members of SB's Risk Committee:</i>	Dr. Barbara Smolnikar, Member (until 21 June 2017), Mr. Duško Kos, Member (until 21 June 2017); Ms. Darinka Virant, External Member Dr. Andrej Bertonec, Member (from 12 July 2017) Mr. Igor Kržan, Member (from 12 July 2017)
<i>Members of Nomination Committee:</i>	Mr. Luka Gaberščik, President, Ms. Jagoda Vitez, Deputy President Ms. Brigita Vončina, Member
<i>Members of ECESA:</i>	Ms. Lidia Jerkič, President, Mr. Zdenko Lorber, Vice President, Members: Mr. Miroslav Garb, MSc. Mr. Branimir Štrukelj, Mr. Franc Zupanc, Ms. Nevija Pečar and Mr. Jakob Počivavšek.
<i>Contact person for the Annual Report content and for sustainable reporting:</i>	Sustainable reporting: Ms. Špela Kuhar, spela.kuhar@sdh.si, Annual Report's content: pr@sdh.si.

* Appointed on 22 February 2017 for a four-year term of office, starting the tenure on 23 February 2017.

6.3 SSH Vision, mission, and values

Vision

Generating value from capital assets for the owner.

Mission

Since RS and SSH are important owners of capital assets held in economic entities in Slovenia, the main duty of SSH is a responsible, professional and active management of these assets. 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 individual assignments in 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 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.



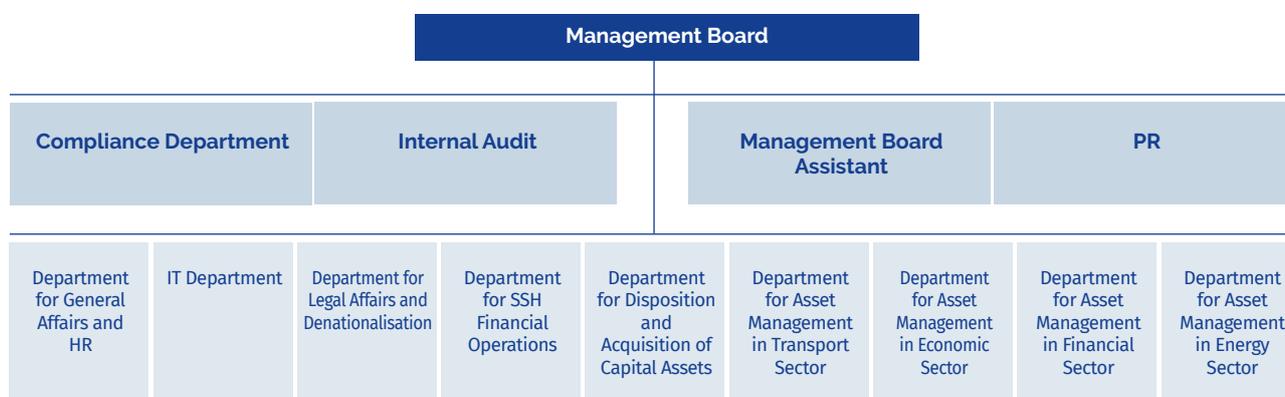
6.4 SSH Organisational structure

Significant changes to the organisation of SSH business processes were introduced in April 2016. The organisational structure saw no major changes in 2017, apart from renaming individual departments, the spinning-off one department into an independent organisational unit and the abolishment of one position and the creation of one work post.

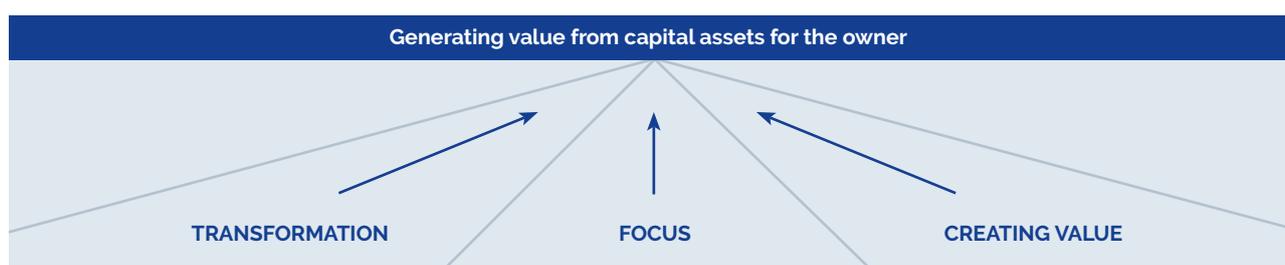
As SSH strives for continuous improvement, in the second half of 2017, SSH started to intensively improve

its organisation of work, focusing on better cooperation between SSH's organisational units. The goal of establishing the new organisational structure is to optimise work processes and labour costs, to provide for greater flexibility of cooperation between individual organisational units and to ensure more suitable internal positioning of project and other work groups developing into matrix organisation. The organisational changes are expected to be introduced in the first half of 2018.

Organisational Structure of SSH as at 31 December 2017



6.5 SSH Strategic policies, goals and criteria



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.

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 with the assistance of the environment in which SSH operates.

Creating value

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

- increasing the equity value of companies under management;
- increasing return of equity by an active and efficient management of enterprises and cooperation with stakeholders in the environment in which the companies operate;
- 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.

6.5.1 Goals

Key goals pursued by SSH as economic entity are:

- providing for sufficient liquidity to repay all matured statutory and contractual liabilities due by SSH, including optimum management of assets in accordance with mid-term and long-term funding requirements;
- efficient debt management, taking into consideration all financial risks and the necessary liquidity for SSH operation;
- timely and correct settlement of statutory obligations arising from individual judicial and administrative legal documents and regular performance of tasks imposed by the public powers;
- maximising the value of SSH short-term and long-term financial investments;
- cost-management;
- risk management.

Key goals pursued by SSH within corporate governance of SOEs are:

- continuous improvement of operations in portfolio companies;
- increasing the value of capital and the return on equity;
- attaining strategic and other goals of companies as defined in the Asset Management Strategy, in every Annual Asset Management Plan and ultimately the goals which are set for SSH by the RS Government on an annual basis.

For attaining its objectives in regard to capital asset management, SSH will advocate the improvement of corporate governance in SOEs, its management will be rendered in an active and proactive manner, within the scope of permissible legal framework of SSH's operation, and it will follow the long-term interests of companies in the direction of their sustainable development. In accordance with ZSDH-1, as regards managing capital assets, goals differ according to the classification of a company and state assets in strategic, important or portfolio assets. Fundamental goals in asset management are:

- **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;
- **development goals:** maintaining key development factors in Slovenia;
- **economic goals:** maximizing the value of assets and generating the highest return possible for the owner.

The remainder of the Chapter presents goals scrupulously determined and set for SSH by the RS Government for 2017. It will only be possible to present the attainment of all of these goals on the basis of 2017 consolidated financial statements which will be audited for all companies under management.

Financial indicator	Target value in 2017
Roe of capital assets managed (RS and SSH) in %	5.2%
Attaining the annual plan for RS dividend income	EUR 129 million
Attaining the annual plan for SSH dividend income	EUR 43 million
Attaining the annual plan for disposition of assets (income from the sale of assets: RS + SSH)	EUR 680 million
Cost efficiency	up to 0.5% from the value of capital assets under management

6.5.2 Criteria for measuring performance of SSH and attainment of goals

The Criteria for Measuring SSH Performance for 2016 and for 2017 were adopted by the RS Government (Note: all final audited and consolidated financial statements of companies under SSH management are available only in the beginning of September).

They determine strategic goals and economic/financial indicators. Two **strategic goals** have been set for SSH: 1. effective implementation of the State Assets Management Strategy and 2. reputation and social responsibility.

Strategic objectives	Definition
Effective implementation of State Assets Management Strategy	<ul style="list-style-type: none"> transparency of SOEs' governance, efficiency of operations, setting and measuring strategic goals and economic/financial indicators.
Reputation and social responsibility	<ul style="list-style-type: none"> providing for professional corporate governance, rise in culture of corporate governance; developing and improving the environment in which SSH operates.

SSH has attained both goals by establishing the complete framework for corporate governance of SOEs (expert bases for the State Assets Management Strategy, the SOEs Performance Criteria and designing the first Annual Asset Management Plan).

The quality of the formulated corporate governance system is continually being improved with the active role played by SSH. The key documents on corporate governance have provided SSH with the relevant basis for pursuing the role of an active asset manager who sets goals to its companies on an annual basis and oversees the attainment of these goals, which is considered a great responsibility in state assets management. SSH has raised the level of corporate governance, which has

surely contributed to the significant improvement of operating results of companies under SSH management, by adopting the amendments to the Corporate Governance Code for SOEs, to the SSH Recommendations and Expectations, the SSH Premises for Voting at General Meetings and to SSH Asset Management Policy. In addition, SSH has created a data base for better quality and analytical value of information bases needed to monitor and control the performance of operations by individual companies; these include all the most important financial and economic data which are regularly collected. SSH carried out a survey involving all entities with RS and SSH capital assets, inquiring about their adherence to the Corporate Governance Code for SOEs and to SSH Recommendations and Expectations. The analysis of the results obtained shows that the level of corporate governance in the said companies is improving which means that the environment in which SSH operates is also improving. SSH has established the Nomination Committee as a special consultative body of the SSH Management Board to select professional, qualified, responsible persons with strong personal and business integrity for membership in Supervisory Boards of SOEs; SSH organised two strategic conferences on energy industry and infrastructure and carried out 14 free-of-charge training sessions on corporate governance matters for members of Supervisory Boards. Additionally, SSH attempted to restructure the portfolio of assets under SSH management in order to attain objectives from the State Assets Management Strategy, which means that SSH has successfully closed the sale of seven smaller SOEs in order to reduce the portfolio in which SSH has no significant influence over its management. SSH continuously ensures professional asset management by setting high standards and applying the best practices in enterprises under management, while increasing the corporate governance culture.

SSH surpassed all economic and financial indicators stated in the SSH Performance Criteria for 2016, as shown in the Table.

Financial indicator	Target value in 2016	Achieved value in 2016
ROE of capital assets managed (RS and SSH) in %	4.2%	6%
Attaining the annual plan for dividend income	EUR 86.5 million	EUR 257 million*
Attaining the annual plan for disposition of assets (income from the sale of RS and SSH capital assets) in EUR million	EUR 250.4 million	EUR 251.4 million
Cost efficiency	up to 0.5% from the value of capital assets under management	significantly below this value

* The sum of dividends paid out in 2017 for FY 2016.

7 SSH CORE BUSINESS ACTIVITIES

7.1 Macroeconomic environment and developments in the most important sectors of the portfolio

7.1.1 Overview of selected macroeconomic data and of Slovenian capital market

Global economy grew by 3.7% in 2017. A stable economic growth was recorded both in advanced countries and in developing countries. Similarly as in the past period, global growth was mainly shaped by measures adopted by Central Banks. In 2017, European Central Bank announced gradual withdrawal of the quantitative easing programme with which ECB sought to increase economic activity and inflation expectations in the Euro zone in the period after the onset of the crisis. The American Central Bank FED, on the other hand, was gradually increasing key interest rates in 2017. In addition to monetary policy, the global economic growth was also affected by fiscal measures taken by economic policy holders in the past period and measures planned for future period (particularly reform measures announced by the American President - lower taxes and significantly higher investments in the infrastructure). In 2017 in Slovenia, economic growth stood at 5.0%, which is the highest level achieved in the last ten-year period. Similarly as in the past years, the most important factor leading to high economic growth was high growth in exports, in 2017 simultaneously accompanied with the enhanced private consumption and the impact of government investments. According to IMAD's forecast, export oriented demand is expected to strengthen further in the future period; the same applies to private consumption which is mainly

influenced by favourable trends on the labour market having recorded an increase in employment and salary levels in the past period. With further recovery in the real estate market, in 2017, investments increased in the sector of housing construction. The surplus on the current account of the balance of payments remained high in 2017 (6.5% of GDP). The reason for maintaining high surplus lies in private sector's multi annual deleverage on one hand, and continued low private consumption, especially when compared to the pre-crisis period, and low investment levels in the crisis years, on the other hand.

Slovenian capital market

Shares traded on the Ljubljana Stock Exchange mainly gained in value in 2017. From shares highlighted in the graph below, representing the highest weight in SBI TOP index and playing an important role in the SSH portfolio, the highest increase in value was recorded in case of Zavarovalnica Triglav shares, specifically, by 24.57%, followed by Telekom Slovenija shares by 16.57%, Krka shares by 8.70% and Petrol shares by 7.52%. SBI TOP index, measuring the movement in prices of the most liquid and top shares traded on the regulated market of LJSE, gained 12.39% in its value in 2017. As a matter of fact, at the end of 2017, SBI TOP index included all shares from the SSH portfolio, presenting a 95% weight of the said portfolio.

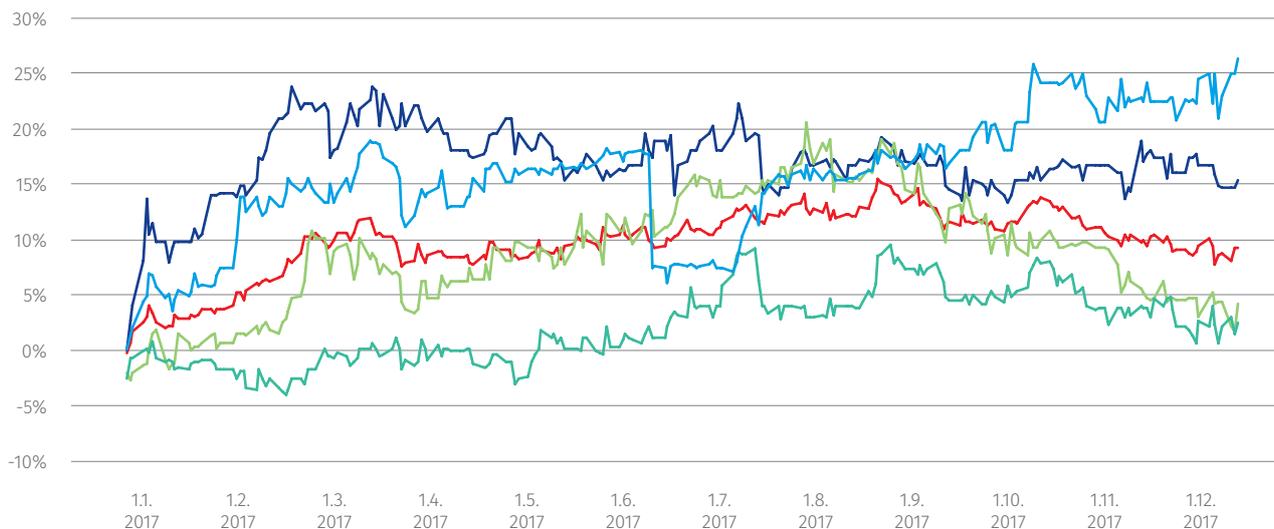
	Spring forecast (March 2018)			
	2017	2018	2019	2020
GDP, real growth in %	5.0	5.1	3.8	3.2
Registered unemployment rate in %	9.5	8.0	7.2	6.7
Inflation (annual average) in %	1.4	1.5	1.9	2.3

Source: IMAD, Spring Forecast (March 2018)

Cumulative return from top shares traded on Ljubljana Stock Exchange in 2017, representing an important share of SSH capital assets

Source: Bloomberg

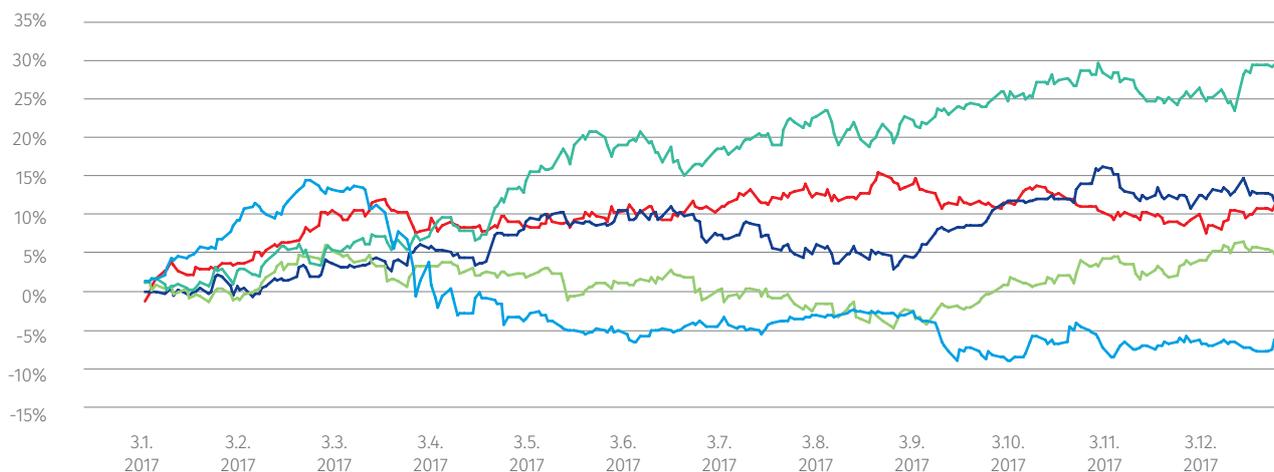
- SBITOP Index
- Krka
- Telekom Slovenije
- Zavarovalnica Triglav
- Petrol



Cumulative return from top regional and global share indices and SBITOP in 2017 (all returns in EUR currency)

Source: Bloomberg

- SBITOP Index
- ATX Index
- DAX Index
- Crobex Index
- S&P Index



All global indices discussed were gaining in value in 2017. Considering indices mentioned, the biggest gainer was the Austrian ATX index with the increase of 28.82%, which was

followed by the Slovenian SBI TOP with 12.39% value gain and DAX 30 index, recording the 11.37% increase in value. Negative return was recorded by Croatian Crobex index.

7.1.2 Overview of developments by portfolio sectors

Economic growth in the world and in Slovenia continued to rise in 2017, giving a positive impact to the development of companies and economic indicators. Key factors for the accelerated growth in Slovenia are high exports and government investments dynamics. The **sector of tourism** hit the record in terms of visits and overnight stays of foreign tourists. The majority of tourists come from European countries, however, the visits of tourists from non-European countries is strongly on the rise. High increase is particularly noticed in the tourist visits of towns, although low income guests are predominant. Security aspect is believed to contribute an important role to the increase of tourist visits as Slovenia is known to be a safe and attractive tourist destination. **Gaming sector**, on the other hand, recorded lower visits than in the past years, although the average budget spent per guest per visit has increased, which is a trade-off for lower visit figures. Performance indicators obtained were thus better than in the preceding year.

Slovenian **pharmaceutical** enterprises operate on the global market. They recorded an increase in sales revenues, in addition to the increase in sales volume. Competition in this sector is harsh which is why investments in the development of markets and new products are essential for this industry. Original operators operating in **telecommunications** see their market share and income falling on account of competition. The growth in fixed broad-band access and

paid TV has slowed down. Technological transfer from traditional services to new business models, introducing new technologies, has continued.

Slovenian **steel industry** realises the majority of its sales in the European markets; now, European steel industry has seen its competitive position in the global steel market deteriorate, in spite of its potential and significant efforts for innovation and modernisation. Surplus steel production (China) pushes down the prices and tightens competitive conditions on the global level which is why the EU is continually considering to impose additional measures to protect European producers. Slovenian steel industry is a niche player, not having too significant a role on the global market, which makes it easier to adapt to its competition in the market. Thus, their operation in 2017 was successful.

The year of 2017 passed without any turmoil in the Slovenian **banking systems**. The majority of operating indicators has improved, the share of non-performing exposure (NPE) is decreasing and, according to the data by the Bank of Slovenia, it amounted to 6.7% at the end of November 2017, which means that it dropped by 1,8 percentage points during the eleventh months of 2017. The structure of bank's funding changed dramatically in the last period: at the end of November 2017, liabilities due to foreign banks, for example, represented only 6.5% of the balance sheet total of the banking system (in 2008, this share amounted to as much as 33%, while in December 2016 only to 7.7%). The share of deposits by non-banking sector increased



significantly, amounting to as much as 72.2% at the end of November 2017. Year-over-year growth in deposits by non-banking enterprises achieved high 12.2% in October, while in case of household deposits it raised to 5.9%. By the end of November 2017, banks generated profit amounting to EUR 424 million before taxes and EBIT was thus higher by 10.3% as compared to the same period in 2016. Banks generated EUR 590 million of net interest income (-3.7% as compared to the same period last year) and EUR 398 million of non-interest income (-3.6%). Higher net profit generated in 2017 is the result of the release of net impairments and provisions amounting to EUR 36.6 million (net impairment and provisions formed in the same period in 2016 amounted to EUR 45.8 million). Banks owned by RS remain to be very strong in terms of capital, in fact, significantly above the Euro area average which gives them a solid basis for increasing lending activity.

The operation of **insurance firms** in the first eleven months of 2017 show significant growth: gross written premiums increased by 6.8% on an annual basis, resulting thus in a significantly higher growth than in 2016 when it stood only at 1.6%. Non-life insurance products presented almost 71% of all written premiums for the first nine months of 2017, recording 5.2% growth year-over-year, whereas in case of life insurance year-over-year growth stood at as much as 10.1%. According to the criteria measuring net profit, at the end of 2017, the operating performance of insurance businesses will be slightly below the level or close to the level achieved

in 2016. In 2018, insurance firms are expected to see relatively favourable macroeconomic conditions for their operation although landscape relating to profitability of investments will remain unfavourable. In spite of the ECB's announced reduction in its monetary stimulus activity, low profitability of government bonds issued by core EU countries is expected whereas periphery will see such profitability depend much more on specific economic and political factors in an individual country. As to the premium structure in Slovenia, non-life insurance premiums collected continue to take up the majority share. In 2017, reinsurance firms were forced to operate in an environment with negative forces driving reinsurance price policies, whereas a turn-around in price policy has been announced by some reinsurance firms for 2018, hoping that massive losses suffered on account of their coverage for mass damages arising from natural disasters will contribute to the increase in prices for reinsurance products in 2018.

Favourable macroeconomic conditions in Slovenia and in the EU countries which are the most important trade partners of Slovenia and an increased volume of international trade is reflected in the increased volume of **traffic** and transportation services, mainly in regard to the freight transport. The physical volume of transshipment in the Port of Koper and the railway freight transport, which is mainly directed to near-by foreign markets (Austria, Hungary, Germany, Slovakia) again increased significantly in 2017, hitting record levels (23.4 million tonnes of transshipment in the Port of



Koper/20.7 million tonnes of railway freight transport). Likewise, the road transport is also increasing, particularly on the Slovenian motorway network. This is mainly the result of significant investments into the renovation, upgrading and new construction projects on the motorway network, implemented by Dars d. d. The opposite trend is unfortunately recorded in passenger transport where stagnation and even fall in relevant figures have been recorded, particularly in regard to railway passenger transport; this is the result of poor service and the outdated fleet and limitations in the fluidity of the catenary system. Personal transport is by far the most important mode of passenger transport under the given circumstances when the integral passenger transport is still in its initial implementation phase and not yet established. In light of the economic growth in the Euro area and of the strengthening growth of the global economy, growth trends were recorded in air traffic, despite the growth in oil prices.

As regards the segment of **postal services**, the declining trend in universal postal services and in cash-related services continued as the result of increasing digitalisation of operations and electronic means of communication. At the same time segments including i services, logistics services, express mail and parcel services have been enhanced, with increasing sales of products through the world wide web contributing the most to the parcel services enhancement.

The **energy products** market in 2017 was marked by price fluctuations and the crude oil continues to play the most important role in these markets. The decision by OPEC countries, along with other oil-producing countries, to reduce the volume of crude oil production affected the increase in oil prices at the end of 2016. In spite of that, oil prices turned down in the first quarter of 2017 on account of increased production in the USA and the increased oil extraction in Libya and Nigeria. After the gradual decrease in 2015 and 2016, the TTF spot price for natural gas (the Dutch gas hub) started to grow in the last quarter of 2016 and after hitting the top in January 2017 the price curve again moved down which was influenced by increased import of liquefied natural gas and partially due to renewed start of French nuclear power plants. Coal prices increased significantly in the second half of 2016 when China adopted measures for balancing production as a result of which, in December 2016, the average CIF ARA spot price amounted to as much as EUR 86.5/tonne which is the highest price after 2011, only to drop back to the average spot price of EUR 69.9/tonne in the second quarter of 2017, thus making relative competitive price of gas favourable in regard to coal. In light of the fact that the majority of energy products are traded in the US Dollar, the US Dollar - Euro exchange rate is important for European enterprises. The said exchange rate was not stable in 2017 as it gain in value by 12.4% in the first ten months of 2017.



The **electricity** market prices for long-term and short-term products in an individual wholesale market are influenced by the disposable electricity production by various sources of electricity generation, electricity consumption and the availability of cross-border transfer capacities on an individual market, in addition to the primary energy products prices. The increasing share of renewables in the structure of production has an important influence on the decrease in electricity prices. At the end of 2016 and in the beginning of 2017, electricity prices in EU were under a strong influence of extraordinary overhaul of French nuclear power plants, severe drought and exceptionally cold winter. All of the above stated gave rise to an increase in electricity consumption and increased market prices. With the simultaneous drought period lasting from December 2016, record electricity prices were recorded on daily electricity markets of SE Europe markets in January 2017. Since hitting the bottom in 2014, the electricity consumption in Europe has been persistently growing, particularly in the countries of the Central, East and the South East Europe. The growth of the installed power of renewable sources of energy continues to rise, albeit with a slightly lower rate, nevertheless, in Germany for example, it still reaches only 25% of the generated electricity. The installed power of conventional sources of electricity is decreasing without any planned substitute production capacities, therefore short-term

volatility in prices may be expected to remain high for some time.

The comparison of retail electricity prices for EU28 and for other selected countries in the first half of 2017 shows* that prices for household consumers in Slovenia are positioned somewhere in the middle of prices for EU28 while the prices for non-household consumers are among the lowest of EU28. Low electricity prices in Slovenia are thus an important success factor for the operation of Slovenian enterprises, particularly for energy-intensive companies.

The comparison of the retail electricity price structure and of its amount for a typical non-household consumer from EU28 and from other selected countries in the first half of 2017 shows** that prices for Slovenian non-household consumers are significantly below the EU28 average although this average is high on account of high prices in Germany, Italy, on Cyprus, Malta and in UK and Ireland.

The CO₂ emission allowances prices mostly moved in the range of EUR 4-6/tonne in 2016 and in 2017. A greater increase was recorded in the second half of 2017 triggered by the expected reform of the EU Emission Trading System which could significantly restrict the volume of emission allowances in trading and expected higher production from coal-fired and gas-fired power plants.

* Source: Retail electricity prices, first half of the year, 2015–2017 – EUR/kWh, Eurostat.

** Source: Eurostat



7.2 Management of SSH and RS capital assets in 2017

The most important activity pursued by SSH is the management of SSH and RS capital assets. The activity includes the acquisition and disposition of capital assets and the exercise of rights of a shareholder. The overview of capital assets under management is shown in the Table presented below.

7.2.1 Active management of RS and SSH capital assets

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

Key factors for effective management of capital assets, which is shown in increased total return on equity

from RS and SSH capital assets, include: the selection of independent, professional, responsible members of supervisory bodies with strong ethical and business integrity, prudent monitoring and oversight over the operating performance of SOEs on the basis of goals and performance criteria determined in advance, the implementation of good corporate governance practice and timely and suitable action-taking in cases of deviations from expected results.

The summary of results related to management of RS and SSH portfolio is presented in the remaining part of the Chapter. The activities related to asset management is presented in detail in the Annual Report - Management of Capital Assets of RS and SSH



* Monthly reporting for SOEs was introduced in 2018.

in 2016, which was submitted by SSH to the RS National Assembly in October 2017. For more information see the Chapter on Core Business Activities and Developments in 2017, Asset Management activity.

7.2.2 Legal basis and asset management related documents

SSH manages state assets in accordance with ZSDH-1, ZGD-1, 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 pursuing its asset management activity, SSH abides to the limits in corporate governance and to powers held by management and supervisory bodies of companies under management, as stipulated by Article 20 of ZSDH-1.

The systemic nature of corporate governance pursued by SSH is shown in adopted documents which represent the foundation of corporate governance and are the main condition for ensuring transparency in corporate governance. These documents are: the State Assets Management Strategy, the Annual Asset Management Plan (AAMP); Criteria for Measuring Effectiveness of SOEs, Corporate Governance Code for SOEs, SSH Recommendations and Expectations, SSH Asset Management Policy and SSH Premises for Voting at General Meetings. In 2017, by means of assuming an active asset management approach, SSH provided for the enforcement of good practice in corporate governance in order to attain the asset management goals set.

The key document for corporate governance is the State Asset Management Strategy by way of which state assets are classified into strategic, important and portfolio assets. By classifying capital assets in an individual group of assets, goals for asset management and the minimum state shareholding in an individual asset have been set. For more information on AAMP see the Chapter on Core Business Activities and Developments in 2017, Asset Management activity.

7.2.3 Active Preparation for Annual General Meetings and exercise of all other shareholder's rights

In accordance with ZSDH-1 and other key documents related to corporate governance, in 2017, SSH exercised shareholder's rights on its behalf and on behalf of the

Republic of Slovenia, in addition to carrying out other tasks, particularly:

- monitoring the implementation of the Annual Assets Management Plan 2017;
- on the basis of the adopted State Asset management Strategy, SSH prepared the Annual Assets Management Plan 2018 which was adopted with the consent granted by RS Government on 22 December 2017; in AAMP 2018 SSH defined in detail its goals in managing individual capital assets and measures and policies for their attainment, and defined expected cash flows from the state asset management activity;
- took part at the General Meetings and voted on its own behalf and on behalf of the Republic of Slovenia and passed founder's resolutions in companies managed by SSH; in 2017, the total of 113 General Meetings of Shareholders was convened, which included the adoption of the founder's resolutions;
- provided for the exercise of other rights of a shareholder or member such as the submission of the request for the convocation of General Meetings, extensions of agenda, lodging applications for a special audit review, an extraordinary audit review and lodging compensation claims and similar tasks in accordance with the shareholder's corporate rights;
- provided for suitable content-related and legal evaluation of individual activities and decisions taken in the capacity of asset manager;
- carried out all necessary activities for relevant and timely procedure regarding the accreditation, nomination and selection of candidates for members of Supervisory Boards with the aim to appoint professional, heterogeneous and independent Supervisory Boards;
- ensured that the remuneration systems for the Supervisory Board members of SOEs satisfied the long-term interests of a company and attract and promote qualified experts to run for the membership in SOEs Supervisory Boards;
- acquired and disposed of individual capital assets in accordance with the applicable legislation and other relevant legal documents.

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



7.2.4 Monitoring operations of SOEs

SSH as the manager of RS and SSH capital assets carries out regular periodic meetings with members of management and supervisory bodies of SOEs and occasional meetings with representatives of support services from the said companies. Topics discussed at such meetings mainly refer to operational results and business plans, to challenges in the market, strategic outlooks on the company's development, expectations by SSH in regard to ROE and dividends, aspects of potential optimisation of operations and restructuring measures, observance of SSH expectations and recommendations and other important activities connected with the operation of an individual company.

The content and particularly the scope of information received at such meetings depends on the legal organisational form of an individual company and the equity holding of RS and SSH in such company. The intensity of SSH's monitoring the activities pursued by individual companies is, among other things, also dependent on the fact whether a company is facing a »peaceful« period of operation or whether a company is in distress, carrying out important projects which do not form the part of its usual operation.

The process of SSH's monitoring over the operation of SOEs is presented above, in addition to the presentation of the process for developing the Annual Asset Management Plan.

7.2.5 Asset restructuring as an important part of asset management

In managing capital assets, decisions on restructuring individual capital assets and potential capital increases in companies under management must sometimes be taken. In the processes of asset restructuring SSH wishes to assist companies owned by RS and SSH in establishing conditions for sustainable long-term operation in order to ensure profitable operation and the attainment of other strategic goals by way of an 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 and supervisory 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 in restructuring processes 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.

7.2.6 Main activities and events in 2017 in regard to asset management



In October 2017, SSH submitted Annual Report - Management of Capital Assets of RS and SSH in 2016 to the Parliament

Pursuant to Article 67 of ZSDH-1, which has imposed the task of monitoring business performance of SOEs, SSH prepared the Annual Report - Management of Capital Assets of RS and SSH in 2016. When doing so, SSH took into consideration recommendations regarding best practice in corporate governance suggested by the OECD Guidelines on Corporate Governance of State-Owned Enterprises. The Report, which presents in detail the system of capital asset management and provides presentations of all companies under management, in addition to results obtained at the level of portfolios, was discussed by the Committee on Finance and Monetary Policy of the RS National Assembly and by the Commission for Economy, Trade, Tourism and Finance of the RS National Council.



In December 2017, the RS Government granted its consent to the Annual Assets Management Plan for 2018

Pursuant to Article 30 of ZSDH-1 SSH prepared the Annual Asset Management Plan for 2018 which defines in detail goals pursued by SSH in asset management. The said Plan is composed of the General Section which is public and of the Special Section which is not public and which includes asset management plan for each asset separately. Such plan defines in detail asset management goals and key criteria for measuring the performance in attaining the management objectives, together with policies and specific measures for attaining goals. The Special Section also states the expected cash flows arising from the management of capital assets.

The Performance Criteria for SOEs, a document which is connected with the AAMP In terms of its content, and which was also granted the consent by the RS Government, defines the criteria (ratios) by way of which SSH measures the performance of SOEs.

SSH made an analysis on compliance with the Corporate Governance Code for SOEs and with SSH Recommendations and Expectations

In October 2017, SSH submitted to companies from the RS and SSH portfolios a questionnaire, which covered key principles from the Code and SSH Recommendations and Expectations; companies replied by describing their adherence to these principles on the basis of the »apply or explain« approach. The analysis carried out with the purpose of monitoring the application of all principles from the Code shows that the majority of companies fully or partially applies the said principles and recommendations, and some exceptions are attributed either to their legal organisational form or to their ownership structure and in some cases also to the fact that they operate abroad.

The comparison of the analysis carried out in 2017 to the analysis from 2015 shows that the level of the companies' adherence to the Code and SSH Recommendations and Expectations is increasing although it has to be concluded that the analysis are not fully comparable since the analysis from 2017 comprises larger amount of companies of various legal organisational forms which also include subsidiaries operating in foreign jurisdictions.

In the continuation of the process to evaluate the results of the analysis, in a dialogue with SOEs, SSH will seek to find out detailed reasons for the failure to apply the principles and recommendations from the Code and the SSH Recommendations and Expectations, determining also the reasons for a large portion of non-answered questions in regard to some principles and recommendations. In the dialogue with SOEs, SSH will seek to achieve as high as possible level of compliance with the Code and SSH Recommendations and Expectations, all in the effort to increase the quality of the corporate governance of SOEs.

7.2.7 Main activities and events in 2017 in regard to asset management by individual companies

The remaining part of the Chapter states the most important activities and events in 2017 in regard to asset management by individual companies:

• CSS d. o. o. – Sheltered workshops

In 2017, CSS kicked off activities to carry out the capital increase of the company. 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. Operational issues are mainly due to insufficient maintenance and rather outdated equipment, together with financial burdens accumulated from previous years. The restructuring

programme has been prepared to obtain sustainable long-term operation of the company. CSS sought for potential investors (customers, suppliers) to carry out the capital increase which was unfortunately not successful. After examining the proposal for capital increase, SSH concluded that the capital increase is urgent for the viability of this sheltered workshop. Considering the above stated, SSH invited the responsible ministries to take their position on the proposed capital increase, mainly in view of the fact that this is a sheltered workshop.

- **Sava d. d.**

In 2017, SSH, acting as a creditor and shareholder of Sava, actively participated in the implementation of the financial and business restructuring of Sava in the field of development and consolidation of its tourism business segment. It also provided for suitable management of claims due by Sava to SSH. The claim management activity includes the calculation of interest, the valuation of collateral in case of significant changes, the monitoring of income from the cashed-in assets, coordination with remaining debtors, carrying out tasks in connection with the cashing-in of collateral, registering collateral in relevant records, and similar tasks.

- **Slovenian Tourism Strategy**

The Ministry of Economic Development and Technology formulated the Strategy for Sustainable Growth of Slovenian Tourism for 2017-2020 which imposes an important part of duties in connection with the development of tourism on SSH. The RS Government adopted the said Strategy on 5 October 2017. Following the review of the said Strategy, SSH has concluded that the fundamental task for SSH is to carry out a detailed financial analysis of the portfolio of state-owned hotel operators. In the future, on the basis of the financial analysis made, SSH will develop a proposal of activities for the model of restructuring the portfolio of state-owned hotel operators (proposal for designing a state fund for restructuring hotel companies under the auspices of SSH, the proposal for ownership consolidation and the structuring of the new portfolio). When necessary, SSH will formulate the development vision and the model for restructuring the state-owned portfolio of hotel operators.

- **Krka d. d.**

In cooperation with a renowned international consulting firm, the Economic Analysis and Economic Opportunity Study about company Krka was conducted in 2017. The study provided a detailed company overview, carried out competitor analysis with global players and gave an overview of trends in the industry. The conclusion of the Report presented opportunities to improve Krka's operation.

- **Luka Koper d. d.**

In cooperation with a renowned international consulting firm, the Economic Analysis and Economic Opportunity Study about company Luka Koper was conducted in 2017. The study provided a detailed company overview, carried out competitor analysis with global players and gave an overview of trends in the industry. The conclusion of the Report presented opportunities to improve Krka's operation. During the regular Annual General meeting, a proposal was given by SSH and the relevant resolution was passed to conduct a special audit on the management of transactions concluded by and between Luka Koper and providers of port services in the last three years. On the basis of audit findings, and on account of many other reasons, the vote of no confidence in the Luka Koper Management Board was passed by the December General Meeting.

- **DRI d. o. o.**

After the take-over of the Building and Civil Engineering Institute ZRMK d.o.o. by DRI upravljanje investicij d.o.o., the Fairness Opinion was obtained, together with the Report on the valuation and the diligence of procedure.

- **Dars d. d.**

At the October General Meeting of Shareholders of Dars d. d., SSH voted in favour of the Resolution to increase share capital of Dars d. d. with a contribution in-kind by RS amounting to EUR 3.4 million, by way of which, on the basis of the Decision by RS Government on the »Magma Project« case of July 2017, Dars was substituted for the decreased value of properties in Hoče location. This provided formal and legal grounds to initiate the investment for the said project by foreign investor.

- **DSU d. o. o.**

In 2017, DSU carried out activities planned in regard to investment properties. SSH examined the economic justification of the plan and provided its opinion on the long-term debt obtained by DSU in the process of acquiring commercial property in Ljubljana. In the capacity of DSU's founder, SSH passed a resolution to transfer free-of-payment its property title on the founder's share of the SIQ - Slovenian Institute of Quality and Metrology, Ljubljana, in the share of 68.5% of the whole, to RS, into its ownership and management. SSH has obtained its founder's share from public powers pertaining to ownership transformation under ZZLPP0/ZPPSRD. Within the scope of the above mentioned business activity of DSU, SSH monitors activities for the protection of interest in connection with legal transactions within the scope of identifying socially owned property which

was not subject to ownership transformation and was transferred into DSU's ownership and management under ZZLPPO.

- **Venture capital companies**

In 2017, SSH tightened its control over the operations of venture capital companies whose lifetime are coming to an end, in accordance with the time line set upon their incorporation. Some of these companies are successful in cashing in their investments (DTK, Prvi sklad - the sale of share in Celtra), whereas in other cases many activities have been dedicated to clarify the actual situation of the investment portfolio for quite some time. In 2017, in cooperation with the Public Fund of Republic of Slovenia for Entrepreneurship, and with the assistance of external expert, SSH carried out a forensic review of activities carried out by the Meta Ingenium VCC. On the basis of the findings of the review relevant activities were carried out to present a realistic situation of VCC and to improve its operation.

In 2017, SSH also took active part in activities which, in broader sense, lead to changes in the structure of the portfolio of capital assets under management, from the aspect of the organisation and in terms of the content, **based on strategic policies stated in the State Assets Management Strategy and on the operational policies of Annual Asset Management Plan 2017:**

- **Rudnik živega srebra Idrija v zapiranju d. o. o. – in liquidation**

On 1 November 2016, the activity (the maintenance of the non-flooded part of the mine, and monitoring on the area of influence of the Idrija mine) and employees were transferred to the CUDHg centre for managing the Idrija Mercury Mine's heritage). The last liabilities were settled in March 2017, and the conditions were thus established to pass resolutions on the completion of the regular liquidation process. On 24 April 2017, SSH, acting in the capacity of the founder of Rudnik živega srebra Idrija v zapiranju d. o. o. - in liquidation, passed the resolution on the completion of the regular liquidation process and on 17 May 2017, the Decision on deletion from the Business Register of Companies was issued by the court.

- **Rudnik Zagorje v zapiranju d.o.o. – in liquidation (RZVZ)**

In December 2016, the capital increase of RZVZ was carried out in the amount of EUR 0.2 million. These monies were used to settle all outstanding invoices and to pay the salary of the liquidator for the past two years. In 2017, the mining detailed design had to be produced according to which the restoration and the liquidation of measurement sites was implemented. The value of works carried out amounted to EUR 50,000,00, and were

provided by the Ministry of Economic Development and Technology. On 21 September 2017, the Ministry of Infrastructure issued the Decision on the termination of rights and obligations No. 361-21/2017-10, by way of which all rights and obligations of Rudnik Zagorje v zapiranju d. o. o. - in liquidation ceased to exist in the area of the whole upstream spatial area. The major part of assets is held in long-term held due to RCR Zagorje d.o.o. (EUR 1,469,306.87 as at 31 August 2017), which matures in August 2018. On 19 December 2017, SSH, acting in the capacity of the founder of Rudnik Zgorje v zapiranju d. o. o. - in liquidation, passed the resolution on the completion of the regular liquidation process and on 28 December 2017, the Decision on deletion from the Business Register of Companies was issued by the court.

- **Rudnik Trbovlje-Hrastnik d. o. o. (successful implementation of closing works in the facility and financial restructuring process following the compulsory composition)**

The Ecological and Spatial Restoration of RTH has been carried out and will continue to be carried out in line with the Amended Middle-Term Programme for Gradual Closure of Trbovlje-Hrastnik Mine for the 2013 – 2018 period (second issue, SSPPZRTH), which was adopted by the RS Government on 16 April 2014; the programme envisages the closure of the mine to be completed by the end of 2018. As a matter of fact, considering activities which were actually carried out in 2017, as regards the timing of closing works in regard to SSPPZRTH. RTH actually managed to offset the delay incurred in the past programme periods. The transfer for consideration of Spekter d.o.o. to the Housing Fund of the Republic of Slovenia (SSRS) was completed successfully. The transfer was implemented in accordance with the RS Government's decision of 8 June 2017 which has imposed on SSRS to initiate the procedure for the transfer for compensation of RTH's shareholding in Speketr d.o.o. to the Housing Fund of RS, in cooperation with SSH and RTH. The process was completed on 22 December 2017 with the transfer of the proceeds to the bank-creditors and to RTH. By way of this monetary transfer, all liabilities due by RTH to banks-creditors and arising from Claim Restructuring Agreement were settled and the process for financial restructuring of RTH, implemented on the basis of the compulsory composition proceeding initiated in March 2014, was successfully completed.

- **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 that RS and its related companies

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 could have been realized by carving out Plinovodi d. o. o., from Geoplin d. o. o. into a direct ownership of shareholders of Geoplin. After the carving-out of Plinovodi, 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 asset. In accordance with the above mentioned, in 2017, SSH carried very complex activities to attain the above mentioned goals:

- I. On 2 February 2017, Petrol officially notified EC-DGCom of concentration of undertakings - Petrol and Geoplin. On 10 March 2017, EC-DGCom issued a decision stating it does not oppose to the planned concentration of Petrol and Geoplin.
- II. On 21 March 2017, SSH and Petrol submitted a request to Geoplin to convene the General Meeting with the agenda item referring to the Carving-out of Plinovodi. On 12 April 2017, SSH and Petrol submitted a request to Geoplin to include the amendments of Geoplin's Memorandum of Association in the General Meeting's agenda (the shareholders' and the company's pre-emption right is not exercised in case of a shareholder's winding up under simplified procedure and in case of a merger with another entity). On 25 May 2017, the General Meeting of Geoplin issued a consent to the carving-out and the establishment of a new company Plinhod.
- III. Plinhodi was registered in the Business Register of Companies on 28 June 2017. The six-month period for swapping shareholdings between RS and Petrol started to run.
- IV. After long-lasting negotiations, on 26 July 2017, SSH, on behalf of RS, harmonised and signed the Agreement on Purchase and Sale of Shares in Geoplin and Plinhod with Zavarovalnica Triglav d. d. (ZT) and its subsidiary Salnal and Petrol. The total contractual value of the sale amounted to EUR 14.5 million. On the basis of the above mentioned contract and following the satisfaction of conditions precedent, RS will acquire a 7.84% shareholding in Plinhod.
- V. On 29 December 2017, SSH and Petrol, who represent RS in accordance with ZSDH-1, thus completed the transaction in line with the Equity Swap Agreement of 14 July 2016 concluded by and between Petrol and RS, by way of which Petrol became the owner of a 49.5559% shareholding of Geoplin while RS became the owner of a 52.2609%

shareholding in Plinhod (who is a 100% owner of Plinovodi). RS will keep its 25.01% shareholding in Geoplin.

- **HSE Group (vertical integration)**

As regards the management of assets held in HSE Group, in 2017 SSH dedicated special attention to full control of electricity generation together with the marketing function and the final sale of electricity on the retail market, in accordance with the Annual Asset Management Plan 2017. The goal for 2017 was attained as the Letter of Intent was signed in 2017 in regard to the planned vertical integration of HSE with some electricity distribution companies and the application was submitted to the Competition Protection Agency to issue a preliminary consent to the concentration of the relevant undertakings. The envisaged integration with subsidiary electricity distribution companies, the signatories of the Letter of Intent, will enable HSE to provide for more active and efficient management of the Balance Scheme and of electricity generated from renewable sources or energy or of relevant certifications of origin. The synergy effects expected for all signatories of the Letter of Intent will be based on the control of the entire chain, from electricity generation up to the final user, and will contribute to a better risk management, both in the segment of trading and sale as well as production, and to improved liquidity control of the entire Group. The envisaged integration will be based on the generation and sale of electricity and other energy products from renewable resources and on the development of new products and services enabling to existing and new customers an efficient transition to a low-carbon society. The final goal is to form an uniform company for generation and trading with electricity and other energy products, in addition to rendering energy-related services following the principle of ESCO (an energy serving company) and to provide other services for customers.

7.2.8 Asset management-related legal documents revised in 2017: Corporate Governance Code for SOEs and SSH Recommendations and Expectations

On 24 May 2017, in accordance with Article 32 of ZSDH-1, the SSH Management Board, with the consent by the SSH SB, adopted the **revised Corporate Governance Code for SOEs**. Key amendments and modifications of the Code taking place in 2017 were focused on new recommendations: firstly, SOEs should adopt diversity policy in connection with the presence of members in management and supervisory bodies (from the aspects of their gender, age, professional profile),

secondly, prior to the beginning of the year, large and medium-size SOEs should prepare and publicly publish a financial calendar including certain data; thirdly, remuneration for members of management board should be regulated, a recommendation which has not been previously stipulated by the Code. Further on, the reporting on the composition of the management board, supervisory board and on external members of Committees, including their income, should be unified following the template from the Slovene Corporate Governance Code for Listed Companies, and there is a recommendation for large and medium-sized SOEs to regulate the whistle blowing system in their companies. The recommendation in regard to the appointment and change of the audit firm was added, and the recommendation on internal audit was supplemented with the aim to protect the independent status of a Head of Internal Audit, and recommendation in regard to the powers of SB and Audit Committee in connection with the internal audit was harmonised with ZGD-1. The revised Code has amended the definition of the independence of SB members and introduced additional measure for controlling conflict of interest on the part of SB members by way of declining the receipt of relevant material and by their absence at the session. In accordance with the Amending Companies Act (ZGD-1) the contents required for reporting have been modified and amended and they now refer only to large and medium-size SOEs. New appendices to the Code have been added or modified.

At the same time, being addressed it to the same entities, the SSH Management Board adopted the revised SSH **Recommendation and Expectations** in a form of a legal document, by way of which some specific recommendations and expectations to be observed by SOEs are communicated to them in a clear framework which is publicly published in advance. Legal basis for the adoption of this asset management related document is Article 32 of ZSDH-1; the said document refers to the legitimate expectations on the part of the state assets manager that companies under management will provide for suitable and timely preparation and implementation of business (three-year) plans, for reporting, for transparency of expenses, for cost optimisation and for achieving excellency in operations.

The revision of SSH Recommendations and Expectations taking place in 2017 included three recommendations and expectations in regard to the reporting to SSH to speed up the receipt of the most important data from SOEs'/Groups' business plans, new reporting deadlines were added and the requirement for monthly reporting on operational performance was introduced anew. *Vacatio legis* applied to the implementation of this recommendation for the period until 1 January 2018 in order to enable SOEs to duly prepare for its implementation. Finally, the recommendation on cost optimisation was also revised which, in terms of its content expanded to include the optimisation of all operational costs which have to be balanced and adapted to the needs of the business process.



7.2.9 Composition and performance results of the SSH portfolio of assets

7.2.9.1 List of RS and SSH capital assets managed by SSH

List of RS and SSH capital assets in companies managed by SSH as at 31 December 2017

Lfd. No.	Asset	% RS	% SSH	% Total	Pillar
1.	2TDK, Družba za razvoj projekta, d. o. o.	100.00		100.00	Transport
2.	Abanka d. d.	100.00		100.00	Financial sector
3.	Adria, Turistično podjetje, d. o. o., Ankaran		11.74	11.74	Economy
4.	Bodočnost Maribor d. o. o.	75.83		75.83	Economy
5.	Casino Bled d. d., Bled		43.00	43.00	Economy
6.	Casino Portorož d. d., Portorož		9.46	9.46	Economy
7.	Cetis d. d., Celje		7.47	7.47	Economy
8.	Cinkarna Celje d. d., Celje		11.41	11.41	Economy
9.	CSS d. o. o.	96.65		96.65	Economy
10.	D.S.U. d. o. o., Ljubljana	100.00		100.00	Financial sector
11.	DRI upravljanje investicij, Družba za razvoj infrastrukture, d. o. o.	100.00		100.00	Transport
12.	Družba za avtoceste v Republiki Sloveniji d. d., Celje	100.00		100.00	Transport
13.	DTK Murka, Družba tveganega kapitala, d. o. o.	49.00		49.00	Financial sector
14.	Elektro Celje d. d.	79.50		79.50	Energy sector
15.	Elektro Gorenjska d. d., Kranj	79.42	0.31	79.73	Energy sector
16.	Elektro Ljubljana d. d.	79.50	0.30	79.80	Energy sector
17.	Elektro Maribor d. d.	79.50		79.50	Energy sector
18.	Elektro Primorska d. d.	79.50		79.50	Energy sector
19.	Elektrogospodarstvo Slovenije – razvoj in inženiring, d. o. o.	100.00		100.00	Energy sector
20.	Elektrooptika d. d.	0.01	70.48	70.49	Economy
21.	Gen energija d. o. o.	100.00		100.00	Energy sector
22.	Geoplin d. o. o.	41.24	0.05	41.29	Energy sector
23.	Gorenjska banka d. d.	0.31		0.31	Financial sector
24.	Hit d. d., Nova Gorica		20.00	20.00	Economy
25.	Holding Slovenske elektrarne d. o. o.	100.00		100.00	Energy sector
26.	Infra, Izvajanje investicijske dejavnosti, d. o. o.	100.00		100.00	Energy sector
27.	Inkos d. o. o., Krmelj	2.54		2.54	Economy
28.	Intereuropa d. d.		1.73	1.73	Transport
29.	Javno podjetje Uradni list Republike Slovenije d. o. o.	100.00		100.00	Economy
30.	KDD d. d., Ljubljana		19.23	19.23	Financial sector
31.	Kontrola zračnega prometa d. o. o.	100.00		100.00	Transport
32.	Krka d. d., Novo mesto	7.21	9.00	16.21	Economy
33.	Loterija Slovenije d. d., Ljubljana		15.00	15.00	Economy
34.	Luka Koper d. d.	51.00	11.13	62.13	Transport

Lfd. No.	Asset	% RS	% SSH	% Total	Pillar
35.	M1 d. d., Ljubljana	0.00		0.00	Financial sector
36.	Mariborska livarna Maribor d. d.	32.73		32.73	Economy
37.	Meta Ingenium, Družba tveganega kapitala, d. o. o.	49.00		49.00	Financial sector
38.	Nafta Lendava, proizvodnja naftnih derivatov, d. o. o.	100.00		100.00	Energy sector
39.	NLB d. d.	100.00		100.00	Financial sector
40.	Perutnina d. d., Ptuj	0.00		0.00	Economy
41.	Petrol d. d., Ljubljana	10.10	12.68	22.78	Energy sector
42.	Plinhold d. o. o.	41.24	0.05	41.29	Energy sector
43.	Pomgrad – vodnogospodarsko podjetje, d. d.	25.01		25.01	Economy
44.	Pošta Slovenije d. o. o.	100.00		100.00	Transport
45.	Pozavarovalnica Sava d. d., Ljubljana	10.09	17.68	27.77	Financial sector
46.	Prvi sklad, Družba tveganega kapitala, d. o. o.	48.90		48.90	Financial sector
47.	PS za avto d. o. o., Ljubljana		90.00	90.00	Economy
48.	RRA regionalna razvojna agencija Celje d. o. o.	5.89		5.89	Economy
49.	RTH, Rudnik Trbovlje-Hrastnik, d. o. o.	100.00		100.00	Energy sector
50.	RŽV, Javno podjetje za zapiranje rudnika urana, d. o. o.	100.00		100.00	Energy sector
51.	Sava d. d.		22.56	22.56	Economy
52.	Savaprojekt d. d.	3.47		3.47	Economy
53.	SID – Slovenska izvozna in razvojna banka, d. d., Ljubljana	99.41		99.41	Financial sector
54.	SIJ – Slovenska industrija jekla, d. d.	25.00		25.00	Economy
55.	Slovenske železnice d. o. o.	100.00		100.00	Transport
56.	STH ventures d. o. o.	49.00		49.00	Financial sector
57.	Studentenheim Korotan GmbH	100.00		100.00	Economy
58.	Telekom Slovenije d. d., Ljubljana	62.54	4.25	66.79	Economy
59.	Terme Olimia d. d., Podčetrtek		4.01	4.01	Economy
60.	Unior d. d., Zreče		39.43	39.43	Economy
61.	Varnost sistemi d. o. o.		9.74	9.74	Economy
62.	Vodnogospodarsko podjetje Drava d. o. o, Ptuj	25.00		25.00	Economy
63.	Vodnogospodarsko podjetje Novo mesto d. d.	25.00		25.00	Economy
64.	Vodnogospodarsko podjetje d. d., Kranj	25.00		25.00	Economy
65.	Zavarovalnica Triglav d. d., Ljubljana	34.48	28.09	62.57	Financial sector

Note: Equity interest has been rounded up to two decimal places - when the shareholding of 0.00% is referred to, this means that there the ownership stake held by the Republic of Slovenia and/or SSH does not exceed 0.005%.

Companies in bankruptcy or liquidation

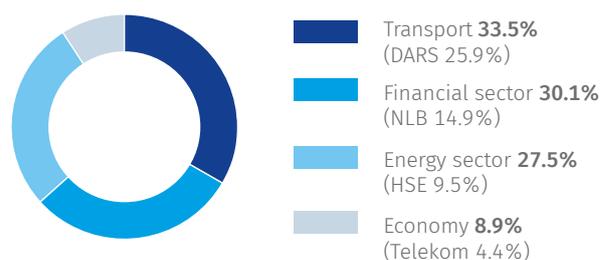
Lfd. No.	Asset	% RS	% SSH	% Total	Pillar
1.	Aero d. d. – in bankruptcy		1.44	1.44	Economy
2.	Casino Maribor d. d. – in bankruptcy		22.83	22.83	Economy
3.	Družba za spodbujanje razvoja TNP d. d. – in bankruptcy	51.05		51.05	Economy
4.	Gio d. o. o., Ljubljana – in liquidation		71.27	71.27	Economy
5.	Glin IPP d. o. o. – in bankruptcy	16.06		16.06	Economy
6.	Gradis skupina G d. d. – in bankruptcy		1.36	1.36	Economy
7.	Ipoz Trbovlje d. o. o. – in liquidation		1.20	1.20	Economy
8.	Lipica Turizem d. o. o. – in bankruptcy	100.00		100.00	Economy
9.	Maksima Holding d. d. – in bankruptcy	0.01		0.01	Economy
10.	Maksima Invest d. d. – in bankruptcy	0.00		0.00	Economy
11.	Mura d. d. – in bankruptcy		12.23	12.23	Economy
12.	NFD Holding d. d. – in bankruptcy	0.00		0.00	Economy
13.	Novoles d. d. – in bankruptcy		16.69	16.69	Economy
14.	Peko d. d., Tržič – in bankruptcy	61.16		61.16	Economy
15.	Podjetje za urejanje hudournikov d. d. – in bankruptcy	40.00		40.00	Economy
16.	Polzela d. o. o. – in bankruptcy	71.43	28.57	100.00	Economy
17.	Rimske terme d. o. o. – in bankruptcy	3.83	13.55	17.38	Economy
18.	Rudnik Kanižarica v zapiranju d. o. o., Črnomelj – in liquidation	100.00		100.00	Energy sector
19.	Rudnik Senovo v zapiranju d. o. o. – in bankruptcy	100.00		100.00	Energy sector
20.	Svea d. d., Zagorje ob Savi – in bankruptcy		15.57	15.57	Economy
21.	TAM Maribor d. d. – in bankruptcy	10.85		10.85	Economy
22.	Univerzale d. d., Domžale – in bankruptcy		8.53	8.53	Economy
23.	Vegrad d. d. – in bankruptcy		29.00	29.00	Economy

Note: Equity interest has been rounded up to two decimal places - when the shareholding of 0.00% is referred to, this means that there the ownership stake held by the Republic of Slovenia and/or SSH does not exceed 0.005%.

7.2.9.2 Share of largest assets and pillars in SSH portfolio of assets

The portfolio of RS and SSH capital assets is divided in four pillars of which the pillars of Energy sector, Financial sector and Transport and Infrastructure comprise, approximately, each one third of all assets while one tenth of assets are included in the Economy pillar. The portfolio is still quite »concentrated« as the largest 20 assets represent as much as 95% of the total portfolio, measured at the book-value of capital assets. The three largest assets include Dars (25.9% of total portfolio), NLB (14.9%) and HSE (9.5%), and the book-value of equity interest in these three companies represents approximately one half of the total SSH asset management portfolio.

The share of pillars in the total SSH portfolio of capital assets under management (total assets owned by RS and SSH) as at 31 December 2017



The share of 5 largest capital assets in individual pillar (using the balance sheet book value as the relevant criterion) in regard to the total of the SSH portfolio of capital assets under management as at 31 December 2017*

Asset	Equity Stake (in %)
ENERGY	
HOLDING SLOVENSKE ELEKTRARNE D. O. O.	9.5
GEN ENERGIJA D. O. O.	7.3
ELEKTRO LJUBLJANA D. D.	2.3
ELEKTRO MARIBOR D. D.	2.0
ELEKTRO CELJE D. D.	1.6
FINANCE	
NLB D. D.	14.9
ABANKA D. D.	5.4
ZAVAROVALNICA TRIGLAV D. D., LJUBLJANA	4.4
SID – SLOVENSKA IZVOZNA IN RAZVOJNA BANKA, D. D., LJUBLJANA	4.0
POZAVAROVALNICA SAVA D. D., LJUBLJANA	0.8
ECONOMY	
TELEKOM SLOVENIJE D. D., LJUBLJANA	4.4
KRKA D. D., NOVO MESTO	2.2
SIJ – SLOVENSKA INDUSTRIJA JEKLA, D. D.	1.0
UNIOR D. D., ZREČE	0.6
CINKARNA CELJE D. D., CELJE	0.2
TRANSPORT	
DRUŽBA ZA AVTOCESTE V REPUBLIKI SLOVENIJI (MOTORWAY COMPANY OF THE REPUBLIC OF SLOVENIA) D. D., CELJE	25.9
SLOVENSKE ŽELEZNICE D. O. O.	3.1
LUKA KOPER D. D.	2.1
POŠTA SLOVENIJE D. O. O.	2.1
DRI UPRAVLJANJE INVESTICIJ, DRUŽBA ZA RAZVOJ INFRASTRUKTURE, D. O. O.	0.2
Total	93.8

* The calculations are based on estimates and data for FY 2017 available at the time of drawing up this report.

7.2.9.3 Return on equity (ROE) of the portfolio of assets under SSH management in 2014-2017 period

Return on equity (ROE) of the total portfolio of assets under SSH management has been continually increasing. In spite of the sharp growth in the last year it is estimated that ROE of the portfolio will continue to slightly increase in 2017, expectedly to 6.1%, in spite of the fact that the portfolio includes two thirds of strategic assets whose priority is the attainment of strategic goals, that is, the realisation of various important social interests and not solely economic goals. The attainment of strategic goals and economic goals is, however, often mutually exclusive, hampering the attainment of higher ROE arising from the state capital assets portfolio.

The average weighted rate of return on equity (ROE) of the SSH portfolio of assets under management, by pillars, in the 2014-2017 period

Pillar	ROE (in %)			
	2014	2015	2016	2017 (estimate)
ENERGY SECTOR	1.1	2.2	4.1	3.2
FINANCIAL SECTOR	0.6	5.9	8.9	9.2
ECONOMY	2.8	12.6	6.5	7.1
TRANSPORT	3.7	3.4	5.0	5.4
Portfolio	1.8	4.7	6.0	6.1

According to first estimates, in 2017, return on equity (ROE) of the portfolio of assets under SSH management (total of RS and SSH capital assets) will raise to 6.1%. Strategic assets which take up approximately two thirds of the total portfolio have the greatest impact on the ROE achieved. In 2017, the highest ROE was achieved by important capital assets (including companies such as Petrol, Krka, Pozavarovalnica Sava, NLB...).

Return on equity (ROE) for 2017 by the criteria of assets classification as stated in the Asset Management Strategy

2017 (estimate)	Book value of RS and SSH stakes as at 31 December 2017	Share of the portfolio	Return on equity (ROE)*
STRATEGIC ASSETS	7,202,504,912	66.9%	4.6%
IMPORTANT ASSETS	2,386,775,821	22.2%	10.6%
PORTFOLIO ASSETS	1,179,061,634	10.9%	6.2%
Portfolio	10,768,342,367	100.0%	6.1%

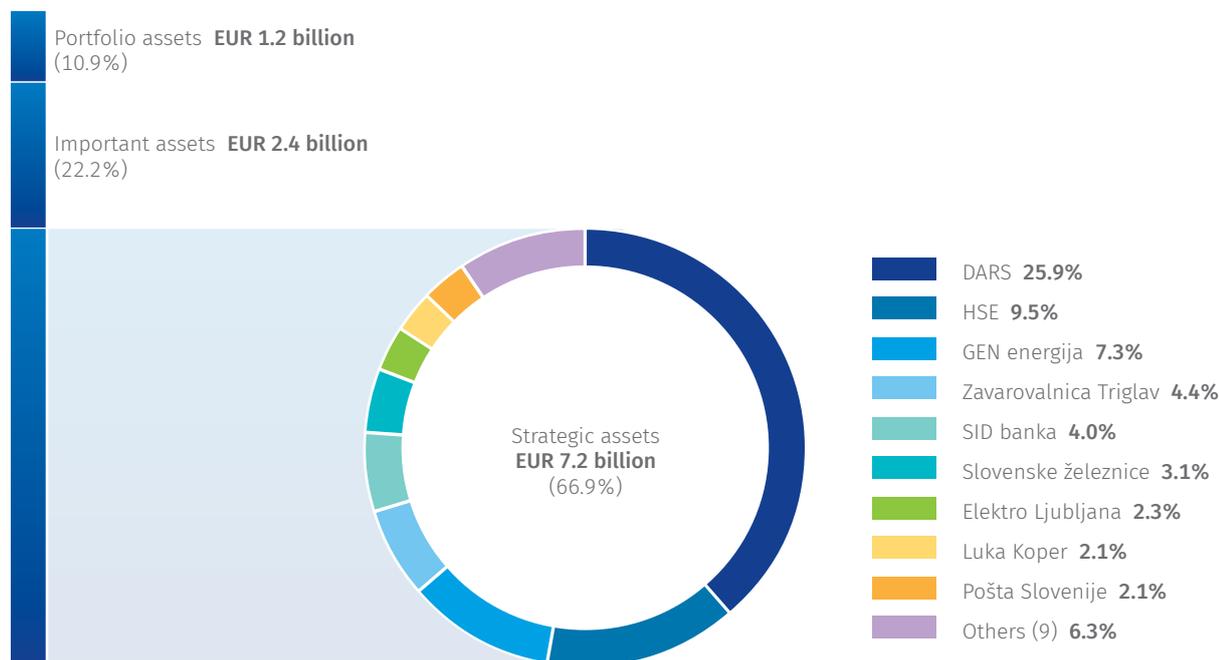
* Note: The calculation of ROE for individual pillars takes into account the relevant eights of an individual asset within the scope of an individual classification and not the portfolio as a whole.

Return on equity (ROE) for 2017 (estimate) by the criteria of share quotation an Stock Exchange

2017 (estimate)	Book value of RS and SSH stakes as at 31 December 2017	Share of the portfolio	Return on equity (ROE)*
LISTED	1,718,472,061	16.0%	9.6%
UNLISTED	9,049,870,306	84.0%	5.4%
Portfolio	10,768,342,367	100.0%	6.1%

* Note: The calculation of ROE for individual pillars takes into account the relevant eights of an individual asset within the scope of an individual classification and not the portfolio as a whole.

Presentation of the portfolio structure of capital assets owned by RS and SSH by the criteria of asset classification and the proportion of strategic assets in the total portfolio



7.2.9.4 Dividends

SSH supports the development and efficiency of operations of portfolio companies, and, by means of its decisions made at General Meetings of Shareholders of companies, pursues a responsible approach to the dividend policy in terms of advocating a suitable balance between dividends and development needs of companies. Simultaneously with the increase in the return on equity (ROE), the ratio between the amount of the dividend pay-outs and equity has also been increasing. Having achieved high dividends paid out by companies under SSH's management in 2017 (RS received the total of EUR 211.1 million whereas EUR 45.9 million was paid to SSH, totalling EUR 257 million of dividend pay-outs), SSH expects dividend amount to be lower for 2018 (for FY 2017), in light of certain assumptions (the possibility of dividend non-payment by NLB).

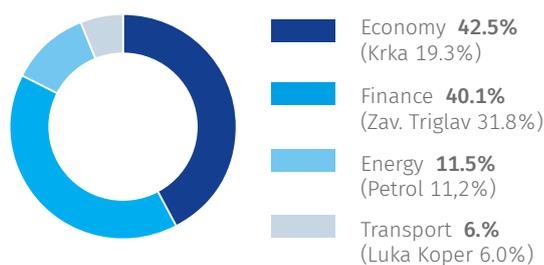
7.2.9.5 Capital assets owned by SSH

Due to the transfer to RS of one portion of shareholding in Petrol, Krka and Pozavarovalnica Sava at the end of 2017, the portfolio of assets owned by SSH was reduced to amount to EUR 672.2 million, measured at the book-value of equity holdings at 31 December 2017*. The portfolio of assets owned by SSH continues to be highly concentrated - the total of assets from the Economy and Financial Sector Pillar represents more than four fifth of the entire portfolio, with equity stakes in Krka and Zavarovalnica Triglav together amounting to more than one half.

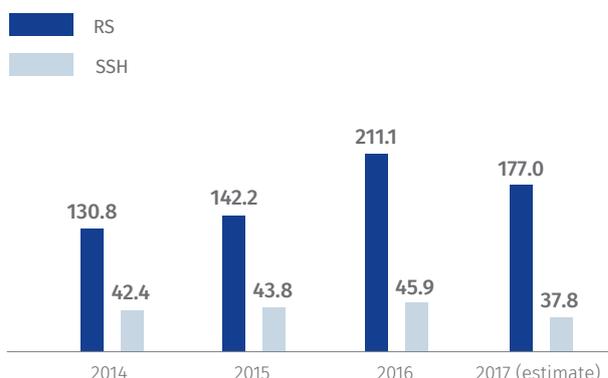
In light of the portfolio composition which, as opposed to the portfolio of assets owned by RS, includes less strategic assets, return on equity (ROE) of the said portfolio is correspondingly higher and moves between 10% and 11% in the last three years.

* The value is an estimate taking into account the data available at the time of drawing-up this Report.

The share of pillars in the SSH portfolio (capital assets owned by SSH) as at 31 December 2017



Dividend pay-outs in EUR for assets owned by RS and SSH separately (for financial years)

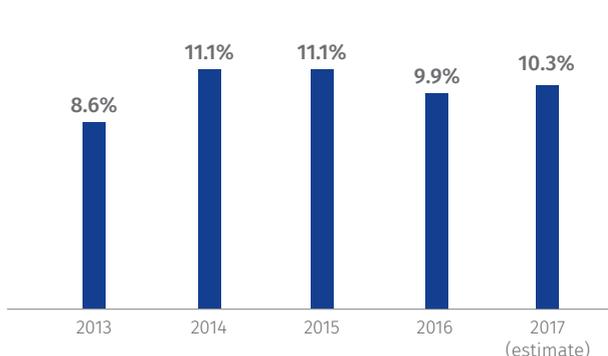


Selected data on the portfolio of capital assets owned by SSH in 2015-2017 period*

Companies directly owned by SSH (excl. companies in bankruptcy or liquidation) – in 000 EUR	2015	2016	2017 (estimate)
Total sum of book-value of shareholdings	780,845	818,974	672,220
Portfolio ROE	11.1%	9.9%	10.3%
dividend per financial year	43,821	45,924	37,757
Dividend to-equity ratio (dividends/equity)	5.6%	5.6%	5.1%

* The dividend-to-equity ratio is calculated as the ratio between the dividends paid for an individual FY and the average balance of the sum of book-value of shareholdings in an individual FY ((opening balance + closing balance / 2). Due to the transfer of shareholdings held by SSH in Pozavarovalnica Sava, Petrol and Krka from SSH to RS, pursuant to ZSOS, in the calculation of the SSH's dividend-to-equity ratio for 2017 (an estimate), the dividends attributed to the transferred shareholdings are not included in the numerator whereas these shareholdings continue to be partially included in the calculation of the denominator (in the opening balance of the sum of book-value of shareholdings). On account of the above, the dividend-to-equity ratio for 2017 (an estimate) has decreased to 5.1%; in the opposite case, i.e. by taking into account only the closing balance of the sum of book-value of shareholdings, the estimated dividend-to equity ratio for 2017 would stand at 5.6%.

ROE for portfolio of assets owned by SSH in 2013-2017 period



7.3 Acquisition and disposition of capital assets in 2017

SSH runs the processes for the disposition and acquisition of capital assets held by RS and SSH on the basis of the valid, State Assets Management Strategy, Annual Assets Management Plans for individual years and on the basis of the consent of the National Assembly of 21 June 2013 to sell assets held in 15 companies. The sale processes are run on the basis of the SSH Asset Management Policy, which presents principles, procedures and criteria applied by SSH in carrying out its duties and activities as stipulated by ZSDH-1. Thus, in addition to other matters, the Asset Management Policy determines the methods for the sale of capital assets, the communication on disposition and acquisition of capital assets, the course of a process for the sale of capital assets, the method for running the sale processes and the method for hiring financial institutions and other advisors engaged in the sale process.

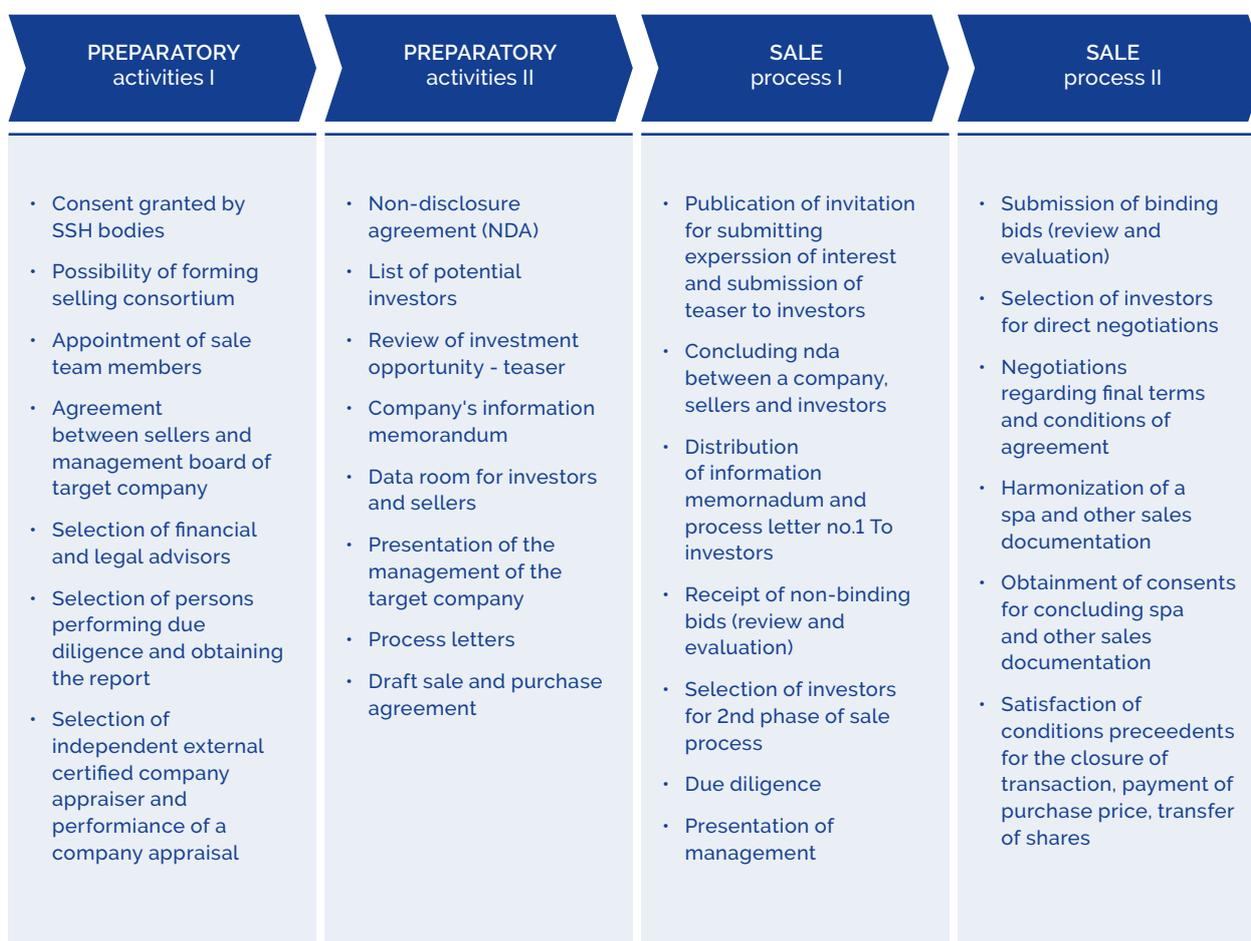
SSH strives for the sale processes to run in an efficient, transparent and competitive manner following the

principle of equal treatment of participants and in line with international market practice. For this purpose and with the aim of increasing its credibility with investors, SSH leads the sales processes regarding the largest capital assets in cooperation with renowned international financial and legal advisors qualified in financial advisory services.

The fundamental objective pursued by SSH in the sales of shareholdings is the attainment of the highest proceeds from the sale. In regard to the sale of assets owned by RS, 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.

In cases of 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

M & A Method of Sale



and SSH are conducted on the basis of Agreements on the Sale of Shares and Letters of Intent concluded by and between SSH and other shareholders. These documents stipulate and express the intent that signatory parties will jointly implement sale processes. Sale processes of large capital assets are conducted in cooperation with relevant advisors. In these cases, sales documentation is developed about an individual company (a teaser and Information Memorandum) and submitted to investors who have demonstrated their interest in the sale and have concluded a Non-Disclosure Agreement (NDA). In accordance with internal rules for individual companies, SSH obtains a Financial and Legal Due Diligence Report and, prior to the conclusion of the Purchase and Sale Agreements, the appraisals of the company value produced by an independent certified appraiser of company value for large SOEs, whereas, in case of small SOEs subject to sale, an internal value assessment is produced.

An effective implementation of sale process requires an active cooperation of a company whose large equity stakes are the subject to the sale. With the aim of defining in detail the method of cooperation with

an 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 vendors strive to conclude with a company in question a special agreement on mutual relations in the sale process.

The sale process may thus be divided into three main phases: preparatory activities, sale process activities and post-sale activities after the closure of the sale process (verifying the satisfaction of potential additional contractual commitments on the part of a buyer or a seller). The following section presents key steps in individual phases of a sale process under the M&A method for large SOEs. The process is simplified in regard to a process which involves the sale of smaller SOEs.

7.3.1 Activities in connection with the disposition of capital assets

In 2017, SSH continued its activities pursued in regard to the sale of capital assets held in the ownership of RS and SSH, initiated on the basis of the decision adopted

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

No.	Company name/ownership stake*	RS (%)	SSH (%)	KAD (%)	DSU (%)	SSH (former PDP) (%)	MZ (%)	Total (%)
1.	Adria Airways Tehnika d. d.	0	0	0	0	52.33	0	52.33
2.	Adria Airways d. d.	69.87	0	0	0	2.08	0	71.95
3.	Aero d. d. – in bankruptcy	0	0	0	0	1.44	0	1.44
4.	Aerodrom Ljubljana d. d.	50.67	6.82	7.36	0	0	0	64.85
5.	Cinkarna Celje d. d.	0	11.41	0	0	0	20	31.41
6.	Elan d. o. o.	0	0	0	17.34	49.03	8.57	74.94
7.	Fotona d. d.	0	0	0	0	70.48	0	70.48
8.	Gospodarsko razstavišče d. o. o.	0	0	29.51	1.22	0	0	30.78
9.	Helios d. d.	0	9.54	0	0	0	8.31	17.85
10.	Nova KBM d. d.	100.00	0	0	0	0	0	100.00
11.	Paloma d. d.	0	0	0	0.02	30.35	0	30.37
12.	Telekom Slovenije d. d.	62.54	4.25	5.59	0	0	0	72.38
13.	Terme Olimia Bazeni d. d.**	0	0	49.70	0	0	0	49.70
14.	Unior d. d.	0	2.31	5.55	0	37.11	0	44.97
15.	Žito d. d.	0	12.26	0	0.01	0	15	27.24

■ Sale process closed successfully.

* Sales of capital assets owned by SSH and/or RS realised in 201 Current ownership stakes or stakes at the time of executing a Sale and Purchase Agreement (if assets have been sold) are presented.

** Since 30 September 2014, the company: Terme Olimia Bazeni d. d, does not exist anymore due to its merger with Terme Olimia d. d.

by the National Assembly. In addition to these activities, SSH also managed other activities related to the sale of other capital assets owned by SSH and RS.

As shown in the table above, by 31 December 2017, assets in nine companies were sold, of this number, assets in one company were sold in 2017.

The largest asset in regard to which SSH, in cooperation with selected advisors, started to pursue preparatory activities as early as in 2016 and which were carried out throughout the first half of 2017, were the shares of Nova Ljubljanska banka d. d. which is wholly owned by RS. In June 2017, the Government of RS, in the capacity of the SSH General Meeting, refused to grant its consents to the minimum offering price and to the offering price range for the NLB share set in the process for the initial public offering («IPO») of the NLB share which is why SSH could not continue with the sale process. In 2018, SSH will reopen the process for the sale of NLB, d. d., if and when RS, acting as the sole shareholder of the said bank, accepts the decision to carry out the sale process.

Throughout 2017, SSH intensively pursued after-sale activities in connection with the closed process of sale in connection with shares issued by Cimos d. d. (Cimos). The sale of Cimos shares was completed in May 2017, following the satisfaction of all conditions precedent referred to in the Purchase and Sale Agreement executed in October 2016.

The reporting period also saw the continuation of activities initiated on the basis of policies from the State Asset Management Strategy and the Equity Swap Agreement concluded for the swap and sale of shareholdings in Geoplin d. o. o., Ljubljana, and Plinhold d. o. o., Ljubljana. The course of activities is

presented in detail in the Chapter: »Main activities and events in 2017 in regard to asset management by individual companies«.

Additionally, the process for the sale of shares of Paloma d. d., Sladki Vrh (Paloma) was completed in 2017. 2015 and 2016 saw the share capital increase process that was conducted in Paloma, d. d., and run by the management of Paloma, in cooperation with a financial and legal advisor. At the General Meeting held in July 2016, SSH supported capital increase in Paloma carried out by Eco-Invest a.s., Slovak Republic. The said company later merged with subsidiary ECO-Investment a. s. At the end of December 2016, the two companies, i.e. Eco Investment a. s., Czech Republic, and Eco-Invest SVK a. s., Slovak Republic, published a take-over bid for the purchase of Paloma shares; the said take-over bid was published at the end of January 2017. In February 2017, SSH accepted the said take-over bid and in March received the proceeds from the sale and transfer the shares to the acquirer.

Pursuant to the Agreement on Joint Sale of 36.35% share capital in KDD d. d. (KDD), SSH, together with KAD and Triglav skladi d. o. o., in April 2016 published a public invitation to tender for the purchase of KDD shares. The contract on the sale of shares with the buyer of KDD was signed at the end of May 2017. On the basis of the said contract, SSH will sell all 100 shares in its ownership whereas the buyer will acquire them after the satisfaction of all contractual terms and conditions. At 31 December 2017, the contract had not been implemented yet.

For the sale of smaller equity stakes managed by SSH, two public invitations to tender for the purchase

Share Purchase and Agreements concluded in 2017

Asset	Buyer	Date of signing the agreement	SSH ownership stake (%)	RS ownership stake (%)
Geoplin d. o. o.	Petrol* d. d.	9. 2. 2017	0.05	-
Paloma d. d.	ECO-Investment in ECO-Invest SVK a. s.	23. 2. 2017	30.35	-
Intertrade ITA d. d.	Inerra d. o. o.	24. 4. 2017	7.69	-
Telemach Rotovž d. d.	Telemach d. o. o.	4. 5. 2017	-	1.17
KDD d. d.	KDD d. d.	29. 5. 2017	19.23	-
Toplotna oskrba d. o. o.	Alojz Cugmajster	15. 6. 2017	-	49.17

* The exact share of the equity stake sold to the buyer will be determined upon the completion of the transaction which will be implemented in accordance with the Memorandum of Association of Geoplin.

of shares were published. in 2017. On this basis and based on the public invitation published in 2016, SSH concluded and realised three contracts on the purchase and sale of shares and staked in the following companies: Telemach Rotovž d. d., Intertrade ITA d. d. and Toplotna oskrba d. o. o., however, the sale processes based on the public invitation to tender for the purchase of shares published in October 2017, had not yet been completed at 31. December 2017.

The remainder of the text presents an overview of Purchase and Sale Agreements in connection with capital assets as concluded by SSH in 2017.

In connection with the Contract on Regulation of Mutual Relations in connection with Casino Portorož d.d., the court settlement was concluded in the first half of 2014 on the basis of which SSH and KAD were recognised as having an unconditional right for the monies received in 2013. In March 2017, on the basis of the court settlement with the majority owner of Casino Portorož, SSH and KAD, concluded the Agreement to regulate mutual relations which regulates the compensation for SSH owing to the prohibition on the disposal of shares, in addition to the terms and conditions of sale in case of Amendments to the Gambling Act.

As at 31 December 2014, SSH also held at its disposal the agreement having been concluded for the sale of shares of Casino Bled although it was not yet realised. SSH and KAD concluded the Purchase and Sale Agreement with respective buyer as early as in 2011, but for several times the Ministry of Finance refused to issue the consent for the acquisition of ordinary shares required in accordance with the Gambling Act. Considering the above stated, SSH is still the holder of these shares.

7.3.2 Activities in connection with the acquisition of capital assets

Throughout 2017, SSH continued its activities in connection with shares issued by Petrol. On the basis of the public invitation to tender 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. The Seller, NLB, accepted the offer in January 2017 and the transaction was realized in February 2017.

At the end of 2017, SSH continued its activities to maintain the largest equity stake held by the Republic of Slovenia in Petrol and its related enterprises.

On 26 July 2017, Petrol, Zavarovalnica Triglav d.d. and its subsidiary Salnal d.o.o. (Salnal) and RS signed the Agreement on the Purchase and Sale of Equity Stakes in Geoplin and Plinhold, on the basis of which Petrol will purchase equity stakes of Salnal held in Geoplin whereas RS will purchase the equity stake held by Salnal in Plinhold. RS will continue to kept a 25.01% equity stake in Geoplin.

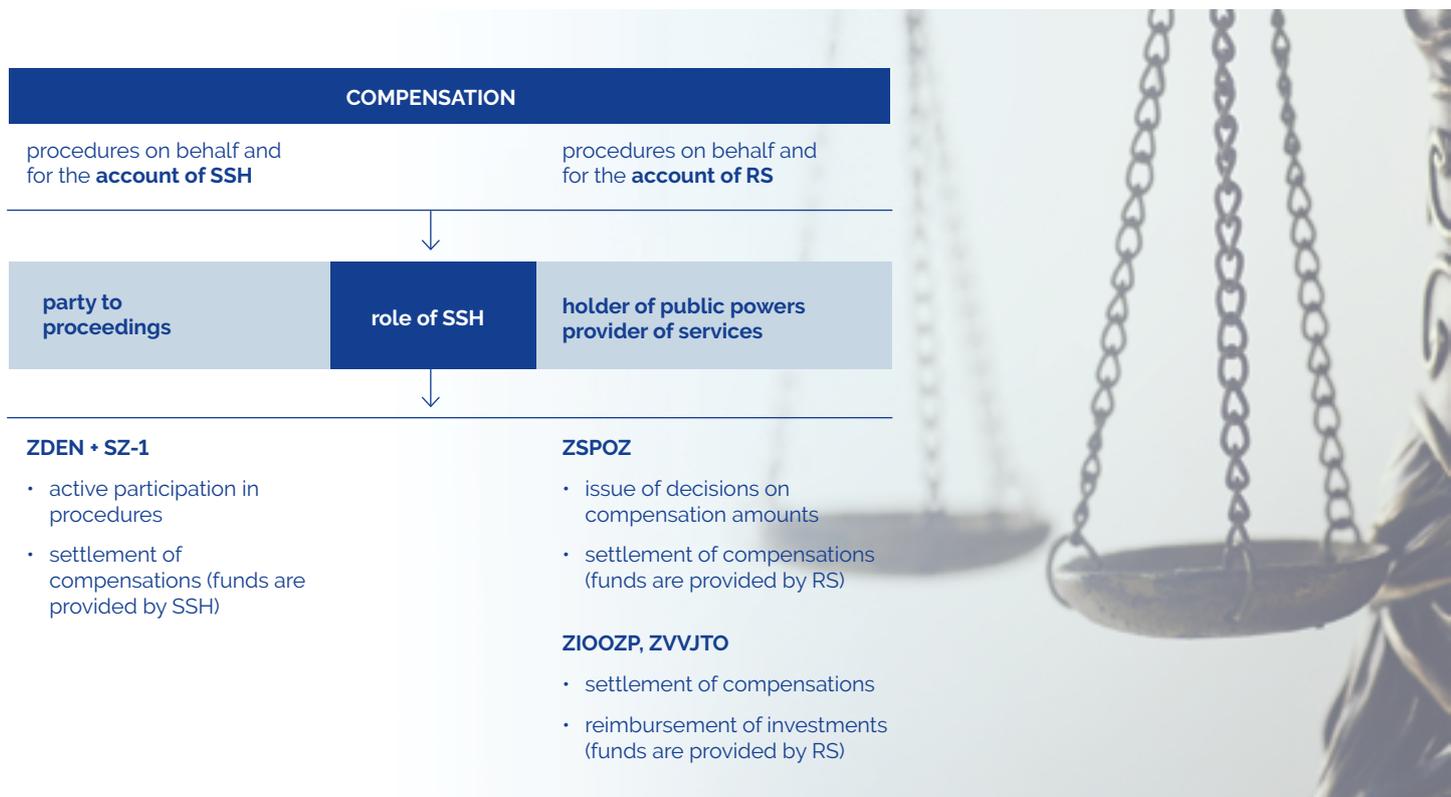
In July 2017, the RS Government adopted the Decree on the transfer for compensation of Koto from BAMC to RS. Immediately after receiving the said Decree, SSH initiated the relevant procedures and obtained reports on the appraisal of the equity value of equity and on legal and financial due diligence. At 31 December 2017, the transaction had not been implemented yet.

Contracts concluded in 2017 for the acquisition of capital assets

Asset	Seller	Date of signing the agreement	SSH ownership stake (%)	RS ownership stake (%)
Petrol d. d.	NLB d. d.	3. 2. 2017	–	3.03
Plinhold d. o. o.	Salnal d. o. o.	27. 7. 2017	–	7.84*

* The exact share of the equity stake acquired will be determined upon the completion of the transaction which will be implemented in accordance with the Memorandum of Association of Plinhold.

7.4 Denationalisation and settlement of compensation under various bills



7.4.1 SSH's role in denationalisation proceedings

In addition to duties stipulated by ZSDH-1, SSH exercised all powers, responsibilities, rights and obligations imposed on the company prior to its transformation; this also included the settlement of liabilities to beneficiaries under ZDen and under other regulations regulating denationalisation of assets, and taking part in proceedings before administrative and judicial bodies and in procedures for the determination of compensation on the basis of Article 73 of ZDen. SSH also takes part in the mediation procedure in which claims in regard to nationalised assets are handled by courts. In accordance with the provisions of Article 51 of ZDen, SSH is the party liable to pay compensation in shares, held at the disposal of the Republic of Slovenia, and, pursuant to the provisions of Article 60 of the same Act, SSH holds the status of a party to denationalisation proceedings.

In accordance with ZDen and other regulations, compensation is determined when there are obstacles for the compensation of nationalised property in kind and in cases of statutory possibility on the part of a beneficiary to select the form of compensation. However, in procedures for the determination of compensation to claimants from whom property was restored to

beneficiaries in kind (processes under Article 73 of ZDen), compensation in bonds is explicitly envisaged under condition that all stipulated criteria for such a condition are met.

SSH diligently examines all claims received upon their legal basis, their scope and amount and strives to consistently determine the appropriate compensation amount attributable to a beneficiary. When required, individual pieces of evidence and supporting documents are obtained from various archives and other sources, SSH inspects the data in the Electronic Land Register, examines ortho photo images and checks data bases of surveying and mapping authorities, etc. When it is not possible to establish the current state of immovable property in any other way, an inspection of immovable property is conducted.

SSH regularly replies to the submitted claims within the time periods set by administrative and judicial bodies, and in its first reply takes its stand regarding all facts having an impact on the decision, when sufficient documentation is available to take such a position. The value calculations of the nationalised agricultural and building plots of land, valuation of movable

property, purchase prices, compensation granted upon nationalisation, are reviewed, as before, by SSH whereas valuation reports in regard to construction and mechanical engineering and arts is carried out with the assistance of experts and appraisers from specific disciplines. SSH actively participates in denationalisation procedures by taking part in the scheduled oral proceedings and hearings and when required, organises meetings with participants in the procedures.

7.4.2 Denationalisation procedures at the level of the Republic of Slovenia

According to the data provided by the Ministry of Justice which monitors the implementation of the denationalisation, 99.6% of cases were complete and final before the administrative bodies at of 30 September 2017. At 30 June 2017, local courts settled as many as 99.2% of cases, with the data referring to cases handled under Article 5 of Zden. The published data do not include any data on claims lodged and outstanding pursuant to the provision of Article 73 of Zden and on claims made by re-established agricultural communities for compensation in bonds. As a matter of fact, these are claims lodged under ZPVAS and which may be filed before responsible courts also in the future.

7.4.3 Denationalisation procedures at the level of SSH

SSH recorded a total of approximately 249 claims registered and still outstanding at 31 December 2017. Eighteen (18) new claims were lodged in the period of reporting, providing for the legal protection of its rights as a shareholder and representing the Republic of Slovenia and SSH as a shareholder in administrative procedures, judicial proceedings and other procedures.

SSH takes part in the scheduled oral proceedings and hearings and, when the attendance is necessary for proper and full determination of legal status of the case. When all conditions are given to reach a settlement agreement, such claims are also solved by concluding settlement agreements. From the initiation of its functioning in 2007 and up to 31 December 2017, the Settlement Committee met at 113 sessions, and concluded 76 settlement agreements.

After the completed fact-finding procedure before administrative bodies at the first instance, a body running the denationalisation procedure or a relevant commission, draws a report on the established actual and legal state of affairs regarding the case. Such report thus closes the procedure and presents the intended decision to be made by the administrative body.

The number of claims, documentation material and reports on procedures

	Total by 31 December 2015	Total by 31 December 2016	Total by 31 December 2017	From 1 January until 31 December 2017
Claims received	22,473	22,491	11,508	18
Appraisals and calculations received	20,362	20,412	20,445	34
Reports on the established actual and legal state of affairs regarding the case	22,461	22,517	22,561	44

Number of decisions issued

	Total by 31 December 2015	Total by 31 December 2016	Total by 31 December 2017	From 1 January until 31 December
Firs-instance decisions received determining compensation in bonds	20,326	20,379	20,416	37
Appeals lodged in regard to decisions with time of preclusion	5,040	5,054	5,072	18
% of appeals against decisions determining compensation in bonds	24.79	24.79	24.79	40.54
Initiated legal actions and revisions	901	918	930	12

In the reporting period, SSH received 59 decisions of rejections by way of which claims were rejected at the first and at the higher instances since no conditions had been given for determining compensation under regulations regulating denationalisation. As a rule SSH lodged applications for legal remedies against decisions on compensation amounts only when justified reasons were given, specifically, either due to an incompletely or incorrectly determined statement of affairs, or due to mistaken application of the substantive law. Reasons for appeal mainly referred to the questionable legal foundation of the claim and the eligibility for denationalisation, the timely lodging of claims, and an incorrectly determined compensation amount. Reasonably similar arguments also apply for an action lodged in an administrative dispute or during a judicial review before the Supreme Court of the Republic of Slovenia.

7.4.4 Significant decisions made and issues raised in denationalisation procedures

Only the most complex denationalisation cases are still being handled. These include cases which are either highly complex or include a claim for high compensation amount and which refer to complex legal issues. Thus, claims handled in the reported period had been lodged by individuals, cooperatives, the churches and claimants by way of which property had been restored to denationalisation beneficiaries in kind (which included companies, public institutions, banks and similar institutions). Companies, capital assets, properties and immovable properties all were subject to denationalisation under which relevant compensation was determined. There are still open proceedings in regard to claims that refer to the denationalisation of property which was nationalised and used to belong to owners - members of agricultural communities, and which are dealt with in accordance with ZPVAS and in accordance with Agricultural Communities Act which was adopted in 2015 (agricultural communities with a registered seat in another country). SSH has received some important decisions adopted by the highest decision-making bodies which have reinforced the case law in regard to the issue of active legitimation, in regard to the timely lodging of complaints for the reduced value of pieces of real estate, the denationalisation eligibility and similar issues.

In October 2017, SSH received the decision passed by the Constitutional Court of the Republic of Slovenia which

refers to the issue of whether former owners of assets who had the right to receive compensation from the Republic of Austria are eligible to claim compensation for denationalisation in Slovenia. This issue deals with eligibility under the Financial and Compensation Treaty («FCT») concluded by and between Austria and Germany. Claims involving this issue are generally dismissed by a final decision and requests for judicial review are either dismissed or rejected. In relation to certain issues in connection with the FCT, the Supreme Court of the Republic of Slovenia has fully accepted argumentation provided by SSH. On the basis of the decision by the Constitutional Court of the Republic of Slovenia repealing judgements mostly passed by the Administrative Court of the Republic of Slovenia, fewer than 30 cases were referred back for a renewed procedure. This means that a body in charge of the procedure will have to determine in better detail the material status of former owners and beneficiaries. SSH will thoroughly examine these claims, verifying them not only from the aspect of eligibility for compensation due to denationalisation but, similarly as with other claims, also from the aspect of the satisfaction of all conditions stipulated by Zden.

More important claims, or high-volume claims include the claims by the Archdiocese Ljubljana (Triglav National Park), Meščanska korporacija Kamnik, banka Celje (EUR 4.2 million, only for the principal) and other claims by private individuals which are not complex only in terms of their size and compensation amount but also in terms of legal issues involved. SSH has been successful in enforcing its positions; for example in the case regarding the Archdiocese Ljubljana – Baraga Seminary (EUR 5.8 million only for the principal), or in the case of Nova kreditna banka Maribor in regard to the compensation under the provision of Article 73 of ZDen (EUR 15.6 million only for the principal), and in denationalisation cases involving individuals which refer to issues involving active legitimation, ownership of property, the amount of compensation and other issues concerning the satisfaction of criteria for compensation.

7.4.5 Implementation of denationalisation-related decisions and settlement of liabilities

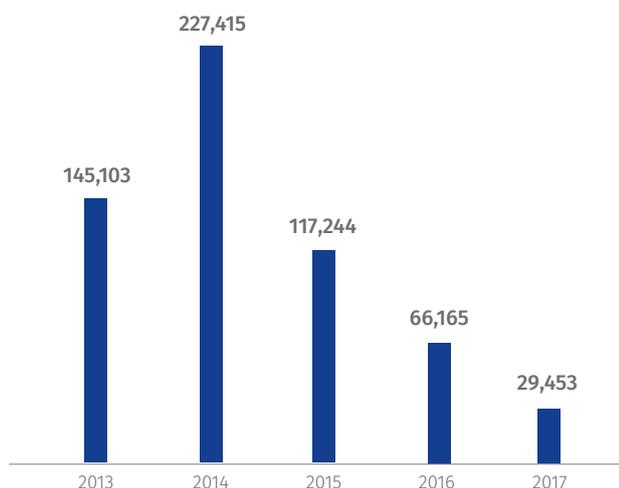
For settling liabilities due to beneficiaries under ZDen, Cooperatives Act and other regulations governing the denationalisation of property, Slovenian Sovereign Holding floated eight bond issues, issuing 18.7 million

of SOS2E bonds, in bearer bond form; their total value amounted to EUR 956 million. From the time SSH assumed the carrying out of task under ZDen and by 31 December 2017, SSH paid out the total amount of EUR 1,709.8 million.

SSH implements denationalisation-related decisions pursuant to the provision of the first indent of Article 59 of ZDen. It also implements decisions issued by the Ministry of the Environment and Spatial Planning in relation to the decision-making under the provisions of Article 173, Paragraph 3 of the Housing Act (hereinafter referred to as: »SZ-1«). Such decisions are no longer implemented by transferring bonds from the temporary account held at the Klirinško depotna družba d. d. (Central Securities Clearing Corporation) to the account of a recipient, but the entire liability arising from bonds is paid to the account of an eligible person, who may be a beneficiary, a heir or a trustee for special cases. The SOS2E bond matured on 1 June 2016 as a result of which all 40 coupons are paid to a person. The implementing regulation regulating the implementation of denationalisation-related decisions has not been modified (Decree on Bond Issue and Decision Implementation regarding decisions on compensation liable to be paid by Slovene Compensation Fund). ZDen has not been modified either and therefore, for SSH to implement decisions, a full application is still needed which, however, is not followed by a transfer of bonds but by fulfilling the entire liability arising from these securities.

With the aim of fulfilling its duties, SSH transferred as many as 17,348,061 bonds to 27,601 bond holders by 31 December 2017.

The number of paid-out SOS2E bonds



Denationalisation-related claims are currently in the final process of their settlement, thus the number of bonds having been paid-out has also decreased. Otherwise, denationalisation decisions which have been received and which must be enforced by SSH include decisions with lower compensation amounts or which, due to the initiated and completed probate proceedings, are enforced on a partial basis only, since beneficiaries fail to decide on a coordinated timing to enforce these decisions. Considering the above, one part of a decision will remain unimplemented due to subjective circumstances on the part of the eligible parties.

Pursuant to Article 173 of SZ-1, according to which a tenant enforcing a right to purchase a second apartment holds the right to claim compensation from SSH in bonds and in cash, SSH has transferred 351 SOS2E bonds and paid out EUR 25,851 in cash.

7.4.6 Compensations to victims of war and post-war violence

The Payment of Compensation to the Victims of War and Post-war Aggression Act (»ZSPOZ«) imposed on SSH public powers to run procedures for issuing decisions on compensation amounts and for performing administrative and technical activities in relation to their implementation. SSH continues to calculate the compensation amounts on the basis of a status recognised under the Victims of War Violence Act (»ZZVN«) and Redressing of Injustices Act (»ZPkri«), which provide for the legal basis for acknowledging the status of a beneficiary to compensation under ZSPOZ.

For the payment of compensation to victims of war violence, the Republic of Slovenia has issued RS39 bonds, in the total amount of EUR 135,5 million. From the beginning of carrying out activities under these public powers and until 31 December 2017, SSH transferred 31,771,764 of RS39 bonds, and, in the reported period, paid out an amount equivalent to 12,321 of RS39 bonds and EUR 17,831 in cash since, prior to the amendment to ZSPOZ, the compensation amount was divided in bonds and cash.

Following the adoption of ZSPOZ, beneficiaries, who have been issued and served the decision after 7 April 2009, are paid the compensation amount only in cash. A beneficiary may receive compensation either under ZZVN or under ZPkri or under the combination of both sectoral laws, but the total sum to be received by an individual beneficiary under ZSPOZ should not exceed

the sum of EUR 8,345.85. In light of the above, SSH also issued decisions stipulating that an eligible person is not eligible to be compensated in spite of having a status acknowledged under ZZVN or ZPkri.

In the reported period, SSH thus issued 1,054 decisions on the compensation amount. In regard to decision type, decisions issued under ZPkri still prevail while decisions issued under ZZVN are less significant in terms of number and their compensation amount. The compensation was not determined for a significant number of beneficiaries since they had received the highest possible compensation ruled in previous decisions. In comparison to 2016, the number of decisions issued increased by 40%.

Payments under ZSPOZ in EUR



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

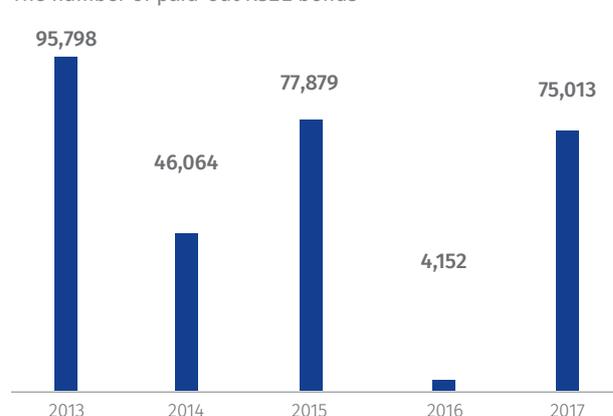
The Act Regulating the Issuing of Bonds in Compensation for Confiscated Property pursuant to Abrogation of the Penalty of Confiscation of Property («ZIOOZP»), SSH duties which originally related to the settlement of liabilities under regulations governing denationalisation expanded to the issuing, servicing and payment and calculation of interest for bonds issued on 1 February 2001. Two million registered bonds were issued with the symbol RS21, amounting to a total value of EUR 83 million.

Slovenian Sovereign Holding enforces final decisions on compensation for the confiscated property by paying out the relevant compensation amount and no longer by transferring bonds since RS21 bond matured on 1 March 2015. Since no amendments to ZIOOZP have been adopted, considering the interpretation of Article 3, Paragraph 5 of ZIOOZP, the compensation amount is

determined so that interest is calculated from the day when the decision on the abrogation of the confiscation of property penalty and the determination of compensation for the confiscated property becomes final until the issue of bonds. The enforcement of a decision may be requested by a beneficiary or his/her legal successor demonstrating such status by way of a final decree of distribution or by any other valid legal title. From the beginning of the implementation of decisions until 31 December 2017, SSH paid out the equivalent of 1,819,728 of RS21 bonds.

As regards the reporting period, compensation in the value equivalent to 75,031 of RS21 bonds was paid out to beneficiaries or their legal successors.

The number of paid-out RS21 bonds



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

Pursuant to Article 3 of the Reimbursement of Investments in Public Telecommunications Network Act («ZVJTO»), Slovenian Sovereign Holding reimburses payments for investments into the public telecommunication network. The above mentioned obligation is carried out on behalf of the Republic of Slovenia and for its account - the Republic of Slovenia is the party liable to carry out the payment. Slovenian Sovereign Holding fulfilled its obligations arising from these enforceable instruments in six months following the entry into force of amendments to ZVJTO. The settlement of liabilities pursuant to the enforceable instruments which are submitted directly by the State Attorneys of the Republic of Slovenia, is carried out by the Company within 60 days following their receipt.

Until 31 December 2017, the total sum of EUR 191.48 million was paid for liabilities arising under ZVJTO; and EUR 26,208 was paid during the reporting period.

8 FINANCIAL RESULT FOR SSH GROUP AND SSH

The financial position and financial results of SSH and SSH Group are mainly affected by some key financial categories, financial income, of which dividends received are by far the most important category, partially including capital gains generated with the sale of financial investments, and financial expenditure mostly covering interest for loans and SOS3, as a result of the volume of SSH's financial debt. The remaining part of this chapter illustrates financial categories for SSH; as the on-line consolidation method is used for the consolidated financial statements of SSH Group, results of SSH Group do not deviate significantly from the results of SSH.

The graph below clearly shows the movement in the total financial debt of SSH in the past five-year period. In June 2015, one share of debt arising from bank loans was

replaced by the debt arising from the issue of SOS3 bond in the amount of EUR 100 million. A significant decrease in the volume of debt took place in 2017. In the second half of 2017, SSH reduced its debt for EUR 280 million for the repayment of bank loans. The source of funding the said deleveraging was the capital increase by the Republic of Slovenia which took place in December 2016, and amounted to EUR 200 million, while EUR 80 million was paid from SSH's own funds. According to SSH's assessment, the volume of debt in the amount of EUR 105 million is manageable.

SOS3 bond in the amount of EUR 100 million will mature on 24 June 2020. Long-term loan in the amount of EUR 5 million will be paid early in 2018. This loan's mark-up on Euribor is 1.55%. Neither the loan nor the bond have been secured by guarantees granted by the Republic of Slovenia.

In 2017, financial expenses decreased significantly as compared to the preceding year, as a result of the decrease in debt volume. In the years to come, financial expenses will additionally decrease as they will consist solely of interest expenses for SOS3 bond with a fixed rate of 2.5% per annum.

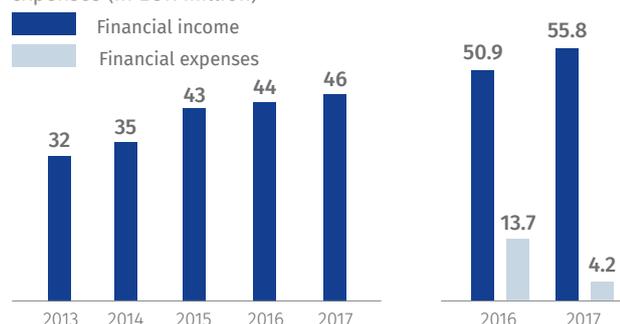
In the past five-year period, SSH has been steadily increasing its dividend income every year, making it the most important regular source of funds for the payment of liabilities. Extraordinary sources of funds are inflows from the sales of capital assets held in the ownership of SSH which, however, are more difficult to predict and depend on every applicable Annual Asset Management Plan and the adopted State Assets Management Strategy.

At the end of 2017, on account of SSH's free-of-payment transfer of one portion of SSH-owned capital assets to RS, totalling EUR 200 million, the value of capital assets held by SSH decreased significantly as a result of which dividend income in 2018 will be proportionally lower. SSH's equity as at 31 December 2017 is thus proportionally lower as compared to the preceding year, as a result of the impact of the free-of-payment transfer on the decrease in fair value provision and the increase of retained loss from previous periods. A positive impact on the SSH's equity as at 31 December 2018 was the increase in value of capital assets which have remained in the SSH ownership as at 31 December 2017 and are the result of higher exchange prices as compared to those of the preceding year and the net profit or loss of the reporting period totalling EUR 32,0 million. The net profit is lower than in 2016 mostly on account of net long-term provisions formed and amounting to EUR 14,5 million. Long-term provisions have been made on account of additional liabilities expected to occur in connection with denationalisation (see Accounting Report).

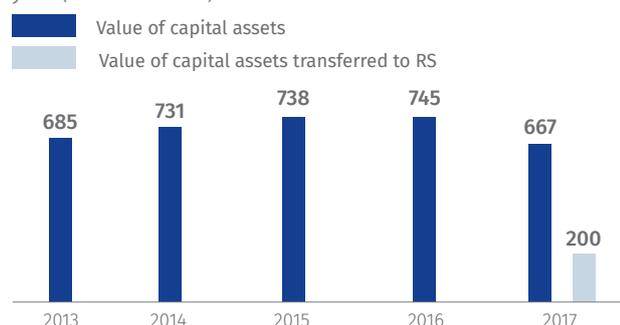
Volume of SSH's financial debt (in EUR mio)



Dividend Income received by SSH and financial income and expenses (in EUR million)



Value of capital assets owned by SSH at the end of individual year (in EUR million)





Management of SSH's liquid investments portfolio and of balance sheet

8.1 Primary focus of SSH investment policy

SSH implemented the adopted SSH investment policy within the scope of the adopted Business and Financial Plan for 2017 and the Rules on Investment Policy for the liquidity investments portfolio. The liquid investments portfolio belongs to the group of short-term financial investments and is dedicated to the provision of liquidity reserve – their structure is shown in the Table below. In regard to financial investments, and in accordance with the basic premises of its investment policy, SSH took into account both the riskiness and liquidity of investments as well as the balance between investments and liabilities in regard to their maturity.

In 2017, SSH settled all of its statutory and contractual obligations on a regular and timely basis. It maintained its current liquidity by planning cash flows and keeping a permanent liquidity reserve.

8.2 Cash flows and financial debt

Slovenian Sovereign Holding provided monies for the coverage of its liabilities mainly with inflows from matured deposits and liquid (portfolio) assets as well as from other inflows. An important source of funds to

cover SSH liabilities in 2017 were dividends of companies owned by SSH, revenue from the sale of capital assets and the sale of UCITS units of mutual funds.

The information on the repayment of long-term loans and total indebtedness are illustrated in the Chapter on SSH's financial performance.

In 2017, outflows for settling SSH's statutory obligations dropped by 82.7% as compared to the previous year and were lower than planned by 32%. The reason for this lies in the fact that on 1 June 2016, SSH paid out the last the 40th coupon of SOS2E bond, and then continued to settle liabilities only to denationalisation beneficiaries on the basis of new final decisions whose value was lower than planned. The share of liabilities arising from ZDen amounted only to 21.5% of all outflows allocated for statutory obligations.

After repaying long-term loans in July 2017, SSH invested the surplus of its financial assets exclusively into new call deposits and, when needed, used them for balancing its current liquidity. The balance of call deposits amounted to EUR 8.4 million. Until the receipt of the first dividend income in 2018, these funds will be allocated for balancing the current liquidity, while one part of these assets is expected to be kept for the settlement of the principal amount due when the SOS3 bond matures in 2020.

8.3 Volume and structure of liquid investments portfolio

As at 31 December 2017, the value of the liquid investments portfolio of SSH, measured at market prices, amounted to the sum of EUR 11.4 billion and decreased by 95% as compared to 2016 due to the disbursement of deposits used for the repayment of long-term loans.

As at 31 December, SSH had in its portfolio 91% of debt investment instruments, the majority of which entails assets invested in call-deposits, representing the 74% share of the total portfolio. The said investment portfolio is highly liquid as it mainly serves to balance the SSH liquidity.

At the end of 2017, SSH held only 9% of assets of the investment portfolio distributed in the equity investment class. As regards this investment class, SSH diversifies its investments by investing in liquid securities issued by various global issuers and in mutual funds. As at 31 December 2017, SSH held assets invested in various, mainly equity investment mutual funds of UCITS' management companies (domestic and foreign). This method ensures the dispersion of the SSH invested assets and provides for a low level of risk. These assets are highly liquid. Assets held in mutual funds represent a small part of the investment portfolio since the primary goal of the SSH investment portfolio management is the provision of liquidity, while taking advantage of market potentials and generating portfolio yield represent only a secondary goal.

The structure of the SSH's liquid investment portfolio by investment type

Investment type	Balance as at 31 December 2016		Balance as at 31 December 2017	
	in EUR 000	%	in EUR 000	%
Total debt investment	203,260	95	10,371	91
Deposits	201,300	94	8,390	74
Bonds	1,960	1	1,981	17
Equity investments	9,859	5	1,030	9
Mutual Funds	9,767	5	1,030	9
Shares and EFT (foreign, listed)	92	0	0	0
Total investment portfolio	213,119	100	11,401	100

The SSH investment portfolio performance and by investment class (in %)

Investment type	2015	2016	2017
Deposits	0.82	0.14	0.03
Certificate of deposits	0.63	0.63	-
Bonds	11.71	1.94	6.38
Mutual Funds	1.76	2.2	11.75
Shares and EFT (foreign, listed)	10.47	-2.3	11.42
The investment portfolio's performance	1.44	0.26	0.50

8.4 Profitability of liquid investments portfolio

In 2017, the returns generated by all segments of investment portfolio were positive. A relatively low return was generated by deposits, mainly as a result of a negative impact due to the falling interest rates on deposits. The weighted rate of return of the SSH portfolio amounted to 0.5% in 2017. The growth in the portfolio profitability was mostly contributed to by the segment comprising bonds, mutual funds and foreign shares and EFTs. In 2018, SSH will be careful in its investment activities and will continue to pursue a conservative investment policy as no long-term surplus is expected. The assets of the portfolio are expected to be disbursed in June 2020 in order to repay the principal for the SOS3 bond.

8.5 Capital and long-term financial investments

As at 31 December 2017, SSH reported a significant change in capital and long-term financial investments. Amendments to ZSOS envisage all strategic and important assets currently owned by SSH to be transferred free-of-payment from SSH to RS. The said bill stipulates that the first part of the transfer in the amount of EUR 200 million is carried out by the end of 2017. Consequently, the value of capital has been proportionally reduced by the same amount (presented in detail in the Accounting Report).

9 ORGANISATIONAL DEVELOPMENT OF SSH

9.1 Compliance and corporate integrity

ZSDH-1 defines in detail measures for enhancing corporate integrity and responsibilities and for minimising corruption-associated risks, conflict of interest and abuse of proprietary information when managing state assets, in addition to providing definitions about tasks and responsibilities assumed by a Chief Compliance Officer. In accordance with statutory provisions and good practice, SSH has established a comprehensive compliance and corporate integrity system.

SSH dedicates special attention to compliance and corporate integrity as, by setting an example and by giving recommendations, enforcing Codes and rules of conduct, it wishes to have an active impact on the implementation of SSH mission whose main focus is placed on the management and disposition of state capital assets. Thus, SSH's priority goal in this regard is the transparent operation of SSH which will set an example of corporate governance and ethical conduct in accordance with the highest expectations and standards.

During the first four months of 2017, the function of the Chief Compliance Officer was temporarily carried out by the Internal Auditor, and on 1 May 2017, following the public call to tender, the Chief Compliance Officer was appointed to this position, assuming all duties envisaged by the legislation and SSH internal legal regulations. From among the fundamental tasks which were carried out during the year, the following may be pointed out:

- monitoring and implementation of the Corporate Integrity Plan;
- the preparation of measures and implementation of measures for limiting risks related to the illegal insider trading;
- limiting unauthorised disclosure of confidential and proprietary data;
- recording and keeping a register of gifts received;
- recording and keeping a register of unofficial contacts by employees, SSH's bodies and consultation bodies with state authorities and other subjects of public law;

- addressing suspicions linked to irregularities in SSH and in companies with State's capital assets;
- raising awareness, organising training and providing consultation services in regard to the enhancement of corporate integrity and compliance of operations with applicable regulations and codes of conduct;
- regular cooperation with the responsible supervisory bodies from the field of corporate integrity and corruption prevention and other national investigation institutions.

A comprehensive revision of the Integrity Plan was carried out, in accordance with changes having taken place in the environment, measures already taken and activities for managing risks undertaken in previous years. The plan includes all the most important risks involving an element of corruptive, illegal and other unethical conduct, specifically:

- at the level of the entire company;
- In regard to the lack of integrity;
- in regard to the work carried out by the Compliance Officer;
- in regard to the management and restructuring of capital assets;
- in regard to the disposal and acquisition of capital assets;
- in regard to Information Technology.

In order to manage risks identified in the Integrity Plan, permanent measures were revised and defined new and one-off measures were added to manage these, while the implementation of measures was regularly monitored. The Integrity Plan defines risks in connection with conflicts of interest in which regard SSH has defined precise measures for their management.

In 2017, in accordance with the transparency principle, the revised Integrity Plan is published on the SSH's web site and all employees have knowledge of it. The Compliance Officer regularly reported to the SSH Supervisory Board on activities carried out. In addition, he introduced regular meetings with the directors of departments in order to discuss topics from the area of integrity and corporate compliance.

The Code of Ethics of SSH, defining the basic principles for permissible action and conduct of SSH employees

has been revised and its fundamental commitment has been highlighted, i.e., that SSH operates in accordance with the highest ethical standards.

The Code of Ethics of SSH's Supervisory Board was prepared and enforced with the aim to consistently pursue ethical, professional and responsible actions and such method of functioning by SB Members which is in line with specific characteristics linked to the status and functioning of SSH.

Within the scope of the system established for addressing suspicions of irregularities, which also includes the protection of whistle blowers, the Compliance Officer received 65 such reports. The major part of reports referred to suspicions of irregularities in regard to the functioning of companies with RS and SSH capital assets that are managed by SSH, while one fourth of such reports provided the reporting persons' opinion, or the reports failed to include any suspicion on irregularity. The Compliance Officer personally handled reports linked to the functioning of SSH. All reports on alleged irregularities in companies with State's capital assets were dealt with by a special three-member Committee. As a matter of fact, SSH strives for efficient, fair and competition-based operation of SOEs with zero tolerance in regard to irregularities and unlawful actions. The Committee directed and monitored work carried out by an account manager overseeing an individual capital assets in which a suspicion regarding irregularities has occurred and the said person was obliged to obtain and verify all facts in connection with the report submitted. After obtaining all pieces of information, the Committee adopted the relevant measures for eliminating irregularities in cases when suspicions from reports on irregularities were substantiated, or terminated procedures in case when suspicions failed to be justified. In cases of reports on alleged irregularities whose dealing was not under the powers of SSH, SSH referred such reports to other responsible institutions.

In 2017, no cases of corruption in SSH occurred nor were confirmed.

Access to information of public nature

In 2017, Slovenian Sovereign Holding received five requests to access information of a public nature, in accordance with the Public Information Access Act. All of the said requests refer to various areas of SSH's operation. Persons requiring information were journalists and private individuals. Three requests (60%) were dismissed, while 2 inquirers (40%) received the requested pieces of information.

9.2 Respect of human rights

The basis for SSH's operation includes equal opportunities for everybody. SSH fosters its respect for human rights by formulating standards of good practice which are included in the Corporate Governance Code for SOEs that is addressed to companies under SSH management.

Important elements of respect for human rights are included in the SSH's Code of Ethics and in the internal Rules on Prevention of Mobbing and other Forms of Harassment at Work Place.

9.3 Internal Audit

The SSH's internal audit functions as an independent department. The basis for its functioning is the Internal Audit Charter which is approved by the SSH Management Board and SSH Supervisory Board. The Internal Audit Service is bound to adhere to the hierarchy of rules of professional conduct in internal auditing.

The goal of internal auditing is to give assurances in regard to the management of risks in the Company, adding value by providing advisory services at all levels, and thirdly, to safeguard assets and improve efficiency and effectiveness of operations.

The Annual Internal Audit Plan 2017 was prepared on the basis of risk analysis. It was adopted by the Management and Supervisory Boards. The Internal Auditor reports to the SSH Management Board on a regular basis, while reporting to the SSH Supervisory Board's Audit Committee on a quarterly basis. The SSH Management Board and the Audit Committee were informed of all audit reviews carried out, of their findings and measures recommended to introduce improvements.

In 2017, the internal audit achieved its goals set. It carried out nine audit reviews, placing special attention to the area of work relating to the management and restructuring of capital assets, to processes for the sale of capital assets, to candidacy procedure for the selection of board members of SOEs and to claim management procedures, to Information Technology and to the state of security in SSH. In addition, it regularly monitored the implementation of recommendations given.

Within the scope of individual internal audit review, the Internal Audit Service assesses and verifies the suitability and efficiency of the established internal controls. The Internal Audit Service is thus of the opinion

that the internal control system in SSH is adequate, however, there are possibilities for its improvement which are referred to in recommendations issued.

On the basis of reviews carried out, the Internal Audit Service has assessed that:

- the establishment of the internal control system to prevent significant frauds in area under review is established and operational;
- important risks have been identified and quantified and relevant response measures have been selected;
- there are risks in regard to the information technology which are mostly managed, however, additional recommendations have been issued during the review of the management of IT-related risks;
- as regards the management of organisation, SSH's strategic policies and operational goals are pursued, relevant ethical conduct and values of operations are being established within the Company, the management of organisation is efficient and organised, the communication and provision of information among employees and wider, from the Management Board through the Supervisory Board and to other providers of assurances, is adequate.

In addition to regular activities in connection with the internal audit function, the Internal Audit Service cooperated with the national supervisory and investigation institutions, such as the Police, the Commission for the Prevention of Corruption, the Court of Audit of RS; until 30 April 2017, the Internal Auditor temporarily carried out the function of a Compliance Manager.

The functioning of the Internal Audit Service in 2017 was subject to an independent external control of quality which has confirmed that the said service fully functions in accordance with the International Standards for Professional Practice in Internal Auditing.

With 2018, the activities of the SSH's Internal Audit Service will become focused on activities carried out by companies owned and/or managed by SSH, establishing in this manner good cooperation with internal audit services from these companies. The aim for including companies owned or managed by SSH into the scope of work carried out by SSH's Internal Audit Service is to ensure a relevant coverage by the internal audit of all riskier areas of operations at the level of a wider group of companies. For this purpose, fundamental legal documents are being prepared by way of which the legal basis will be set for implementing internal audit activities as well as other types of cooperation with the internal auditing units of companies managed/owned by SSH.

9.4 Risk management

Sound knowledge and good understanding of risks enables every company to take timely and proper response actions in an increasingly dynamic economic environment. This is why SSH dedicates special attention to risks to which SSH is exposed during operation from the legal and formal aspects as well as from the practical one. It aims to establish a culture of risk awareness in order to better understand risks and obtain good quality information for decision-making processes to be pursued at all levels of its functioning. Risk management is of concern for every SSH's employee whose actions and decisions expose him/her to risks when performing duties on a daily basis.

In SSH, the underlying risk management process is based on the principal risk management standard, SIST ISO/IEC 31000/2011; Risk Management – Principles and Guidelines for Risk Management.

9.4.1 Risk management system

In SSH, the area of work regarding risk management is regulated by the Rules on Risk Management. Individual risks are defined in the Risk Register.

In SSH, the underlying body for risk management is the Risk Management Commission which, in addition to the Management Board Members, is composed of directors and experts in the field of risk management.

Risk management system in SSH



The most important tasks carried out by the said Commission are as follows:

- a detailed review and handling of key operational risks and other risk stated in the Risk Register, when needed;
- a review of risks;
- a review of time periods for the implementation of measures or their extension when necessary;
- a verification of efficiency of measures and the imposition of additional measures, when necessary;
- the identification and definition of new risks within the scope of individual work processes and the determination of efficient measures, deadlines and persons responsible for implementing measures for minimising risks;
- addressing incidents.

The activities in regard to risk management are monitored and supervised by the Risk Committee functioning within the SSH Supervisory Board. The Supervisory Board's Risk Committee is a consultation body of the Supervisory Board which, pursuant to Article 43 of ZSDH-1 and the Risk Management Policy, in addition to addressing the Risk Register and other documentation regarding risk management (reports, analyses, internal legal documents, etc.) formulates its professional opinions on the existing risk management system and gives proposals for their improvement.

9.4.2 Methodology for risk assessment and risk measurement

All risks, their assessment, measures for their minimisation, persons responsible for the implementation of measures and time periods for their realisation are recorded in the Risk Register. In terms of the content, risks are divided into nine groups which are categorised under three large groups of risks: risks at the level of SSH, risks related to non-compliance and lack of integrity and operational risks.

Exposure to risks is assessed by using two methods: *qualitative and quantitative methods*.

As regards *qualitative risk assessment*, by applying risk assessment criteria, risks are assessed in terms of the importance of their possible consequences or their impact on the SSH's operations and the probability of an event occurring. These risk assessment criteria are uniform covering all significant areas of SSH's operation within the scope of which risks stated in the Risk Register are identified and evaluated.

The *quantitative risk assessment* method is applied to assess key risks, specifically, in terms of their value in monetary units and in regard to the frequency of the

occurrence of an event. For the quantification of key risks the methodology, which measures consequences from the aspect of their impact on SSH cash flow and capital, is applied. In 2018, the quantitative risk assessment method will also be applied for the assessment of other risks recorded in the Risk Register.

9.4.3 Key risks

Market risk

Market risk is present due to the changes in the value of financial instruments, resulting from changes in their market prices. The capital assets acquired by SSH during the process of companies' ownership restructuring have remained exposed to changes in market conditions in Slovenia, the European Union and around the world. SSH cannot directly control the risk associated with the changes in market prices of capital assets. These capital assets comprise the major part of SSH assets. With the amendments to the Slovenian Compensation Fund Act (»ZSOS«), according to which all strategic and important assets will be transferred to RS, the importance of market risk has decreased significantly.

SSH manages the market risk associated with liquid investments, representing only a small portion of SSH assets, by dispersing investments according to issuers, sectors and regions. The risk associated with the concentration of investments is managed by dispersing the investment portfolio into various types of investments, that is, deposits, Euro-commercial papers, bonds, shares and mutual funds.

Liquidity risks

Slovenian Sovereign Holding is exposed to liquidity risk mainly due to varied maturity of assets and maturity of liabilities since the major part of SSH assets is still held in long-term capital assets. SSH minimises this risk by having a sufficient volume of available liquid assets and liquid portfolio investments which may be immediately cashed in at the current market values. SSH manages its liquidity risk well, although due to amendments to ZSOS, this risk is higher than prior to the said bill's modification.

Credit risk

Credit risk is associated, firstly, with the probability of a companies from SSH portfolio having defaulted on its liabilities and consequently ending up in bankruptcy, and secondly, with the probability that funds invested are not repaid to SSH upon their maturity. The credit risk has been assessed as posing medium threat and has slightly decreased in 2017 on account of the transfer of the first tranche of strategic and important assets from SSH to RS, in accordance with ZSOS.

Regulatory risk

Regulatory risk is associated with the risk of pursuing SSH's operation contrary to applicable legislation in which regard, due to the lack of knowledge of certain regulations, certain actions which have not been implemented in accordance with regulations, may be subsequently challenged, and this includes a claim for the payment of a fine issued by responsible institutions. SSH manages this risks by means of numerous measures which are implemented on a regular basis; for example, monitoring regulations and practice, organising regular professional training for employees, participating in professional associations, providing notifications to employees on statutory modifications with the summary of most important amendments, pursuing regular communication with supervisory bodies, providing weekly notification about RS Government's decisions. The importance of this risk has not changed in 2017.

Risks in regard to disposal and acquisition of capital assets

Risks in regard to disposition and acquisition of capital assets arise from processes in connection with the preparatory activities for the sale of capital assets, from sale processes in connection with the final closure of the sale of capital assets and from after-sale processes.

The following risks are defined as key risks in regard to disposal of capital assets:

- ***Failure to obtain the consent by the Government of RS for the sale of capital assets on the basis of the Strategy and the approved Annual Asset Management Plan***

Free disposition of assets and response to current market conditions is prevented, which exposes SSH to greater risks. This risk has been assessed as high; SSH manages it only partially. It has remained unchanged in 2017.

- ***Violation of a contract in connection with advisory services during the process for the sale of assets (risk of conflict of interest)***

In spite of thorough verification prior to the initiation of the sale process or during the process, it may be determined that one of the advisors is in conflict of interest which may block the sale process and incur additional costs. This risk has been assessed as medium; SSH manages it for the most part. It has remained unchanged in 2017.

- ***Failure to receive reimbursement of costs or part of costs incurred to SSH during the process for the sale of capital assets held by RS***

There is a risk that in spite of contractual provisions regulating the reimbursement of costs to SSH, RS fails to pay them. More time is thus needed and greater engagement in terms of costs is needed to prove the eligibility of the claim. This risk has been assessed

as medium; SSH manages it for the most part. It has remained unchanged in 2017.

Risks in managing and restructuring of capital assets

Risks in managing capital assets arise from the following elements and factors: processes of regular management, the process for the selection and proposals for appointing suitable members of supervisory boards and monitoring their suitability during the mandate, as well as analytical decisions made, processes for the preparation and updating of Articles of Associations, Memorandum of Associations, keeping of various records and other data on companies under management and preparation of financial reports.

Risks in connection with the restructuring of capital assets arise from the 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.

There are three key risks defined in regard to asset management and restructuring, as follows:

- ***Inappropriate selection of members for SB of companies***

In spite of procedures run by SSH in connection with the nomination of members for supervisory boards of companies under SSH management, there may be an appointment of a person who is subsequently proved not to be fit and proper. This risk has been assessed as low, although it is still considered as an important risk for SSH, and it is fully managed. It has remained unchanged in 2017.

- ***Risks in failure to restructure companies in an effective manner***

A failed restructuring of a company may consequently lead to the bankruptcy of the company and the decrease in value of assets for SSH. This risk has been assessed as high; SSH mostly manages it. It has remained unchanged in 2017.

Numerous measures have been adopted for managing the above stated risks. Some of the most important measures refer to preventing conflict of interest when performing the functions in the management body and in the supervisory body of the same company. SSH publishes the criteria for the evaluation of candidates for members of supervisory bodies publicly. The SSH Management Board has the obligation to verify and warn the Nomination Committees of the professional and transparent implementation of the nomination procedure. SSH regularly (i.e., on a monthly basis) updates the list of persons whose actions are compliant

with RS and SSH, under ZPre-1. In addition, it ensures timely and proper preparation of a company to undertake the restructuring process, it evaluates and carries out all the necessary measures taken prior to the bankruptcy and implements numerous activities to improve the management of capital assets.

Reputation loss risks

Every significant error made in connection with decisions and conduct by SSH may, in a form of lower repute, result in a reduced credibility of the institution which may make it more difficult to adopt important decisions in the future. Therefore, SSH provides for effectiveness of its operation, for the quality of work carried out by the company, for transparency of operations, for quality staffing, the quality of work when running sale processes, in the management of and when running the company, in regard to the strategy, employees and business culture, the responsibility towards the company and environment (the sustainable development of the company) and as regards its PR function. This risk has been assessed as medium and SSH fully manages it by means of numerous measures which are implemented on a regular basis; for example, adherence to the Code of Ethics and to the highest corporate standards on the part of all employees within the scope of their working obligations and outside their work, provision of professional training for employees, implementation of internal controls, respect for internal and external legal documents, i.e. consistent compliance with legislation, implementation of communication guidelines in the interaction with all stakeholders, the preparation of the Company's sustainability development report, etc.). This risk has not changed in 2017.

Risk associated with payment of contingent liabilities

This risk entails that SSH should pay for compensation in denationalisation proceedings in a value higher than the liabilities recognised and reserves formed due to the uncertainty in connection with the results of proceedings. This risk has been assessed as high but SSH manages it with numerous measures which are regularly implemented. Thus, in 2017, the additional allowance was formed since the probability of additional payments has increased in 2017.

Risk associated with lack of integrity

Owing to the nature of its work, SSH is subject to pressures on its business decisions, to non-registered lobbying contacts, unethical and illegal conduct or to inducing the employees to conduct themselves in a way which poses a regulatory risk.

The set of risks associated with the lack of integrity includes risks in regard to internal and external frauds which are connected with illegal actions by employees against SSH (internal frauds) and illegal actions by third

parties against SSH (external frauds). They include, for example, unauthorised disclosure of confidential and proprietary information about SSH and an individual state-owned enterprise, the abuse of inside information, conflict of interest, disclosing trade secrets, possibilities for corruption, frauds in the settlement of denationalisation cases, and similar.

SSH has defined two risks as key risks associated with corruption:

- ***Risk of lack of independence in functioning causing a consequent influence in operations (risk of undue influence)***

Pursuing all types of pressures on the conduct of employees or members of SSH bodies for obtaining a direct or indirect benefit.

- ***Abuse of inside information and proprietary data***

This risk is connected with illegal actions by employees and third persons against SSH.

SSH manages the risk associated with the lack of integrity by numerous measures; for example, it consistently implements provisions of ZSDH-1, ZTFI, it limits authorisations to employees, it has established efficient disciplinary measures, it monitors regulations and practice, it informs employees on statutory amendments. The access to confidential data is limited, as well as the number of persons submitting information to the public. In addition, SSH has adopted the Integrity Plan and numerous internal legal documents linked to the independent and professional conduct by SSH, together with internal controls, while also raising the awareness of employees on the subject matter and providing training for them about the above mentioned risks. SSH regularly cooperates with the Commission for the Prevention of Corruption and other responsible institutions.

Risks connected with Information Technology

Main risks associated with the information technology arise from processes for obtaining, maintaining and managing the ICT equipment, processes for controlling the operation of ICT equipment, the processes for physical and technical security, the management of user rights, the protection of personal data and cyber security.

Key risks defined by SSH in regard to Information Technology are as follows:

- ***Failure of information system, failure of services provided by external providers***

The failure of the main part or the entire information system. This risk has been assessed as medium and is fully managed by SSH. It has decreased in 2017.

- ***Occurrence of malfunction/errors in hardware, systemic equipment or in software, occurrence of malicious software (viruses)***

This risk has been assessed as medium and is fully managed. It has decreased in 2017.

- **Cyber-attack on the IT system**

This risk has been assessed as high but it is managed.
This risk has not changed in 2017.

In connection with information security, SSH has adopted numerous measures which are implemented on a regular basis; for example; regular backup of data and server settings, setting up an additional data centre, regular monitoring of the functioning of the information system with relevant control system, preventive maintenance of hardware and software, implementation of internal control system, regular verification of the functioning of the back-up centre, official and unofficial communication with employees, introduction of protection against malware and computer viruses, and similar.

The established risk management system is constantly updated and adapted to the changes in the business environment, in the organisation and business processes. By improving it, SSH wishes to detect and identify risks in an efficient manner and take actions to decrease the level of a risk.

9.4.4 Risk management in 2017

The year of 2017 was very dynamic as regards risk management. In addition to the regular monitoring of risk exposure and implementing activities for their management, the comprehensive revision of the Risk Register was carried out and the Risk Register of key risks was prepared, which includes their quantification and risk profiles.

SSH, in the capacity of the manager of its own capital assets and those owned by RS, implemented a methodology for identifying and quantifying key risks which companies in individual industries are exposed to. The project was thus initiated by conducting an analysis of risks in all important enterprises in 100% ownership of RS, with the aim to obtain some feedback information about what key risks are, what risk management system exists within the enterprises and how such system might be upgraded, while minimising key risks with potential additional measures. This is another area of risk management to which SSH dedicates a lot of its attention.

On the basis of the implemented methodology, the analysis of risks to which SSH is exposed has also been made. The results have shown that the market risk continues to be the most important risk for SSH although it is significantly lower as compared to previous years, in terms of its absolute values. The market risk is followed by the risk associated with the payment of contingent liabilities arising from denationalisation proceedings which is, due to reserves formed, already managed. The regulatory risk is still important which, however, is

not managed in a manner SSH would wish to have it managed, to be followed by the risk of not obtaining a consent by the Government of RS for the sale of capital assets, liquidity risk and the risk of improper appointment of supervisory board members in enterprises.

9.4.5 Goals for 2018

Active risk management will continue in 2018, particularly in regard to the identification of new risks and the determination of even more effective measures. SSH will measure all key risks at least twice a year by means of various simulations considering risk realisation and effectiveness of measures.

In 2018, SSH will prepare risk profiles for all significant enterprises in the 100% ownership of RS. It needs to be pointed out that analysis and risk profiles developed will be a good management tool, providing pieces of information whether risks of an individual company are managed well and not posing a threat to company's operations. This will make it possible to analyse risk based on a common denominator involving all enterprises mentioned, in addition to giving focus on the most important areas of risks, determining the size of the total exposure to all risks on the part of an individual company and to make a comparison with its cash flow.

Last but not least, from the aspect of an asset manager, it is important that the adequate expected rate of return may be determined on the basis of risks which a company is exposed to, and to set goals to be achieved by an individual company, by giving a desired rate of return which is adapted to the company's risk.

9.5 Privacy Policy

SSH has determined procedures and measures to protect the privacy of parties involved, preventing the loss of data of data subjects. Some organisational, technical and physical measures have already been adopted and implemented, whereas some are in the processes of being prepared and adopted.

In 2017, SSH dealt with no complaint in regard to breaches of privacy, nether was there any incidence involving data loss.

In 2018, SSH will update procedures and measures in regard to data protection in accordance with the Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data («GDPR»), and the Personal Data Protection Act (ZVOP-2) as soon as this bill enters into force.

10 SUSTAINABLE DEVELOPMENT OF SSH

SSH's endeavours for sustainability in business derive from strategic orientation of value creation. 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 individual assignments in public interest. This objective must be obtained by pursuing a balanced, stable and sustainable development of enterprises from the economic, social and environmental aspects.

Characteristics of reporting

Although SSH is not liable to non-financial reporting, SSH has decided to introduce standards of sustainable reporting, which will be introduced gradually on an annual basis. In 2017, a project group was formed and key topics were determined by way of questionnaires only for two important groups of stakeholders, specifically, for companies from the portfolio managed by SSH and for employees. These two groups of stakeholders are essential for the effectiveness of SSH's mission. As regards other stakeholders, key topics are planned to be reviewed in 2018; the topics for the inclusion of stakeholders are defined on the basis of identification, past experience from cooperation and, in some cases, on the basis of provisions from asset management related legal documents.

Disclosures fully refer to the parent company for 2017. The decision to conduct a comprehensive external review of sustainable reporting (audit of the sustainable report) has not yet been made.

Key principles for SSH's sustainable development and goals for 2018

Corporate governance and economic operation

- Economic performance – generating value for the owner from capital assets. – profitable, effective and economical operation;
- strategy – risk management;
- corporate integrity (values, ethics, integrity, mechanisms for the prevention of corruption);
- inclusion of stakeholder;
- Company's reputation;

- indirect economic impacts – developing and improving the environment in which SSH operates towards sustainable business;
- assessment of the respect of human rights;
- protection of competition;
- assessment of suppliers from the aspect of their impact on the Company;
- public policy;
- privacy of parties/beneficiaries;
- compliance.

Employees

- Recruitment;
- relations between employees and chief executives;
- health and safety at work;
- supplementary training and education;
- diversity and equal opportunities;
- prevention of discrimination.

The environment

- Materials;
- waste water and waste;
- assessment of suppliers from the environmental aspect.

Key guidelines for socially responsible conduct and goals for 2018

The remaining part of the document presents key topics and goals for 2018. Such goals and their attainment for 2017 has not been presented since they have been set for the first time within the Sustainable Development Project.

With the topics and areas mentioned above, SSH wishes to make its contribution towards the sustainable development of a broader social environment, in accordance with its powers and responsibilities. SSH has an impact on an important part of enterprises from Slovenian economy since, by means of its operation and by setting their goals, SSH has an influence on the quality of their governance which may be expressed in different ways.

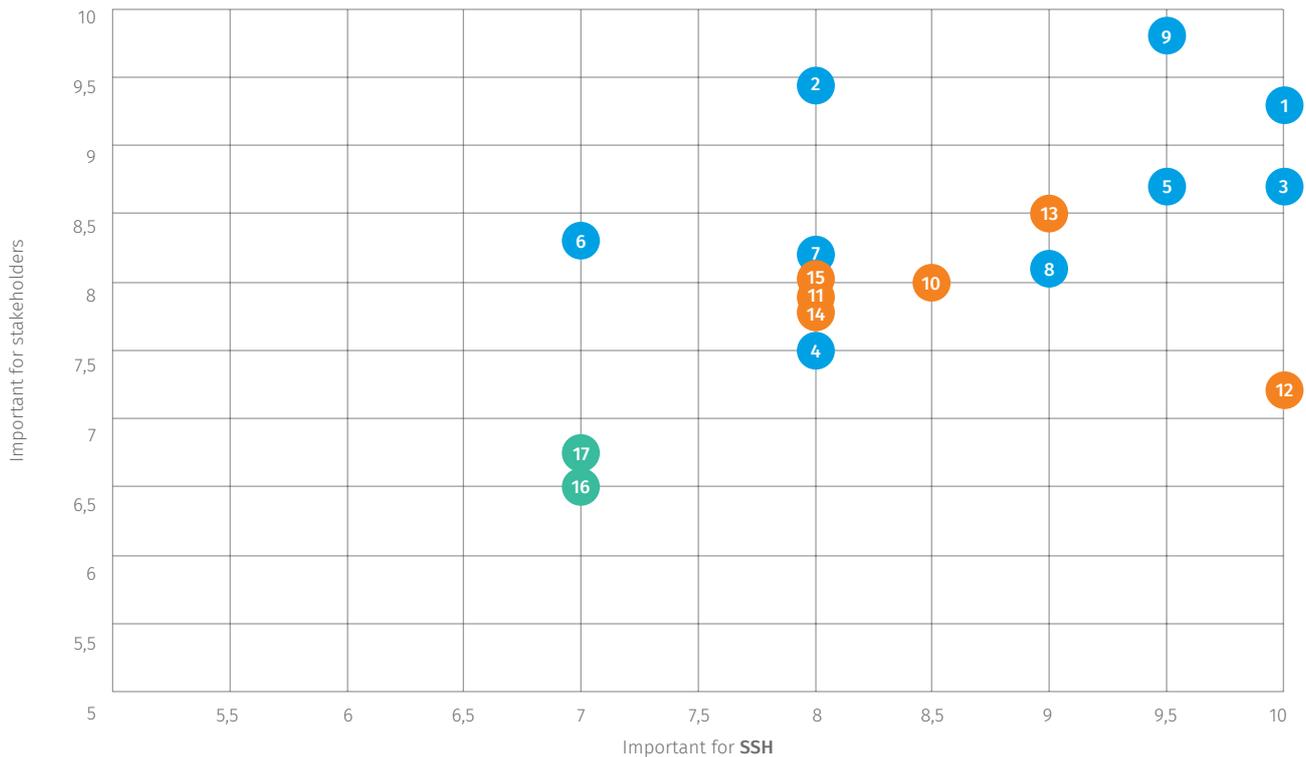
The remainder of this Chapter presents the identification of key topics, together with their materiality matrix, which is then followed by an overview of SSH's stakeholders and their inclusion, whereas the most important groups of stakeholders and main activities carried out in 2017 are presented in detail.

Contents	Goals for 2018
Corporate governance and sustainable development	<ul style="list-style-type: none"> • The preparation of strategic guidelines for SSH 0s sustainable development, including reporting under the Global Reporting Initiative ("GRI"); • identification of key topics in regard to the most important SSH's stakeholders.
HR management and organisation	<ul style="list-style-type: none"> • Enforcing a new organisational structure on the road towards matrix organisation; • obtaining the full Family Friendly Company Certificate; • establishing the career promotion system for employees; • carrying out workshops for the middle management for more efficient leadership.
Further development of the good practice in corporate governance	<ul style="list-style-type: none"> • On the basis of findings from the extended questionnaire, encouraging companies with an important share of state capital assets to enforce all provisions of Corporate Governance Codes and SSH Recommendations; • continuous monitoring of the development of good practice in corporate governance and implantation of amendments to the Code, SSH Recommendations and SSH Asset Management Policy (constant practice).
Corporate integrity	<ul style="list-style-type: none"> • Organising a training for SB members of SOEs discussing this topic (training sessions are regularly organised in regard to various topics concerning corporate governance); • consistent implementation of the Integrity Plan.

Identification of key topics, interest of stakeholders and the materiality matrix
(presentation of the importance of topics for SSH and for the stakeholders)

Interest of stakeholders		
1.	Economic performance – generating value for the owner from capital assets – profitable, effective and economical operation	CORPORATE GOVERNANCE AND ECONOMIC PERFORMANCE
2.	Strategy – risk management	
3.	Corporate integrity (values, ethics, integrity, mechanisms for the prevention of corruption)	
4.	Inclusion of stakeholder	
5.	Company's reputation	
6.	Indirect economic impacts – developing and improving the environment in which SSH operates towards sustainable business	
7.	Protection of competition	
8.	Assessment of the respect of human rights	
9.	Compliance	
10.	Recruitment	EMPLOYEES
11.	Relations between employees and chief executives	
12.	Health and safety at work	
13.	Supplementary training and education	
14.	Diversity and equal opportunities	
15.	Prevention of discrimination	
16.	Materials	ENVIRONMENT
17.	Waste water and waste	

Materiality Matrix



10.1 Overview of stakeholders and inclusion of their needs and interests

SSH has many stakeholders who represent an important part of the Slovenian economy, of the political system and of social partnerships, if only the three largest groups should be pointed out. SSH strives for professional and two-way communication with them, in which regard their interests and needs are identified and monitored and included in various ways.

The table below presents the most important SSH's stakeholders, the method of their inclusion and cooperation with them and key topics for cooperation and interests covered.

Stakeholder	Methods of Cooperation	Areas of cooperation and interest covered
Members of supervisory and management bodies of companies in partial or majority State ownership	<ul style="list-style-type: none"> regular periodic and other meetings invitations to events and training sessions organised by SSH 	<ul style="list-style-type: none"> monitoring business performance of a company and of the attainment of economic and strategic indicators set monitoring performance of SOEs and harmonising goals planned supplementary training and enforcement of cases of good practice stable, professional, predictable and transparent governance
Government of RS, sectoral ministries, National Assembly of RS	<ul style="list-style-type: none"> quarterly asset management reports, Annual Report – Management of Capital Assets of RS and SSH cooperation in regard to carrying out sectoral policies participation of three decision-makers at the sessions of SSH's SB (ZSDH-1) 	<ul style="list-style-type: none"> effectiveness in the attainment of economic and strategic goals from the Asset Management Strategy and Annual Asset Management Plan the amount of dividend pay-outs for RS's budget
Employees	<ul style="list-style-type: none"> interpersonal contacts electronic mail participation in governance (Employees' Council) Intranet portal employee meetings and sectoral meetings 	<ul style="list-style-type: none"> supplementary training and education relations between employees and chief executives diversity and equal opportunities health and safety at work measures for family friendly enterprise
Beneficiaries for compensations under various bills	<ul style="list-style-type: none"> procedures before administrative, judicial and other bodies implementation of public powers 	<ul style="list-style-type: none"> consistent adherence to regulations for the determination of compensations fair and effective payment of compensations under various bills

Stakeholder	Methods of Cooperation	Areas of cooperation and interest covered
Investors into SOS3 bond	<ul style="list-style-type: none"> annual, interim reports and SEOnet announcements 	<ul style="list-style-type: none"> relevant, up-to-date and timely pieces of information in connection with SSH's operations
The media	<ul style="list-style-type: none"> press releases, press conferences, interviews answers to questions raised by journalists, personal contacts with journalists, invitations to events 	<ul style="list-style-type: none"> up-to-date, integrated and transparent information on significant events in SSH's operations and in the management of RS and SSH assets
Social partners	<ul style="list-style-type: none"> sessions of the Expert Committee for Economic and Social Affairs which is a consultation body of the SSH's Management Board (representatives of trade union associations) 	<ul style="list-style-type: none"> providing opinions and giving initiatives in regard to economic and social affairs (consequences for employees in companies managed by SSH in the fields of labour law, legal form of organisation and social security)
Business partners	<ul style="list-style-type: none"> calls to tender meetings 	<ul style="list-style-type: none"> adherence to the Public Procurement Rules, internal policies on procurement of goods and services and relevant provisions in regard to prevention of corruption protection of trade secrets, avoidance of conflicts of interest, etc. clear selection criteria, regular settlement of liabilities
Potential investors	<ul style="list-style-type: none"> public announcement of invitation for submitting expressions of interest for the purchase of shares of announcement and submission of information on SSH's activities in connection with the processes for the sale of capital assets 	<ul style="list-style-type: none"> transparent, equal and competition based conduct of sale processes in accordance with applicable regulations and comparable international practice

10.2 Detailed overview of cooperation with stakeholders in 2017

10.2.1 Relations with employees

SSH's employees in numbers and by educational structure

At the end of 2017, there were 73 employees employed with SSH. Seventy-one employees are employed for indefinite time period. The average age of employees is 46, the average years of service per employee is 21 years. The majority of employees come from the Osrednjeslovenska region.

At the end of 2017, there are seven women employed by SSH at the top executive (Management Board) and executive functions (directors of organisational units)

which presents as much as 54% of all top executive and executive functions in the Company.

The SSH Management Board consisted of two members in 2017. No collective agreement applies for SSH.

Employees with at least an university degree or a higher degree represent as many as 74% of all employees in SSH. More than ten per cent (10%) of all employees hold Master's degree. Nineteen per cent (19%) of employees hold VI. level of education and 8% of them secondary education certificate.

Number of employees/type of employment as at 31 December 2017

Type of employment	Total number of employees	of which female	share in %	of which male	share in %
Indefinite period of time	71	48	65.8	23	31.5
Temporary employment	2	1	1,4	1	1.4
All employment types	73	49	67.1	24	32.9

Share of chief executive work posts per gender

Type of employment	Total number of employees	of which female	share in %	of which male	share in %
Executive positions	2	2	66.7*	0	0
Top executive positions	11	5	45.4	6	54.6
Total	13	7	53.9	6	46.1

* The position of one member of the Management Board is vacant.

SSH's employees by educational structure as at 31 December 2017

Education level	No. of employees as at 31 December 2017	Percentage of employees by education Level
Secondary education (V)	6	8.2%
Higher education first-tier diploma (VI/1)	9	12.3%
University education (VI/2) (1st Bologna cycle)	5	6.8%
University degree VII.	43	58.9%
2nd Bologna cycle VII.	3	4.1%
Master of Science (VIII)	8	10.9%
Total	73	

Internal communication

The internal communication function plays an important role in achieving good relations with employees. Open and regular communication between employees and the management of the Company is of vital importance. In SSH, internal communication is carried out directly at internal meetings, sectoral meetings, meetings organised by directors, by the Compliance Manager, and at meetings periodically organised by the Management Board for all employees. Electronic means of communication is carried out via e-mail and in March 2017, the Intranet Portal, dedicated to all employees, was introduced.

In SSH, employees participate in the governance of the Company through the Employees' Council functioning as an interface between employees and the Management Board. The Employees' Council plays a particularly important role in cases regarding the reorganisation of SSH; occasionally, it convenes company-wide employee meetings. Key topics discussed are: organisation, working environment, working time, job systematization, wage policy and remuneration. The Management Board and the Employees' Council meet regularly at meetings, summary of such meetings are posted on Intranet.

As regards stipulated time periods, employees or their representatives receive prior notification on important organisational changes or on changed in operations which may have an important impact on their work; in this regard, it has to be pointed out that SSH adheres to all statutory time periods and deadlines stipulated by internal legal documents. The Management Board meets regularly with the Employees' Council to inform employees on potential plans for organisational changes.

HR management

Committed, professional and motivated employees are an important foundation for business success and for sustainable development of the Company. Provision of employee supplementary training, adequate recruitment policy and concern for safety and health at work are the main factors of HR management which is gradually being improved.

Annual interviews have not been fully formulated and are carried out only at an informal level, however, they form one of the goals to be achieved in the area of HR management in 2018. In the second half of 2017, the project for improving the employee evaluation system was initiated, together with the project implementing the system for employee promotion and motivation which is expected to be completed in the first half of 2018 by revising the salary system in the Company.



Implementation of satisfaction survey and monitoring training programmes and employee career development

In 2018, SSH plans to measure the organisational climate and the commitment of employees.

Training and career development

SSH dedicates special attention to regular supplementary professional training of its employees. In 2017, employees from all organisational units took part in individual training programmes, comprising the total of 1500 education hours, specifically, on average 20 hours per employee 5 which is one third more than in the previous year.

In the past, for encouraging personal development of employees, developing personal potential and talents, the possibility of additional forms for obtaining professional knowledge and skills were made available to employees, for example, foreign language courses, programmes in regard to communication skills, leadership skills and other types of programmes.

At the internal level, internal training programmes are organised with the assistance of information technology, as well as trainings relating to the balancing of business and personal life and to promotion of health at work.

Recruitment method

In the last three years, and compared to past years, the growth in the employment rate was noticed. The recruitment process is settled and all candidates have an opportunity to apply, regardless of gender, age and other circumstances. SSH thus employs its staff according to the principle of equal opportunities, transparency and indiscrimination. All employees receive the same benefits. All invitations to apply are published publicly.

Employee fluctuation in 2017 by gender

In 2017, six persons were employed, of these, one with a disability. Half of the new staff is female. Three persons left, all of them were women.

Concerns for health and safety at work and promotion of health at work

SSH strives for its employees to work in as healthy a work environment as possible. By considering the risks for occurrence of accidents and harms to health, work environment and means for work are regularly examined and improved, employees receive training in regard to safety at work and fire protection, they perform periodical medical examinations. Cooperation with advisors for safety and health at work and experts from the field of occupational medicine has always been very good.

Risks in connection with safety and health and work, considering the nature of work, mostly include the

following: non-ergonomic workplace, bad posture, improper work with display screen, in addition to stressful conditions, other physical burdens and the possibility that third persons are violent towards employees.

The concern for the psychological and physical health of employees falls under the responsibility of every individual and of the company as a whole, however, special attention is dedicated to this subject matter by chief executives and other middle management personnel by way of their role model and provision of support during work, as well as by the group of volunteers promoting health who ensure that the work in this field is continuously carried out.

In 2017, in addition to regular annual inspections of the suitability of working premises and equipment (ergonomic chairs, proper set-up of display screens), additional measures were carried out which refer to the raising of awareness of employees in connection with the importance of diet and exercises for health and well-being. Working environment in the Company is safe and organised, work involved is mostly office work and as such not dangerous. Thus, no occupational diseases have been recorded in the Company so far.

In spite of the safe environment, one accident happened in SSH last year, specifically, slipping down the stairs, but the incident was not linked to the workplace.

Health promotion

SSH is aware of the importance of psychological and physical health at work as it has a favourable influence to the absence from work due to illness. For this purpose and to increase satisfaction at work, health at work was additionally promoted in 2017, measures were taken which refer to the raising of awareness of employees in regard to the importance of diet and exercises for health and well-being. Thus, for example, quarterly healthy joint breakfasts were organised, a fruit and vegetable baskets were delivered once a month, a lecture was organised on a healthy way of life and mountaineering tours were organised outside working time. In addition to training organised for executives on the importance of balancing work life and family life, stress management lecture was organised for all employees. The attendance at both seminars was high.

Employees are regularly informed on activities in this field and on new measures taken, as a matter of fact, all these pieces of information are available on the Intranet and can be obtained from members of the group in charge of health promotion. Considering the survey on employee satisfaction with measures and their implementation in 2017, response is positive and satisfactorily, and the goal of the health promotion group for the next year is for the survey results to improve in 2018.

In 2017, SSH expanded its efforts encouraging its employees to participate in blood donation campaigns.

SSH holds the Family Friendly Company Certificate

In May 2015, SSH obtained the Family Friendly Company Certificate. Considering the catalogue of measures envisaged by the Family Friendly Company initiative, among which the working group of employees selected the suitable ones for obtaining the said certificate, it is clear that SSH is a family friendly company. Employees, more specifically, their representatives in the working group actively participated in the selection of the suitable measures and employees were later informed of the measures undertaken, of the method of their implementation and of the modalities of their use (the relevant protocol for the implementation of measures, the presentation at the company-wide employee meeting, personal presentation at an employee's request, and similar actions). By the end of 2017, all of 15 selected measures were successfully implemented.

In the last quarter of 2017, SSH was carrying out preparatory activities for upgrading the basic level of the family friendly workplace policy. In 2018, by adopting new measures, SSH will apply for the full certificate.

Take-up of paternal leave

In 2017, five employees were eligible to take up paternal leave, i.e., two women who actually took up their maternal leave and three men. The men chose not to take parental leave, not exercising their right.

Social security

Slovenian Sovereign Holding provides to all its employees a premium for additional pension insurance which is provided by the Pension Fund MKPR, managed by Modra zavarovalnica. For every employee who is included in the additional pension insurance scheme, SSH, in the capacity of the employer, pays the premium in the amount of at least 3.2% of his/her gross base wage, and in accordance with relevant rules.

10.2.2 Media relations

Media are considered to be of key importance in conveying messages between SSH and its public groups. Therefore, a key task pursued by SSH in its relations with the media, is the ability to ensure honest and fair communication with journalists and other public groups with the aim to improve the level of information, to contribute to better understanding of SSH operations and to provide support for the attainment of the Company's goals. SSH replies to numerous questions raised by journalists and received on a daily basis in a fast and comprehensive manner. The website of SSH is

also available where all reports from General Meetings of Shareholders held by portfolio companies are regularly published, all significant pieces of information in regard to sale processes managed by SSH are revealed, press releases are put out and the accreditation and nomination systems for candidates for SOEs' Supervisory Board members are presented. All reports prepared by SSH in accordance with ZSDH-1 and ZGD-1 are available for the general public and the media.

Statistical data illustrate how intense media relations were in 2017. Thus, as many as 2,726 articles or reports addressing SSH either fully or partially were published, in which regard SSH made an active response few times. Further on, 67 press releases for the media and interested public groups were published on its website, and 220 e-mails sent by journalists were submitted to the media-dedicated e-mail address: pr@sdh.si, containing at least three questions. SSH replied to all journalists questions which have been raised in the given time period, mostly providing an answer on the very same day the question was received. In 2017, the SSH Management Board participated in three big interviews and gave a few statements for TV and radio stations, a meeting with press crops was also organised.

10.2.3 Investor relations – bond investors

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

10.2.4 Relations with social partners

ECESA is a consultative body of SSH Management Board; it passes opinions and makes initiatives in regard to affairs which result or may result in issues concerning the labour law, legal form of organisation or subject matters with social impacts for companies managed by SSH. ECESA is composed of seven representatives of Slovenia's representative trade unions and confederations who are members of the Economic and Social Council.

In 2017, ECESA convened three sessions on which, in addition to addressing the reports on capital asset management and on sales of capital assets, its members discussed the contents included in the Corporate Governance Code for SOEs, and handled current issues dealt with by companies managed by SSH, primarily with the focus on employees' rights.

The cooperation between the SSH Management Board and ECESA was adequate and pieces of information submitted by SSH to ECESA are extensive and up-to-date. The Management Board was present at all ECESA sessions.

10.2.5 Relations with state authorities: National Assembly of RS, Government of RS, sectoral ministries

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

In 2017, the SSH Management Board members responded to the invitation of the Commission of Public Finance Control and the Committee on Finance and Monetary Policy of the National Assembly of RS several times where they explained some decisions they had made and their circumstances.

Annually, SSH draws up the annual report on the management of capital assets in the ownership of RS and SSH for the National Assembly, and reports quarterly to the Government of the Republic of Slovenia and Commission for Public Finance Control. Thus, the Annual Report - Management of Capital Assets of RS and SSH in 2016 was orally presented in detail to the body responsible for finance and monetary policy functioning within the National Assembly of RS.

In accordance with Article 41 of ZSDH-1, the SSH Supervisory Board's sessions may also be attended by the ministers responsible for finance and the economy and by the President of the parliamentary Commission for Public Finance Control, however, they do not have the right to make decisions. For each SB's session, invitations, all material and minutes are submitted to these bodies.

10.2.6 Relations with business partners

SSH has established a clear and transparent manner for selecting business partners (financial advisors, legal advisors and other suppliers of goods and services). In September 2017, the revised Rules on Public Procurement were adopted which regulate procurement procedures in which the value of goods or services does not exceed EUR 20 thousand (excluding VAT), and those regulating public procurement procedures with the value exceeding EUR 20 thousand (excluding VAT). The said Rules lay

down detailed regulations on duties, appointments, tasks and liabilities of individual persons participating in the process for the procurement of goods or services. SSH respects business agreements and settles its liabilities in due time. Similarly, by revising the Rules for minimising harmful environmental impacts, SSH has committed itself to adhere to the provisions of the Decree on Green Public Procurement in cases of public procurement for the value from EUR 10,000 to 20,000. SSH complies with business agreements and regularly settles its liabilities, and, publishes transactions concluded which are obliged to be published in accordance with the Public Information Access Act on its web site.

Procurement of goods and services

Criteria for the selection of suppliers of goods and providers of services differ in regard to the type of a supplier and a provider. However, the following principles apply to all of them: the principles of economy, of competition, of transparency, of equal treatment and of proportionality. The most important criterion for the selection is the price. When several criteria are given for the selection of the most favourable supplier or provider, these criteria must be clearly defined in advance and the relative weight is attributed to them.

In 2017, in addition to the procedures for the selection of suppliers of goods and providers of services which were run in accordance with ZJN-3, another 105 contracts were concluded (in the value of EUR 0–19,999 per order) in relation to goods for general affairs, i.e., for the purchase of goods in the value of EUR 130,000, mostly for IT-related needs, such as the procurement of computer equipment and software, various support applications, office supplies and material for representation. As regards services in relation to general affairs, 110 contracts (in the value of EUR 0–19,999 per order for social and other special services up to the limit value) were concluded for the total amount of EUR 433,000, i.e., for advisory services, translation and telecommunication services. Additionally, EUR 572,600 was allocated for financial advisory services rendered in the processes for the sale of companies, including expenses for company appraisals, financial and legal due diligence of companies involved in the processes for the sale and acquisition of companies.

The majority of suppliers and providers come from Slovenia, and broadly speaking, from the European Union.

Sponsorships and donations

No Sponsorship or Donation Agreements were concluded by SSH in 2017. In accordance with ZSDH-1, SSH is subject to explicit prohibition of concluding Sponsorship and Donation Agreements.

10.3 Diversity and profiles of candidates and SB members and MB members of SOEs by gender

Ensuring the diversity of membership of supervisory bodies is highly important to improve the quality of decision-making, for example, in regard to strategies and risks, as it enables wider spectre of perspectives, opinions, experience, perceptions and values. Greater diversity also minimises the occurrence of collective thinking.

SSH enforces its recommendations at the level of portfolio companies by means of provisions of the Corporate Governance Code for SOEs. Among other matters, the said Code recommends the adoption of the Diversity Policy which is carried out in connection with the membership of management or supervisory bodies in regard to gender, age and professional profile. The Diversity Policy should be published on the web site of a company, or other type of accessibility should be enabled to all company's shareholders. The Diversity Policy should include the description of the Diversity Policy in connection with the presence of members in management and supervisory bodies in regard to aspects such as gender, age and profile, clearly specified goals of the diversity policy, the method of its implementation and the results having been achieved by such Diversity Policy in the reporting period. The goal of the Diversity Policy is to achieve better efficiency of a Supervisory Board and the Management as a whole.

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.

Targeted expert profiles for supervisory boards



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.

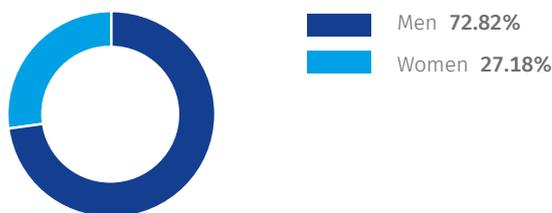
The remainder of the text presents a basic analysis of potential candidates registered on the Portal of the Nomination Committee, and the analysis on the members of supervisory and management bodies of SOEs by gender as at 31 December 2017.

10.3.1 Basic analysis of candidates from SSH Nomination Committee's Portal

At 31 December 2017, the SSH Nomination Committee's Portal, registering candidates for members of supervisory bodies of companies managed by SSH, which has been operational since 6 March 2017, had a list of 332 accredited candidates; the total number of all candidates registered in the register of all potential candidates for the members of supervisory boards stands at 1,316.

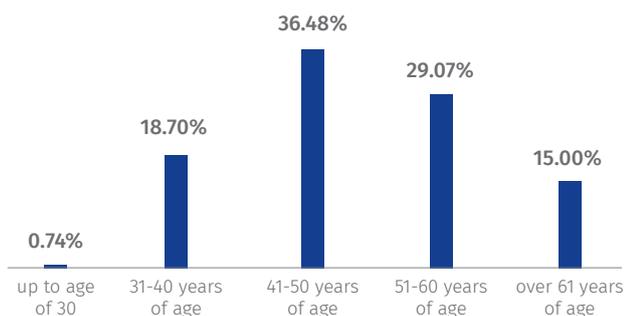
The analysis showed that the share of women who have registered by expressing their interest for the candidacy in the membership of supervisory boards of enterprises managed by SSH is comparable to the share of actually appointed and active female supervisory board members in SOEs.

Candidates for members of enterprises managed by SSH by gender



The age range of registered individuals (regardless of gender), who have expressed their interest for the candidacy in the membership of supervisory boards of enterprises managed by SSH, shows that the average age of candidates lies between 41 to 50, while the first category, i.e. up to 30 years of age, is the least represented.

The graph presenting candidates interested in the membership of supervisory boards of enterprises managed by SSH by age



10.3.2 The composition of Supervisory and Management Boards of companies owned by the Republic of Slovenia by gender

In 2017, the composition of Supervisory and Management Boards by gender was similar as in 2016, i.e. mostly imbalanced. Men continue to prevail in the membership of supervisory and management boards, although in 2017, the diversity of their composition in terms of gender turned in favour of women. At 31 December 2017, there were 77.7% of men and 22.3% of women sitting in supervisory boards of companies owned by RS and SSH, but the inequality in gender presence was slightly greater in the case of management boards – among their members (including presidents) there were 86.4% of men and only a very solid 13.6% of women.

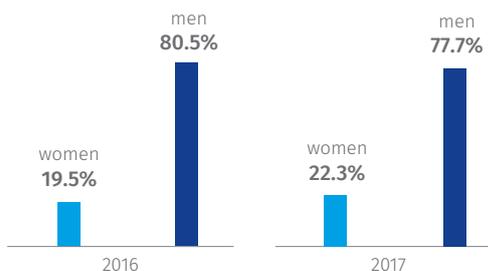
A similar disproportion regarding the gender presence was noticed in presidency functions held in management and supervisory bodies. The Supervisory Boards of companies directly owned by the Republic of Slovenia and SSH were presided over by men in 73.5% of cases, while Management Boards had as many as 91.7% of male presidents.

In 2017, as compared to the end of 2016, the relation in the gender presence in Supervisory and Management Boards of companies turned in favour of women. While in 2016, there were 19.5% of women present in the membership of Supervisory Boards, at the end of 2017, the proportion of women increased to 22.3%, and to

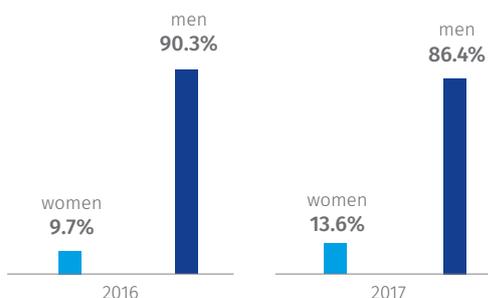
13.6% in case of Management Boards. Similarly, the share of women in other categories (presidency functions in Supervisory Boards and Management Boards) increased as compared to 2016.

Changes in the composition of Supervisory and Management Boards of companies directly owned by the Republic of Slovenia and SSH by gender (situation at the end of 2016 and 2017)

Supervisory Boards

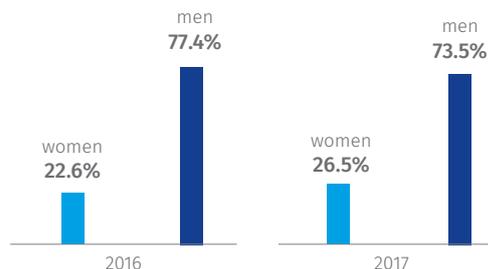


Management Boards

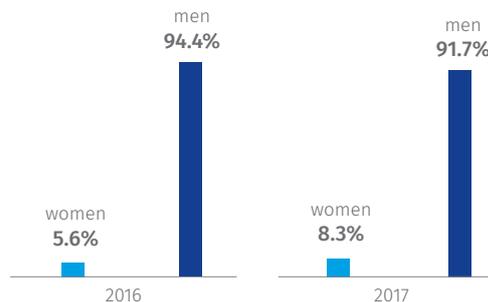


Changes in the composition of presiding function of Supervisory and Management Boards of companies directly owned by the Republic of Slovenia and SSH by gender (situation at the end of 2016 and 2017)

Supervisory Boards



Management Boards



10.4 Responsibility towards environment

10.4.1 Waste treatment

SSH belongs to a less intensive environmental polluters and is of the opinion that it does not have a major impact on the environment, considering the nature of its activities. However, the indirect impact on the environment is considered, in terms of relations to suppliers in the supplier chain involving material purchased by SSH and as a result, in the future, more attention will be dedicated to the verification of suppliers from the aspect of their impact on the environment.

SOEs encourages the use of electronic business. In 2017, SSH undertook intensive processes for the digitalisation of its operations, in which regard the reduction of the paper use was one of its goals. In 2017, SSH introduced electronic travel order forms and electronic form to register absence from work to be used by all employees. The system which enables the material intended for decision-making bodies and for supervisory bodies of the Company to be available only in electronic form is being introduced and increasingly more documents are being stored in an electronic form. SSH intends to continue the processes of digitalisation as it provides savings and reduces burdens onto the environment. The number of printed documents in the company has been decreasing, and in 2017, 88 toners and approximately 500 packages of paper were used in 2017.

In addition, SSH intends to reduce its environmental footprint by limiting its orders for water in plastic bottles, procuring them on rare occasions only. In 2017, 2,976 half-a-litre plastic bottles of water were used in SSH. From now on, the Company will monitor the level of its environmental footprint in a thorough manner.

Considering the nature of its activities, SSH does not measure the quantity of waste water. In SSH, waste is separated following the established waste separation system (paper, packaging, glass, toners, electronic equipment and other).

Events after balance sheet date

Significant events after balance sheet date are described in detail under item 15.6 of the Accounting Report of this Annual Report.



SLOVENSKI DRŽAVNI HOLDING, d

EFFECTIVELY

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 operations of companies from RS and SSH portfolios on the basis of benchmarking against comparable foreign or domestic enterprises.



ACCOUNTING REPORT

11	STATEMENT OF MANAGEMENT RESPONSIBILITY	96
12	INDEPENDENT AUDITOR'S REPORT	97
13	FINANCIAL STATEMENTS - SSH AND SSH GROUP	105
14	BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES	111
15	NOTES AND DISCLOSURES	121

11 STATEMENT OF MANAGEMENT RESPONSIBILITY

The Management Board is responsible for preparation of the Annual Report so that it provides a true and accurate account of the financial position as at 31 December 2017 and results of performance and cash flows for 2017.

The Management Board hereby confirms that applicable accounting policies and sound accounting estimates have been consistently applied in the preparation of the financial statements of SSH and SSH Group. The Management Board further confirms that financial statements together with the Notes have been prepared under the assumption of the going concern and are in line with international legislation and the International Financial Reporting Standards as adopted by the European Union.

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

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

The President and the Member of the SSH Management Board hereby declare that we are familiar with the contents of all of the integral parts of the Annual Report for 2017, that we approve it and confirm such approval with our respective signatures.

Ljubljana, 16 April 2018



Ms. Lidija Glavina,
President of Management Board



Nada Drobne Popovič, MSc
Member of Management Board

12 INDEPENDENT AUDITOR'S REPORT

12.1 SLOVENIAN SOVEREIGN HOLDING



Deloitte Revizija d.o.o.
Dunajska cesta 165
1000 Ljubljana
Slovenija

Tel: + 386 (0)1 3072 800
Fax: + 386 (0)1 3072 900
www.deloitte.si

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

Opinion

We have audited the accompanying financial statements of Slovenski državni holding, d.d., (hereinafter 'the Company'), which comprise the statement of financial position as at 31 December 2017, and the statement of total comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the EU (hereinafter 'IFRSs').

Basis for Opinion

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

Key Audit Matters

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

Key Audit Matters	How our audit addressed the key audit matter
Valuation of investments In its financial statements as at 31 December 2017, the Company discloses EUR 663,281 thousand of investments in associates and available-for-sale financial assets, which account for 98% of total assets.	We considered the adequacy of the methods used for measurement of financial assets of the Company. We did the following procedures: <ul style="list-style-type: none">For investments in marketable securities we recalculated the fair value of investments using

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<p>These investments are measured at:</p> <ul style="list-style-type: none"> • Fair value taken from the price per share on active market for marketable securities; • Fair value estimated based on different valuation techniques for investments in non-marketable securities for which the fair value can be determined; or • Cost less potential impairment for investments in interests and shares for which the fair value cannot be measured reliably. <p>Due to significance of the amount as at 31 December 2017, the referred investments are considered a key audit matter for our audit.</p>	<p>the prices on securities market as at 31 December 2017;</p> <ul style="list-style-type: none"> • For investments in non-marketable securities measured at fair value, we have evaluated the assumptions and methodologies used by the Company, in particular the assumptions used to calculate discount rates and expected future cash flows. A valuation expert was engaged in the process; • For investments in non-marketable securities the fair value of which cannot be measured reliably, we assessed whether management had evaluated indicators of impairment of such investments and whether they had been considered adequately when assessing the need for impairment. <p>The related disclosures are provided in Note 15.1.2.</p>
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Other Information

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

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

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

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

Other reporting obligations as required by EU Regulation No. 537/2014 of the European Parliament and the Council

In compliance with the Article 10(2) of EU Regulation No. 537/2014 of the European Parliament and the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

Appointment of the Auditor and the Period of Engagement

We were reappointed as the statutory auditor of the Company by the shareholders on General Shareholders' Meeting held on 21 July 2017. Our total uninterrupted engagement has lasted 4 years.

Consistence with the Additional Report to the Audit Committee

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report issued to the Audit Committee of the Company on 16 April 2018 in accordance with the Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in the Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided.

There are no services, in addition to the statutory audit, which we provided to the Company, and which have not been disclosed in the Annual Report.

DELOITTE REVIZIJA d.o.o.

Barbara Žibret Kralj
Certified Auditor

For signature please refer to the original Slovenian version.

Deloitte.

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

Ljubljana, 16 April 2018

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12.2 SLOVENIAN SOVEREIGN HOLDING GROUP



Deloitte Revizija d.o.o.
Dunajska cesta 165
1000 Ljubljana
Slovenija

Tel: + 386 (0)1 3072 800
Fax: + 386 (0)1 3072 900
www.deloitte.si

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

Opinion

We have audited the accompanying consolidated financial statements of Slovenski državni holding, d.d., and its subsidiaries (hereinafter 'the Group'), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of total comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the EU (hereinafter 'IFRSs').

Basis for Opinion

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

Key Audit Matters

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

Key Audit Matter	How our audit addressed the key audit matter
Valuation of investments	
In its financial statements as at 31 December 2017, the Group discloses EUR 661,941 thousand of available-for-sale financial assets, which account for 98% of total Group assets.	We considered the adequacy of the methods used for measurement of financial assets of the Group. We did the following procedures: <ul style="list-style-type: none"> For investments in marketable securities we recalculated the fair value of investments using

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<p>These investments are measured at:</p> <ul style="list-style-type: none"> • Fair value taken from the price per share on active market for marketable securities; • Fair value estimated based on different valuation techniques for investments in non-marketable securities for which the fair value can be determined; or • Cost less potential impairment for investments in interests and shares for which the fair value cannot be measured reliably. <p>Due to significance of the amount as at 31 December 2017, the referred investments are considered a key audit matter for our audit.</p>	<p>the prices on securities market as at 31 December 2017;</p> <ul style="list-style-type: none"> • For investments in non-marketable securities measured at fair value, we have evaluated the assumptions and methodologies used by the Group, in particular the assumptions used to calculate discount rates and expected future cash flows. A valuation expert was engaged in the process; • For investments in non-marketable securities the fair value of which cannot be measured reliably, we assessed whether management had evaluated indicators of impairment of such investments and whether they had been considered adequately when assessing the need for impairment. <p>The related disclosures are provided in Note 15.1.2.</p>
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Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Other reporting obligations as required by EU Regulation No. 537/2014 of the European Parliament and the Council

In compliance with the Article 10(2) of EU Regulation No. 537/2014 of the European Parliament and the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

Appointment of the Auditor and the Period of Engagement

We were reappointed as the statutory auditor of the Company by the shareholders on General Shareholders' Meeting held on 21 July 2017. Our total uninterrupted engagement has lasted 9 years.

Consistence with the Additional Report to the Audit Committee

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report issued to the Audit Committee of the Company on 16 April 2018 in accordance with the Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in the Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided.

There are no services, in addition to the statutory audit, which we provided to the Company and its controlled undertakings, and which have not been disclosed in the Annual Report.

DELOITTE REVIZIJA d.o.o.

Barbara Žibret Kralj
Certified Auditor

Deloitte.

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

For signature please refer to the original Slovenian version.

Ljubljana, 16 April 2018

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13 FINANCIAL STATEMENTS - SSH AND SSH GROUP

13.1 STATEMENT OF FINANCIAL POSITION/BALANCE SHEET

in 000 EUR	Note	SSH		SSH Group	
		31/12/2017	31/12/2016	31/12/2017	31/12/2016
ASSETS - TOTAL		679,288	1,013,068	677,948	1,013,224
LONG-TERM ASSETS		667,309	780,539	665,969	779,598
Intangible assets		203	90	203	90
Tangible fixed assets	15.1.1.	622	583	622	583
Long term financial investments	15.1.2.	666,484	779,866	665,144	778,925
SHORT-TERM ASSETS - TOTAL		11,979	232,529	11,979	233,626
Short-term assets without deferred costs and accrued revenues		11,326	232,005	11,326	233,102
Long-term assets held for sale	15.1.3.	0	4,988	0	6,085
Short-term financial investments	15.1.4.	38	166,000	38	166,000
Short-term operating receivables	15.1.5.	2,886	1,779	2,886	1,779
Cash and cash equivalents	15.1.6.	8,402	59,238	8,402	59,238
Short-term deferred costs and accrued revenues		653	524	653	524
EQUITY AND LIABILITIES - TOTAL		679,288	1,013,068	677,948	1,013,224
Capital	15.1.7.	491,789	557,384	490,449	557,540
Share capital		260,167	260,167	260,167	260,167
Share premium		0	0	0	0
Fair value reserve		428,204	483,602	203,311	299,858
Retained net profit or loss		-196,582	-186,385	0	-2,485
Net profit or loss for the period		0	0	26,971	0
LONG-TERM LIABILITIES - TOTAL		155,268	144,127	155,268	144,127
Provisions and long-term deferred costs and accrued revenues	15.1.8.	50,461	39,396	50,461	39,396
Long-term liabilities		104,807	104,731	104,807	104,731
Long-term financial liabilities	15.1.9.	104,807	104,731	104,807	104,731
SHORT-TERM LIABILITIES - TOTAL		32,231	311,557	32,231	311,557
Short-term liabilities		32,073	310,997	32,073	310,997
Short-term financial liabilities	15.1.10.	12,996	293,172	12,996	293,172
Short-term operating liabilities	15.1.11.	19,077	17,825	19,077	17,825
Short-term deferred costs and accrued revenues		158	560	158	560

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

13.2 STATEMENT OF COMPREHENSIVE INCOME

in 000 EUR	Note	SSH		SSH Group	
		1/1/ - 31/12/2017	1/1/ - 31/12/2016	1/1/ - 31/12/2017	1/1/ - 31/12/2016
Net sales revenues	15.1.12.	3,902	5,571	3,902	5,571
Other operating income (with revaluated operating expenses)	15.1.12.	3,063	11,725	3,063	11,725
Operating income		6,965	17,296	6,965	17,296
Cost of goods, materials and services	15.1.13.	2,145	3,607	2,145	3,607
Labour costs	15.1.14.	4,150	4,047	4,150	4,047
Amortisation and depreciation	15.1.15.	169	144	169	144
Long-term provisions	15.1.16.	14,453	0	14,453	0
Write-offs		6	144	6	144
Other operating expenses		61	113	61	113
Operating profit or loss		-14,019	9,241	-14,019	9,241
Financial income	15.1.17.	55,755	50,853	55,755	50,853
Financial expenses	15.1.17.	4,192	13,659	4,192	13,659
Profit/loss share from investments measured at equity method	15.1.18.	-	-	54,313	2,410
Other revenues		0	0	0	0
Other expenses		0	0	0	0
Profit or loss before tax		37,544	46,435	91,857	48,845
Income tax	15.1.19.	0	0	0	0
Differed taxes	15.1.19.	-5,595	4,221	-5,595	4,221
Net profit or loss for the reporting period from non-discontinued operation		31,949	50,656	86,262	53,066
Result from discontinued operations		0	0	0	1,546
Net profit or loss for the reporting period		31,949	50,656	86,262	54,612
Net profit or loss for the reporting period - majority owner		-	-	86,262	54,163
Net profit or loss for the reporting period - minority owner		-	-	-	449
Changes in fair value reserves (financial investments)		-60,985	-14,138	-102,135	-18,350
Effects of deferred taxes		5,595	-4,221	5,595	-4,221
Other comprehensive net income to be recognized in Income Statement in the future		-55,390	-18,359	-96,540	-22,571
Recalculation of post-employment benefits		-7	-21	-7	-21
Other comprehensive net income not to be recognized in Income Statement in the future		-7	-21	-7	-21
Other comprehensive income after tax		-55,397	-18,380	-96,547	-22,592
Total comprehensive income for the financial year after tax		-23,448	32,276	-10,285	32,020

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

13.3 STATEMENT OF CASH FLOWS

in 000 EUR	SSH		SSH Group	
	1/1/ - 31/12/2017	1/1/ - 31/12/2016	1/1/ - 31/12/2017	1/1/ - 31/12/2016
Cash flows from operating activities				
Proceeds from operating activities	16,743	84,930	16,743	84,930
<i>Proceeds from operating activities</i>	7,292	8,858	7,292	8,858
<i>Proceeds from Republic of Slovenia (commission business)</i>	9,451	76,072	9,451	76,072
Expenses from operating activities	-20,232	-85,317	-20,232	-85,317
<i>Expenses for materials and services</i>	-1,759	-3,289	-1,759	-3,289
<i>Labour costs</i>	-4,201	-4,115	-4,201	-4,115
<i>Expenses for various levies and charges</i>	-666	-624	-666	-624
<i>Payments pursuant to ZDen and SZ</i>	-2,879	-72,875	-2,879	-72,875
<i>Expenses for the account of the Republic of Slovenia (comm. business)</i>	-10,475	-4,173	-10,475	-4,173
<i>Other operating expenses</i>	-252	-241	-252	-241
Net cash flow from operating activities	-3,489	-387	-3,489	-387
Cash flow from investing activities				
Proceeds from investing activities	361,533	242,317	361,533	242,317
<i>Interest and dividends received</i>	46,013	44,088	46,013	44,088
<i>Proceeds from sale of property, plant and equipment</i>	14	36	14	36
<i>Proceeds from sale of long-term financial investments</i>	25,526	25,276	25,526	25,276
<i>Proceeds from sale of short-term financial investments</i>	289,980	172,917	289,980	172,917
Expenses from investing activities	-124,353	-336,479	-124,353	-336,479
<i>Acquisition of intangible assets</i>	-187	-55	-187	-55
<i>Acquisition of tangible assets</i>	-151	-98	-151	-98
<i>Acquisition of long-term financial investments</i>	0	-35,523	0	-35,523
<i>Acquisition of short-term financial investments</i>	-124,015	-300,803	-124,015	-300,803
Net cash flow from investing activities	237,180	-94,162	237,180	-94,162

in 000 EUR	SSH		SSH Group	
	1/1/ - 31/12/2017	1/1/ - 31/12/2016	1/1/ - 31/12/2017	1/1/ - 31/12/2016
Cash flow from financing activities				
Proceeds from financing activities	3,300	200,000	3,300	200,000
<i>Proceeds from paid-up capital</i>	0	200,000	0	200,000
<i>Proceeds from increase in short-term financial liabilities</i>	3,300	0	3,300	0
Expenses from financing activities	-287,827	-60,868	-287,827	-60,868
<i>Interest expenses related to financing activities</i>	-4,527	-5,868	-4,527	-5,868
<i>Repayment of long-term financial liabilities</i>	-280,000	-55,000	-280,000	-55,000
<i>Repayment of short-term financial liabilities</i>	-3,300	0	-3,300	0
Net cash flow from financing activities	-284,527	139,132	-284,527	139,132
Closing balance of cash and cash equivalents	8,402	59,238	8,402	59,238
Net increase/decrease in cash for the period	-50,836	44,583	-50,836	44,583
Opening balance of cash and cash equivalents	59,238	14,655	59,238	14,655

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

13.4 STATEMENT OF CHANGES IN EQUITY

13.4.1 Statement of changes in equity of SSH

in 000 EUR	Share capital	Statutory reserves	Retained profit / loss	Net profit / loss	Fair value reserve	Total
Balance as at 1/1/2016	60,167	0	-237,041	0	501,982	325,108
Transaction with owners	200,000	0	0	0	0	200,000
Capital increase	200,000	0	0	0	0	200,000
Total comprehensive income for reporting period	0	0	0	50,656	-18,380	32,276
Input of net profit or loss for the reporting period	0	0	0	50,656	0	50,656
Other comprehensive income for the reporting period	0	0	0	0	-18,380	-18,380
Changes in equity	0	0	50,656	-50,656	0	0
Transfers	0	0	50,656	-50,656	0	0
Closing balance as at 31/12/2016	260,167	0	-186,385	0	483,602	557,384
Transaction with owners	0	0	-42,146	0	-142,108	-184,254
Transfer of equity investments to RS	0	0	-42,146	0	-157,854	-200,000
Changes in deferred taxes due to transfer	0	0	0	0	15,746	15,746
Total comprehensive income for the reporting period	0	0	0	31,949	86,710	118,659
Input of net profit or loss for the reporting period	0	0	0	31,949	0	31,949
Other comprehensive income in the reporting period	0	0	0	0	96,861	96,861
Changes in deferred taxes due to revaluation	0	0	0	0	-10,151	-10,151
Changes in capital	0	0	31,949	-31,949	0	0
Transfers	0	0	31,949	-31,949	0	0
Closing balance as at 31/12/2017	260,167	0	-196,582	0	428,204	491,789

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

13.4.2 Determination of accumulated profit/loss of SSH

in 000 EUR	
Net profit or loss for 2017	31,949
Transferred net loss or loss for 2017	-228,531
Accumulated loss for 2017	-196,582

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

13.4.3 Statement of changes in equity for SSH Group

in 000 EUR	Share capital	Retained profit/loss	Net profit/loss	Fair value reserve	Equity -minority owners	Total
Balance as at 1/1/2016	60,167	-53,148	0	322,450	2,245	331,714
Transactions with owners	200,000	0	0	0	0	200,000
Capital increase	200,000	0	0	0	0	
Total comprehensive income for the reporting period	0	0	54,163	-22,592	449	32,020
Input of net profit or loss for the reporting period	0	0	54,163	0	449	54,612
Other comprehensive income	0	0	0	-22,592	0	-22,592
Changes in equity	0	54,163	-54,163	0	0	0
Transfers		54,163	-54,163	0	0	0
Movements from equity	0	-3,500	0	0	-2,694	-6,194
Other changes in equity	0	-3,500	0	0	-2,694	-6,194
Closing balance as at 31/12/2016	260,167	-2,485	0	299,858	0	557,540
Transactions with owners	0	-42,146	0	-142,108	0	-184,254
Transfer of equity investments to RS	0	-42,146	0	-157,854	0	-200,000
Change in deferred taxes due to the transfer	0	0	0	15,746	0	15,746
Total comprehensive income for the reporting period	0	0	86,262	45,561	0	131,823
Input of net profit or loss for the reporting period	0	0	86,262	0	0	86,262
Other comprehensive income	0	0	0	45,561	0	45,561
Changes in equity	0	59,291	-59,291	0	0	0
Transfers	0	59,291	-59,291	0	0	0
Movements in equity	0	-14,660	0	0	0	-14,660
Other changes in equity	0	-14,660	0	0	0	-14,660
Closing balance as at 31/12/2017	260,167	0	26,971	203,311	0	490,449

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

14 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

14.1 REPORTING COMPANY

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

In line with the Standard Classification of Activities, the Company's activity is categorised in the following class: K 64.990 - Other financial service activities, except insurance and pension funding n.e.c.. The Company's activity is presented in detail in the Business Report, Chapter 7.

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

As at 31 December 2017, there were three subsidiaries in the SSH portfolio:

- Elektrooptika d. d.,
- GIO d. o. o., Ljubljana – in liquidation,
- PS ZA AVTO d. o. o.

Dekoratívna d. o. o., Ljubljana – in liquidation, was deleted from the judicial Business Register of Companies on 9 August 2017.

As at 31 December 2017, the portfolio of associated companies consisted of the following enterprises:

- Casino Bled d. d.,
- Hit d. d.,
- Sava d. d.,
- Unior d. d. and
- Zavarovalnica Triglav d. d.

By 22 December 2017, Pozavarovalnica Sava d.d., was also included in the portfolio of the associated companies, however, pursuant to the provisions of the act amending ZSOS, on that date, 1,261,034 Pozavarovalnica Sava shares were transferred to the Republic of Slovenia which means that the ownership interest has been decreased from 25% to 17.68%.

SSH prepared the consolidated financial statements, reporting the situation as at 31 December 2017, in which only associated entities had been included using the equity method.

The inclusion of the subsidiary PS ZA AVTO d.o.o., in the consolidated financial statements is insignificant with respect to presenting true and fair financial statements of the Group, therefore it was not included in the consolidation. The companies: Elektrooptika d.d., Ljubljana, and GIO d.o.o., Ljubljana - in liquidation, are non-going concerns. These inclusion of these two companies is insignificant from the aspect of presenting true and fair financial statements of the Group therefore they were not included in the consolidated statements.

On the basis of the provisions of IFRS 10 it was thoroughly examined whether any of capital assets owned by RS and being part of the portfolio of companies managed by SSH pursuant to ZSDH-1 should be included in the consolidated financial statements. Since SSH has no economic benefits, and it is RS that it is eligible to receive dividends, and due to the fact that SSH is paid a contractually-determined fee which does not equal to the arm's length fee, as well as considering the fact that the Strategy and the Annual Asset Management Plan are approved by the RS Government, it has been concluded that conditions are not satisfied for including into the consolidation capital assets which are now owned by SSH.

The Annual Report of SSH and SSH Group is available for inspection at the SSH's headquarters and on its website.

In the financial year of 2017, the average number of employees employed with SSH was 68,11 which is calculated from the number of hours worked. On 31 December 2017, there were 73 employees employed.

The share capital of SSH in the amount of EUR 260,166,916,04 is divided into non-par value shares not listed on the regulated stock exchange market.

The Financial Statements for the financial year of 2017 were approved for the publication by the SSH Management Board on 16 of April 2018.

14.1.1 Transfer of portion of SSH assets to the Republic of Slovenia

The second paragraph of Article 19(a) of the Slovenian Compensation Fund Act (Official Gazette of RS 55/2017) stipulates that, not later than by 31 December 2017, a block of strategic and important capital assets which are traded on the regulated market and whose total value amounts to at least EUR 200 million should be transferred free-of-payment by SSH into the ownership of the Republic of Slovenia. In accordance with the said bill, the list of assets was established by the RS Government on 21 December 2017 by virtue of the Resolution No. 47600-11/2017/3. These assets include as follows:

- 1,261,034 shares issued by Pozavarovalnica Sava d.d.,
- 147,493 shares issued by Petrol Slovenska energetska družba d.d. Ljubljana, and
- such amount of shares issued by Krka, tovarna zdravil d.d., Novo mesto, that the total amount of assets referred to in from the first to the third indents of the said List amounts to at least EUR 200 million as at 20 December 2017.

The volume and value of transferred assets:

- 1,261,034 shares of Pozavarovalnica Sava d.d. EUR 20,1 mio
- 147,493 shares of Petrol d.d. EUR 50,7 mio
- 2,362,194 shares of Krka d.d. EUR 129,2 mio.

The posting of the transfer of shares was carried out on 22 December 2017. Under the provisions of the International Financial Reporting Standards, the transfer is regarded as a transaction with the owners, therefore all values are calculated within the equity item.

The impact of the transaction on Financial Statements of SSH/SSH Group:

- decrease in the value of capital investments EUR 200,0 mio
- Increase in the retained loss EUR 42,1 mio
- decrease in the fair value reserve (on the day of transaction) EUR 157,9 mio
- impact of deferred taxes EUR -15,7 mio.

14.1.2 Changes in the Group

In 2017, the following changes occurred in regard to the SSH Group:

- on 6 March 2017, the associated company, Paloma d.d., was sold;
- on 9 August 2017, Dekorativna d.d. was liquidated, and
- on 22 December 2017, the shareholding in Pozavarovalnica Sava decreased from 25% to 17.68% (from this date onwards, Pozavarovalnica Sava is no longer included among the associated companies).

14.2 SIGNIFICANT ACCOUNTING POLICIES

14.2.1 Statement of compliance with IFRS

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

For the year ending on 31 December 2017, the consolidated financial statements have been prepared, in addition to individual financial statements. The consolidated financial statements for the controlling company and the financial statements for the Group have been prepared in accordance with International Financial Reporting Standards (hereinafter referred to as: »IFRS«). The Slovenian legislation (ZGD-1) and the Company's internal legal documents have been taken into account in the development of the financial statements.

14.2.2 Basis of preparation

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

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

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

In accordance with IFRS, the preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and underlying assumptions are based on historical experience and many other factors reasonable in given circumstances which are used as the basis for determining the carrying amount of assets and liabilities. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the

estimates are revised if only this period is affected, or in current and any future periods affected. The financial statements should give a true and fair view of the financial position, financial performance and cash flows of SSH/the Group. The precautionary principle and the principle of fair value must also be taken into account as required by IFRS.

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

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

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

a) Standards and interpretations valid in the current period

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

- **Amendments to IAS 7 – Statement of Cash Flows** – Disclosure Initiative adopted by the EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017);

- **Amendments to IAS 12 – Income Taxes** – Recognition of deferred tax assets for unrealised losses as adopted by the EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017);
- **Amendments to various standards – Annual Improvements cycle 2012-2014** – resulting from the Annual Improvements process of IFRS (IFRS 1, IFRS 12 and IAS 28) with the aim to eliminate inconsistencies and interpretations – adopted by the EU on 8 February 2018, (amendments effective for annual periods beginning on or after 1 January 2017).

The above mentioned amendments to standards were taken into account when developing these financial statements. It is assessed that their application did not result in any changes in the Company's accounting policies.

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

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

- **IFRS 9 – Financial Instruments** – adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018);
- **IFRS 15 – Revenue from Contracts with Customer** – and amendments to IFRS 15 – “Effective date of IFRS 15” which were adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to IFRS 15 – Revenue from Contracts with Customer** – Notes to IFRS 15 – Revenue from Contracts with Customers - which were adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018);
- **IFRS 16 – Leases** – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to IFRS 4 – Insurance Contracts** – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – adopted by the EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018, or when with first application of IFRS 9 *Financial Instruments*);
- **Amendments to various standards – Annual improvements 2014-2016 cycle** – resulting from the Annual Improvements process of IFRS (IFRS 1, IFRS 12 and IAS 28) with the aim to eliminate inconsistencies and interpretations – adopted by the EU on 8 February 2018 (amendments to IFRS 1 and IAS 28 effective for annual periods beginning on or after 1 January 2018).

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

Currently, IFRS as adopted by the EU do not significantly differ from standards adopted by IASB with the exception of the following new standards and amendments to the existing standards which, as at 16 April 2018, have not yet been adopted for their application in the EU (the dates mentioned below in regard to the effective date apply for the entire IFRS):

- **IFRS 14 – Regulatory Deferral Accounts** – (effective for annual periods beginning on or after 1 January 2016) – the European Commission (EC) has concluded not to initiate the process for endorsement of the interim standard and to wait for its final version;
- **IFRS 17 – Insurance Contracts** – (effective for annual periods beginning on or after 1 January 2021);
- **Amendments to IFRS 2 – Share-based Payment** – Classification and measurement of share-based payment transactions (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to IFRS 9 – Financial Instruments** – Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to IFRS 10 – Consolidated Financial Statements – and IAS 28 – Investments in associates and Joint Ventures** – Sales or contributions of assets between an investor and its associate/joint venture and subsequent amendments (the effective date of the amendments made has been deferred for indefinite period of time until the research project in regard to the equity method is completed);
- **Amendments to IAS 19 – Employee Benefits** – Plan amendments, curtailments and settlements (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to IAS 28 – Investments in Associates and Joint Ventures** – Long-term interests in an associate or joint venture (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to IAS 40 – Investment Property** – Transfer of Investment Property (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to various standards – Annual improvements 2014-2016 cycle** – resulting from the Annual Improvements process of IFRS (IFRS 3, IFRS 11 IAS 12 and IAS 23) with the aim to eliminate inconsistencies and interpretations (effective for annual periods beginning on or after 1 January 2019);

- **IFRIC 22 – Foreign Currency Transactions and Advance Consideration** – (effective for annual periods beginning on or after 1 January 2018);
- **IFRIC 23 – Uncertainty over Income Tax Treatments** – (effective for annual periods beginning on or after 1 January 2019).

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

It is assessed by SSH/the Group, that, at least upon their introduction, amendments to IFRS 9 will not have any material impact to separated and consolidated financial statements for the following reasons:

- the majority of financial assets, which, so far, have been classified as available-for-sale financial assets, satisfies the criteria for fair-value reclassification through other comprehensive income which is why their measurement will not be changed;
- only a small portion of financial assets, which, so far, have been classified as available-for-sale financial assets, will be reclassified into the group measured at fair-value through profit or loss;
- regardless of the new impairment method which is based on the expected loan losses, it is not expected by SSH/the Group that additional provisions for impairments will have to be made, mainly due to the nature of operations of its buyers and on account of the existing system for adjusting the value of claims.

SSH/the Group also expects that, provisions of IFRS 15 will not have any material impact to the volume of recognised revenue.

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

14.2.3 Currency reporting

a) *Functional and presentation currency*

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

b) Transactions and balances

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

Exchange rate differences arising from debt securities and other monetary assets recognised at fair value are included in gains or losses incurred in transactions in foreign currencies. Foreign exchange differences in non-monetary items, such as assets held for sale, are recognised in the equity, in the revaluation surplus.

14.2.4 Value estimates of individual items

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

14.2.5 Significant policies for Company and Group

Revenue recognition

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

Other revenue is recognised by applying the following principles:

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

Investments in subsidiaries

A consolidated subsidiary is a company in which the controlling company has a controlling interest or a controlling influence for other reasons as a result of which such company is actually controlled, and which joins the Group for which the consolidated financial

statements are prepared. When the value of a subsidiary is irrelevant for the true and fair presentation of the Group's financial statement, such a subsidiary is not included in the consolidated financial statements.

Investments in subsidiaries are valued at the historical acquisition value, and written down for impairment losses. Income from profit participation is recognised as income from financial activities when a resolution on the distribution and payment of profits is adopted by AGM of these companies.

Investments in associates

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

Investments in associates are recognised at fair value through equity in separated financial statements. Quoted market prices are used for listed investments whereas the value of the remaining investments is an estimate. SSH regularly monitors business results and major events related to individual investments. On the above-said basis, SSH/Group determines whether any indications for impairment have arisen and whether any adjustment chargeable to financial expenses must be made.

In accordance with IAS 28, financial investments in associates are recognised using the equity method from the date when the investment becomes an associate company. In the Statement of Financial Position, by using the equity method, the investment is recognised initially at cost increased by changes – upon the acquisition – in the capital of the associate and reduced by any impairment. The amount obtained from the distribution of net profit of a company in which the controlling company has a significant influence reduces the book value of the financial investment.

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

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

Intangible assets

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

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

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

The depreciation of intangible assets is calculated at the straight line method by taking into account the useful life of the assets. The depreciation rates used range from 10,0% to 33,3%.

Tangible fixed assets

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

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

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

Land is not depreciated since it is presumed to have an unlimited useful life. Likewise, assets in course of construction are not depreciated until they are ready to be used. Since the book value of assets exceeds their estimated recoverable value, they must be revaluated to the estimated recoverable value, i.e. impaired, pursuant to IAS 36. Gains and losses incurred upon the disposal of land, buildings and equipment are determined according to their book value and affect the Company's operating results. Subsequent costs associated with tangible fixed assets increase in their acquisition cost when future economic benefits are expected from these assets. Costs of all other repairs and maintenance services are included in the Statement of Comprehensive Income for the period in which they are incurred. Tangible fixed

assets with useful life exceeding one year and individual acquisition cost being less than EUR 500 are allocated to costs, except for printers, smart phones, desktop calculators, and similar equipment.

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

Financial assets

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

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

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

As at 31 December 2017, the Company/Group did not have any financial assets measured at fair value through profit or loss.

b) *Loans and receivables*

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

c) *Financial assets held to maturity*

Fixed maturity investments which SSH/Group intends to hold and is able to hold until their maturity are classified as investments held-until-maturity and form a part of long-term assets. In the Balance Sheet, these financial investments are valued at amortised cost. The portion of the investment to mature within twelve months of the

balance sheet date is recognised as a short-term asset. Subsequent impairments are recognized in profit or loss. Impairment loss is eliminated when the subsequent increase in the recoverable value of the asset may be associated in an objective manner with the event occurring after the impairment recognition.

As at 31 December 2017, the Company/Group did not have any financial assets held-to-maturity.

d) Available-for-sale financial assets

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

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

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

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

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

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

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

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

Derived financial instruments

In 2017, SSH/the did not have any derived financial instruments.

Assets held for sale or distribution

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

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

Impairment of non-financial assets

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

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

Operating receivables

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

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

Receivables are initially recognised in amounts stated in relevant documents under the assumption that they will be paid. Receivables are measured at amortised cost using the effective interest rate method less impairment. Impairment of operating receivables occurs when it is expected that the full amount of outstanding receivables will not be collected. The impairment amount is the difference between the carrying amount and the current value of the expected estimated cash flows being discounted at the effective interest rate. Impairments are recognized in profit or loss.

Two criteria are used by SSH/Group for value adjustment of a receivable:

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

Cash and cash equivalents

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

Provisions

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

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

When assessing which claims are to be included among provisions and which are to be included among contingent liabilities, decisions of administrative bodies and current case law in similar cases were taken into account, together with SSH's own assessment. Contingent liabilities include some claims referring to various legal issues. In regard to all of these cases it is difficult to make a reliable assessment, however, it can be expected that the Company will not be classified as an entity liable to pay compensation. In cases when, by examining all facts, it is assessed, that there is a small probability for SSH to be classified as a party liable to pay compensation, such claims are classified as contingent liabilities.

Provisions for retirement benefits and jubilee premiums

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

Deferred taxes

Deferred taxes are directly associated with the basic accounting principle of comparing revenues and expenses in the Profit and Loss Statement. Deferred taxes are recognised in full using the liability method on

the basis of the temporary differences between the tax bases of assets and liabilities and the amounts reported in the financial statements. Deferred taxes are calculated using statutory tax rates for the period in which it is expected to be applied, when the tax receivable is realized and when the tax liability is settled.

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

Liabilities

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

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

Equity

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

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

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

Fair value measurement

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

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

- the first level includes quoted prices (unadjusted) in the operating markets for identical assets or liabilities;
- the second level includes the values which are not equal to quoted prices but can be also acquired directly or indirectly from the market (for example values derived from quoted prices in an active market);
- the third level includes input data for an asset or liability not based on market data. This level includes non-marketable shares and receivables. Valuations are based on the yield-based method and partially on the asset-based method. Methods used by SSH are the discounted method, the method including comparable listed companies, the comparable purchases-and-sales method and the adjusted book values method.

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

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

The fair value of financial assets at fair value through profit or loss and of available-for-sale assets is determined in accordance with the above mentioned 3-level fair value hierarchy. When the fair value cannot

be reliably measured, the financial asset is measured at cost and indications of its impairment are measured at least once a year. The fair value of investments in associates is measured by the Company/Group in accordance with the above mentioned 3-level fair value hierarchy. The fair value of receivables and loans is calculated as a current value of future cash flows, discounted at market interest rate at the end of the reporting period.

Own shares

Neither the controlling company nor its subsidiaries hold its own shares or interests, nor do they intend to acquire them.

Consolidation

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

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

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

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

Structure of the Group of associated companies

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

15 NOTES AND DISCLOSURES

15.1 NOTES TO FINANCIAL STATEMENTS

With the exception of Notes in connection with financial investments (Note 15.1.3) and Equity (Note 15.1.7), all notes refer simultaneously to SSH and SSH Group.

15.1.1 Intangible assets of SSH/SSH Group

Intangible assets of SSH are not encumbered with any mortgage, lien or any other encumbering instruments. The disposal of intangible assets involves sales and elimination of assets.

SSH estimates that there are no factors due to which intangible assets should be impaired.

15.1.2 Long-term financial investments

in 000 EUR	SSH		SSH Group	
	31/12/17	31/12/16	31/12/17	31/12/16
Long-term investments in subsidiaries**	3,203	3,512	3,203	3,512
Long-term financial investments in associates	214,956	231,340	213,616	230,399
Other financial investments available for sale	448,325	545,014	448,325	545,014
Total	666,484	779,866	665,144	778,925

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

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

Company	Registered office		Core business/notes
Casino Bled d. d.	Cesta svobode 15	4 260 Bled	Gaming
Elektrooptika d. d.	Mała ulica 5	1 000 Ljubljana	Business and other management
GIO d. o. o. Ljubljana - in liquid.	Dunajska 160	1 000 Ljubljana	In liquidation
Hit d. d.	Delpinova 7A	5 000 Nova Gorica	Gaming
Paloma d. d.**	Sladki Vrh 1	2 214 Sladki Vrh	Manufacture of paper
Pozavarovalnica Sava d. d. ***	Dunajska cesta 56	1 000 Ljubljana	Reinsurance services
PS za avto d. o. o.	Tržaška cesta 133	1 000 Ljubljana	Rental activities
Sava d. d.	Dunajska cesta 152	1 000 Ljubljana	Activities of fin. holding companies
Unior d. d.	Kovaška cesta 10	3 214 Zreče	Forging
Zavarovalnica Triglav d. d.	Miklošičeva 19	1 000 Ljubljana	Insurance services

** Paloma d. d. was an associate until 6 March 2017.

***Pozavarovalnica Sava d. d. was an associate until 22 December 2017.

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

Equity value and profit or loss generated in associates and subsidiaries

Company name	No. of shares/ holdings	31/12/2017 % Of ownership	Total equity of company in 000 EUR	Profit/Loss in 000 EUR	Fin. Statements' data for FY
Casino Bled d. d.	35,381	43.00	332	90	2017
Elektrooptika d. d.	463,570	70.48	-90	-11	2017
Gio d. o. o. Ljubljana - in liquid.*	-	71.27	8,500	-66	liq.BS 2017
Hit d. d.	1,357,727	20.00	52,228	5,833	2017
Paloma d. d. **	2,410,007	30.35	30,112	419	28. 2. 17
Pozavarovalnica Sava d. d. ***	3,043,883	17.68	290,966	32,974	2017
PS za avto d. o. o.	-	90.00	506	-4,256	2017
Sava d. d.	4,891,650	22.56	25,073	1,596	2017
Unior d. d.	1,119,079	39.43	89,063	7,747	2017
Zavarovalnica Triglav d. d.	6,386,644	28.09	571,412	62,522	2017

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

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

** Paloma was disposed of on 6 March 2017, income refers to first two months of 2017, equity value as at 28 February 2017.

*** Pozavarovalnica Sava d. d. – change in ownership on 22 Dec. 2017 (from 25% to 17.68%).

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

Long-term investments in subsidiaries

	Voting rights 31/12/17 in %	Ownership 31/12/17 in %	SSH		SSH Group	
			31/12/17 in 000 EUR	31/12/16 in 000 EUR	31/12/17 in 000 EUR	31/12/16 in 000 EUR
Dekorativna d. o. o. Lj.- in liquid.*	0.00	0.00	-	309	-	309
Elektrooptika d. d.	70.48	70.48	0	0	0	0
GIO d. o. o. Lj - in liquidation	71.27	71.27	3,203	3,203	3,203	3,203
PS za avto d. o. o.	90.00	90.00	0	0	0	0
Total			3,203	3,512	3,203	3,512

* On 9 August 2017, Dekorativna was deleted from the judicial business register, assets have been taken over by SSH, all liabilities have been repaid.

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

Assets/revenue/equity of subsidiaries

in 000 EUR	Income in FY	Equity	Assets
Company name	2017	31/12/17	31/12/17
Dekorativna d. o. o. - in liquid.*	20	0	0
Elektrooptika d. d.	5	-90	3
GIO d. o. o., Lj. - in liquid.	120	8,500	9,046
PS za avto d. o. o.	183	506	6,008
SDH d. d.	62,720	491,789	679,288
Total (SSH + subsidiaries)	63,048	500,705	694,345
Proportion (%) of subsidiaries in total	0.52	1.78	2.17

Long-term investments in associates

Pursuant to the provisions of the Act Amending Slovenian Compensation Fund Act, on 22 December 2017, 1,261,034 shares of Pozavarovalnica Sava d. d. were transferred from SSH to RS. The SSH ownership interest was thus decreased from 25% to 17.68%, as a result of which the said company lost its status of an associate. In light of the above mentioned, the situation as at 31 December 2017 (table below) presents no data on the value of Pozavarovalnica Sava for the current year.

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

	Voting rights 31/12/17 in %	Ownership 31/12/17 in %	SSH		SSH Group	
			31/12/17 in 000 EUR	31/12/16 in 000 EUR	31/12/17 in 000 EUR	31/12/16 in 000 EUR
Casino Bled d. d.	43.00	43.00	135	0	143	106
Hit d. d.	20.00	20.00	5,243	2,593	10,201	9,476
Pozavarovalnica Sava d. d.	17.68	17.68	-	56,911	-	56,911
Sava d. d.	22.56	22.56	5,968	1,844	3,096	2,536
Unior d. d.	39.43	39.43	19,036	21,822	15,602	13,200
Zavarovalnica Triglav d. d.	28.09	28.09	184,574	148,170	184,574	148,170
Total			214,956	231,340	213,616	230,399

The data on three associates presented below refer to data from separately prepared financial statements, the impact of the equity method of investment valuation applied for associates in SSH Group is disclosed in Note 15.1.18.

Sava d.d. was measured by applying the net asset value method (i.e., Asset Accumulation Method) under the assumption of ordinary, i.e. voluntary liquidation. The asset-based method was applied due to the fact that the said company is undergoing the compulsory settlement procedure which envisages the sale of all financial investments and other assets, together with the repayment of financial debt. The basis for the valuation of Sava Turizem d.d. and Hoteli Bernardin d.d. were valuations made by certified external value appraisers; in regard to the value of units held in Alpen.si mutual fund, in which regard the value of the unit as at 31 December 2017 reduced by exit

costs (3%) was taken into account. The valuation is made by assuming that the shares of Gorenjska banka are sold at the price of EUR 298. Shares of companies listed on Ljubljana Stock Exchange were valued at the closing quote of the said Stock Exchange as at 31 December 2017.

The estimated fair value of ordinary shares issued by HIT d.d. has been determined by applying the income-based approach, specifically, the discounted cash flow method (DCF-method). The estimate of free cash flow was discounted by applying the discount rate of 8.51%. The remaining growth of normalised cash flow amounts to 2%.

The estimated fair value of ordinary shares issued by Casino Bled d.d. is made under the income-based approach, by applying the discounted cash flow method (DCF). The estimate of free cash flow was discounted by applying the discount rate of 9.15%. The remaining growth of normalised cash flow amounts to 2%.

Other available-for-sale financial investments

Other available-for-sale financial investments listed on the regulated market are measured at fair value through equity. The fair value for listed investments is determined on the basis of a market (quoted) price on the reporting date, whereas a model-based fair value is applied by SSH for estimating the fair value of non-listed investments. The Company/Group regularly monitors business results and major events related to each company in which it holds its financial investments. SSH/the Group determines whether any indications for impairment have arisen, produces a valuation report when necessary and verifies whether adjustment chargeable to financial expenses must be made.

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

in 000 EUR	SSH		SSH Group	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
A) Listed instruments				
Investments in domestic companies	402,460	490,140	402,460	490,140
Investments in mutual funds	1,026	9,769	1,026	9,769
Investments in foreign shares	0	92	0	92
Investments in bonds	1,981	1,960	1,981	1,960
Total listed instruments at fair value	405,467	501,961	405,467	501,961
B) Non-listed instruments, value determined by an appraisal				
Investments in domestic companies	8,002	8,922	8,002	8,922
Investments in purchased receivables	34,856	34,131	34,856	34,131
Total at cost including the recognition of impairment indication	42,858	43,053	42,858	43,053
Total	448,325	545,014	448,325	545,014

The ten major investments in domestic companies (including associates), at the value presented in the Company's financial statements as at 31. December 2017 represent 90% of SSH's assets. These are as follows:

• Zavarovalnica Triglav d. d.	EUR 184.6 million,
• Krka d. d.	EUR 169.6 million,
• Petrol d. d.	EUR 92.4 million,
• Pozavarovalnica Sava d. d.	EUR 48.1 million,
• Luka Koper d. d.	EUR 47.4 million,
• Telekom Slovenije d. d.	EUR 23.0 million,
• Cinkarna Celje d. d.	EUR 20.2 million,
• Unior d. d.	EUR 19.0 million,
• Sava d. d.	EUR 6.0 million,
• Hit d. d.	EUR 5.2 million.

As at 31 December 2017, the SSH/Group held financial investments in 5 mutual funds, their market value totalling EUR 1 million.

There is a long-term bonds in the portfolio of SSH/the Group maturing in 2020; its total value amounted to EUR 2.0 million, and the bond interest rates stands at 5.95% per annum.

Purchased Receivables

In 2016, during the financial restructuring procedure and on the basis of the Agreement on Compensated Transfer of Receivables and Bonds of Sava, d. d., SSH acquired from BAMC Sava's receivables, whose nominal value amounted to EUR 61.2 million, while their transaction value stood at EUR 34.5 million. The subject of this purchase were loans that Sava had been unable to repay to its creditors and which were transferred to BAMC. The purchased receivables were secured by means of a lien registered against financial instruments (units in mutual funds, shares in banks and enterprises) with an interest rate of 1% per annum.

In 2017, on account of proceeds from the sale of pledged assets, SSH reduced the claim by EUR 2.4 million. In connection with this claim, financial income in the amount of EUR 1.3 million was generated (i.e., EUR 0.9 million were transferred from accrued and deferred liability items, and EUR 0.4 million from interest income).

At the end of the year, the fair value of pledged assets was again verified to find its increase in value by EUR 3.1 million and it was recognised as a portion of fair value reserve.

Fair value levels of financial instruments

Financial instruments measured at fair value according to fair value hierarchy levels as at 31 December 2017

in 000 EUR	SSH			SSH Group		
	1. level	2. level	3. level	1. level	2. level	3. level
Investments in subsidiaries	0	0	3,203	0	0	3,203
Investments in associates	203,610	0	11,346	200,176	0	13,440
DFI - Available-for-sale financial assets	404,441	1,026	8,002	404,441	1,026	8,002
Listed shares	402,460	0	0	402,460	0	0
Mutual funds	0	1,026	0	0	1,026	0
Listed bonds	1,981	0	0	1,981	0	0
Non-listed stakes and shares	0	0	8,002	0	0	8,002
Purchased receivables	0	0	34,856	0	0	34,856
Other QFI - loans	0	0	38	0	0	38
Short-term trade receivables	0	0	2,886	0	0	2,886
Long-term financial liabilities	0	0	104,807	0	0	104,807
Short-term financial liabilities	0	0	12,996	0	0	12,996
Short-term operating liabilities	0	0	19,077	0	0	19,077

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

in 000 EUR	SSH			SSH Group		
	1. level	2. level	3. level	1. level	2. level	3. level
Investments in subsidiaries	0	0	3,512	0	0	3,512
Investments in associates	226,903	0	4,437	218,281	0	12,118
DFI - Available-for-sale financial assets	492,192	9,769	8,922	492,192	9,769	8,922
Listed shares	490,232	0	0	490,232	0	0
Mutual funds	0	9,769	0	0	9,769	0
Listed bonds	1,960	0	0	1,960	0	0
Non-listed stakes and shares	0	0	8,922	0	0	8,922
Purchased receivables	0	0	34,131	0	0	34,131
Long-term available-for-sale assets		0	4,988	0	0	6,085
Other QFI - loans	0	0	166,000	0	0	166,000
Short-term trade receivables	0	0	1,779	0	0	1,779
Long-term financial liabilities	0	0	104,731	0	0	104,731
Short-term financial liabilities	0	0	293,172	0	0	293,172
Short-term operating liabilities	0	0	17,826	0	0	17,826

Movement in long-term financial investments of SSH

in 000 EUR	1/1/2017	Acquisitions	Disposals	Revaluation	31/12/2017
Long-term investments in subsidiaries	3,512	0	-309	0	3,203
Long-term investments in associates	231,340	0	-56,911	40,527	214,956
Other available-for-sale financial investments	545,014	40,240	-184,421	47,492	448,325
Total	779,866	40,240	-241,641	88,019	666,484

in 000 EUR	1/1/2016	Acquisitions	Disposals	Revaluation	31/12/2016
Long-term investments in subsidiaries	7,269	0	0	-3,757	3,512
Long-term investments in associates	220,906	1,872	0	8,562	231,340
Other available-for-sale financial investments	552,104	39,458	-27,025	-19,523	545,014
Loans	0	650	0	-650	0
Total	780,279	41,980	-27,025	-15,368	779,866

The disposal of long-term investments in associates includes the transfer of the 7.32 per cent shareholding of Pozavarovalnica Sava to RS and, consequently, the transfer of the 17.68-per cent shareholding into the category of other available-for sale investments (acquisitions).

Major revaluations of investments in associates include as follows:

- the increase in market value of shares of Zavarovalnica Triglav, d.d. EUR 36.4 million,
- the increase in estimated value of shares of Sava, d.d. EUR 4.1 million,
- the increase in estimated value of shares of Hit, d.d. EUR 2.6 million,
- the decrease in market value of shares of Unior, d.d. EUR 2.8 million.

The disposal of other available-for-sale financial investments includes the major portion of the free-of-payment transfer of the 7.21-per cent shareholding in Krka and of 7.07-per cent of shareholding in Petrol to RS, in addition to the sale of mutual funds units and some shares and a partial repayment of Sava claim.

Material revaluations of other available-for-sale investments include:

- the increase in market value of shares of Krka, d.d. EUR 13.6 million,
- the increase in market value of shares of Luka Koper, d.d. EUR 8.4 million,
- the increase in market value of shares of Pozavarovalnica Sava, d.d. EUR 7.9 million,
- the increase in market value of shares of Petrol, d.d. EUR 6.5 million,
- the increase in market value of shares of Cinkarna Celje d.d. EUR 5.1 million,
- the increase in market value of shares of Telekom d.d. EUR 3.3 million.

Balance of long-term financial investments of the SSH Group

in 000 EUR	1/1/2017	Acquisitions	Disposals	Revaluation	31/12/2017
Long-term investments in subsidiaries	3,512	0	-309	0	3,203
Long-term investments in associates	230,399	0	-56,911	40,128	213,616
Other available-for-sale financial investments	545,014	40,240	-184,421	47,492	448,325
Total	778,925	40,240	-241,641	87,620	665,144

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

15.1.3 Long-term available-for-sale assets

SSH accepted the take-over bid submitted by the acquirers, ECO-Investment and Eco-Invest SVK a.s., on the basis of which, on 6 March 2017, all shares issued by Paloma d. d. (i.e., 2,410,007 trading units), for which the purchase price in the amount of EUR 9.66 million was received. The table below includes data which refer to the first two months of 2017.

in 000 EUR	Paloma Group 1 - 2 / 2017	Paloma Group 1 - 12 / 2016
Operating revenue	13,824	88,405
Operating expenses	-13,325	-85,978
Net profit or loss	-80	-881
Profit or loss before tax	419	1,546
Taxes	0	0
Net profit or loss for the period	419	1,546
% ownership of SSH	30.35%	30.35%

On 6 March 2017, all Paloma shares were sold which is why the table shows only data referring for the first two months of 2017.

15.1.4 Short-term financial investments

General notes and policies which are applied in the disclosure of short-term financial investments are equal to those explained in regard to long-term financial investments.

in 000 EUR	SSH		SSH Group	
	31/12/17	31/12/16	31/12/17	31/12/16
Deposits given and commercial bank deposits	0	166,000	0	166,000
Loans given to related parties	38	0	38	0
Total	38	166,000	38	166,000

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

Interest rates ranged from:

- for deposits from 0.01% to 0.1%,
- for call deposits from 0.002 to 0.015%.

In 2017, no loans were granted by SSH/the Group neither to the management, members of the Supervisory Board nor to members of its Committees or employees.

The movement of short-term financial investments of SSH/SSH Group

in 000 EUR	1/1/2017	Acquisitions	Disposals	Revaluation	31/12/2017
Other available-for-sale financial investments	0	0	0	0	0
Loans given to related parties	0	38	0	0	38
Loans given to banks	166,000	123,980	-289,980	0	0
Total	166,000	124,018	-289,980	0	38

in 000 EUR	1/1/2016	Acquisitions	Disposals	Revaluation	31/12/2016
Other available-for-sale financial investments	406	0	-406	0	0
Loans given to related parties	14	0	0	-14	0
Loans given to banks	38,000	315,265	-187,265	0	166,000
Total	38,420	315,265	-187,671	-14	166,000

15.1.5 Short-term operating receivables

With the exception of adjustments made, SSH has no matured receivables.

With the exception of RS which is classified as related party under IAS24, SSH has no material receivables due by related parties.

in 000 EUR	SSH		SSH Group	
	31/12/17	31/12/16	31/12/17	31/12/16
Receivables due by domestic buyers	650	1,568	650	1,568
Adjustments of receivables due from customers	0	-911	0	-911
Receivables due from RS pursuant to ZSPOZ	1,380	625	1,380	625
Receivables due from RS pursuant to ZIOOZP	269	0	269	0
Other receivables due from state institutions	456	325	456	325
Other receivables (cash-in guarantees, etc.)	2,155	2,197	2,155	2,197
Adjustments of other receivables	-2,024	-2,025	-2,024	-2,025
Total	2,886	1,779	2,886	1,779

The value of recognised short-term trade receivables reflects their fair value.

Movement in value adjustment of receivables

in 000 EUR	SSH		SSH Group	
	31/12/17	31/12/16	31/12/17	31/12/16
Balance of value adjustment of receivables as of 1 January	2,936	2,777	2,936	2,777
Collected receivables for which adjustment was made	855	1	855	1
Written-off receivables for the year	61	3	61	3
Adjustment made for the year	4	163	4	163
Total adjustments as at 31 December	2,024	2,936	2,024	2,936

15.1.6 Cash and cash equivalents

in 000 EUR	SSH		SSH Group	
	31/12/17	31/12/16	31/12/17	31/12/16
Credit balances with commercial banks	12	23,938	12	23,938
Cash equivalents	8,390	35,300	8,390	35,300
Total	8,402	59,238	8,402	59,238

Cash equivalents include call deposits held with BKS Bank, AG. As compared to 2016, their balance is lower since funds were used to repay bank loans.

15.1.7 Equity

The equity of SSH

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

Fair value reserve

in 000 EUR	SSH	
	31/12/17	31/12/16
Increases of investments in domestic listed companies	284,996	388,453
Increases of investments in domestic non-listed companies	11,825	5,832
Increases of investments in shares of insurance companies	175,893	141,050
Increases/impairments of other investments	4,104	2,469
Actuarial gains/losses	-18	-11
Deferred tax liability	-48,596	-54,191
Total	428,204	483,602

Significant increases in the balance as at 31 December 2017:

- Krka d. d. EUR 146.6 million,
- Zavarovalnica Triglav d. d. EUR 145.3 million,
- Petrol d. d. EUR 62.9 million,
- Luka Koper d. d. EUR 36.3 million,
- Pozavarovalnica Sava d. d. EUR 30.6 million,
- Cinkarna Celje d. d. EUR 16.7 million,
- Unior d. d. EUR 15.2 million.

Movement of fair value reserves

in 000 EUR	Balance 1/1/2017	Transfer to profit or loss /equity	Added during FY	Balance 31/12/2017
Surplus from domestic listed companies	388,453	138,007	34,550	284,996
Surplus from domestic non-listed companies	5,832	0	5,993	11,825
Surplus from investments in insurance companies	141,050	9,414	44,257	175,893
Surplus from other investments	2,469	1,587	3,222	4,104
Actuarial gains/losses	-11	-1	-8	-18
Total by surplus type	537,793	149,007	88,014	476,800
Deferred tax liability	-54,191	-16,048	-10,453	-48,596
Total	483,602	132,959	77,561	428,204

Transfers are measured at value as at 31 December of the previous year. The sum of EUR 138,007K thus represents the difference between the market value and the at cost value of Krka and Petrol as at 31 December 2016 and which was deleted from the books of accounts due the free-of-payment transfer of shares to RS. The same note applies to the sum of EUR 9,414K (shares of Pozavarovalnica Sava d. d.).

in 000 EUR	Balance on 1/1/2016	Transfer in profit or loss/equity	Added during FY	Balance 31/12/2016
Surplus from listed domestic companies	404,902	100	-16,349	388,453
Surplus from non-listed domestic companies	0	0	5,832	5,832
Surplus from investments in insurance companies	141,803	0	-753	141,050
Surplus from investments	5,237	3,843	1,075	2,469
Actuarial gains/losses	10	0	-21	-11
Total by surplus type	551,952	3,943	-10,216	537,793
Deferred tax liabilities	-49,970	-670	-4,891	-54,191
Total	501,982	3,273	-15,107	483,602

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

- as at 31 December 2017 $491,788,699/155,866 = 3,155,20$ EUR,
- as at 31 December 2016 $557,383,763/155,866 = 3,576,05$ EUR.

Equity of the SSH Group

The equity of the Group includes the equity of the controlling company amounting to EUR 491,8 mio EUR, and the proportional value of the equity of associates measured in compliance with the equity method of consolidation. In line with the equity method, the consolidation includes the following companies: Zavarovalnica Triglav Group, Pozavarovalnica Sava Group, Hit Group, Unior Group, Sava Group and Casino Bled, d.d.. The effect of an individual associate on the equity of the Group is explained in Section: 9.1.18.

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

- as at 31 December 2017 $490,449,330/155,866 = 3,146,61$ EUR,
- as at 31 December 2016 $557,539,507/155,866 = 3,577,04$ EUR.

15.1.8 Long-term provisions and long-term accrued costs and deferred revenues

in 000 EUR	SSH		SSH Group	
	31/12/17	31/12/16	31/12/17	31/12/16
Reserves for denationalisation	48,192	36,360	48,192	36,360
Reserves for jubilee premiums	48	41	48	41
Reserves for retirement benefits	259	229	259	229
Other reserves	457	497	457	497
Accrued costs and deferred revenues	1,505	2,269	1,505	2,269
Total	50,461	39,396	50,461	39,396

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

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

Provisions have been made for jubilee premiums and retirement benefits paid to employees; amounts are presented in the table above. The following assumptions have been taken into account in the last calculation made (as of 31 December 2017):

- upon their retirement, employees are entitled to a severance grant in the amount of his/her two average salaries, or in the amount of two average salaries at the state level, whichever is more favourable for employees;
- the retirement age is taken into account in accordance with the retirement criteria under Pension and Disability Insurance Act (ZPIZ);
- the Slovenian modified life tables for 2000-2002 have been chosen;
- jubilee premiums are granted to employees for the total length of their service;
- staff turnover is 3.8%;
- the 0.5% wage growth in the company;
- discount rate 1.6%.

The greatest portion of the item referring to accrued costs and deferred liability items represents the difference between the nominal value and the fair value of purchased receivables of Sava at the day of their acquisition. The item will be transferred to revenues in proportion to the repayment of the said receivable and with regard to the time element.

Movements in provisions of the SSH/SSH Group

in 000 EUR	Balance as at 1/1/2017	New provisions made	Disbursem. of provisions	Reversed provisions	Balance as at 31/12/2017
Provisions for denationalisation	36,360	14,453	2,621	0	48,192
Provisions for jubilee premiums	41	12	5	0	48
Provisions for retirement benefits	229	34	0	4	259
Other provisions	497	26	66	0	457
Accrued costs and deferred revenues	2,269	110	2	872	1,505
Total	39,396	14,635	2,694	876	50,461

in 000 EUR	Balance as at 1/1/2016	New provisions made	Disbursem. of provisions	Reversed provisions	Balance as at 31/12/2016
Provisions for denationalisation	47,928	0	2,913	8,655	36,360
Provisions for jubilee premiums	36	7	2	0	41
Provisions for retirement benefits	181	48	0	0	229
Other provisions	609	0	84	28	497
Accrued costs and deferred revenues	0	2,876	0	607	2,269
Total	48,754	2,931	2,999	9,290	39,396

15.1.9 Long-term financial and operating liabilities

in 000 EUR	SSH		SSH Group	
	31/12/17	31/12/16	31/12/17	31/12/16
Loans granted by banks	4,997	4,997	4,997	4,997
Principal bond SOS3	99,810	99,734	99,810	99,734
Total	104,807	104,731	104,807	104,731

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

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

The value of the recognised long-term financial liabilities reflects the fair value of liability.

Movement in long-term financial liabilities of the SSH/SSH Group

in 000 EUR	Balance as at 1/1/2017	Acquisitions	Repayments	Transfer from/to long-term loans	Balance as at 31/12/2017
Loans granted by banks	4,997	0	0	0	4,997
Principal bond SOS3	99,734	76	0	0	99,810
Total	104,731	76	0	0	104,807

in 000 EUR	Balance as at 1/1/2016	Acquisitions	Repayments	Transfer from/to long-term loans	Balance as at 31/12/ 2016
Loans granted by banks	304,954	-47	20,000	-279,910	4,997
Principal bond SOS3	99,658	76	0	0	99,734
Total	404,612	29	20,000	-279,910	104,731

15.1.10 Short term financial liabilities

in 000 EUR	SSH		SSH Group	
	31/12/17	31/12/16	31/12/17	31/12/16
Loans granted by banks	0	279,911	0	279,911
Principal bond SOS3	12,996	13,261	12,996	13,261
Total	12,996	293,172	12,996	293,172

During the year, SSH/Group repaid EUR 280 million of loans, in accordance with contractual provisions.

The interest rate for loans obtained from banks ranged between 0.88% and 1.55%. The agreed interest rate was made of 3- or 6-month Euribor and the mark-up. The values of Euribor were negative, as a result the interest rates were equal to mark-ups.

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

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

in 000 EUR	Balance as at 1/1/2017	Acquisitions	Repayments	Transfer from/to long-term loans	Balance as at 31/12/2017
Loans granted by banks	279,911	3,389	283,300	0	0
Bond SOS2E	13,261	1,279	1,544	0	12,996
Total	293,172	4,668	284,844	0	12,996

in 000 EUR	Balance on 1/1/2016	Acquisitions	Repayments	Transfer from/to long-term loans	Balance on 31/12/2016
Loans granted by banks	34,925	76	35,000	279,910	279,911
Bond SOS2E	79,603	1,406	67,748	0	13,261
Total	114,528	1,482	102,748	279,910	293,172

15.1.11 Short-term operating liabilities

in 000 EUR	SSH		SSH Group	
	31/12/17	31/12/16	31/12/17	31/12/16
Accounts payable	4,845	4,198	4,845	4,198
Interest on loans obtained by banks	20	550	20	550
Interest for SOS2E bond	10,972	11,187	10,972	11,187
Interest for SOS3 bond	1,308	1,305	1,308	1,305
Liabilities due to employees	251	243	251	243
Liabilities due to state institutions	259	292	259	292
Other liabilities	1,422	50	1,422	50
Total	19,077	17,825	19,077	17,825

At the end of the reporting period, except for liabilities due to employees, there are no liabilities due to related parties.

In regard to accounts payable, the liability for the purchase of a part of an office building in the amount of EUR 4,1 million sold by GIO, d.o.o., Ljubljana - in liquidation, which will mature upon the fulfilment of special contractual provisions (firstly, the Seller must submit certified copies of the Land Register Entry Deletion Permit, secondly, a deletion of writ execution and, thirdly, the release of other easements) represents a major sum included in trade payables. The above mentioned co-ownership share of the office building was transferred against payment to D.S.U., d.o.o., in autumn 2014.

There are no matured and outstanding liabilities.

15.1.12 Operating income

in 000 EUR	SSH		SSH Group	
	31/12/17	31/12/16	31/12/17	31/12/16
Income from the sale of products and services	3,902	5,571	3,902	5,571
Total net sales revenue	3,902	5,571	3,902	5,571
income from the use and reversal of long-term provisions denationalisation	0	8,655	0	8,655
Income from the use and reversal of other long-term provisions	4	28	4	28
income for denationalisation purposes	1,918	2,758	1,918	2,758
Revaluated operating income	1,141	284	1,141	284
Other operating income	3,063	11,725	3,063	11,725
Total	6,965	17,296	6,965	17,296

In accordance with contracts, the operating income includes the recognised reimbursement of costs incurred in the process of the sale of the state-owned assets (NLB d.d., Cimos d. d. and in other small-value sale processes), in addition to fees for the implementation of three laws (i.e., ZSPOZ, ZIOOZP and ZVJTO).

Significant income allocated for denationalisation includes;

- proceeds from the sale and management of agricultural land and forests, paid by the Farmland and Forest Fund of the Republic of Slovenia;
- proceeds resulting from the companies ownership transformation procedures – paid in cash or by means of shares or equity holdings, transferred to the Company/Group partly from D.S.U., d.o.o., and partly from the budget of the Republic of Slovenia.

The revalued operating income includes income received by means of the collection of a receivable for which the value adjustment was made in the past.

In 2017, the operating income amounted to 11% of all income that was generated by the Company. All sales revenues are generated in the domestic market.

15.1.13 Costs of goods, materials and services

Costs of intellectual services include the costs for legal and financial advisors, attorneys-at-law, notaries, auditors, appraisers, appraisers specialised in denationalisation issues, and similar fees. The highest portion (EUR 0.65 million) of costs is connected with the sale of capital assets of the Republic of Slovenia.

Maintenance costs include the maintenance of software and business premises.

The contractual amount for the auditing of the financial statements of the Company and Group for 2015 amounted to EUR 15,000, excluding VAT. Additional sum of EUR 2.500 (excluding VAT) was transferred to the auditing firm for various other services. All services rendered were permitted services in accordance with the Regulation (EU) No. 537/2014.

The item »Costs of services rendered by individuals not in the capacity of sole traders« includes attendance fees and reimbursement of travel costs for members of Supervisory Boards, of its committees and of the Nomination Committee. The above mentioned costs are increased for mandatory contributions.

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

in 000 EUR	SSH		SSH Group	
	31/12/17	31/12/16	31/12/17	31/12/16
Material costs	70	76	70	76
Costs of services	2,075	3,531	2,075	3,531
Total	2,145	3,607	2,145	3,607

15.1.14 Labour costs

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

in 000 EUR	SSH		SSH Group	
	31/12/17	31/12/16	31/12/17	31/12/16
Salaries and wages	3,222	3,204	3,222	3,204
Costs of pension insurances	288	286	288	286
Costs of voluntary supplementary pension insurance	91	90	91	90
Social security costs	235	230	235	230
Annual leave allowance, reimbursements and other earnings	281	208	281	208
Provisions for jubilee premiums	11	6	11	6
Provisions for retirement benefits	22	23	22	23
Total	4,150	4,047	4,150	4,047

15.1.15 Depreciation and amortisation

in 000 EUR	SSH		SSH Group	
	31/12/17	31/12/16	31/12/17	31/12/16
Depreciation of intangible fixed assets	67	43	67	43
Depreciation of buildings	24	47	24	47
Depreciation of equipment and spare parts	78	54	78	54
Total	169	144	169	144

15.1.16 Long-term provisions

in 000 EUR	SSH		SSH Group	
	31/12/17	31/12/16	31/12/17	31/12/16
Provisions for denationalisation	14,453	0	14,453	0
Total	14,453	0	14,453	0

On the basis of the judgement passed by the Supreme Court of the Republic of Slovenia referring cases to reassessment, one portion of contingent liabilities were reclassified into provisions, in accordance with the precautionary principle. According to the decision by the said Court, conditions for the right to compensation under the Financial and Compensation Treaty and three other Austrian bills which regulated compensations for nationalised properties. For none of these cases, no decision on the compensation amount was received by SSH; thus, no estimate can be made by SSH as to how bodies handling procedures for such cases will deal with the right to compensation (see Note 9.1.8).

15.1.17 Net profit or loss

in 000 EUR	SSH		SSH Group	
	31/12/17	31/12/16	31/12/17	31/12/16
Financial income from shareholdings and other financial instruments	55,715	50,681	55,715	50,681
Financial income from loans given	40	172	40	172
Total financial income	55,755	50,853	55,775	50,853
Financial expenses for write-offs and impairments of financial investments	20	5,980	20	5,980
Financial expenses for financial liabilities	4,172	7,679	4,172	7,679
Total financial expenses	4,192	13,659	4,192	13,659
Net profit	51,563	37,194	51,563	37,194

Financial income from shareholdings and other financial instruments

in 000 EUR	SSH		SSH Group	
	31/12/17	31/12/16	31/12/17	31/12/16
Dividends paid out by companies (domestic and foreign)	26,518	24,483	26,518	24,483
Dividends paid out by insurance firms	19,411	19,411	19,411	19,411
Dividends paid out by mutual funds	35	87	35	87
Profit from the sales of mutual funds	2,108	1,912	2,108	1,912
Profit from the sales/purchase of shares in companies	6,250	4,074	6,250	4,074
Income in connection with purchased receivables	1,289	607	1,289	607
Interest income from bonds	104	107	104	107
Total	55,715	50,681	55,715	50,681

Financial expenses for write-offs and impairments of financial investments

in 000 EUR	SSH		SSH Group	
	31/12/17	31/12/16	31/12/17	31/12/16
Expenses for impairments of available-for-sale financial investments	4	5,058	4	5,058
Expenses for the sale of mutual funds	16	619	16	619
Expenses for the sale of other financial instruments	0	303	0	303
Total	20	5,980	20	5,980

Financial expenses for financial liabilities

in 000 EUR	SSH		SSH Group	
	31/12/17	31/12/16	31/12/17	31/12/16
Interest expense for SOS2E bond	0	1,616	0	1,616
Interest expense for SOS3 bond	2,580	2,572	2,580	2,572
Interest expense for loans received	1,588	3,487	1,588	3,487
Expense from actuarial calculations	4	4	4	4
Total	4,172	7,679	4,172	7,679

Review of financial income and expenses generated by the Company by subsidiaries and associates

in 000 EUR	SSH	
	31/12/17	31/12/16
Financial revenues in connection with subsidiaries	931	362
Financial revenues in connection with associates	21,075	21,084
Financial expenses in connection with subsidiaries	0	54
Financial expenses in connection with associates	0	678
Net profit or loss	22,006	20,714

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

15.1.18 Participation in profit/loss in associates

in 000 EUR	SSH	
	31/12/17	31/12/16
Financial income in connection with associates	73,995	38,671
Financial expenses in connection with associates	19,682	36,261
Net profit or loss	54,313	2,410

As at 31 December 2017, the SSH Group held in its ownership 6,386,644 of shares in **Zavarovalnica Triglav**, which amounted to the 28.09% ownership stake. In 2017, Zavarovalnica Triglav Group generated profit in the amount of EUR 69,708K and distributed dividends in the amount of EUR 56,777K, so that SSH Group recorded net financial income which, proportionally, amounted to EUR 3,615K. On the basis of other changes in equity of Zavarovalnica Triglav Group, the fair value reserve was increased by EUR 2,153K and the retained profit or loss was decreased by EUR 2,314K. In the previous years the investment has been impaired (the value, established with equity method, was higher than the fair-value). Due to fact that the impairment of the investment in Zavarovalnica Triglav shares has been eliminated, the Group recorded financial income in the amount of EUR 32,950K, and the difference to the market value has been recognised.

By 22 December 2017, SSH Group held in its ownership 4,304,917 shares of **Pozavarovalnica Sava d. d.**, representing 25% ownership stake in the said company. In 2017, Pozavarovalnica Sava generated profit in the amount of EUR 31,095K and distributed dividends in the amount of EUR 12.398K. On this basis, SSH Group recorded net financial income which, proportionally, amounted to EUR 4,330K. On the basis of other changes in equity, the fair value reserves was increased by EUR 218K and increases to retained profit were bade by EUR 222K. At the end of the year, Pozavarovalnica Sava was excluded from the Group, as a result of which the financial income in the amount of EUR 8,918K has been recorded.

As at 31 December 2017, SSH Group held its ownership 1,357,727 shares of **Hit d. d.**, representing a 20% ownership stake in the company. In 2017, Hit Group generated profit in the amount of EUR 5,771K and distributed dividends in the amount of EUR 1,358K. On this basis, SSH Group recorded net financial income which, proportionally, amounted to EUR 883K. On the basis of other changes in equity, the fair value reserve was decreased by EUR 50K, and the retained profit or loss was decreased by EUR 107K.

As at 31 December 2016, the SSH Group's ownership stake in Unior, d. d., amounted to 39.43%. In 2017, Unior Group, d. d., generated profit in the amount of EUR 5.696K. On this basis, the SSH Group recorded net financial income which, proportionally, amounted to EUR 2.246K. On the basis of impacts of other changes in equity, the fair value reserve was increased by EUR 591K, and the retained profit or loss was decreased by EUR 434K.

As at 31 December 2017, SSH Group held in its ownership 4,891,650 shares of **Sava d. d.**, representing 22,56% ownership stake in the company. In 2017, Sava Group generated profit in the amount of EUR 5,904. On this basis, SSH Group recorded net financial income which, proportionally, amounted to EUR 1,333K. On the basis of impacts of other changes in equity, fair value reserve was decreased by EUR 657K and retained profit was decreased by EUR 115K.

As at 31 December 2017, SSH Group held in its ownership 35,381 shares of **Casino Bled d. d.**, representing 43% ownership stake in the company. In 2017, Group Casino Bled generated profit in the amount of EUR 90K; of this amount, SSH Group recorded financial income in the amount of EUR 39K. On the basis of impacts of other changes in equity, the retained profit was decreased by EUR 1K.

15.1.19 Taxes

Current and deferred taxes

in 000 EUR	SSH		SSH Group	
	31/12/17	31/12/16	31/12/17	31/12/16
Current income tax	0	0	0	0
Deferred taxes	-5,595	4,221	-5,595	4,221
Total	-5,595	4,221	-5,595	4,221

Calculation of the effective tax rate

in 000 EUR	SSH		SSH Group	
	31/12/17	31/12/16	31/12/17	31/12/16
Profit before tax	37,544	46,435	37,544	46,435
Calculated tax (applicable rate = 19%)	7,133	7,894	7,133	7,894
Effect of non-taxable income	-48,268	-43,836	-48,268	-43,836
Adjustment of expenses	-14,893	-22,953	-14,893	-22,953
Tax relief	0	0	0	0
Other adjustments	2,413	2,191	2,413	2,191
Income tax	0	0	0	0
Effective tax rate	0	0	0	0

Balance of long-term deferred tax assets and liabilities

in 000 EUR	SSH		SSH Group	
	31/12/17	31/12/16	31/12/17	31/12/16
Long-term deferred tax assets	48,596	54,191	48,596	54,191
Long-term deferred tax liabilities	48,596	54,191	48,596	54,191
Net long-term deferred tax liabilities	0	0	0	0

Deferred tax assets are the result of the following: impairments of financial investments, revaluation of receivables and unused tax losses.

The Company/Group actually holds the following deferred tax assets:

- impairment of financial investments and receivables EUR 9.9 million,
- unused tax losses EUR 173.2 million.

As it is shown in tables and Notes, deferred tax assets are not fully recognised in the financial statements of the Company/Group.

Movement in tax losses

in 000 EUR	SSH		SSH Group	
	31/12/17	31/12/16	31/12/17	31/12/16
Opening balance of unused tax loss	888,161	869,998	888,161	869,998
Increase in FY	23,204	18,163	23,204	18,163
Used in FY	0	0	0	0
Closing balance of unused tax loss	911,365	888,161	911,365	888,161

Movement in long-term deferred tax liabilities

in 000 EUR	SSH		SSH Group	
	31/12/17	31/12/16	31/12/17	31/12/16
Balance of deferred tax liabilities as at 1 January	54,191	49,970	54,191	49,970
Transfer of profit/loss	-302	-670	-302	-670
Change due to transfer to RS	-15,746	0	-15,746	0
Change due to revised taxable base	10,453	-823	10,453	-823
Change due to revised tax rate	0	5,714	0	5,714
Balance as at 31 December	48,596	54,191	48,596	54,191

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

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

in 000 EUR	Financial investments	Adjustment of receivables	Provisions	Tax loss	Total
Balance as at 1/1/2017	10,785	786	17	42,603	54,191
Used	-1,451	-173	0	0	-1,624
Newly made	0	0	0	0	0
Exclusions	0	0	0	0	0
Adjustment with deferred tax liability	0	0	0	-3,971	-3,971
Total changes in income statement	-1,451	-173	0	-3,971	-5,595
Total changes in statement of financial position	0	0	0	0	0
Balance as at 31/12/2017	9,334	613	17	38,632	48,596

15.1.20 Net earnings per share

in 000 EUR	SSH		SSH Group	
	31/12/17	31/12/16	31/12/17	31/12/16
Profit/loss of majority owners	31,949	50,656	86,262	54,163
Number of issued shares	155,866	155,866	155,866	155,866
Weighted number of shares	155,866	37,356	155,866	37,356
Net profit/loss per share	0,205	1,356	0,553	1,450

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

- from 1 January 2017 to 31 December: 155,866 shares
- from 28 December 2016 to 31 December 2016: 155,866 shares (4 x 155,866), and
- from 1 January 2016 to 27 December 2016: 36,046 shares (362 x 36,046).

15.1.21 Dividends per share

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

15.1.22 Note to the Cash Flow Statement

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

The amounts paid for SOS2E bond interest and principal were disclosed in the first part of the Cash Flow Statement (cash flows from operating activities), as, upon its establishment, core business of SSH/SSH Group was the settling of denationalisation liabilities. Proceeds, with the exception of proceeds from financial investments sold for covering these outflows, were recognised as operating proceeds. Similarly, the first part of the Cash Flow Statement includes cash flows arising from the payment of liability due by the Republic of Slovenia which is executed on its behalf by SSH (ZSPOZ, ZIOOZP and ZVJTO).

Cash flows in 2017 based on the execution of the following acts: ZSPOZ, ZIOOZP and ZVJTO

in 000 EUR	ZSPOZ	ZIOOZP	ZVJTO	Total
Payments to beneficiaries	5,824	4,625	26	10,475
Received from the Republic of Slovenia	5,069	4,356	26	9,451
Net financial impact	-755	-269	0	-1,024

15.2 MANAGEMENT OF FINANCIAL RISKS IN SSH/SSH GROUP

The financial risks are continuously and thoroughly monitored and assessed by the Company/Group with the aim to provide for a long-term liquidity and avoid excessive exposure to individual risks. SSH/SSH Group is exposed to credit risk, interest rate risk and particularly to market and liquidity risks. All financial instruments are denominated in the EUR currency, which is why the currency risk is negligible for the Company/Group.

15.2.1 Credit risk

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

SSH/the Group used to invest financial assets in financial institutions and any potential failure to meet contractual obligations would result in decrease liquidity. In 2017, the volume of such investments was substantially reduced. It is however assessed, that there are no risks associated with a failure of fulfilling contractual obligations.

15.2.2 Interest rate volatility risk

Interest rate risk is the risk that the value of interest sensitive assets will change due to a change in market interest rates, as well as the risk that financially sensitive assets and financially sensitive liabilities will mature on different dates and in different amounts. Following the repayment of an important portion of debt (i.e., EUR 280 million in the middle of 2017), the exposure to interest risk decreased significantly. The risk was posted among liabilities since a fixed interest rate is usually applied for the investment of funds.

The balance as at 31 December 2017 shows that the major part of debt bears a fixed interest rate. The change in market interest rates does not affect liabilities by SSH/SSH Group arising from issued bonds.

It has been assessed that a change in interest rate for loans bearing a floating interest rate (1/3/6-month Euribor + a fixed mark-up) would not have a material impact on the financial statements of the Company/Group. The calculation below shows that with an increase in the interest rate:

- by 0.5%, the interest expense will increase by EUR 25,000 per year;
- by 1.0%, the interest expense will increase by EUR 50,000 per year;
- by 1.5%, the interest expense will increase by EUR 75,000 per year.

15.2.3 Liquidity risks

Special attention is dedicated to managing liquidity risk. As before, all liabilities were regularly settled. A thorough planning of cash flows enabled a timely forecasting of potential deficits or surpluses and of their optimum management

In accordance with the provisions of the Act on financial operations, insolvency proceedings and compulsory dissolution, particularly in regard to the short-term and long-term financial capacity and solvency of the Company/Group, it was assessed that the Company/Group is solvent and not threatened by insolvency. The value of assets exceeds the value of liabilities. All liabilities are settled by the time of their maturity. Although the Statement of Financial Position shows that short-term liabilities exceed the value of short-term assets, the solvency is not under threat. As a matter of fact, the highest value of liabilities included in short-term liabilities refers to liability arising from final denationalisation decisions which have not yet been implemented (in the amount of EUR 24 million) and has remained stable at the approximately same level for several years; the reason for this is that beneficiaries have not applied for payments. Dividend income received will have a favourable impact on liquidity.

All liquid financial investments are considered as liquid assets by the Company/Group as these are mainly deposits with a maturity date matching the maturity date of liabilities planned. In spite of the fact, that cash flows are planned as thoroughly as possible, there is a small degree of probability that an unpredictable liability may arise. SSH has an option of selling individual investments accounted for as long-term

financial investments (domestic shares, foreign shares, units of mutual funds, bonds) for the occurrence of any unforeseen events. In the worst case scenario, i.e., if SSH/SSH Group runs out of funds, the Constitutional Court Decision No U-I-140/94 of 14 Decembre1995, stipulates that the Republic of Slovenia is obliged to provide additional funds for the Company when the Company's sources of funds do not suffice for the regular settlement of the Company's liabilities under the Denationalisation Act, the Cooperatives Act and other regulations governing the restitution of property.

Liquidity ratios

	in 000 EUR		in %	
	31/12/17	31/12/16	31/12/17	31/12/16
Direct coverage of short-term liabilities				
Liquid assets	8,440	225,238	26.31	72.42
Short-term liabilities	32,073	310,997		
Accelerated coverage of short-term liabilities				
Current assets	11,979	232,529	37.17	74.63
Current liabilities	32,231	311,557		

Maturity of assets and liabilities

in 000 EUR	Call deposits and highly liquid assets	Maturing in 1- 6 month period	Maturing in 6- 12 month period	Maturing in 1- 3 year period	Maturing in a period after 3 years
Assets	9,428	4,033	12,085	25,495	626,771
Deposits and cash assets	8,402	0	0	0	0
Bonds	0	0	0	2,021	0
Mutual funds	1,026	0	0	0	0
Foreign shares	0	0	0	0	0
Stocks and shares in domestic companies	0	0	1,850	0	626,771
Purchased receivables	0	1,147	10,235	23,474	0
Short-term receivables	0	2,886	0	0	0
Liabilities	1,437	5,606	8,518	28,112	141,328
Repayment of loans	0	0	0	4,998	0
SOS2E bond + interest	740	3,700	4,441	21,710	41,518
SOS3 bond	0	1,308	0	0	99,810
Short-term trade receivables	697	598	4,077	1,404	0
Difference	7,991	-1,573	3,567	-2,617	485,443
Cumulative surplus/deficit	7,991	6,418	9,985	7,368	492,811

15.2.4 Market risk

Domestic marketable shares SSH/SSH Group as at 31 December 2017

Type of equity investment	Value in 000 EUR	Structure in %
Zavarovalnica Triglav d. d.	184,574	30.45
Krka d. d.	169,618	27.99
Petrol d. d.	92,435	15.25
Pozavarovalnica Sava d. d.	48,093	7.94
Luka Koper d. d.	47,359	7.81
Other investments	63,991	10.56
Total	606,070	100.00

Changes in market share prices represent a significant risk which is being increased by low liquidity levels in regard to main investments.

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

Coefficient annual turnover of market capitalisation * in 2017	
Krka d. d.	7.82%
Luka Koper d. d.	6.57%
Petrol d. d.	4.86%
Pozavarovalnica Sava d. d.	5.68%
Telekom d. d.	4.58%
Zavarovalnica Triglav d. d.	7.00%
First listing	6.33%
Standard listing	4.38%

* A ratio between the yearly turnover and an average market capitalisation based on values as at 31 December, before 6 and before 12 months.

Source: Monthly and Annual Statistics LJSE, 2017

It has been assessed that the risk exposure related to changes in market prices of shares is extremely high. The average duration of liabilities held on the passive side of the balance sheet is slightly more than a year, whereas 92% of assets on the active side includes shares and shareholdings in domestic companies. The largest three individual investments of SSH/the Group represent approximately 72% of all long-term financial investments. The risk due to a low dispersion of investments is extremely high.

Sensitivity of equity financial investments against changes in market prices

in 000 EUR	Value	Change in market prices			
Type of equity investment	31/12/2017	15%	20%	-15%	-20%
Zavarovalnica Triglav d. d.	184,574	27.686	36.915	-27.686	-36.915
Krka d. d.	169,618	25.443	33.924	-25.443	-33.924
Petrol d. d.	92,435	13.865	18.487	-13.865	-18.487
Pozavarovalnica Sava d. d.	48,093	7.214	9.619	-7.214	-9.619
Luka Koper d. d.	47,359	7.104	9.472	-7.104	-9.472
Other marketable domestic shares	63,991	9.599	12.798	-9.599	-12.798
Other investments (non-marketable.)	22,551	3.383	4.510	-3.383	-4.510
Mutual funds	1,026	154	205	-154	-205
Total	629,647	94.447	125.930	-94.447	-125.930

15.3 TRANSACTIONS WITH RELATED ENTITIES

In addition to the Republic of Slovenia, considered as 100% owner, the following entities are considered to be related entities, in accordance with IAS 24:

- subsidiaries and associates;
- management personnel and members of Supervisory Board and Audit Committee;
- companies related to the state.

In 2017, no transactions were concluded by the Company which might result in harmful consequences for the operation of related parties.

15.3.1 Subsidiaries and associates

As at 31 December 2017, SSH held a 20% or higher shareholding in the following companies: Casino Bled d. d., Elektrooptika d. d., GIO in liquidation d. o. o., Hit Nova Gorica d. d., PS za avto d. o. o., Sava d. d., Unior d. d. and Zavarovalnica Triglav d. d. The majority of the above mentioned shares and shareholdings were obtained pursuant to the Ownership Transformation of Companies Act and other laws passed with the aim of settling denationalisation compensation to beneficiaries and compensation to victims of war- and post-war violence and ZSDH-1. There were no significant business transactions taking place between the Company and the above mentioned companies.

In 2017, no mandatory instruction in the capacity of a controlling company was given by the Management Board of the Company. Neither was there any legal transaction concluded by and between the controlling company and related parties, as a result of any mandatory instruction.

SSH hereby declares that the controlling company has not used its influence by forcing its related entities to carry out any legal transaction which is a detriment to them or to do anything which is to their detriment. In addition to capital-related connections, business cooperation with associates mainly refers to insurance transactions.

15.3.2 Management and members of Supervisory Board and Audit Committee

All earnings received by the management personnel and members of Supervisory Board and its committees refer to the reporting period.

Labour costs in 2017 per employee who are not members of the Management board but are employed on the basis of individual employment contract:

- wages and salaries: EUR 60,015,
- holiday pay: EUR 436,
- reimbursement of costs (meals, daily commuting costs, business travel cost): EUR 728,
- bonuses: EUR 2,515, and
- voluntary supplementary pension insurance: EUR 1,495.

Payments to executive officers in 2017

in EUR	Lidija Glavina 1/1/ - 31/12/17	Nada Drobne Popovič 1/1/ - 31/12/17
Fixed earning (gross)	130,160	118,529
Variable earnings (gross)	0	0
Other earnings (bonuses, company car)	2,019	5,029
Net earnings (salary + bonuses)	67,387	57,258
Holiday pay (gross)	805	805
Reimbursement of costs (meals, transportation, jubilee premiums)	7,673	1,291
Reimbursement for business travel costs	17,787	70
Voluntary suppl. pension insurance	0	2,819

Salaries paid to the members of Management Board are paid in accordance with the Act Governing the Remuneration of Managers of Companies with Majority Ownership held by the Republic of Slovenia or Self-Governing Local Communities (»ZPPOGD, by way of which the Company is considered a large company) although it is not binding for SSH. Members of the Management Board using company cars for private purposes do not receive any payments reimbursing their commuting costs.

Members of the Management Board represented the interest of capital contributors by participating in Supervisory Boards of the following entities:

- Mrs. Nada Drobne Popovič, MSc., in Hit d. d. from 10 June 2017,
- Mrs. Nada Drobne Popovič, MSc, in Petrol d. d. from 10 April 2017 onwards, and
- Ms. Lidija Glavina in Telekom d. d. from 27 April 2017 onwards.

On 4 December 2014, the Government of the Republic of Slovenia, acting as the General Meeting of SSH, determined the type and amount of income paid to SSH Supervisory Board Members and the said resolution was supplemented on 21 July 2017. On the basis of the above mentioned resolution, Supervisory Board Members are eligible to receive a meeting fee in the gross amount of EUR 275 for their attendance of the session, and the session fee for the attendance at sessions held by Supervisory Board Committees which amounts to EUR 220 gross. The meeting fee for a correspondence session amounts to 80% of the meeting fee.

In addition to meeting fees, members of the Supervisory Board also receive a payment for the execution of their function, in the gross amount of EUR 1,200 per month for an individual member. The President of the Supervisory Board is eligible to receive the extra monies in the amount of 30% of the basic payment for the performance of the function, while for the Vice President, this extra payment amounts to 10% of the basic payment. Members of the Supervisory Board Committees receive extra payment for the performance of their function in the sum of 25% of the basic payment for each individual member. In addition, upon a proposal by the Minister of Finance, the Government of the Republic of Slovenia acting as the General Meeting of the Company, may establish additional payment for a Member of Supervisory Board who has special knowledge and experience that have been obtained from carrying out such functions abroad and who has a proven record of successful business performance.

Members of the Supervisory Board and its commissions are also entitled to receive reimbursement of costs associated with their execution of the Supervisory Board member function, specifically, in the form of daily allowances, travel expenses and accommodation costs. Daily allowances and travel expenses are paid in accordance with regulations regulating this topic in the business sector.

Earnings of Members of the Supervisory Board in 2017

in EUR	Payment for the execution of the function	Gross meeting fee	Bonuses	Travel expenses (gross)	Total
Belič Damjan	18,720	6,050	349	0	25,119
Bertoncelj Andrej	7,640	2,530	0	232	10,402
Kos Duško	15,840	6,270	56	300	22,466
Kržan Igor	10,000	4,070	0	547	14,617
Smolnikar Barbara	6,840	3,025	56	0	9,921
Vipotnik Janez	697	495	0	0	1,192
Total	59,737	22,440	461	1,079	83,717

Earnings of Members of the Supervisory Board Nomination Committee in 2017

in EUR	Payment for the execution of the function	Gross meeting fee	Bonuses	Travel expenses (gross)	Total
Belič Damjan	367	0	0	0	367
Bertoncelj Andrej	261	0	0	0	261
Kos Duško	367	0	0	0	367
Kržan Igor	261	0	0	0	261
Smolnikar Barbara	106	0	0	0	106
Vipotnik Janez	174	0	0	0	174
Total	1,536	0	0	0	1,536

Earnings of Members of the Supervisory Board Audit Committee in 2017

in EUR	Payment for the execution of the function	Gross meeting fee	Bonuses	Travel expenses (gross)	Total
Belič Damjan	3,600	2,332	0	0	5,932
Kos Duško	3,600	1,892	0	0	5,492
Virant Darinka	3,600	2,332	0	156	6,088
Total	10,800	6,556	0	156	17,512

Earnings of Members of the Supervisory Board Risk Committee in 2017

in EUR	Payment for the execution of the function	Gross meeting fee	Bonuses	Travel expenses (gross)	Total
Bertoncelj Andrej	1,694	220	0	0	1,914
Kos Duško	1,916	220	0	0	2,136
Kržan Igor	1,694	220	0	0	1,914
Smolnikar Barbara	1,710	440	0	0	2,150
Virant Darinka	3,600	660	0	0	4,260
Total	10,614	1,760	0	0	12,374

The composition of the Risk Committee changed during the year; the members regularly attended the Committee's sessions.

Other costs associated with the Supervisory Board and its Committees

in EUR	SSH 1 - 12 / 2017
Legal opinion in regard to the SB's quorum	3,343
Attorney-at-law - drawing up the proposal for a court-appointed SB member	3,343
Costs in connection with the selection of the third Management Board Member (advertisement, HR agency)	15,968
Other (training, insurance premiums)	461
Total	23,115

15.3.3 Transactions with the Government of the Republic of Slovenia, state authorities and enterprises controlled by the Government or in which its significant influence is exercised

Companies that are related to the state include all companies in which the Republic of Slovenia exercises a significant influence.

in 000 EUR	Receivables 31/ 12/ 17	Income 1 - 12 / 2017
Ministry of Finance	2,366	4,080
Farmland and forest Fund of RS	100	936
D.S.U.	200	667
Total	2,666	5,683

The Company also carries business with other companies, authorities, bodies and agencies in which the Republic of Slovenia is a majority or a minority shareholder. All transactions with the above mentioned entities are concluded at arm's length. Since no significant amounts are involved, these pieces of data are not disclosed.

15.4 OPERATING SEGMENTS

The SSH Group carries out various tasks which usually do not entail the generation of significant revenues. The main activity leading to the Company's establishment was the determination and the payment of compensation arising from denationalisation (ZDen). For this purpose, the Company had received a portion of a previously socially-owned property, in the form of shares and shareholding registered as revenues upon its receipt. These assets are sold subject to the financial needs and depending on the situation in capital markets. Upon their disposal, the financial income is a difference between the acquisition value and the selling price of an individual financial investment.

The Company carries out the following tasks on behalf of and for the account of the Republic of Slovenia: the payment of compensation to beneficiaries for confiscated property pursuant to the abrogation of the penalty of confiscation of property (ZIOOZP), the payment of compensations to war and post-war violence victims (ZSPOZ), and reimburses investments made into in the public telecommunications network (ZVJTO).

Upon the abolition of the Capital Assets Management Agency of the Republic of Slovenia, the Company/ Group has taken over its duties as well as employees. One portion of costs incurred with the management of capital assets is reimbursed to the Company/SSH Group by the Ministry of Finance. In accordance with the agreement, SSH should be reimbursed for all costs incurred in the processes for the sale of capital assets of the Republic of Slovenia.

It has been assessed that requirements for reporting on operating segments as laid down by IFRS 8 have not been met. As a result, the Segment Reporting was not developed. The Company/Group does not sell its services/goods/material to external customers, the subsidiaries are not consolidated by the Company/ Group since they are not relevant for the presentation.

15.5 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

In addition to future liabilities for which provisions have been recognized by the Company/Group due to the fact that conditions had been met for their recognition, the Company/Group also has established contingent liabilities arising from denationalisation in the amount of EUR 62,800,00 EUR. Administrative units and ministries are known to have additional requests for compensation according to ZDen that have not yet been communicated to SSH. The value of these liabilities has therefore been determined by means of an assessment.

The Company holds the following contingent assets:

- receivables due from buyers of socially-owned and nationalised housing units (EUR 0.004 million), and
- insurance of a receivable – a lien established for the benefit of the Company (EUR 0.99 million).

15.6 EVENTS AFTER THE BALANCE SHEET DATE

On 11 April 2018, the Supervisory Board of SSH was informed of the irrevocable notice on resignation from the Management Board post submitted by Mrs. Nada Drobne Popovič, MSc.

Ljubljana, 16 April 2018



Ms. Lidija Glavina,
President of Management Board



Mrs. Nada Drobne Popovič, MSc
Member of Management Board

LIST OF ACRONYMS AND GLOSSARY OF TERMS

AAMP	Annual Asset Management Plan for capital assets of RS and SSH
ATVP	Securities Market Agency
AUKN	Capital Assets Management Agency of RS
AVK	Slovenian Competition Protection Agency
AZN	Insurance Supervision Agency
Balance Group	a group of members of the Balance Scheme defined in Article 2 of Rules on Regulated Electricity Market
BAMC	Bad Asset Management Company
BAT	best available technology
BDP	gross domestic product
BUPF	Blue umbrella pension fund managed by Modra zavarovalnica
CA	capital asset
Code	Corporate Governance Code for SOEs
Commission	Commission for handling alleged irregularities in SOEs
Company	Slovenian Sovereign holding
CPC	Commission for the Prevention of Corruption
CUDHg	Centre for the management of mercury heritage in Idrija
DARS	Motorway Company of Republic of Slovenia
d. d. (PLC)	public limited company
d.o.o. (Ltd.)	limited liability company
DRI	consulting and engineering company
D. S. U.	Property Management and Consultancy
DTK	venture capital companies
ECB	European Central Bank
ECESA	Expert Committee for Economic and Social Affairs

EDC	electricity distribution company	NA RS	National Assembly of the Republic of Slovenia
EE	electricity	M & A	method of searching for a strategic investor
ESCO	European Classification of Competences and Occupations	MEDT	Ministry of Economic Development and Technology
ETF	Exchange traded fund is a fund traded on Stock Exchange	MoF	Ministry of Finance
EU	European Union	MOI	Ministry of Infrastructure
EU28	European Union of 28 Member States	MRA	Master restructuring agreement
EUR	Euro currency	MZ	Modra zavarovalnica
EURIBOR	Euro Interbank Offered Rate	NDA	non-disclosure agreement
FED	American Central Bank	NKBM	Nova kreditna banka Maribor
FFC	family-friendly company	NLB	Nova ljubljanska banka
FIP	Financial and Compensation Treaty	OECD	Organisation for Economic Cooperation and Development
GRI	Global Reporting Initiative; the framework for reporting on sustainable development	OPEC	Organization of the Petroleum Exporting Countries
HESS	Hidroelektrarne na spodnji Savi d. o. o. (Hydroelectric Power Plants on the Lower Sava River)	PIFE	Programme of Instruments for Financial Engineering
HPP	hydro power plant	Policy	Asset Management Policy of SSH
HSE	Holding slovenske elektrarne	Preclusion period	it determines a period of time - time bar - during which a procedural action must take place; when this period expires and the action has not taken place, then the issue preclusion occurs after which a party cannot perform this action any more as the right to do so has been lost
ICT	Information and communication technology	RCR Zagorje	Regional Development Centre Zagorje
IFRS	International Financial Reporting Standards	ROA	return on assets
IMAD	Institute of Macroeconomic Analysis and Development	ROE	return on equity
IPO	initial public offering of shares	RS	Republic of Slovenia
KAD	Kapitalska družba pokojninskega in invalidskega zavarovanja d. d. (Pension Fund Management)	RS21	symbol of a bond issued by the Republic of Slovenia for the payment of compensation for confiscated property pursuant to the abrogation of the penalty of confiscation of property
KBM	Kreditna banka Maribor		
KDD	Central Securities Clearing Corporation		
kWh	the kilowatt hour		

RS39	symbol of a bond issued by the Republic of Slovenia for the payment of compensation for victims of war and post-war violence	Strategy	Capital Assets Management Strategy
RSP	retail selling price	SZ, SZ-1	Housing Act of the Republic of Slovenia
RTH	Rudnik Trbovlje-Hrastnik (Trbovlje Hrasntik Mine)	TTF	Title Transfer Facility, Virtual Trading Point
RŽV	Žirovski vrh Mine	TWh	TheraWatt hour
SAS	Slovenian Accounting Standards	UK	The United Kingdom of Great Britain and Northern Ireland
SEL	Savske elektrarne Ljubljana d. o. o.	ZBan-1	Banking Act
SEOnet	LJSE electronic information dissemination system	ZDen	Denationalisation Act
SES	Slovenian Entrepreneurial Fund	ZDSŽ	Slovenian Railway Company Act
SIQ	Slovenian Institute of Quality and Metrology	ZFPPIPP	Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act
SME	small and medium-sized enterprises	ZGD, ZGD-1	Companies Act
SOD	Slovenian Compensation Fund	ZIOOZP	Act Regulating the Issuing of Bonds in Compensation for Confiscated Property pursuant to the Abrogation of the Penalty of Confiscation of Property
SOS2E	the symbol of a bond issued by Slovenian Sovereign Holding for the settlement of liabilities due to beneficiaries in denationalisation proceedings	ZN-3	Public Procurement Act
SRRF	Slovenian Regional Development Fund	ZPKDPIZ	Act Governing Conversion of the Pension Fund Management and Investment Policy of Pension Fund Management (KAD)
SRS	Slovenski računovodski standardi	Zpkri, Zpkri-1	Redressing of Injustices Act
SSA	Standstill Agreement	ZPPSRD	The law on the transfer of powers, rights and obligations of the Slovenian Development Corporation and the termination of the Agency of the Republic of Slovenia for Restructuring and Privatization
SSH	Slovenian Sovereign Holding	ZPVAS	Act on the re-establishment of agricultural communities and the return of their property and rights
SSH Group	Slovenian Sovereign Holding Group	ZSDH-1	Slovenian Sovereign Holding Act
SSH SB	Supervisory Board of Slovenian Sovereign Holding	ZSOS	Slovenian Compensation Fund Act
SSPPZRTH	Amending Middle-Term Plan for Gradual Closure of Trbovlje-Hrastnik Mine for the 2013-2018 period, second edition		
SSRS	Housing Fund of the Republic of Slovenia		

- ZSPOZ** Act on Payment of Compensation to Victims of War and Post-War Violence
- ZT** Zavarovalnica Triglav
- ZTFI** Financial Instruments Market Act
- ZVJTO** Reimbursement of Investments in Public Telecommunications Network Act
- ZZLPP0** Law on completion of the privatization and privatization of legal persons owned by the Slovenian Development Corporation

