



SLOVENIAN SOVEREIGN HOLDING



**ANNUAL REPORT – MANAGEMENT
OF CAPITAL ASSETS OF RS AND SSH
FOR 2017**

SSH Report to the National Assembly of RS



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ANNUAL REPORT – MANAGEMENT OF CAPITAL ASSETS OF RS AND SSH FOR 2017

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

The ultimate objective of state-owned enterprises under SSH management is efficient, effective and economic operation, generation of value, and in many cases, efficient management of services of general economic interest. This must be achieved by means of a balanced, stable and sustainable development of enterprises from economic, social and environmental aspects.

Ljubljana, October 2018



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INTRODUCTION



1

KEY HIGHLIGHTS FOR 2017
ON MANAGEMENT OF CAPITAL
ASSETS OWNED BY RS AND SSH

1

Actually realized
ROE of both RS and
SSH portfolios in
2017:

6.5 %

ROE of RS Portfolio:

6.3 %,

ROE of SSH Portfolio:

8.9 %

Expected ROE of both
RS and SSH portfolios
for 2017, as stated
in Annual Asset
Management Plan:

5.2 %

2

Total book-value of assets
owned by RS and SSH as
at 31 December 2017:

EUR 10.9 bn

RS Portfolio:

EUR

10,213,059,893

SSH Portfolio:

EUR

675,609,588

*The sum of dividends paid out in 2018 for the financial year (FY) 2017

** The data includes the NLB dividend. More detailed explanation is presented in the section on dividends.



3

*The amount of dividends paid out to RS and SSH in financial year of 2017:

**EUR
487,308,566**

**RS Portfolio:
**EUR
446,943,222**

SSH Portfolio:
**EUR
40,365,344**

The number of active capital assets in both RS and SSH Portfolios:

65



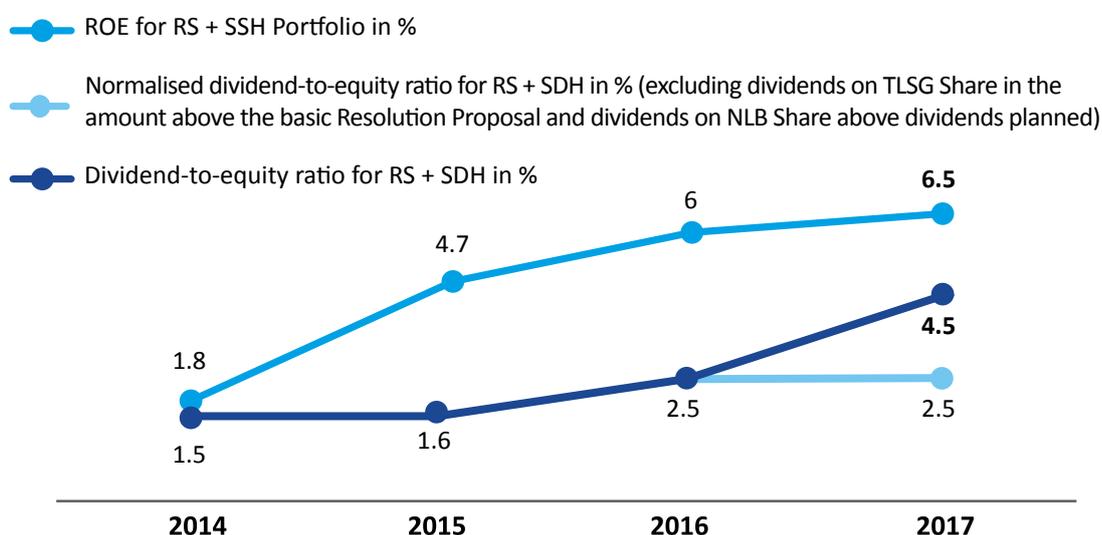
1.1 Key explanatory notes on management of capital assets owned by RS and SSH in 2017

As at 31 December 2017, Slovenian Sovereign Holding managed capital assets owned by RS and SSH in **91 enterprises**. Out of this number, there were **65 active capital assets** owned by RS and SSH, in addition to 23 inactive capital assets, that is companies in bankruptcy proceedings or in liquidation. In 2017, SSH concluded contracts on the purchase and sale of the capital assets held in the following companies: Geoplina d.o.o., Paloma d.d., Intertrade ITA d.d., Telemach Rotovž d.d., KDD d.d. and Toplotna oskrba d.o.o. Not all of the sales transaction regarding assets mentioned above have been closed since their closure is determined with sales conditions stated in relevant Sale and Purchase Agreements.

In 2017, the value of RS capital assets, measured at the book-keeping value, increased by EUR 0.6 billion to stand at EUR 10.2 billion. The increase in the value of RS capital assets is the result of the increase in 2017 in the equity amount of companies in which RS holds its stake as compared to 2016, and the result of the no-charge transfer of certain proportion of Pozavarovalnica shares, Petrol shares and Krka shares from SSH to RS in December 2016, pursuant to the Decision of the Government of the Republic of Slovenia No. 47600-11/2017/3. The value of SSH capital assets decreased by EUR 143.4 million to stand at EUR 675.5 million which is the result of the mentioned no-charge transfer of certain proportion of Pozavarovalnica shares, Petrol shares and Krka shares from SSH to RS. **The total value of capital assets** in direct ownership of RS and SSH thus amounted to **EUR 10.9 billion** as at 31 December 2017.

ROE of the portfolio of companies directly owned by RS and SSH increased repeatedly in 2017. Specifically, ROE of the portfolio of RS's directly owned assets increased by 0.6 percentage points, rising to 6.3%, while ROE of the portfolio of SSH's directly owned assets decreased by 1 percentage point, amounting to 8.9%. ROE of total capital assets portfolio (RS + SSH) managed by SSH increased from 6.0% to 6.5%. When examining the movement of the dividends-to-equity indicator, an explanation is required. In fact, the adjusted dividends-to-equity ratio for the RS+SSH portfolios amounted to 4.5% in 2017; this is mostly the result of a high NLB dividend pay-out for FY 2017 and the pay-out of a higher dividend for FY 2017 by Telekom Slovenije d.d.

If the impact of the dividends paid out by NLB for FY 2017 (EUR 270.6 million - EUR 85 million; the total of EUR 270.6 million has been paid by NLB, whereas EUR 85 million was planned by SSH to be paid for dividends by NLB) and the impact of higher dividends for FY 2017 paid out by Telekom Slovenije, d.d. (received on account of the counter-proposal voted at the General Meeting of Shareholders) is extracted from the sum of dividends collected for FY 2017 arising from both RS+SSH portfolios, the dividends-to-equity ratio for both RS+SSH portfolios for 2017 amounts to 2.5%.





The total amount of dividends paid out from the portfolios of SSH and RS capital assets for FY 2017 (General Meeting Resolutions in 2018) is hereby presented in a structured manner on account of the impact of one-off factors pointed out by SSH. The total of EUR 266,785,302 of dividends arising from the ownership of SSH and RS capital assets was collected for FY 2017, excluding one-off factors which are hard to be repeated in the future. The above mentioned dividend amount includes dividends which have been paid by companies in which SSH and RS hold their stakes, and the said sum also includes one proportion of dividends paid out by NLB as planned by SSH (EUR 85 million of dividends). The sum of EUR 266,785,302 of dividends does not include the difference between the dividend amount paid on account of the Resolution Counter-Proposal on Dividend Amount adopted at the General Meeting of Shareholders of Telekom Slovenije d.d. and the difference between the dividend amount paid by NLB and the dividend amount planned to be so received by SSH. These two events are considered as one-off events which are not likely to occur in the future. Specifically, at the General Meeting of Shareholders of Telekom Slovenije d. d., SSH submitted a Resolution Counter-Proposal with regard to a dividend amount which was passed, thus increasing the portfolio of capital assets held by SSH and RS by additional EUR 34,923,264 of dividends as compared to the figure which would have been obtained if the basic Resolution Proposal on Dividend Amount was approved. In SSH's assessment the source for the pay-out of a higher dividend was provided by one proportion of proceeds from the sale of Telekom Slovenije's assets in One.Vip in Macedonia (the purchase price amounted to EUR 120 million). This, however, should be considered as a one-off event. As regards NLB dividends for FY 2017, SSH initially anticipated it to be paid out in the amount of EUR 85 million but due to the ECB's clearance to pay out EUR 270,6 million of retained earnings, the higher amount of the paid NLB dividend (EUR 185,6 million, being the difference between EUR 270.6 million and EUR 85 million) is reported separately by SSH. As this dividend pay-out is considered a one-off event on account of a sale process in progress in NLB, this fact is particularly pointed out with regard to future expectations on the amount of dividend pay-out. **Both portfolios of capital assets held by SSH and RS for FY 2017 have thus received the total amount of EUR 487,308,566 in dividends.**

At the same time, the commitment by the Republic of Slovenia to the European Commission with regard to the sale of Abanka to take place in 2019 needs to be pointed out. For FY 2017, Abanka paid out EUR 42,6 million in dividends (EUR 69,0 million for FY 2016) in which regard it has to be stated that, in the future, when Abanka is sold, no dividends will be received by the portfolio of capital assets from this source.

In terms of the content, a similar explanatory note should be given with regard to the annual comparison (the result in FY 2017 and the result in 2016) of the total sum of dividends received from the portfolio of RS's capital assets for FY 2017, since in 2017, assets in NLB were fully owned by RS. Capital assets held in NLB are managed under the RS's portfolio of assets which in FY 2017 has generated a significantly higher dividend amount received as compared to the sum of dividends received from the RS's portfolio of capital assets for FY 2016. A significant difference in the amount of dividends received for FY 2017 as compared to this figure for FY 2016 is the result of the impact of one-off events explained above with regard to the pay-out of NLB dividends for FY 2017, and, albeit for a smaller part, the impact of higher dividends paid out by Telekom Slovenije d.d.

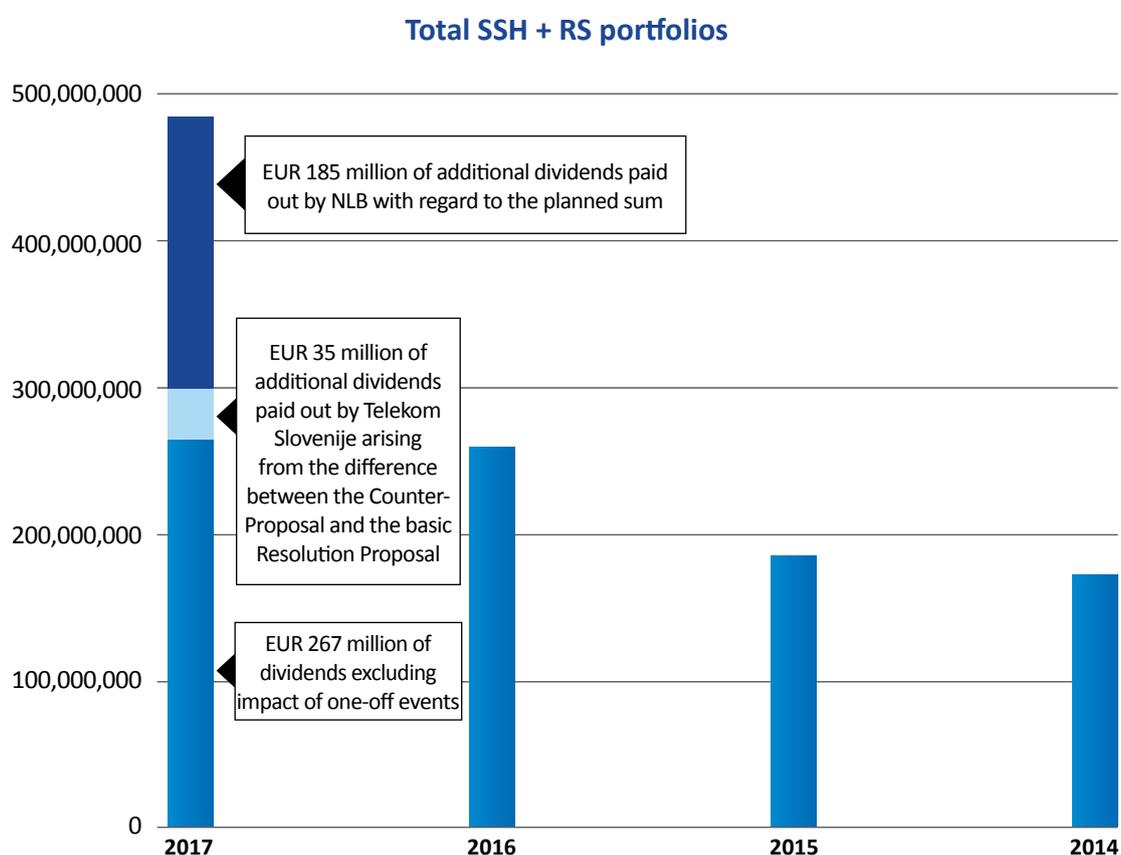
At the time of drawing up this Report, NLB is undergoing a sales process; in this regard, it has to be pointed out that dividend revenue from NLB will be smaller in the future as a result of a lower stake held by RS in the said bank's shareholder structure once the bank is sold. The total sum of dividends received for FY 2017 amounted to EUR 446,943,222 (EUR 228,642,670, excluding the impact of one-off events), while dividends received for FY 2016 amounted to EUR 213,733,594.

The sum of dividends received from the **SSH's portfolio of capital assets** for FY 2017 (EUR 40,365,344), being lower than the sum of dividends received for FY 2016 (EUR 45,926,513), is the result of a no-charge transfer of a certain proportion of shares of Pozavarovalnica Sava, d. d., Petrol, d. d. and Krka d. d. from SSH to RS in December 2017, pursuant to the Decision of the Government of the Republic of Slovenia, No. 47600-11/2017/3. Krka shares alone, which have been acquired by RS from SSH on account of the said no-charge transfer, provided RSS with additional EUR 6.8 million of dividends for FY 2017; if, hypothetically,



the said amount is adjusted for the sum of dividends received for FY 2017 from the SSH's portfolio of capital assets, when making a comparison with dividends received for FY 2016, the year-on-year comparative analysis with regard to the total sum of dividends received from the SSH's portfolio of capital assets shows a different picture. When taking into account the impact of the loss of dividends arising from the transfer of ownership stake in Pozavarovalnica Sava d.d., and Petrol d.d. due to the transfer from SSH to RS, the year-on-year comparison with regard to the total sum of dividends received for FY 2017 from the SSH's portfolio of capital assets is even more favourable. The sum of dividends received for FY 2017, excluding the impact of higher dividends paid out by Telekom Slovenije d.d., resulting from the Resolution Counter-Proposal on the dividend amount adopted at the General Meeting of Shareholders, amounts to EUR 38,142,632.

Graph: The amounts of dividends received from the portfolios of capital assets held by SSH and SSH taken together in the 2014-2017 period (in EUR), including the impact of dividend income arising from one-off events in 2017



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



2 LETTER BY MANAGEMENT BOARD

The Annual Report - Management of Capital Assets of RS and SSH has been submitted for the fourth consecutive year to the National Assembly of the Republic of Slovenia, providing in this manner a comprehensive and transparent presentation of key data and information on the management of state capital assets.

The attainment of better business results is first initiated by way of setting clear and ambitious goals of strategic and/or economic and financial nature. These are prepared annually by SSH for the majority of companies with capital assets held by RS and SSH which is then reflected in better systemic organisation of corporate governance as well as in result itself which, for the first time, has attained **6.5% return on equity (ROE) of assets in RS and SSH portfolios**. This result has been attained despite the fact that the RS's portfolio includes two thirds of strategic assets whose priority is the attainment of strategic goals, that is, the realisation of important social interest which are often overshadowed by the goal of attaining high return on equity.

Such a good result can not only be attributed to favourable economic conditions in 2017 and to better operation of banks. This success is also attributed to the work carried out by supervisory boards, management boards and all employees employed in SOEs. SSH plays an important role in this regard as it ensures that the State is an active, responsible and prudent manager of assets.

SSH supports the development and efficiency of operations of its portfolio companies, and, by means of its decisions made at General Meetings of Shareholders of companies, pursues a responsible approach to Dividend Policy in terms of advocating a suitable balance between dividend yield and development needs of companies. The total of EUR 266.8 million of "regular" dividends arising from the ownership of SSH and RS capital assets were collected for FY 2017. **If "additional" dividends by Telekom Slovenije and Nova Ljubljanska banka (NLB), considered as one-off events, are taken into account, the total amount of all dividends collected amounts to a record-hitting sum of EUR 487.3 million (EUR 259,7 million for FY 2016)**. As there were several one-off events recorded in this year, so high dividend pay-outs are not to be expected in the future.

In the future, expectations and target return on equity ratios as well as the amount of dividend pay-outs received by the State budget will have to be adapted to a modified structure of asset portfolio under management.

Sales process in progress when drawing up this Report will have a negative impact to the calculation of the dividend-to-equity ratio and to the amount of dividends received by the RS's budget; in the last two years both banks, NLB and Abanka, have paid high dividends and achieved high ROE, presenting a significant proportion of the weight in the said calculation (a solid one fifth of the value of the RS's portfolio of capital assets). Other assets in the portfolio defined as strategic will not be able to compensate for these differences, therefore it is hard to expect ROEs and dividend pay-outs to grow. As a matter of fact, the priority objective of strategic assets is the attainment of strategic goals of the Republic of Slovenia, and in some of the largest company, owing to high regulation of their industries, SSH has hardly any influence with regard to their revenues, such as, for example in the case of Dars representing a solid one fourth of the RS's portfolio, whose equity is on a constant rise on account of not paying out any dividends, and thus increasing its weight in the calculation of the portfolio's ROE. Another important example includes five electricity distribution companies, representing a solid 9%



of the RS's portfolio of capital assets, whose key operational and financial parameters of operations are determined by way of the wire charge rules stipulated by the Energy Agency of the Republic of Slovenia, and which directly affect lower ROA and ROE ratios of all of the five mentioned companies. Considering the changing structure of the portfolio under SSH's management, in the future, the assessment of the performance of asset management will have to take into account various criteria by sectors, including the consideration of the type of assets and the specific features of operation, such as for example, service of general economic interest.

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.

The largest asset in regard to which, in the first half of 2017, SSH, cooperating with the selected advisors, intensively pursued preparatory activities in connection with its sale was Nova Ljubljanska banka, d.d., fully owned by RS. In July 2018, the Government of the Republic of Slovenia, acting in the capacity of the General Meeting of Shareholders of SSH, adopted a resolution imposing SSH to re-engage in the activities for the sale of NLB shares through an IPO with the goal to sell at least 50% plus one share by the end of 2018 and the remaining part exceeding 25% plus one share by the end of 2019.

At the end of 2017, SSH transferred free of charge one proportion 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 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. For this reason the arrangement of a suitable management compensation with the aim of providing professional and active management of capital assets owned by RS, separated from the daily politics, is of key importance for successful performance in the future. Further reflection will be needed on the possibility to dedicate to SSH a certain proportion of proceeds from sales for the restructuring of portfolio assets.

SSH enhancing integrity at the Company level

In 2017, among other things, the Compliance Manager 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.



The main focus in the future will continue to be placed on the quality of management of RS and SSH assets, 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.

Key factors for future business performance are the formulation of clear directions by the state in regard to individual sectors of economy which will also be reflected in a stable, predictable and development-oriented Dividend Policy. Additionally, continuous improvement in corporate governance practice at all levels by increasing the compliance of companies' operations with the provisions of SSH Corporate Governance Code and SSH Recommendations and Expectations is important. After few years it has been shown that providing for a centralised management of capital assets and professional and financial independence of the asset manager brings results which is why it is reasonable to keep centralised system in the future, and continue to improve it. Constant focus will be needed for increasing the pool of the best qualified and motivated candidates for taking up the positions of Supervisory Board members, having the knowledge also in the fields of digitalisation, business models transformation and organisation.

From the onset of SSH's formation, many goals have been reached and a lot of work has been carried out, as is also acknowledged by some international organisations. However, we still need to face several challenges, especially in the fields of tourism, in energy sector and in logistics, whereby constructive engagement by all stakeholders and decision-makers will be needed for successfully attaining the goals set.



Vanessa Grmek,
Member of Management Board



Lidija Glavina,
President of the Management Board





ABOUT MANAGEMENT OF CAPITAL ASSETS HELD BY RS AND SSH



3

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 10.9 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, traffic, transport and infrastructure, tourism, 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 affairs 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 ZVVJO.

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



SLOVENIAN SOVEREIGN HOLDING

Corporate name:	Slovenian Sovereign Holding d. d.
Registered office:	Ljubljana
Business address:	Mala ulica 5, 1000 Ljubljana
Telephone No.:	++386 1 300 91 13
Web site and e-mail	www.sdh.si; info@sdh.si
Activity code:	64.990
VAT ID:	SI 46130373
Registration No.:	5727847
Date of legal entity's establishment	19 February 1993
Date of SSH's incorporation:	26 April 2014
Date of company transformation from SOD into SSH:	11 June 2014
Registered legal form:	Public limited company registered before Ljubljana District Court, under the Reg. Entry No. 1/21883/00
Share capital:	EUR 260,166,917.04
No. of employees as at 31 December 2017	73
Membership in other organisations:	Directors' Association of Slovenia, Association of Employers of Slovenia



Management Board: * Lidija Glavina, President of the Management Board (from 15 July 2016)
Nada Drobne Popovič, MSc, Member of the Management Board (until 11 June 2018)
Dr. Andrej Bertoncej (from 3 May 2018 to 12 September 2018)
Vanessa Grmek (from 21 September 2018 onwards)

Members of Supervisory Board: Damjan Belič, President of the Supervisory Board
Duško Kos, Vice President
Igor Kržan, Member (from 24 April 2017)
**Dr. Andrej Bertoncej, Member (from 20 June 2017 to 12 September 2018)
Janez Vipotnik, Member (from 14 December 2017)

In 2017, the Supervisory Board also included the following members
Dr. Barbara Smolnikar, Member (until 21 June 2017)

Members of the SB's Audit Committee: Duško Kos, President
Damjan Belič, Member
Darinka Virant, External Member

Members of SB's Risk Committee: Dr. Barbara Smolnikar, Member (until 21 June 2017)
Duško Kos, Member (until 12 July 2017)
Darinka Virant, External Member
**Dr. Dr. Andrej Bertoncej, President (from 12 July 2017 to 3 May 2018)
Igor Kržan, Member (from 12 July 2017), President from 3 May 2018 onwards
Janez Vipotnik, Member (from 3 May 2018 onwards)

Members of Nomination Committee: Luka Gaberščik, President
Jagoda Vitez, Deputy President
Brigita Vončina, Member

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

Contact for Annual Report: pr@sdh.si

* Appointed on 22 February 2017 for a four-year term of office, with the effective date on 23 February 2017.

** Membership in Supervisory Board was suspended from 3 May 2018 to 12 September 2018, and at that date, he resigned from both functions.



3.1 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.

Figure: SSH Values



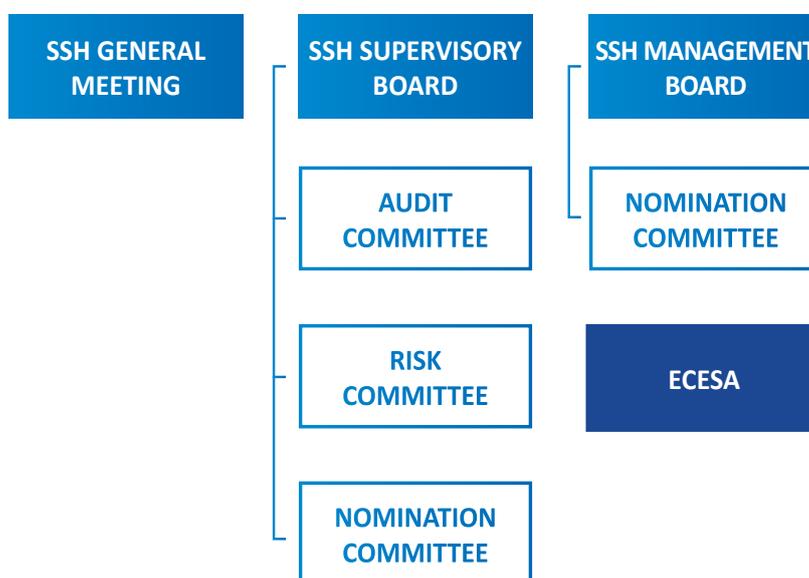
- Excellency in all aspects of operation within SSH and in the environment in which SSH operates.
- Integrity among all SSH stakeholders.
- Meritocracy-based operation in which measured performance and demonstrated achievements count.
- Respect to all SSH internal and external stakeholders and in regard to all aspects of economic operation.
- Confidence in people.
- Professional competence and expertise as the main criteria for managing and implementing the Strategy.



3.2 The legal form and organisational structure of SSH

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

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



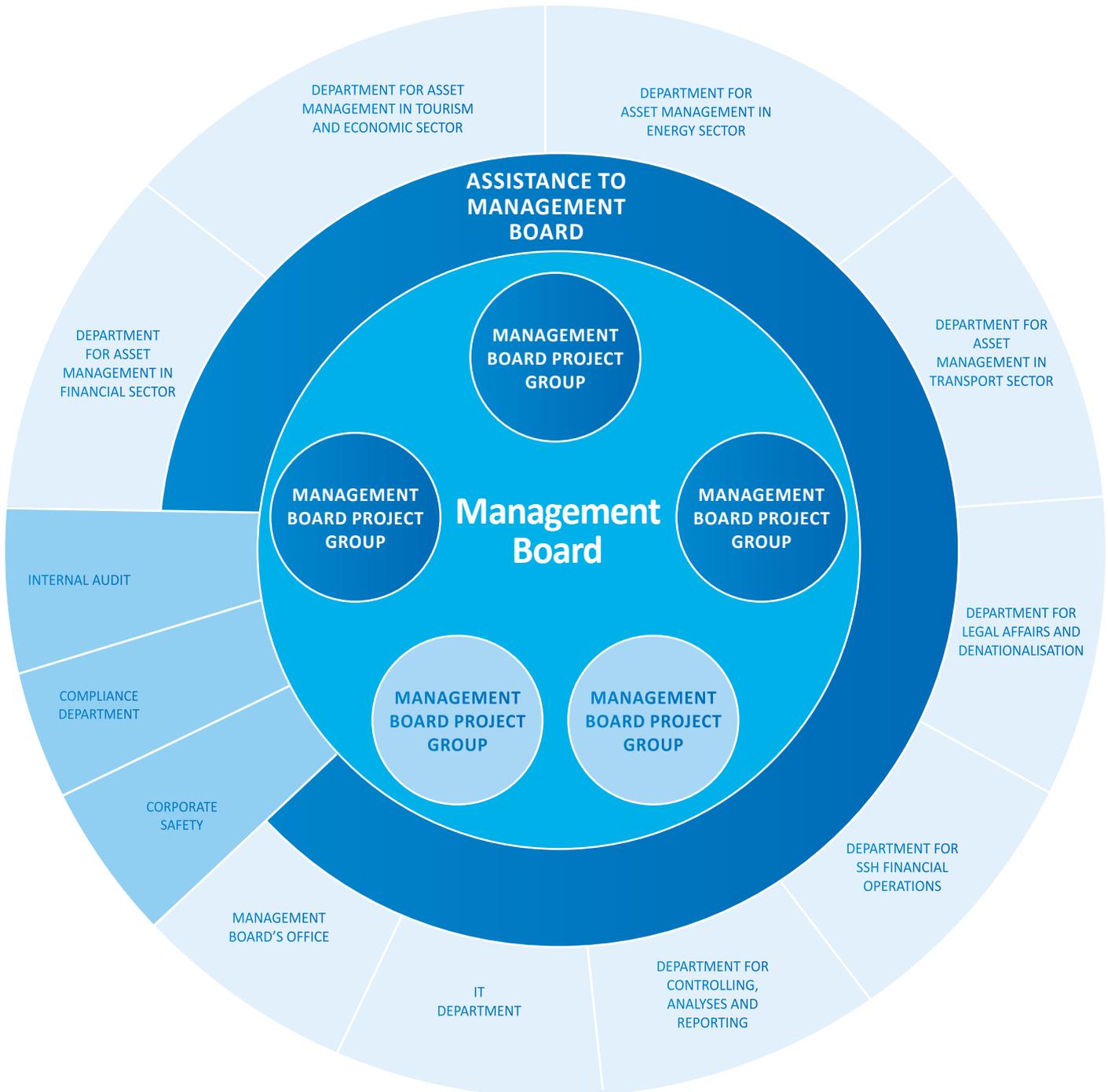
3.3 Purpose of SSH's establishment

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



3.4 Internal organisation of SSH

Figure: Organisational Structure of Slovenian Sovereign Holding



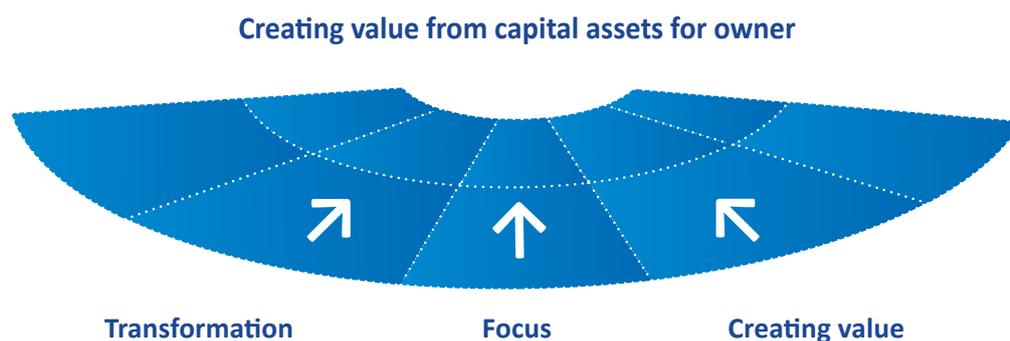
As SSH strives for continuous improvement, in the second half of 2017, SSH started to intensively improve its organisation of work, focusing on better cooperation between SSH's organisational units. The goal of establishing the new organisational structure is to optimise work processes and labour costs, 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 were introduced on 1 April 2018.



3.5 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.

Figure: SSH Strategic Policies



Transformation

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

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

Focus

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

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

3.5.1 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 needs for funding,
- 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 of attorney;
- 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.





4

CORPORATE COMPLIANCE AND BUSINESS INTEGRITY

ZSDH-1 defines in detail measures to enhance business integrity, responsibilities and to minimise corruption-associated risks, conflict of interest and abuse of proprietary information in managing state assets, in addition to providing definitions about tasks and responsibilities of 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 with the main focus being placed on the management and disposition of state capital assets. Thus, SSH's priority goals in this regard is a transparent operation of SSH which will set an example of corporate governance and ethical conduct in accordance with the highest expectations and standards.

4.1 Fundamental duties

In the first four months of 2017, the duties of Compliance Officer were temporarily carried out by an Internal Auditor. On 1 May 2017, following the public call to tender, a Chief Compliance Officer was appointed to this position, assuming all duties envisaged by the legislation and SSH internal legal regulations. From among the fundamental duties which were carried out during the year in the area of corporate compliance and integrity, the following may be pointed out:

- monitoring and implementation of the corporate integrity plan;
- regular reporting to the Commission for the Prevention of Corruption on measures implemented as referred to in the Business Integrity Plan;
- the preparation of measures and implementation of measures for limiting risks related to the illegal insider trading;
- and unauthorised disclosure of confidential and proprietary data;
- monthly reporting to the Securities Market Agency on a list of state capital assets in connection with which any piece of confidential information has been obtained by SSH, or in connection with information which is classified as proprietary information, and on all transactions with assets listed on the above mentioned official list;
- updating and publishing a list of related parties subject to business restrictions;
- recording and keeping a register of gifts received;
- providing for the traceability of communication undertaken between SSH, state authorities and other persons of public law;
- recording and keeping a register of unofficial contacts in case of lobbying associated with the exercise of shareholder's rights, acquisition of capital assets and their disposition;
- recording on reports in case of requirements classified as non-ethical or illegal conduct;
- recording procedures for the disclosure of conflict of interest, for recusal from processes and for recusal from making decisions about recusal;
- dealing with reports addressing suspicions linked to irregularities in SSH and in companies with State's capital assets;
- the establishment and implementation of the programme for the protection of whistle-blowers;



- 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.

4.2 Renewal of Business Integrity Plan

A comprehensive revision of the Business Integrity Plan was carried out in 2017, in accordance with changes having taken place in the environment, measures already taken and activities to manage risks undertaken in previous years. The plan includes all the most important risks having an element of corruptive, illegal and other unethical conduct, specifically:

- at the level of the entire company,
- in regard to non-integrity;
- in regard to the work carried out by the Compliance Manager,
- in regard to the management and restructuring of capital assets,
- in regard to acquisition of capital assets and their disposition;
- in regard to Information Technology.

In order to manage risks identified in the Business Integrity Plan, permanent measures were revised and defined anew and one-off measures were added to manage these. The implementation of measures was regularly monitored.

In accordance with the transparency principle, the revised Business Integrity Plan is published on the SSH's web site. All employees are informed about the said Plan. The Chief Compliance Officer regularly reported to the SSH Supervisory Board on activities carried out. Topics associated with corporate compliance and business integrity were discussed at regular meetings held between the Chief Compliance Officer, Officers and the Management Board of SSH.

4.3 Renewal of Codes of Ethics

The Code of Ethics of SSH was also revised; the Code defines the basic principles for permissible action and conduct of SSH employees, and it particularly highlights its fundamental commitment, 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 of consistently pursuing ethical, professional and responsible actions and such methods of functioning by SB Members that are in line with specific characteristics linked to the status and functioning of SSH.



4.4 Handling reports on alleged irregularities

Within the scope of the system established for addressing suspicions of irregularities made, which also includes the protection of whistle blowers, 65 such reports were received in 2017. The major part of reports referred to suspicions of irregularities in 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 whereas all reports on alleged irregularities in companies with State's capital assets were dealt with by a special four-member Committee appointed for handling irregularities of this kind.

Primarily, measures undertaken by SSH for eliminating irregularities in SOEs may be as follows:

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





5

SUPERVISORY BOARDS OF SOEs AND CANDIDACY PROCEDURES

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

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

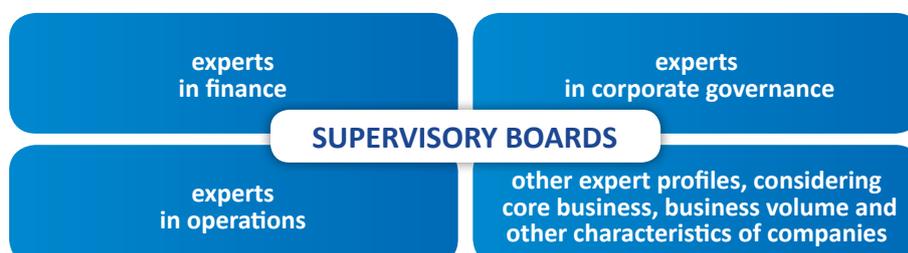
- personal integrity and business ethics,
- business successfulness and reputation,
- qualification,
- work experience,
- integrated business and other relevant knowledge and expertise,
- knowledge of rights and obligations of a supervisory board member,
- operation in accordance with general interests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

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

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

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

Scheme: Targeted expert profiles for supervisory boards

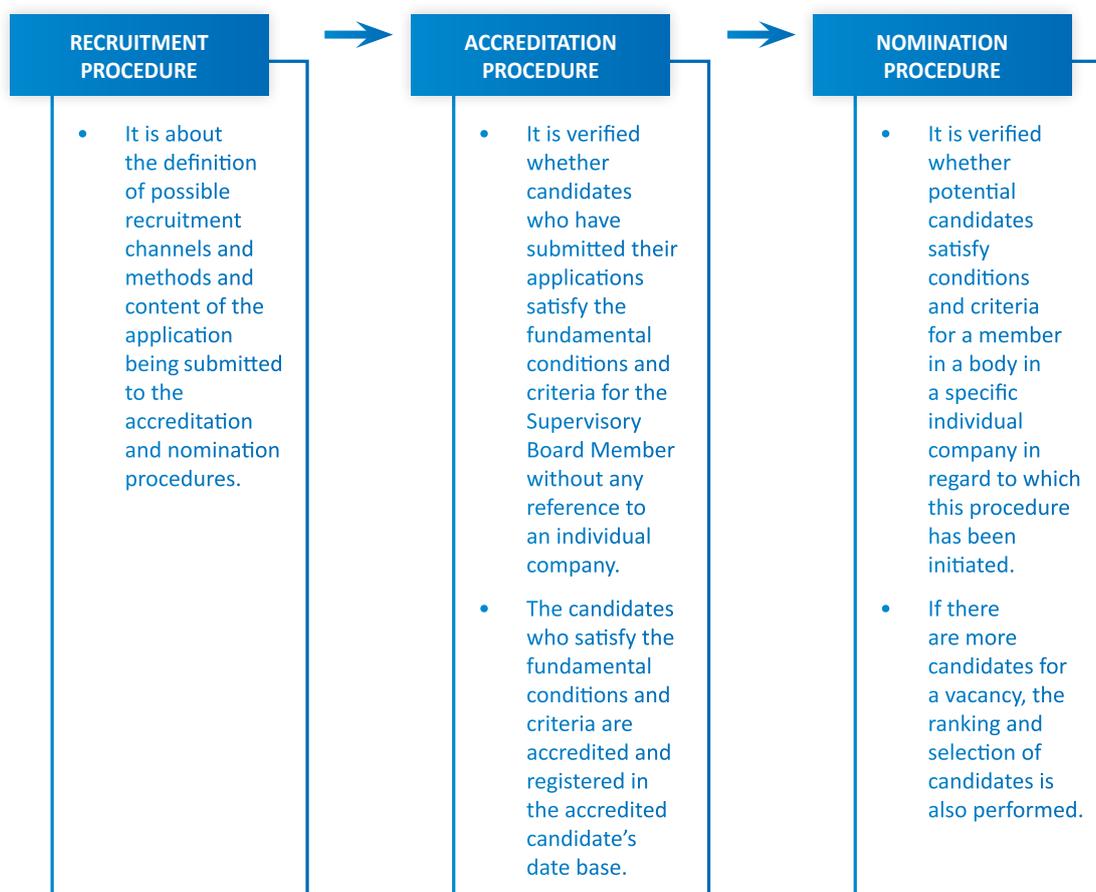




5.1 About SSH's Nomination Committee

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

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



5.2 Work performed by Nomination Committee in 2017

The Nomination Committee is a consultative body of the SSH Management Board carrying out duties that relate to the implementation of procedures for recruiting candidates for members of Supervisory Bodies of SOEs, their evaluation (nomination) and their accreditation. The Nomination Committee is a consultation body of the SSH Management Board and its opinion is binding for the SSH Management Board, except in some cases, specifically defined by the SSH Asset Management Policy.

In 2017, the said Committee was composed of the following members: Luka Gaberščik, President, Jagoda Vitez, Deputy President, and Brigita Vončina, Member.



In 2017, the said Committee met at 40 regular and 2 extraordinary sessions, in addition to carrying out 2 correspondence sessions. Interviews with candidates for members of supervisory boards were also carried out outside of the planned regular sessions of the Nomination Committee, at previously scheduled dates in the offices of SSH. The Nomination Committee complied with 85 orders for carrying out nomination procedures for candidates of supervisory boards (and in some cases for candidates of the management) with regard to 37 companies. These are as follows: Zavarovalnica Triglav d.d., 2TDK, družba za razvoj projekta d.o.o., Luka Koper d.d., Cetus d.d., Hit d.d., Petrol d.d., Cinkarna Celje d.d., Studentenheim Korotan G.m.b., Telekom Slovenije d.d., Loterija Slovenije d.d., Elektro Maribor d.d., Elektro Celje d.d., Elektro Primorska d. d., Elektro Ljubljana d.d., Elektro Gorenjska d.d., Plinhold d.o.o., Elektrogospodarstvo Slovenije – razvoj in inženiring d.o.o., Terme Olimia d.d., DRI, družba za upravljanje investicij d.o.o., SIJ d.d., Krka d.d., Bodočnost d.o.o., NLB d.d., INFRA d.o.o., DTK Meta Ingenium, družba tveganega kapitala d.o.o., Abanka d.d., Mariborska livarna Maribor d.d., Casino Bled d.d., UNIOR, kovaška industrija d.d., Kapitalska družba d.d., GEN energija d.o.o., HSE d.o.o., VGP Kranj d.d., Plinovodi d.o.o., EKO Nafta d.o.o., Rudnik Žirovski Vrh d.o.o., Adria, turistično podjetje d.o.o.

These procedures involved the carrying out of the following tasks: the Nomination Committee first provides for the accreditation of a potential candidate, reviews the target profile of a Supervisory Board and takes part in SSH's public recruitment notices and then nominates a candidate. In addition to the above mentioned procedures, in the reported period, in accordance with SSH Asset Management Policy, the said Committee took an active part in the development of the SSH Nomination Committee Portal designed for members of Supervisory Boards of companies under SSH's management and participated in the development of proposals aimed at defining areas of competences held by members of Supervisory Boards of the said companies. In December 2017, the said Committee drafted a proposal for amendments and modifications of the SSH Asset Management Policy in the Section which refers to the functioning of the Nomination Committee.

5.3 Introducing SSH Nomination Committee's portal within the scope of projects for digital transformation

In March 2017, SSH, in cooperation with the SSH's Nomination Committee launched a digitalised, user-friendly and on-line accessible business solution which provides an efficient overview of all user data and information registered in Slovene: portal kadrovske komisije SDH; it is found at the following web site address; <https://kk.sdh.si/>.



The Portal is dedicated to individuals who have evidenced interest for membership in Supervisory Boards of companies under SSH's management, enabling users an interactive update of data and organisation of his/her data when necessary. This new

method of keeping a register of accredited candidates is also aimed at updating the list of candidates while also enabling to the SSH's Nomination Committee to produce a set of candidates for a Supervisory Board of an individual company under management in an easy and faster manner, by means of obtaining data having been entered in the said Portal in a new way.

This modern information solution has shortened the length of the procedure necessary for selecting relevant nominated candidates for members of Supervisory Boards of companies under management, and, in accordance with the introduction of this digitalised process, the processes for accreditation and nomination by SSH's Nomination Committee were also optimised. In fact, a well-defined process is the basis for drawing up the criteria for nominating a candidate to a Supervisory Board of a certain company under management, for evaluating such a candidate and for carrying out the selection of a nominated candidate in a regular, transparent and timely manner.



5.4 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: new issues 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 the 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. In 2017, SSH organised 18 free-of-charge training sessions for SB members of SOEs, representing in total 36 hours.

5.5 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 ensure a good quality supervision over the work carried out by supervisory boards of SOEs, in accordance with Article 21 of ZSDH-1.

The remainder of the text presents a basic analysis of potential candidates registered at 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.

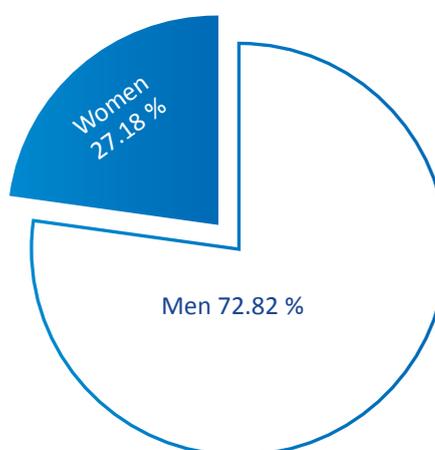


5.5.1 Basic analysis of candidates from SSH Nomination Committee's Portal

The Portal kept by the SSH's Nomination Committee with regard to candidates interested in the membership of supervisory boards of enterprises managed by SSH, operational from 6 March 2017, had 322 candidates accredited as at 31 December 2017. The total number of all candidates registered in the register of all potential candidates for members of supervisory boards stands at 1316 individuals.

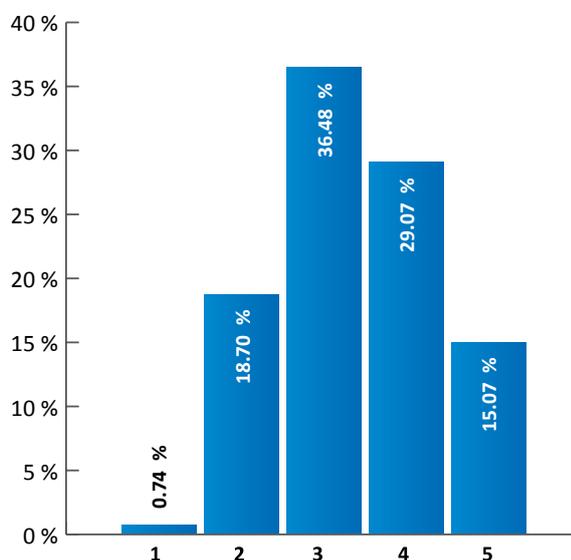
The analysis showed that the share of women who have registered by expressing their interest for the candidacy in the membership of supervisory boards of enterprises managed by SSH is comparable to the share of actually appointed and active supervisory board members in SOEs.

Graph: Candidates for members of enterprises managed by SSH by gender



The age structure 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 moves between 41 to 50, while the first category, i.e. up to 30 years of age, is the less represented.

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



Age groups: 1 = up to age of 30 ; 2 = 31-40 years of age 3 = 41-50 years of age; 4 = 51-60 years of age; 5 = above 61 years of age



5.5.2 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 significantly prevail in membership of supervisory and management boards, although in 2017, the diversity of their composition in terms of gender markedly turned in favour of women. As 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.

Figure: 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)

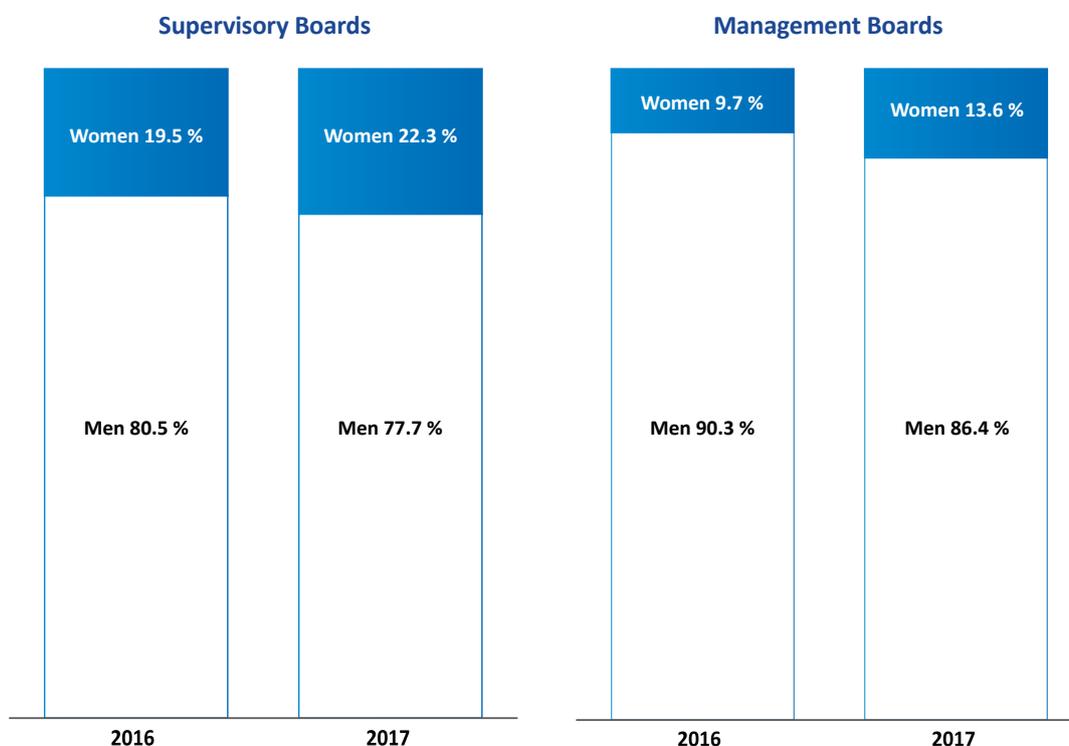
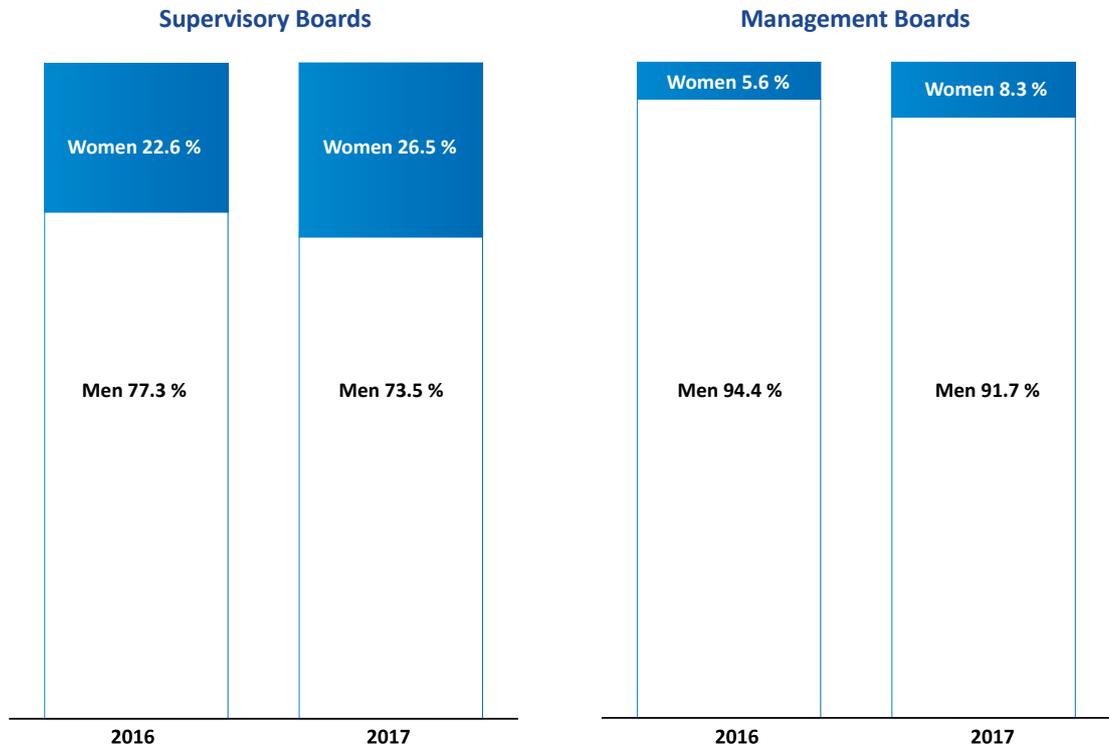




Figure: Changes in the composition of Presidents of Supervisory and Management Boards of companies directly owned by the Republic of Slovenia and SSH by gender (situation at the end of 2016 and 2017)







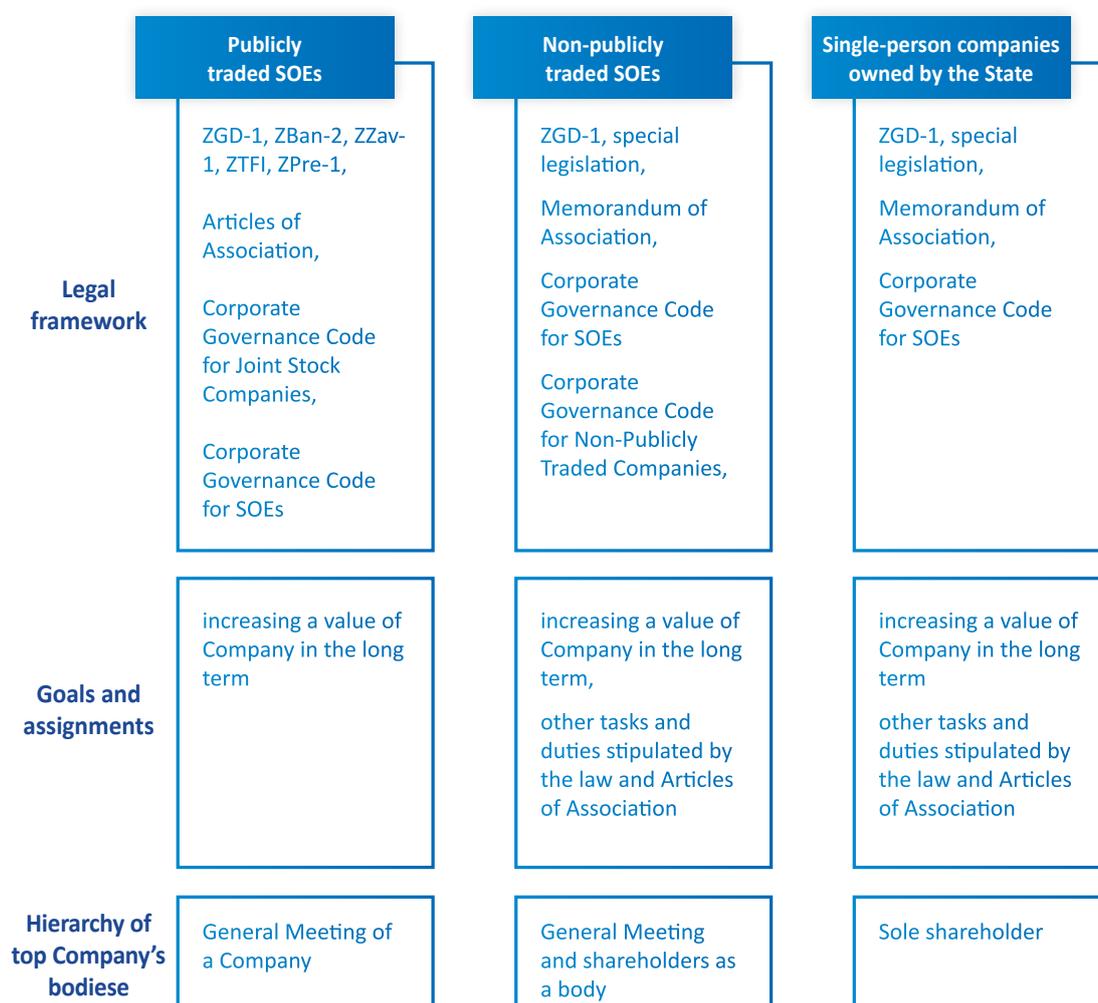
6

ACTIVITIES FOR CONSTANT IMPROVEMENT OF CORPORATE GOVERNANCE IN SSH AND IN SOEs

The main activities for raising the level of corporate governance in SOEs which were implemented in 2017 were:

- the adoption of the Annual Assets Management Plan for capital assets held by RS and SSH,
- the preparation of a benchmark analysis with regard to operations of the largest companies in RS and SSH portfolio,
- regular monthly training sessions for SOEs,
- the adoption of Revised SSH Recommendations and Expectations,
- SSH addressed a special questionnaire to SOEs, enquiring about the observance of the Corporate Governance Code for SOEs and SSH Recommendations and Expectations,
- a revision of the Corporate Governance Code for Companies with Capital Assets of the State which was developed by SSH in May 2017.

6.1 The framework of functioning for SOEs





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

6.2 The corporate governance system of SOEs – legal bases and documents on asset management with their amendments in 2017

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. 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.

The scheme below provides a presentation of key documents with regard to corporate governance.

ADOPTED BY	DOCUMENT	CONTENT
NATIONAL ASSEMBLY	Capital Assets Management Strategy	The definition and classification of assets into three types of assets: strategic, important and portfolio assets. Defines development policy of RS. Defines individual strategic objectives.
MANAGEMENT BOARD UPON CONSENT BY SUPERVISORY BOARD AND GOVERNMENT OF RS	Asset Management Annual Plan	Defines objectives for managing individual assets, together with measures and policies for achieving these objectives. It determines the expected cash flows.
	Criteria for Measuring Performance of SOEs	It must observe strategic objectives as determined by the Strategy and it must determine economic and financial goals.



ADOPTED BY	DOCUMENT	CONTENT
TOGETHER BY SSH MANAGEMENT AND SUPERVISORY BOARDS	Corporate Governance Code for SOEs	Principles and recommendations regarding good practice in asset management.
	SSH Asset Management Policy	Principles, procedures and criteria for ensuring the trans- parency and traceability of decisions.
MANAGEMENT BOARD	SSH Recommendations and Expectations	Specific recommendations and expectations from SOEs following the “apply and explain” principle.

6.2.1 State Assets Management Strategy

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

6.2.2 Asset Management Annual Plan

On the basis of the Asset Management Strategy adopted in 2015 and in effect for several years, the Government was given the possibility to adopt the first integrated annual plan for capital assets management, specifically, for 2016. The Annual Asset Management Plan 2017 was adopted on 19 January 2017, when it was granted a consent by the Government of the Republic of Slovenia while the Annual Assets Management Plan 2018 was adopted in December 2017. In February 2017, the Annual Asset Management Plan for Dars d. d. was supplemented.

The Annual Asset Management Plan defines detailed objectives of the asset management company (SSH) in regard to the management of individual assets in an individual financial year which have to be moving within the scope of objectives set out in the Asset Management Strategy. The Annual Asset Management Plan, as it is clear from its title, also includes an actual plan of action (definition of measures and guidelines) for achieving detailed asset management goals. The forecasted cash flows generated from the state assets management are also determined in the Annual Plan.



6.2.3 Criteria for Measuring Performance of SOEs

Pursuant to Article 17 of ZSDH-1, the revised Criteria for Measuring Performance of SOEs were adopted by SSH (hereinafter referred to as: the “Criteria for Measuring Performance”), to which a consent was granted by the Government of the Republic of Slovenia on 22 December 2017. The Criteria for Measuring Performance are a shareholder’s document which defines the indicators by way of which ambitious yet realistic expectations from SOEs are set by SSH in regard to future performance and business results; they are applied at the end of the year with the aim of assessing the results of companies’ performance. These indicators are divided into financial and non-financial indicators; they are determined individually for each company or a Group of companies, taking into account their specific characteristics. The Criteria for Measuring Performance determine only the type of relevant indicators for individual companies of Groups of companies, while the quantification of these indicators in the sense of specific expectations by SSH from SOEs is adopted in each Annual Asset Management Plan.

6.2.4 SSH Asset Management Policy

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

6.2.5 Corporate Governance Code for SOEs

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



Corporate Governance Code for SOEs revised in 2017

In accordance with Article 32 of ZSDH-1, on 24 May 2017, the Management Board, after having been granted a consent by the Supervisory Board, 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, in addition to the recommendation, which was harmonised with ZGD-1, and refers to the powers of SB and Audit Committee in connection with the internal audit. 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-1J) 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 and modified.

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 and recommendations 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 conclude that the analyses 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.



6.2.6 Other recommendations and view points

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

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

The Recommendations and Expectations revised in 2017

Simultaneously with the revision of the Corporate Governance Code for SOEs, 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. Until 1 January 2018, *vacatio legis* applied to the implementation of this recommendation 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.

Revision of SSH Asset Management Policy and SSH Recommendations and Expectations after the end of the reporting period

After the end of 2017, SSH supplemented and modified two legal documents on asset management; specifically, SSH Recommendations and Expectations in March 2018, and SSH Asset Management Policy in July 2018.

The main modifications and amendments to SSH **Recommendations and Expectations** made in 2018 mainly refer to a three-year business planning and to periodic reporting on operational performance of companies, Groups, and affiliates. Further on, SSH expanded the recommendation on the procurement of goods and services, on sponsorships and donations; it used to be divide in three sections: firstly, General, secondly, Procurement of Goods and Services, and thirdly, Sponsorships and Donations. Now, recommendations are written in a more clear form. Some rather detailed



recommendations in connection with the optimisation of labour costs were deleted. Another modification refers to the self-assessment period under the EFQM excellence model which has now been extended from one to two financial years. In addition, SSH also recommends companies to examine SSH Premises for Voting at General Meetings prior to the development of material for a General Meeting to be convened in an individual year.

Amendments and modifications to the **SSH Asset Management Policy** have been highlighted in the Section which refers to the functioning of ECESA, tasks of a sale team have been written with greater clarity and elements of a proposal for the sale of assets have been expanded, together with some other minor changes with regard to the sale of assets which have been made. The said document has been put in line with the new provisions of the Prevention of Money Laundering and Terrorist Financing Act and harmonised with the applicable internal legal document regulating this area of work. The Chapter on acquisition of claims has been made more specific.







7

MACROECONOMIC ENVIRONMENT AND DEVELOPMENTS IN THE MOST IMPORTANT SECTORS FROM PORTFOLIO

7.1 Overview of selected macroeconomic data and of Slovenian capital market

	AUTUMN FORECAST (SEPTEMBER 2018)			
	2017	2018	2019	2020
GDP, real growth in %	4.9	4.4	3.7	3.4
Registered unemployment rate in %	9.5	8.2	7.7	7.2
INFLATION (annual average) in %	1.4	1.8	2.1	2.3

Source: IMAD; Autumn forecast (September 2018)

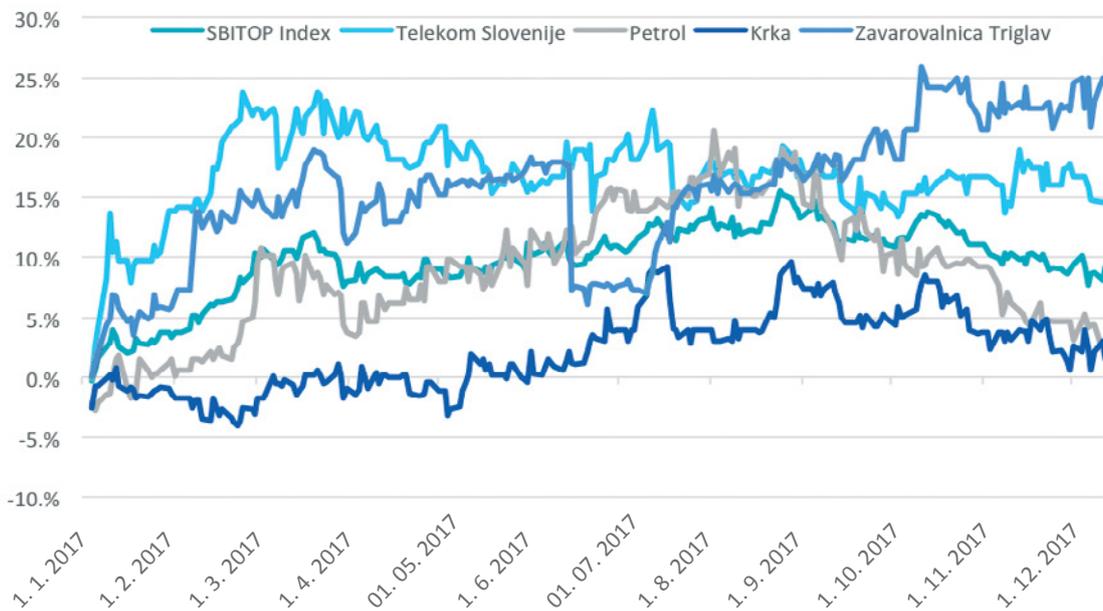
Global economy grew by 3.7 % in 2017. A stable economic growth was recorded both in advanced countries and in developing countries. Similarly as in the past period, global growth was mainly shaped by measures adopted by Central Banks. In 2017, European Central Bank announced gradual withdrawal of the 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 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 4.9 %, 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 with Zavarovalnica Triglav shares, specifically, by 24.57 %, followed by Telekom Slovenije 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.



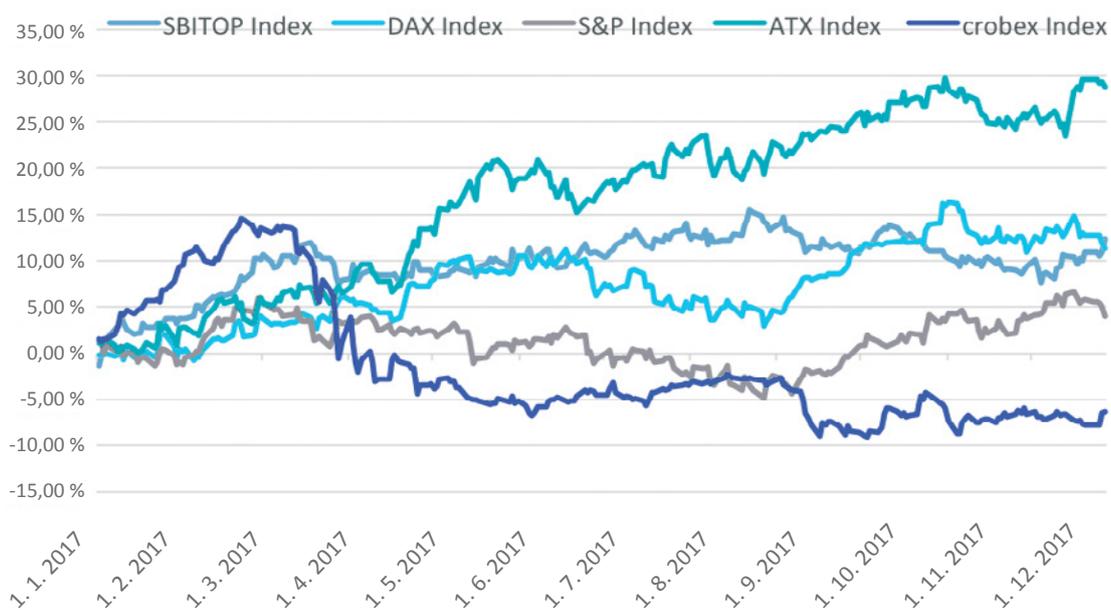
Figure: Cumulative return from top shares traded on Ljubljana Stock Exchange in 2017, representing an important share of SSH capital assets.



Source: Bloomberg.

All global indices discussed were gaining in value in 2017. Considering indices discussed, 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.

Figure: Cumulative return from top regional and global share indices and SBI TOP in 2017 (all returns in EUR currency).



Source: Bloomberg.



7.2 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. Safety 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, and has positioned itself at the 7 place among 163 countries according to the Global Safety Index. In Slovenia, the tourism and travel industry directly generated 3.3 per cent of gross domestic product (GDP), representing the sum of EUR 1.41 billion, and by including its wider impact, 11.9 per cent of GDP, representing the sum of EUR 5.5 billion. It provided for 31,000 jobs, and in total 101,500 jobs, as shown in the report by the World Travel and Tourism Council (WTTC). According to WTTC, in 2017, investments in the tourism and travel industry amounted to EUR 678 million, representing 8.8 per cent of total investment activities. 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. Casinos in neighbouring countries (Austria, Italy) recorded higher visits than Slovenian counterparts. As a matter of fact, casino visits are affected by tourist visibility of a destination, of a location where a casino is situated (the greater the number of population in the vicinity of a casino, the better operations of a casino), the integrity of an offer and an income per inhabitant on the market. In spite of the above said, performance indicators obtained were better than in the preceding year. The Slovenian gaming sector generated the total of EUR 167 million in income and with 5% growth attained the highest growth level in the region.

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, together with the timely registration of new products is essential for this industry. The main players in the sector are Krka and Lek who are also an important employer in Slovenia. Krka employs more than 11,000 persons (more than half of them are stationed abroad) while Lek employs around 3,600 persons. Further growth on the market for medicines is expected for 2018. Growth levels are expected to differ according to individual regions as they depend on their geopolitical stability, on macroeconomic conditions on an individual market and on protectionist economic policies pursued. The market of Western Europe expects a 6.2 % growth of the market for medicines, while from the 2 % to 8 % growth is expected for the markets in Eastern Europe.

The **telecommunication industry** is characterised by highly competitive nature while simultaneously accelerated consolidation is noticed on the markets, both inside individual countries and between countries. Telecommunication businesses around the world are increasingly and at a faster pace transferring from traditional services to new services, pursuing non-traditional business models. By introducing new technologies and ensuring connectivity of various devices, they are expanding their portfolio of products and services. Mobile devices and broad-band connectivity are more and more present in the society and will be of key importance for supporting the growing trends, such as displaying video content, providing internet sites, mobile payments and managing devices and services. Smart use and inter-connectivity of various devices will expand, enabling the transfer to full digitalization and thus directing a constant virtual interaction of users. Partial recovery in terms of revenue from telecommunication services is thus forecasted for Central and Eastern Europe by 2022. Revenues will be positively affected by the revenues generated from the mobile transfer of data which will represent more than one fourth of all retail sales revenues by 2022, together with investments in fixed and advanced networks. Operators providing packages with fixed mobile convergence will take the opportunity offered by networks of new generation. They will focus on upgrading the speed, the content, the paid TV packages and the IP-TV in order to increase the average use per user in the future. In the future, further decline in revenues from basic telecommunication services is expected for the



Slovenian telecommunication market, which is a developed and saturated market. The mobile market will shrink more than the fixed market.

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. The year of 2017 saw an increase in the steel demand as a result on non-residential construction projects and strong manufacturing activities. 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 6.0 % at the end of December 2017, which means that it dropped by 2,5 percentage points during 2017. The structure of bank's founding changed dramatically in the last period: at the end of December 2017, liabilities due to foreign banks, for example, represented only 6.3 % of the balance sheet total of the banking system (in 2008, this proportion 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 72.5 % at the end of November 2017. Year-over-year growth in deposits by non-banking enterprises achieved high 10.6 % in October, while in case of household deposits it raised to 5.6 % . By the end of December 2017, banks generated profit amounting to EUR 441.2 million before taxes and EBIT was thus higher by 21.3 % as compared to the same period in 2016. Banks generated EUR 650.9 million of net interest income (-2.9 % as compared to the same period last year) and EUR 423.8 million of non-interest income (-7.3 %). Higher net profit generated in 2017 is the result of the release of net impairments and provisions amounting to EUR 40.0 million (net impairment and provisions formed in 2016 amounted to EUR 96.3 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 good basis for increasing lending activity.

The operation of **insurance firms** in 2017 shows a significant growth: gross written premiums increased by 4.8 % on an annual basis, resulting in a significantly higher growth than in 2016 when it stood only at 1,6%. Non-life insurance products presented almost 76.1 % of all written premiums for 2017, recording 4.3% growth year-over-year, whereas in case of life insurance year-over-year growth stood at 5.8 % . According to the criteria measuring net profit, the operating performance of insurance businesses was below the level achieved in 2016 and net profit fell by 10.1%. 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 exposed to negative forces driving the pricing policies for reinsurance services. A turn-around in pricing 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. A 5% growth in freight transport on highways and express ways was recorded in 2017 while the volume of freight transported by rail increased by 9% as compared to the previous year. The opposite trend is unfortunately recorded in passenger transport where stagnation has been recorded, and even a decline was noticed in



railway passenger transport. Under the given circumstances when the integral passenger transport is still in its initial implementation phase and not yet established, personal transport is by far the most important mode of passenger transport.

As regards **rail transportation**, the competitive environment in Slovenia and in other countries in the region is becoming increasingly demanding as new private railway operators are coming on the market with modern means of transport and faster market flexibility resulting in an increased competition in new and existing commercial dealings. Freight and passenger railway transport faced numerous infrastructural limitations in 2017, specifically, in Slovenia as well as in Croatia, Austria and in Hungary. The accelerated investment activities with regard to railway infrastructure in the last years have pursued a goal of improving competitiveness, particularly in passenger transport.

In 2017, activities within the National Motorway Construction Programme for the construction and maintenance of **motorways** in the Republic of Slovenia continued. The Šmarje-Sap slip road was opened for traffic, as well as the first section of the Podravje Motorway between Draženci and Podlehnik. A lot of effort was dedicated in 2017 for establishing the electronic toll system for vehicles with the maximum permissible weight exceeding 3,5 tonne. The DarsGO electronic toll system was successfully implemented on 1 April 2018; it enables drivers of heavy-duty vehicles tolling without stopping or reducing speed, tolling without any toll stations which makes their journey faster, safer and more comfortable; this consequently contributes to lower exhaust gas emissions.

In Slovenia, **marine traffic** is carried out through the only port located in Koper, predominantly in the form of freight transport with a small portion being dedicated to passenger transport. The Port of Koper is the youngest port in the North Adriatic Region but an extremely dynamic one; it is a market leader in strategic cargo groups otherwise characterised by fierce competition. Transshipment in Port of Koper Group amounted to 23.4 million tonnes and hit a record in the history of the port. The container transshipment contributed significantly to this record-hitting figure. By putting in practice its development policies, the Port of Koper is strengthening its competitive advantages.

Traffic in Slovenian airspace followed the growth trend recorded in the area of Functional Airspace Bloc–FAB Central Europe (FAB CE) as well as in Europe (EU-28), recording a 3.8 per cent increase in the number of flights. The growth of traffic in the Slovenian airspace was also reflected in the growth of the number of service units. The overflight phase thus recorded a 4.6 per cent growth in the number of service units as compared to 2016 while the terminal phase recorded a record-hitting 12.3 per cent growth. After having successfully implemented the Slovenian-Austrian Common Sky Initiative Free Route Airspace in 2016, the South East Common Sky Initiative Free Route Airspace was launched in February 2018.

Slovenia is placed among European countries with the higher level of access to the **postal network**. In addition to Pošta Slovenije, 15 companies rendering postal services were registered in 2017 on the Slovenian postal services market. Regardless, Pošta Slovenije maintained its leading position in the activity of rendering postal services in 2017. The universal postal service as the most important section of its operation dropped by 4.5 % which is mainly the result of the substitution of postal services with other communication methods (e-commerce). The upward trend has been recorded in the category of parcel and logistics services, which increased by 11% as compared to 2016. A growth in operating revenues is expected particularly on account of parcel and logistics services.

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 price for long-term and short-term products in an individual wholesale market is 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 Great Britain 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.

Water utility companies render services of general economic interest on the basis of a concession agreement to expire in 2019. Preparatory activities for the public tender to grant new concession for the period of seven years are in progress. The Slovenian Water Agency, an authority within the Ministry of the Environment and Spatial Planning, provides for efficient implementation of services of general economic interest in terms of finding sources of financing for efficient water management and for new investment activities in water infrastructure to provide for flood protection and safety. The provision of such funds has been insufficient for several consecutive years. In addition, assets allocated for this purpose have been granted in an uneven manner. This method of financing represents a burden to water utility companies and their business performance.

¹Source: Retail electricity prices, first half of the year, 2015–2017 – EUR/kWh, Eurostat.

²Source: Eurostat.



7.3 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 Tables presented in the remainder part of this Chapter.

7.3.1 Fundamental principles of asset management

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

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

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

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



7.3.2 Active management of RS and SSH capital assets

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

Figure: Active management of RS and SSH capital assets



**Monthly reporting for SOEs was introduced in 2018.*

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 of the operating performance of SOEs and their oversight 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.



7.3.3 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, in addition to carrying out other tasks, SSH exercised shareholder's rights on its behalf and on behalf of the Republic of Slovenia, particularly:

- monitored the implementation of the Annual Assets Management Plan 2017,
- on the basis of Assets Management Strategy, had developed the Assets Management Annual Plan 2018, which was adopted after having been granted a consent by the Government of the Republic of Slovenia on 22 December 2017; the Plan determines detailed goals to be achieved by SSH in the management of individual assets, together with measures and policies for attaining these goals and cash flows planned to arise from the management of capital assets;
- 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 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.

7.3.3.1 SSH Premises for Voting on General Meetings of Shareholders in 2017

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

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



Some significant amendments and modifications adopted with regard to the voting standpoints in 2017 are as follows:

- an explicit provision was added, providing for SSH to include its right in the Articles of Association of one-person companies and of limited liabilities companies on the basis of which SSH, in the capacity of a sole shareholder or a founder of an individual company, shall inspect and supervise the work carried out by the management of such company; such inspection and oversight shall include all measures for controlling, supervising and auditing a company with the aim of verifying the regularity, economy, efficiency, effectiveness, liquidity and economic viability of closed, outstanding and planned business transactions, and fundamental matters regarding business policy.
- with regard to the appointments of SB members, the significance of the age and gender structure of the SB's membership was added, as such structure provides for the necessary heterogeneity compliant with the provisions of the Corporate Governance Code for SOEs. Further on, the provision was modified which had prevented SSH from voting for candidates for SB members nominated by other shareholders, if the SSH's Nomination Committee has failed to carry out the accreditation and nomination procedures for such candidates in a timely manner, i.e., prior to the General Meeting's session. It was specifically defined in detail when a discharge of one of the SB members may be proposed;
- it was also added that the discussion on the proposal for the distribution of distributable profits with regard to public limited companies should take into account the notation of the ex-dividend date (the date determining the beneficiaries of the dividend pay-out), in addition to the notation of the dividend payment date, considering the amendments of ZNVP-1, introducing the duty of exercising corporate duties through KDD in Article 38.

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

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



7.3.4 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 below, in addition to the presentation of the process for developing the Annual Asset Management Plan.





7.3.4.1 Goals for companies under SSH management

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

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

Fundamental goals in asset management are as follows:

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

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

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

EXAMPLE

Norway - Categorisation of companies under direct state ownership

Since 2006, the state's portfolio of companies has been categorised into four different categories. The categorisation has been based on the state's justification and objectives for direct state ownership.

The four categories are:

Category 1 – Companies with commercial objectives

This category includes companies where the state's ownership objective is purely commercial. The administration of ownership of the companies in this category has the sole purpose of maximising the value of the state's investments, notably through contributing to sound commercial development of the companies. Whether the state should remain an owner of these companies is the subject of continuous commercial assessment.

Category 2 – Companies with commercial objectives and objective of maintaining head office functions in Norway

This category includes companies where the state has a commercial objective with its ownership, and an objective of maintaining the companies' head offices and associated head office functions in Norway. To achieve this last objective, a shareholding of more than one-third is (normally) sufficient.



Category 3 – Companies with commercial objectives and other specifically defined objectives

This category includes companies where the state has a commercial objective in its ownership, and where there are other societal justifications for state ownership than maintaining the head office in Norway.

A common feature of the companies in category 3, as of the companies in categories 1 and 2, is that they operate in competition with other businesses on a commercial basis. For most of the companies in category 3, the situation will be rather similar to category 2, with no need for special follow-up in the administration of ownership in order to achieve the specifically defined objectives. The objectives are achieved through the company running its business on a commercial basis within the sector in question.

Category 4 – Companies with sectoral-policy objectives

The state's ownership of the companies in category 4 has primarily sectoral-policy objectives. The objectives for these companies should be adapted to the purpose of ownership in the individual company. As an owner, the state will strive to achieve its sectoral-policy objectives as efficiently as possible.

Source: Diverse and value-creating ownership, Ministry of Trade, Industry and Fisheries, 2013-2014, Norway

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

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

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

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

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

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



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

7.3.4.2 Strategic and financial objectives of companies rendering public service of general economic interest

An important proportion of companies in the RS portfolio renders public service of general economic interest. These are companies rendering service of general economic interest as defined by laws in the area of energy, transport, environmental protection and other areas.

A common feature of these companies rendering only or also public service of general economic interest is the strategic nature of such an activity which requires such companies to primarily satisfy public needs and this has a precedence over making profit.

In terms of the content, this definition of a strategic assets is defined in the Capital Assets Management Strategy, specifically its criterion for classifying companies into strategic assets. Obviously, in addition to strategic objectives, economic and financial objectives must also be set for companies carrying out such activities, and these have to be defined with regard to the nature of the service rendered by an individual company. SSH thus sets annual goals (AAMP) of economic and financial and strategic nature for these companies and oversees their realization. The realization of these goals is reported in a respective Annual Report.

7.3.4.3 Public funds received by companies with RS capital assets and with controlling influence by RS

Within the scope of an integrated management of SOEs, SSH paid special attention to companies rendering service of general economic interest and dealt with the wider aspect of receiving public funds. A review of companies was made with regard to companies with holding capital assets of the Republic of Slovenia that are managed by SSH in accordance with ZSDH-1 and in which RS has a controlling influence. Considering situation as of 2016, companies under SSH review that have been receiving public funds in a broader sense of the word included companies that have received funds directly from the budget as a company rendering service of general economic service and companies which have received funds indirectly as a company with explicit or special rights and authorisations. For the purpose of the respective review, the term “public funds” was given a broader interpretation than given in the Transparency of Financial Relations and Maintenance of Separate Accounts for Different Activities Act. Public funds in a broader sense of the word have been defined as funds which, regardless of their form, are allocated by a state authority or a body of a self-regulating



local community to a public corporation or to an operator holding explicit or special rights or authorisations or to an owner of infrastructure of public significance and transferred to them directly or indirectly through another public corporation. Public funds also include funds collected by these persons in the form of duties, levies and other charges paid by users of public infrastructure or of public services, specifically, in the amount by way of which such duties, levies and charges represent income for these enterprises. If capitalised own products and services of an enterprise are necessary for rendering services which generate public funds, then revenues generated by a company through capitalised own products and services are considered to be public funds.

Findings made during the review carried out in 2018 were used as premises for the revision of SSH Recommendations and Expectations with regard to the Procurement of goods and services, sponsorships and donations.

7.3.5 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 and 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 included monitoring over the implementation of agreements reached and their supervision.

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

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

In its document, Assessment of progress on structural reforms, prevention and correction of macroeconomic imbalances, and results of in-depth reviews under Regulation (EU) No 1176/20111, which was presented on 7 March 2018, the European Commission also dealt with the effectiveness of the corporate governance of SOEs.

When reviewing the progress for 2017, the Report, among other things, states as follows: *"Slovenia's commitment for implementing professional standards in managing SOEs has started to deliver results"*.



In the remainder of the text, the Report states performance results of the management of RS and SSH capital assets and specifies goals attained as set in Asset Management Annual Plans.

With regard to the recommendation, i.e. “providing for good corporate governance of state-owned enterprises (SOEs)”, the assessment “some progress” has been given, similarly as in 2016.

Such assessment has been expected since the performance results of the portfolio of RS’s and SSH’s assets have been improving for several consecutive years.

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.

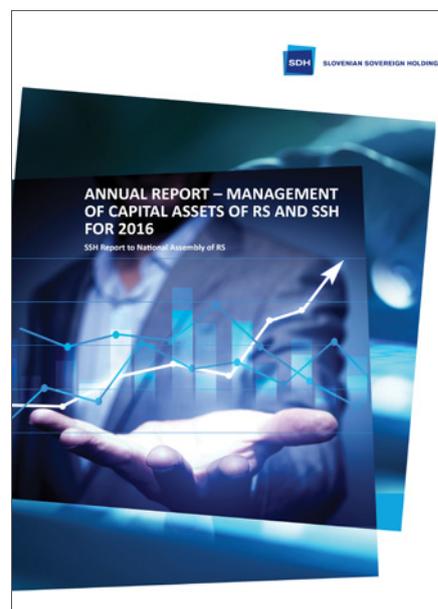
The goal of the renewed SSH web site was to:

- 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.



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 . SSH took into consideration recommendations regarding the 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.





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 Ms Mateja Vraničar Erman, MSc, Ministry of Finance. At the conference, Ms. Nada Drobne Popovič, MSc, 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



Photo: Photo: panel discussion at SSH Conference, 23 October 2017 October 2017.



7.3.7 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.

- **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 a competition 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 a competition analysis with global players and gave an overview of trends in the industry. The conclusion of the Report presented opportunities to improve Luka Koper'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 2.4 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 gave formal and legal grounds to initiate the investment for the said project by foreign investor.

- **D.S.U., 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-charge 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 shareholding from public powers pertaining to ownership transformation under ZZLPPO and 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.

- **CSS, d. o. o. - Sheltered workshops**

In 2017, CSS kicked off activities to carry out the capital increase in the said 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.

In 2017, SSH also took active part in activities which, in broader sense, mean [the implementation of strategic policies stated in the State Assets Management Strategy and Annual Asset Management Plan 2017](#).

- **Rudnik živega srebra Idrija v zapiranju, d. o. o. – in liquidation (liquidation successfully completed)**

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) – (liquidation successfully completed)**

In December 2016, the capital increase of RVZ 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 claim due to RCR Zagorje d.o.o. (specifically, as at 31 August 2017, the sum of EUR 1,469,306.87), which matures in the beginning of December 2018. On 19 December 2017, SSH, acting in the capacity of the founder of Rudnik Zagorje 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 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 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 carried out in accordance with the Decision of the Republic of Slovenia of 8 June 2017 which has imposed on SSRS to initiate, in cooperation with SSH and RTH, the procedure for the transfer for compensation of RTH's shareholding in Spekter d.o.o. to the Housing Fund of RS. The procedure was completed on 22 December when the proceeds of sale were transferred to the banks-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 closed.

- **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, which was in a 100-per cent ownership of Geoplin. This could have been realized by carving out Plinovodi from Geoplin. In line with the Agreement on Conversion of Legal Form of Organisation in Geoplin of October 2015 and in accordance with the Equity Swap Agreement of July 2016 with regard to stakes in Geoplin and in Plinovodi, the carve-out of Plinhold from Geoplin and the incorporation of a new company was registered in the Court/Business Register at the end of June 2017. At the end of December 2017, the equity swap transaction was completed, by way of which stakes in Geoplin and Plinhold were swapped by and between Petrol and RS in the following manner: Petrol became the owner of a 49.56% shareholding of Geoplin while RS became the owner of a 52.26% shareholding in Plinhold while RS kept a 25.01% shareholding in Geoplin. Pursuant to a final Decision on Equity Swap of February 2018, two SPAs were realised. Firstly, the Sale and Purchase Agreement in regard to shareholding in Geoplin, subject to which, SSH and KAD sold to Petrol their stakes in Geoplin (SSH sold its 0.05% shareholding), and secondly, the Sale and Purchase Agreement in regard to shareholding held by Salnal (now Zavarovalnica Triglav) in Geoplin and Plinhold, subject to which RS acquired additional 7.84% stake in Plinhold. After carrying out all of the above mentioned transactions which were completed in May 2018, RS holds a 25.01% ownership interest in Geoplin and 60.10% ownership interest in Plinhold.



- **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 successfully attained as the Letter of Intent was signed in 2017 in regard to the planned vertical integration of HSE by and between individual electricity distribution companies and an application was submitted to the Competition Protection Agency to issue a preliminary consent to 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.

7.3.8 Capital increases in companies carried out by RS and SSH in 2017

At the General Meeting of DARS, held on 10 November 2017, a GM Resolution on Share Capital Increase in Kind was adopted, so that share capital of DARS was increased by EUR 2.417.829,00. In accordance with the Decision of the Government of the Republic of Slovenia No. 47604 - 2/2017/5 of 27 July 2017, the subject of this contribution in kind are properties owned by the sole shareholder, that is the Republic of Slovenia.

7.3.9 Expectations in regard to dividend yield and return on equity

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

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

Premises for voting on General Meetings of Shareholders are adopted by SSH every year; these premises include the dividend policy which takes into account the balance between current dividends and future growth of company's operation and maximises the market value of an equity unit and thus



the equity of company's owners. A reasonable dividend policy must therefore contribute to the solid long-term market rate of return and development policy of a company. From this aspect, for SSH, the dividend policy is one of more important elements in corporate governance to which the necessary attention is paid.

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

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

7.3.10 Strategic focus and key success factors for future corporate governance

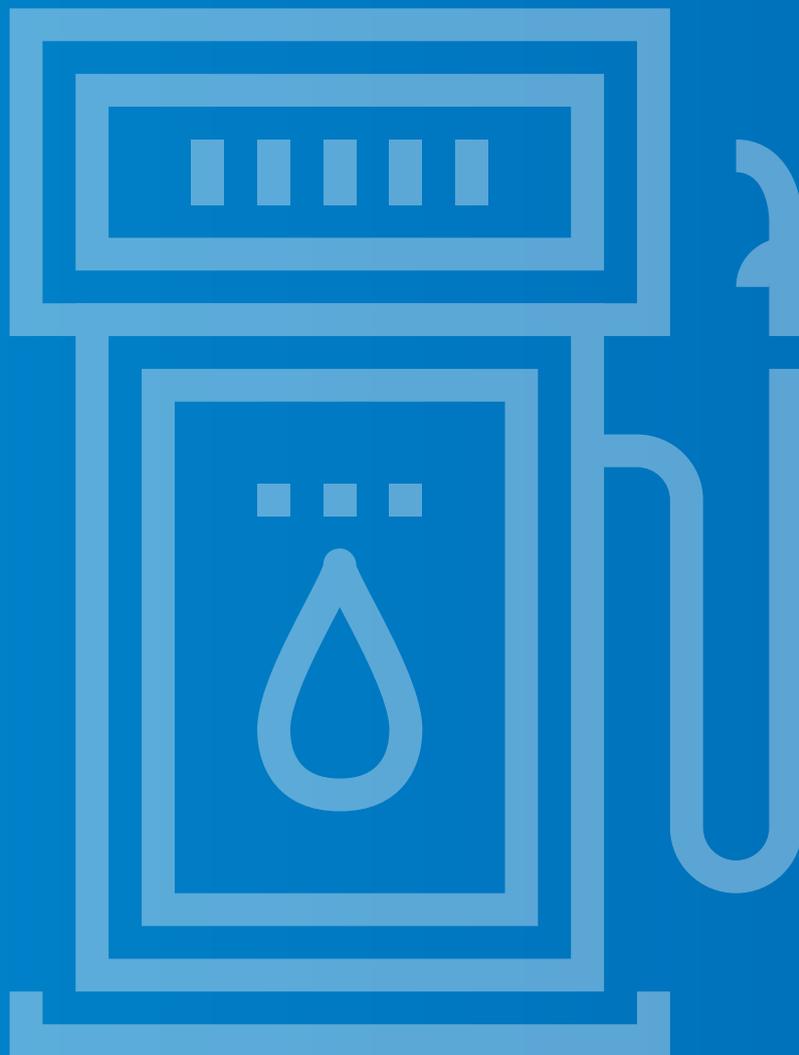
We work in a period of time characterised by fast progress and changes, requiring flexibility, dynamism and innovation. As a result of technological progress consumers' needs and expectations change, and so does the need for innovative products and services in an increasingly more competitive environment in all spheres of life. With globalisation and digitalisation, the economic environment in which companies operate is becoming increasingly more demanding. As a manager of capital assets, in addition to corporate actions associated with current operations and short-term business planning, SSH thus dedicates special attention to strategic policies of companies which means that it expects from companies to develop development-oriented strategies, taking into account a fast changing business environment. In regard to strategic planning, SSH plays roles that differ in terms of their intensity, depending on a legal and organisational form of a company, a shareholding in its ownership and the strategic nature of a company under SSH management. Main guidelines are obviously provided with the applicable Asset Management Strategy, yet, as regards this task, SSH takes into account and verifies all other important factors, such as characteristics and development trends of individual industry, competitors and competitiveness on the market, specific characteristics of a company and regulation of its activities. An important challenge when creating a business strategy refers to a suitable balance between strategic and economic goals and expectations from companies. The State Assets Management Strategy has set strategic goals for companies with state capital assets which have been defined as strategic or important and an overall economic objective in regard to state capital assets in the form of targeted profitability of the portfolio (ROE). Past experiences have shown that there is a conflict between goals stated, which means that companies rendering services of strategic importance while also receiving public funds cannot attain ROE set, neither it is logical for them to use ROE as a fundamental indicator for their operation. This is why active engagement on the part of SSH in the field of corporate governance is of high importance as SSH's professional conduct and expertise may significantly contribute to implementation of measures for improved operations of companies under management and consequently to an increased value of assets for the owner. It also contributes to the understanding of corporate governance by institutions responsible for the adoption of the Asset Management Strategy and other legal documents which have an impact on the operations of SOEs.



Rising the level of corporate governance - one of the objectives of SSH's functioning - also includes corporate measures taken by the owner on the basis of which conditions are established for companies' viability for strategic and development-oriented operation and for their successful operation in the long-term.

One of key pillars for strategic focus and for rising the level of corporate governance are providers of ideas, strategies and development in companies, i.e., their bodies of management and supervision. Due to changes on the market and an increased proportion of distinctly market-oriented services rendered by companies with state capital assets, it is of key importance that bodies of management and supervision comprise highly qualified, experienced and competent members, that they are equivalent to their rivals in the market. In addition to enhancing the HR function in companies, particularly with regard to key positions, it is necessary to ensure suitable conditions are in place for competent members of bodies of management. This requires a suitable remuneration policy which when amended, must follow the laws of the market. In 2016, SSH developed a proposal with regard to modifications of remuneration policies for management bodies and reaffirms its commitment for such modifications, since, in an opposite case, it is hard to expect SOEs to be in an equivalent competitive position which in turn may affect the performance results of SOEs. In addition to systemic arrangement of remuneration payments, it is important to organise continued training sessions and workshops for members of bodies of management and supervision. These are carried out at different levels and with companies which have allocated certain funds for this purpose, implementing a programme organised for supervisory boards directly by SSH, or in another suitable manner.

In addition to the above stated, **key success factors for asset management in the future** are: firstly, long-term State Assets Management Strategy, including clear development policies of the State with regard to individual sectors of the portfolio, secondly, a stable, predictable and development-oriented dividend policy exercised by companies; further on, constant improvement of corporate governance practice at all levels, specifically by increasing compliance of companies with provisions of Corporate Governance Code and SSH Recommendations and Expectations; moreover, further provision of centralised management of state capital assets and professional and financial independence of asset manager, next, extending the set of the best qualified and motivated candidates for the members of bodies of management and supervision who have knowledge in digitalisation, transformation, business models and organisation, etc.





8

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 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 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 simpler with regard to the sale of smaller SOEs.



M&A method





8.1 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 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.

Table: 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 Bazenj, 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

Notes:

 Sale process closed successfully.

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

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

As shown in the Table above, by 31 December 2017, nine companies have been sold, of these one 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. 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 sold all 100 shares in its ownership whereas the buyer will acquire them after the satisfaction of all contractual terms and conditions. By 31 December 2017, the said agreement had not been implemented yet.

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

Table: 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 February 2017	0.05	–
Paloma, d. d.	ECO-Investment and ECO-Invest SVK a. s.	23 February 2017	30.35	–
Intertrade ITA, d. d.	Inerra d. o. o.	24 April 2017	7.69	–
Telemach Rotovž, d. d.	Telemach, d. o. o.	4 May 2017	–	1.17
KDD d. d.	KDD d. d.	29 May 2017	19.23	–
Toplotna oskrba, d. o. o.	Alojz Cugmajster	15 June 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.*



As regards 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.

On 31 December SSH also held the agreement which had been concluded for the sale of shares of Casino Bled but 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.

8.2 Activities in connection with the acquisition of capital assets

Table: 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 February 2017	–	3.03
Plinhold d .o. o.	Salnal d. o. o.	27 July 2017	–	7.84*

Notes:

*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.

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.

With the end of 2017, SSH continued its activities aimed at maintaining 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. and RS signed the Agreement on the Purchase and Sale of Equity Stakes in Geoplin and Plinhold, on the basis of which Petrol would purchase equity stakes of Salnal held in Geoplin whereas RS would purchase the equity stake held by Salnal in Plinhold. RS will continue to keep a 25.01% equity stake in Geoplin. The above mentioned transactions were realised in 2018.

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 value of equity and on legal and financial due diligence. By 31 December 2017, the transaction had not yet been completed.





9 BUSINESS PERFORMANCE OF COMPANIES OWNED BY RS AND SSH

9.1 Portfolio of RS and SSH capital assets as at 31 December 2017

As at 31 December 2017, out of the total of capital assets under SSH management, there were 65 active capital assets and 3 investments in mutual funds (as compared to 93 active capital assets and 3 mutual funds in 2016), in addition to 23 inactive capital assets, that is companies in bankruptcy proceedings or in liquidation (as compared to 27 inactive capital assets in 2016). There were 51 active capital assets under direct ownership of RS, in addition to 3 mutual funds (as compared to 52 active capital assets and 3 mutual funds in 2016) and 13 inactive capital assets (as compared to 15 in 2016). SSH also managed 37 of its own capital assets (as compared to 40 in 2016), of which 25 were active (compared to 26 in 2016) and 12 inactive (compared to 14 such assets under management in 2016).

Table: Portfolio of capital assets in direct ownership of the Republic of Slovenia and SSH as at 31 December 2017

Pillar, Capital asset	RS shareholding (in %)	SSH shareholding (in %)	Total %
ENERGY SECTOR			
ELEKTRO CELJE D. D.	79.50		79.50
ELEKTRO GORENJSKA D. D.	79.42	0.31	79.73
ELEKTRO LJUBLJANA D. D.	79.50	0.30	79.80
ELEKTRO MARIBOR D. D.	79.50		79.50
ELEKTRO PRIMORSKA D. D.	79.50		79.50
ELEKTROGOSPODARSTVO SLOVENIJE – RAZVOJ IN INŽENIRING D. O. O.	100.00		100.00
GEN ENERGIJA D. O. O.	100.00		100.00
GEOPLIN D. O. O.	25.01	0.05	25.06
HOLDING SLOVENSKE ELEKTRARNE D.O.O.	100.00		100.00
INFRA, IZVAJANJE INVESTICIJSKE DEJAVNOSTI D. O. O.	100.00		100.00
NAFTA LENDAVA, PROIZVODNJA NAFTNIH DERIVATOV D.O. O.	100.00		100.00
PETROL D. D., LJUBLJANA	10.10	12.68	22.78
PLINHOLD D. O. O.	52.26	0.05	52.31
RTH, RUDNIK TRBOVLJE-HRASTNIK D.O. O.	100.00		100.00
RŽV, JAVNO PODJETJE ZA ZAPIRANJE RUDNIKA URANA D. O. O.	100.00		100.00
FINANCIAL SECTOR			
ABANKA D. D.	100.00		100.00
D.S.U. D. O. O.	100.00		100.00
DTK MURKA, DRUŽBA TVEGANEGA KAPITALA D. O. O.	49.00		49.00
GORENJSKA BANKA D. D., KRANJ	0.31		0.31
KDD D. D.		19.23	19.23
M1 D. D.	0.00		0.00
META INGENIUM, DRUŽBA TVEGANEGA KAPITALA D. O. O.	49.00		49.00



Pillar, Capital asset	RS shareholding (in %)	SSH shareholding (in %)	Total %
NLB D. D.	100.00		100.00
POZAVAROVALNICA SAVA D. D., LJUBLJANA	10.09	17.68	27.77
PRVI SKLAD, DRUŽBA TVEGANEGA KAPITALA D. O. O.	48.90		48.90
SID – SLOVENSKA IZVOZNA IN RAZVOJNA BANKA D. D., LJUBLJANA	99.41		99.41
STH VENTURES, DRUŽBA TVEGANEGA KAPITALA D. O. O.	49.00		49.00
ZAVAROVALNICA TRIGLAV D. D., LJUBLJANA	34.48	28.09	62.57
ECONOMY			
ADRIA, TURISTIČNO PODJETJE D. O. O., ANKARAN		11.74	11.74
BODOČNOST MARIBOR D. O. O.	75.83		75.83
CASINO BLEDE D. D., BLEDE		43.00	43.00
CASINO PORTOROŽ D. D., PORTOROŽ		9.46	9.46
CETIS D. D., CELJE		7.47	7.47
CINKARNA CELJE D. D., CELJE		11.41	11.41
CSS D. O. O.	96.65		96.65
ELEKTROOPTIKA D. D.		70.48	70.48
HIT D. D., NOVA GORICA		20.00	20.00
INKOS D. O. O.	2.54		2.54
JAVNO PODJETJE URADNI LIST REPUBLIKE SLOVENIJE D. O. O.	100.00		100.00
KRKA D. D.	7.21	9.00	16.21
LOTERIJA SLOVENIJE D. D., LJUBLJANA		15.00	15.00
MARIBORSKA LIVARNA MARIBOR D.D.	32.73		32.73
PERUTNINA PTUJ D. D.	0.00		0.00
POMGRAD – VODNOGOSPODARSKO PODJETJE D. D.	25.01		25.01
PS ZA AVTO D. O. O., LJUBLJANA		90.00	90.00
RRA REGIONALNA RAZVOJNA AGENCIJA CELJE D. O. O.	5.89		5.89
SAVA D. D.		22.56	22.56
SAVAPROJEKT D. D.	3.47		3.47
SIJ – SLOVENSKA INDUSTRIJA JEKLA D. D.	25.00		25.00
STUDENTENHEIM KOROTAN GMBH	100.00		100.00
TELEKOM SLOVENIJE D. D.	62.54	4.25	66.79
TERME OLIMIA D. D.		4.01	4.01
UNIOR D. D.		39.43	39.43
VARNOST SISTEMI D. O. O.		9.74	9.74
VODNOGOSPODARSKO PODJETJE DRAVA D. O. O., PTUJ	25.00		25.00
VODNOGOSPODARSKO PODJETJE NOVO MESTO D. D.	25.00		25.00
VODNOGOSPODARSKO PODJETJE D. D., KRANJ	25.00		25.00
TRANSPORT			
2TDK, DRUŽBA ZA RAZVOJ PROJEKTA D. O. O.	100.00		100.00
DRI UPRAVLJANJE INVESTICIJ D. O. O.	100.00		100.00



Pillar, Capital asset	RS shareholding (in %)	SSH shareholding (in %)	Total %
DRUŽBA ZA AVTOCESTE V REPUBLIKI SLOVENIJI (MOTORWAY COMPANY OF THE REPUBLIC OF SLOVENIA) D. D., CELJE	100.00		100.00
INTEREUROPA D. D.		1.73	1.73
KONTROLA ZRAČNEGA PROMETA (SLOVENIA CONTROL, LIMITED) D. O. O.	100.00		100.00
LUKA KOPER D. D.	51.00	11.13	62.13
POŠTA SLOVENIJE D. O. O.	100.00		100.00
SLOVENSKE ŽELEZNICE D. O. O.	100.00		100.00

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%. Through ZPIS, RS's equity interest in Zavarovalnica Triglav amounts to 34.47%, and including Zavarovalnica Triglav shares owned by RS, the total proportion of RS ownership stake in Zavarovalnica Triglav amounts to 34.48%.

Companies in bankruptcy or liquidation	RS shareholding (in %)	SSH shareholding (in %)	Total %
Aero d. d. – in bankruptcy		1.44	1.44
Casino Maribor d. d. – in bankruptcy		22.83	22.83
Družba za spodbujanje razvoja TNP d. d. – in bankruptcy	51.05		51.05
Gio d. o. o., Ljubljana – in liquidation		71.27	71.27
Glin IPP, d. o. o. – in bankruptcy	16.06		16.06
Gradis skupina G d. d. – in bankruptcy		1.36	1.36
Ipoz Trbovlje d. o. o. – in liquidation,		1.20	1.20
Lipica Turizem d. o. o. – in bankruptcy	100.00		100.00
Maksima Holding d. d. – in bankruptcy	0.01		0.01
Maksima Invest d. d. – in bankruptcy	0.00		0.00
Mura d. d. – in bankruptcy		12.23	12.23
NFD Holding d. d. – in bankruptcy	0.00		0.00
Novoles d. d. – in bankruptcy		16.69	16.69
Peko d. d., Tržič – in bankruptcy	61.16		61.16
Podjetje za urejanje hudournikov d. d. – in bankruptcy	40.00		40.00
Polzela d. o. o. – in bankruptcy	71.43	28.57	100.00
Rimske terme d. o. o. – in bankruptcy	3.83	13.55	17.38
Rudnik Kanižarica v zapiranju d. o. o., Črnomelj – in liquidation	100.00		100.00
Rudnik Senovo v zapiranju d. o. o. – in bankruptcy	100.00		100.00
Svea d. d., Zagorje ob Savi – in bankruptcy		15.57	15.57
TAM Maribor d. d. – in bankruptcy	10.85		10.85
Univerzale d. d., Domžale – in bankruptcy		8.53	8.53
Vegrad d. d. – in bankruptcy		29.00	29.00

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%.



Table: Five largest assets held by RS and SSH by book value of ownership stake as at 31 December 2017

RS's Capital asset	Pillar	RS ownership stake as of 31 December 2017 (%)	Book value of shareholdings as of 31 December 2017 (EUR)	Proportion in RS Portfolio (in %)
DARS D. D.	TRANSPORT	100	2,811,184,886	27.5
NLB D.D.	FINANCIAL SECTOR	100	1,688,163,000	16.5
HSE D. O. O.	ENERGY SECTOR	100	1,032,426,847	10.1
GEN ENERGIJA D. O. O.	ENERGY SECTOR	100	784,880,060	7.7
ABANKA D. D.	FINANCIAL SECTOR	100	580,283,000	5.7
TOTAL			6,896,937,793	67.5

SSH's Capital asset	Sector	SSH ownership stake as at 31 December 2017 (%)	Book value of shareholdings as at 31 December 2017 (EUR)	Proportion in the SSH's portfolio (in %)
ZAVAROVALNICA TRIGLAV D. D.	FINANCIAL SECTOR	28.1	212,541,772	31.5
KRKA D. D.	TOURISM AND ECONOMY	9.0	133,892,910	19.8
PETROL D. D.	ENERGY SECTOR	12.7	88,996,755	13.2
UNIOR D. D.	TOURISM AND ECONOMY	39.4	62,554,318	9.3
POZAVAROVALNICA SAVA D. D.	FINANCIAL SECTOR	17.7	55,889,467	8.3
TOTAL			553,875,222	82.0

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

The assets of the Republic of Slovenia in the form of direct equity stakes in enterprises increased in 2017. The increase in the sum of the book-keeping value of RS-owned capital assets is the result of the increase in equity in 2017 as compared to 2016 with regard to companies in which RS holds its stake, and the result of the no-charge transfer of certain proportion of Pozavarovalnica shares, Petrol shares and Krka shares from SSH to RS carried out in December 2016, pursuant to the Decision of the Government of the Republic of Slovenia No. 47600-11/2017/3. The total sum of dividends paid out for FY 2017 are significantly higher than compared to the total sum of dividends paid out for FY 2016, mainly on account of high dividend paid out by NLB for FY 2017. The remaining part of the Report presents a detailed explanation on the impact of the NLB dividends for FY 2017.



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

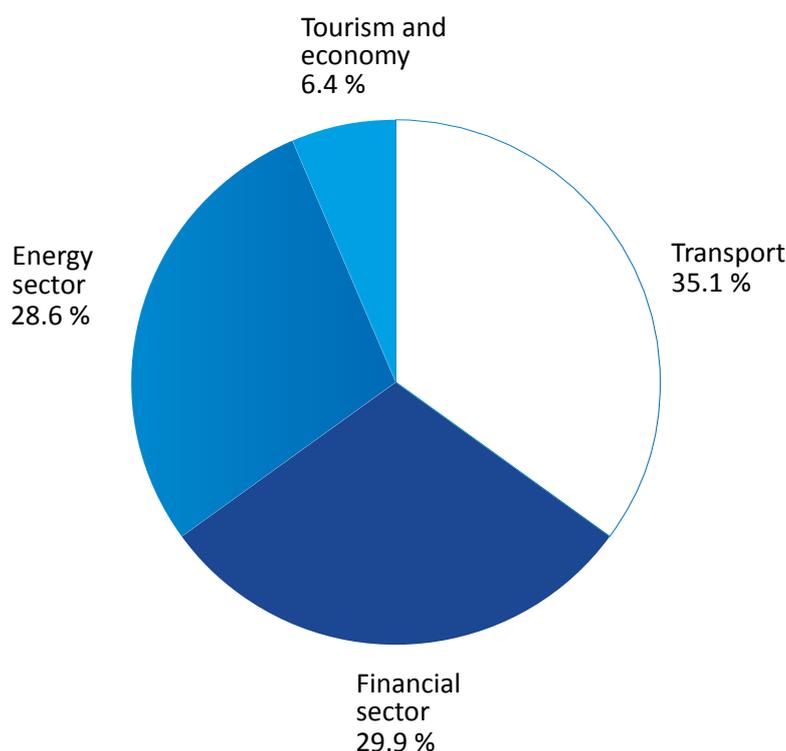
Companies directly owned by RS* (excl. companies in bankruptcy, liquidation or being wound-up) - in EUR	2017	2016	2015	2014
Total sum of book-value of assets	10,213,059,893	9,629,202,985	10,810,409,906	10,896,903,999
Dividends**	228,642,670 (446,943,222 of all dividends received)	213,733,594	142,161,989	130,767,177
Dividends-to-equity ratio**	2.2% (4.4% with regard to all dividends received)	2.2 %	1.3 %	1.2 %
ROE	6.3 %	5.7 %	4.2 %	1.1 %

*for capital assets included in a Group and reported in a consolidated financial statements, data from consolidated financial statements are taken into account.

**the dividend amount for RS includes dividends received by the Pension and Disability Insurance Institute of Slovenia (ZPIZ) on account of the ownership of Zavarovalnica Triglav shares, and dividends paid out by DRI d.o.o., which in 2017 was managed by SSH; however, the management of RS shareholding and the exercise of RS rights in the capacity of a company member in DRI d.o.o. was transferred to the Government of the Republic of Slovenia by way of Article 10 of the Act amending the Roads Act - ZCes-1C(Official Gazette RS, No. 10/18 of 21 February 2018. The data about dividends and dividend-to-equity ratio for FY 2017 not provided in brackets are valid for the analysis which does not take into account the dividend income by Telekom Slovenije d.d., received as a difference between the AGM Resolution Counter-Proposal and the Basic AGM Resolution Proposal on dividend pay-out, neither the difference between the dividends paid out by NLB and the dividends of NLB shares as planned by SSH.

The assets of the Republic of Slovenia in the form of direct equity stakes in corporations were relatively concentrated in 2017, similarly as in previous years. Equity stakes of the three largest pillars (i.e., Transport, Financial and Energy sector), measured at their book-value represent almost 81.9% of the value of the entire portfolio.

Graph: The share of individual pillars in the portfolio of the Republic of Slovenia, measured at the book value as at 31 December 2017





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

Table: Overview of aggregated financial data for companies in direct ownership of the Republic of Slovenia, by pillar in FYs 2017 and 2016 (in EUR)

Pillar*	Net profit or loss 2017	Qualifying Participation of RS, 2017	Net profit or loss 2016	Qualifying Participation of RS, 2016
Energy sector	181,418,222	2,924,015,588	121,524,993	2,779,384,806
Financial sector	402,166,369	3,055,516,441	331,279,092	2,889,834,870
Tourism and economy	172,441,455	649,396,918	183,816,289	562,892,424
Transport	220,238,344	3,584,130,945	184,485,078	3,397,090,884
TOTAL	987,181,593	10,213,059,893	821,105,452	9,629,202,985

*Excluding companies in bankruptcy or liquidation.

Table: Overview of aggregated financial data for companies in direct ownership of the Republic of Slovenia, by sector in FYs 2017 and 2016 (in EUR)

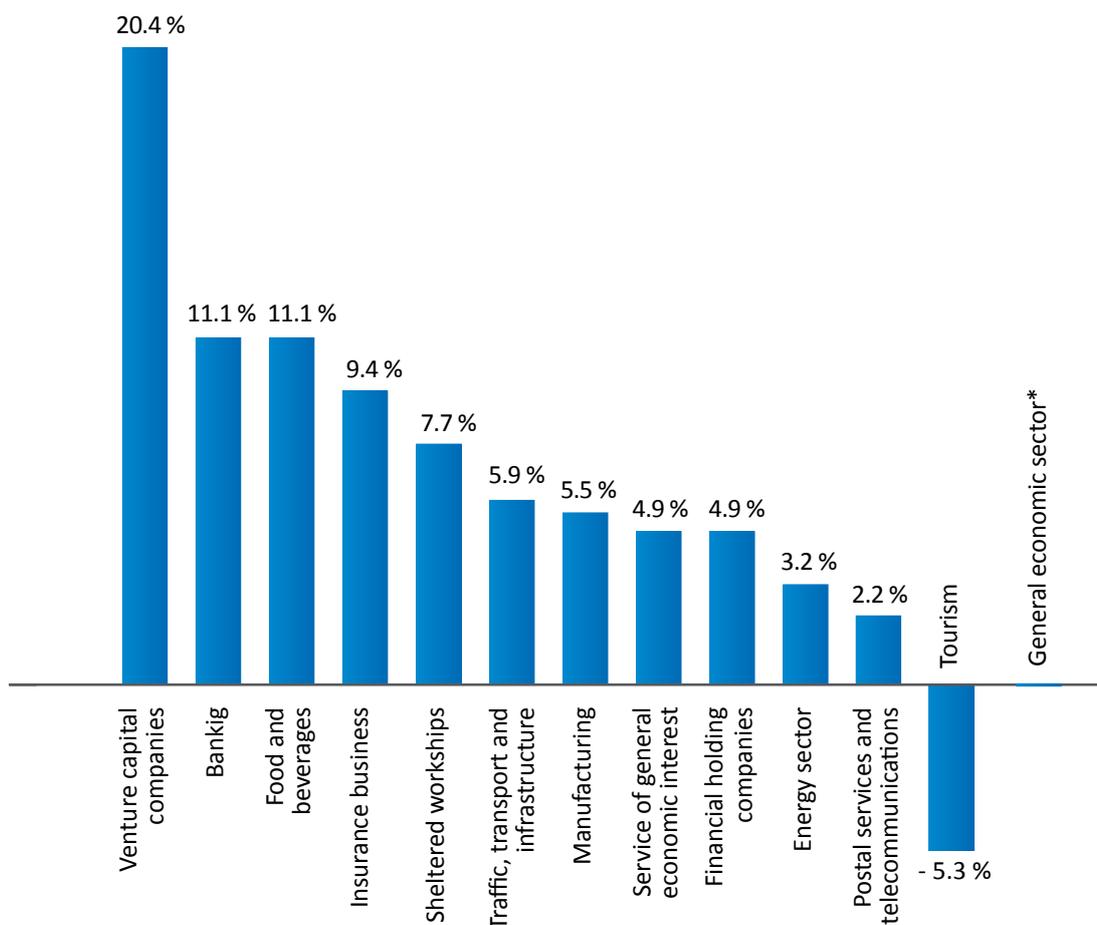
Sector*	Net profit or loss 2017	Qualifying Participation of RS, 2017	Net profit or loss 2016	KQualifying Participation of RS 2016
Venture capital companies	4,557,673	8,396,061	-2,362,102	12,807,006
Energy sector	182,142,145	2,914,066,841	122,779,164	2,767,824,679
Financial holding companies	3,161,836	60,175,784	1,321,207	57,950,177
Service of General Economic Interest	995,782	7,196,947	-30,654	7,366,863
Sheltered workshops	150,132	1,750,087	83,894	1,628,552
Postal services, Telecommunications	17,952,786	648,185,757	50,333,503	659,910,174
Food and beverages	10,917,203	587	-	-
Manufacturing	162,885,409	220,666,493	145,271,555	119,860,243
Traffic, transport and infrastructure	211,308,558	3,361,768,174	174,696,474	3,178,844,995
General economic sector	-1,129,791	-21,221	-2,912,532	16,036
Tourism	-207,000	3,929,786	-395,044	3,916,572
Banking	293,644,000	2,694,148,418	217,070,000	2,554,197,933
Insurance business	100,802,860	292,787,626	115,249,987	264,879,754
TOTAL	987,181,593	10,213,059,893	821,105,452	9,629,202,985

*Excluding companies in bankruptcy or liquidation.

As regards venture capital companies (VCC), ROE was affected by one sales transaction by an individual VCC in which regard it must be pointed out that the final notion of the quality of operations of venture capital companies will be known upon the termination of their engagement (following the sale of all assets in the portfolio of four VCCs and after the calculation of their financial result).



Graph: ROE by sectors in 2017

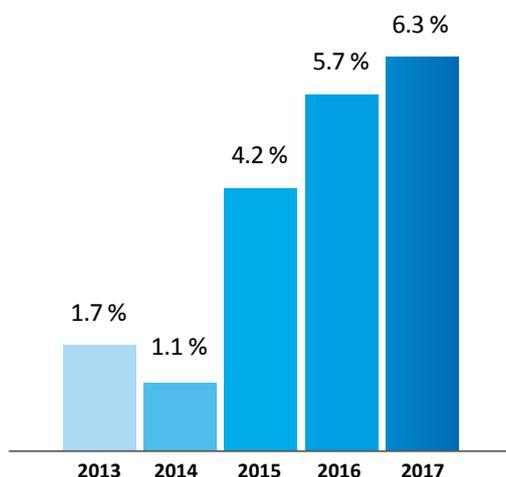


*Presentation of ROE for General economic sector is irrelevant due to the impact of negative capital by an individual capital asset within the said sector.

Taking into account the aggregate net profit (or loss) generated by companies in the RS portfolio and their aggregate average equity capital in 2017, the highest ROE was recorded by companies from banking (+11.1%), food and beverages (+11.1%) and from insurance business (+9.4%). The lowest ROE has been achieved by Tourism (-5.3%), while the value has not been submitted for General economic sector since its calculation is not meaningful on account of too high a weight and the impact of negative capital by an individual company within the said sector.

Graph:

ROE of the portfolio of assets in direct ownership of the Republic of Slovenia in the 2013 - 2017 period



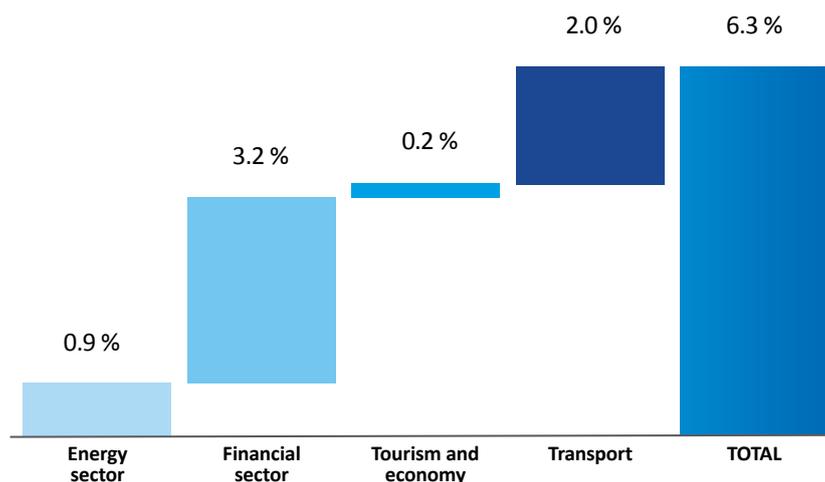
*Owing to extraordinary events in banking sector, the calculation ROE for 2013 does not include bank losses (EUR 2.4 billion); banks were nationalised at the end of 2013.

**Not taking into account the extraordinary write-offs linked to TEŠ 6 Project, amounting to EUR 474 million. If extraordinary write-offs carried out in HSE were taken into account, ROE of the RS portfolio for 2015 would have amounted to 0.7%.



In 2017, ROE of the RS portfolio increased (Portfolio's ROE) as compared to 2016, rising from 5.7% achieved in 2016 to 6.3% in 2017. The calculation of ROE of the RS portfolio of assets includes shareholdings held by the Republic of Slovenia in individual companies (book-values of shareholdings in equity). The Financial Pillar and the Transport Pillar contributed the most to the growth of ROE as both pillars mentioned, in addition to their highest contribution to ROE of the RS portfolio in 2017 (measured in percentage points), improved the value of their ROE ratios as compared to 2016.

Graph: Contribution by an individual pillar to the ROE of RS portfolio in 2017



With regard to the total portfolio, RS holds a high proportion of equity in banks and this, considering particularly good business results achieved by NLB in 2017, provided for the Financial Pillar contributing more than half to the total ROE of the RS portfolio of capital assets. High contribution provided for by the Financial Pillar towards the total ROE of the RS portfolio of capital assets is also attributable to the business result generated by Abanka d.d., Zavarovalnica Triglav d.d and Pozavarovalnica Sava d.d. The Transport Pillar contributed 2 percentage points to the ROE of RS portfolio of capital assets, while companies from the Energy Pillar provided for 0.9 percentage points. The lowest contribution (0.2 percentage points) to ROE of RS portfolio of assets was generated by the Tourism and Economy Pillar.

9.3 Operations of companies in direct ownership of Slovenian Sovereign Holding

The decrease in the sum of book-value of assets reported in FY 2017 is the result of no-charge transfer of certain proportion of Pozavarovalnica shares, Petrol shares and Krka shares from SSH to RS in December 2017, pursuant to the Decision of the Government of the Republic of Slovenia No. 47600-11/2017/3. 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. were transferred to RS.

The value of shares transferred to RS amounted to EUR 200 million of which figure Krka shares, classified under the Tourism and Economy Pillar, represented approximately EUR 130 million of the said transaction. The value of transferred Petrol shares, classified under the Energy Pillar, represented approximately EUR 50 million of the said transaction, while the value of transferred Pozavarovalnica shares, classified under the Financial Pillar, amounted to approximately EUR 20 million of the said transaction. Obviously, transfers



mentioned above resulted in the decrease of the ownership stake held by SSH in the said companies which has consequently been reflected in the decrease of the book-values of assets of three pillars within the SSH portfolio for FY 2017 (Energy Pillar, Financial Pillar and Tourism and Economy Pillar). On the other hand, as regards the remaining pillar of the portfolio (Transport Pillar) of SSH capital assets, where no transfer of equity stakes was recorded in 2017, the book-value of assets held in portfolio companies has slightly increased as compared to 2016.

The largest weight within the portfolio of SSH capital assets, measured at their book-value, is kept by the Tourism and Economy Pillar and the Financial Pillar. The Energy Pillar and the Transport Pillar have significantly smaller weight within the portfolio of SSH capital assets than the Tourism and Economy Pillar and the Financial Pillar which represents the major part of the portfolio of SSH capital assets.

Table: Overview of key aggregated data for companies with direct SSH shareholding (in EUR)

Companies directly owned by SSH (excl. companies in bankruptcy, liquidation or being wound-up) – in EUR	2017	2016	2015	2014
Total sum of book-value of assets	675,609,588	818,973,832	780,845,496	706,001,273
Dividends**	38,142,632 (40,365,344 of all dividends received)	45,926,513	43,821,263	42,417,222
Dividends-to-equity ratio	5.6 % (6.0% with regard to all dividends received)	5.6 %	5.6 %	6.0 %
ROE	8.9 %	9.9 %	11.1 %	11.1 %

*For capital assets included in a Group and reported in a consolidated financial statements, data from consolidated financial statements are taken into account.

** In case of SSH, lower total sum of dividends received from capital assets for FY 2017 with regard to the total sum of dividends received for FY 2016 is the result of a no-charge transfer of certain proportion of Pozavarovalnica shares, Petrol shares and Krka shares from SSH to RS in December 2017, pursuant to the Decision of the Government of the Republic of Slovenia No. 47600-11/2017/3. If the above mentioned transfer did not take place (assuming SSH held the same amount of shares in the three above mentioned companies as in 2016), SSH would have recorded a higher total sum of dividends received from capital assets for FY 2017, as compared to the total sum of dividends received from capital assets for FY 2016. The data about dividends and dividend-to-equity ratio for FY 2017 not provided in brackets are valid for the analysis which does not take into account the dividend income by Telekom Slovenije d.d., received as a difference between the AGM Resolution Counter-Proposal and the Basic AGM Resolution Proposal on dividend pay-out.

In terms of sectors, the portfolio of assets owned by SSH is highly concentrated and it needs to be pointed out that Tourism and Economy Pillar and Financial Sector Pillar taken together represents 80.5% of the entire portfolio (in case of the RS portfolio, 81.9% of the portfolio is attributed to three pillars taken together, while in the case of SSH, 80.5% is taken up by two pillars alone). When comparing the composition of weights taken up by the pillars in the portfolio of capital assets held by SSH and in the portfolio of capital assets held by RS, the difference is particularly noticeable in the proportion of weight taken up by the Tourism and Economy Pillar in the SSH portfolio (40.4% weight) as compared to the weight taken up by this pillar in the RS portfolio (only 6.4% weight). In 2016, the Tourism and Economy Pillar (entitled as Economy Pillar in 2016 Annual Report) held more than 10 percentage points higher proportion in the portfolio of capital assets held by SSH than the Financial Pillar, whereas in 2017, following the no-charge transfer of one proportion of SSH capital assets held in Krka and Pozavarovalnica Sava to RS, the two said pillars are nearly equalized.



Graph: The share of individual pillars in the portfolio of Slovenian Sovereign Holding, measured at the book value as at 31 December 2017

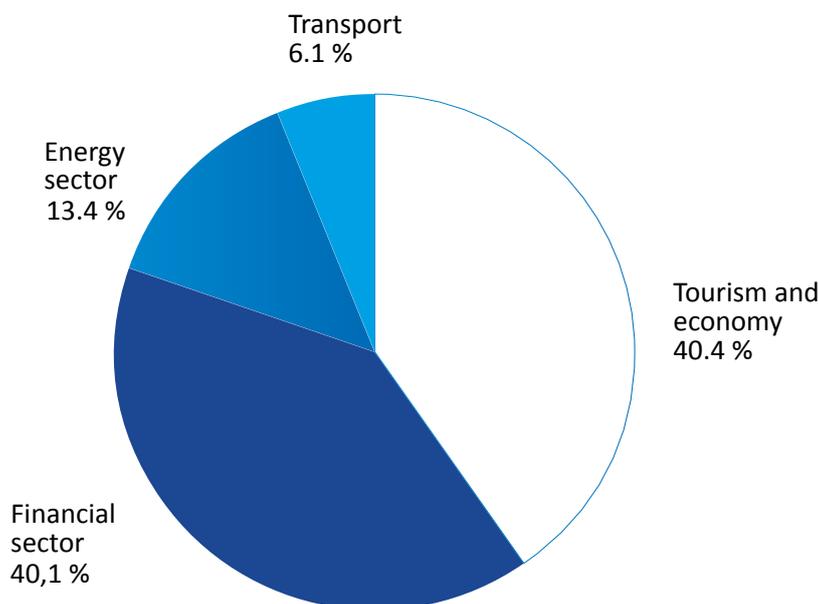


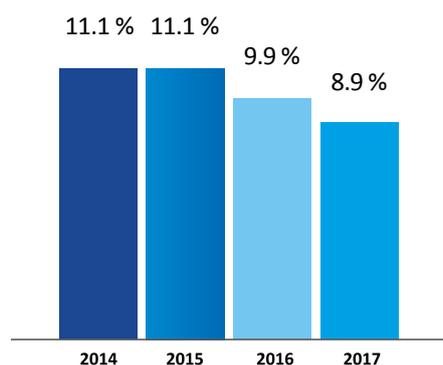
Table: Overview of aggregated financial data for companies in direct ownership of the SSH, by sector in FYs 2017 and 2016 (in EUR)

Pillar*	Net profit or loss 2017	Qualifying Participation of SSH, 2017	Net profit or loss 2016	Qualifying Participation of SSH, 2016
Energy sector	116,182,801	90,562,792	108,259,424	119,178,417
Financial sector	102,582,335	271,109,603	116,807,703	285,713,252
Tourism and economy	213,355,903	272,837,858	181,934,238	374,742,309
Transport	32,982,520	41,099,334	42,772,299	39,339,854
TOTAL	465,103,559	675,609,588	449,773,664	818,973,832

*Excluding companies in bankruptcy or liquidation.

Owing to the size of the weight led by Pozavarovalnica Sava, Zavarovalnica Triglav, Krka and Petrol in the SSH portfolio and on account of a relatively successful performance, similarly as in 2016, industries that contributed the most to ROE of the SSH portfolio were: insurance business (Pozavarovalnica Sava, Zavarovalnica Triglav), manufacturing sector (Krka) and energy sector (Petrol).

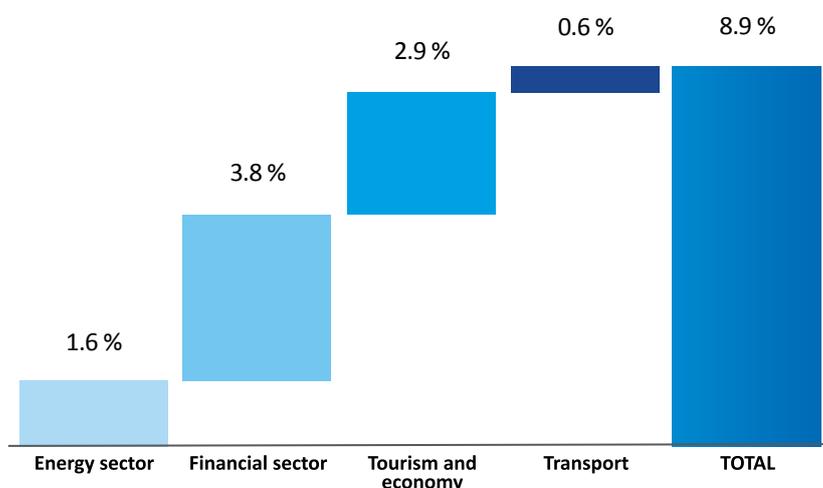
Graph: ROE of SSH portfolio in 2014 up to 2017



ROE of SSH portfolio slightly decreased as compared to 2016. The main reasons for a decline in the profitability of SSH Portfolio in 2017 are due to slightly lower ROE ratios achieved by Triglav Group, Pozavarovalnica Sava, Petrol and by Unior. On account of high book-value, these three Groups have a great impact on, carrying a considerable weight in the calculation of ROE of SSH Portfolio (they represent more than 60% of the book-value of SSH Portfolio). The Tourism and Economy Pillar and the Financial Pillar, which includes two of insurance firms mentioned above, have the largest impact on the calculation of ROE of SSH Portfolio.



Graph: Contribution by an individual pillar to the ROE of SSH portfolio in 2017



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

The total sum of dividends paid out for FY 2017 are significantly higher than compared to the total sum of dividends paid out for FY 2016, mainly on account of high dividend amount paid out by NLB for FY 2017. Together with the full dividend amount paid out by NLB (EUR 270.6 million; i.e., EUR 85 million and EUR 185,6 million being the difference between EUR 270.6 million of dividend pay-out and EUR 85 million planned) and the total dividend amount paid out by Telekom Slovenije d. d. (the amount of the Resolution Counter-Proposal voted at the General Meeting of Shareholders) the total portfolio of SSH and RS received EUR 487.3 million EUR for FY 2017. By excluding the impact of one-off events (EUR 185.6 million being the difference between EUR 270.6 million of the dividend pay-out and EUR 85 million planned by SSH to be paid out by NLB, in addition to EUR 34.9 million paid out by Telekom Slovenije, d.d. on account of the Resolution Counter-Proposal voted at the General Meeting of Shareholders), the sum of dividends collected for FY 2017 and arising from the ownership of RS capital assets is significantly lower, and it amounted to EUR 266.8 million. It is nevertheless higher than the sum of dividends received for FY 2016.

Table: Overview of aggregated financial data for companies managed by SSH (RS and SSH) in FY 2017 (in EUR)

RS + SSH	2017	2016	2015	2014
Total sum of book-value of assets	10,888,669,481	10,448,176,817	11,591,255,402	11,602,905,272
Dividends*	266,785,302 (487,308,566 of all dividends received)	259,660,107	185,983,252	173,184,399
Dividends-to-equity ratio*	2.5% (4.5 % with regard to all dividends received)	2.5%	1.6%	1.5%
ROE	6.5 %	6.0 %	4.7 %	1.8 %

Note: In 2015, extraordinary write-offs incurred by HSE and connected with the TEŠ 6 Project, amounting to EUR 474 million, were excluded. If extraordinary write-offs carried out in HSE were taken into account, ROE of the RS + SDH portfolio for 2015 would have amounted to 1.4%.

The data about dividends and dividend-to-equity ratio for FY 2017 not provided in brackets are valid for the analysis which does not take into account the dividend income by Telekom Slovenije d.d., received as a difference between the AGM Resolution Counter-Proposal and the Basic AGM Resolution Proposal on dividend pay-out, neither the difference between the dividends paid out by NLB and the dividends of NLB shares as planned by SSH.

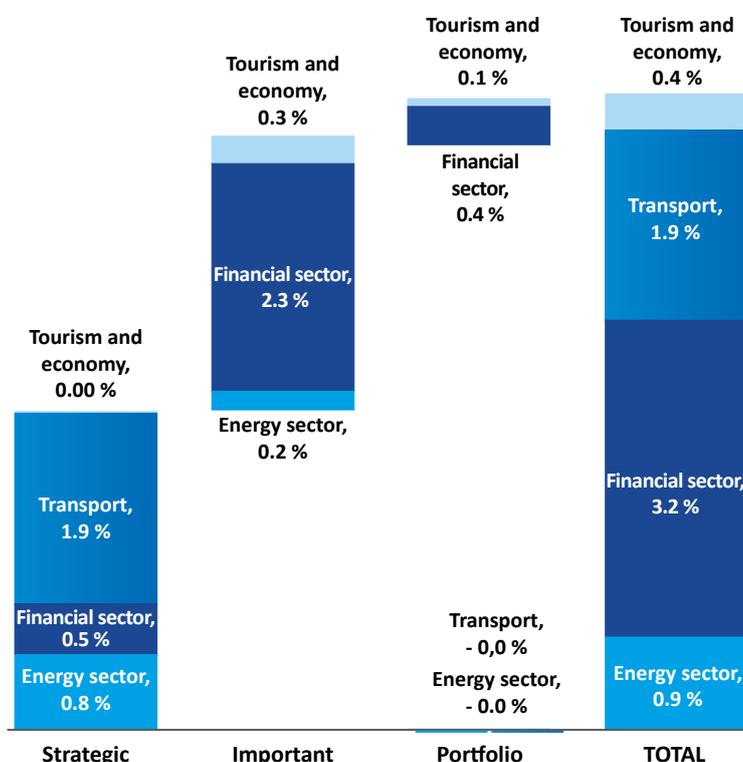


Table: The composition of ROE of RS Portfolio and of SSH Portfolio with regard to the strategic nature of assets

Portfolio	Pillar - contribution to the Portfolio ROE	Strategic	Important	Portfolio	Total	Cummulative
RS	Energy sector	0.8%	0.1%	-0.0%	0.9%	0.9%
RS	Financial sector	0.4%	2.4%	0.4%	3.2%	4.1%
RS	Transport	2.0%			2.0%	6.1%
RS	Tourism and economy	0.0%	0.1%	0.0%	0.2%	6.3%
	TOTAL	3.2%	2.7%	0.5%	6.3%	
SSH	Energy sector	0.0%	1.6%		1.6%	1.6%
SSH	Financial sector	3.0%	0.8%	0.1%	3.8%	5.4%
SSH	Transport	0.6%		-0.0%	0.6%	6.0%
SSH	Tourism and economy	0.1%	2.3%	0.6%	2.9%	8.9%
	TOTAL	3.6%	4.7%	0.6%	8.9%	
SSH + RS	Energy sector	0.8%	0.2%	-0.0%	0.9%	0.9%
SSH + RS	Financial sector	0.5%	2.3%	0.4%	3.2%	4.2%
SSH + RS	Transport	1.9%		-0.0%	1.9%	6.1%
SSH + RS	Tourism and economy	0.0%	0.3%	0.1%	0.4%	6.5%
	TOTAL	3.2%	2.8%	0.5%	6.5%	

Note: On account of low book-value of assets, individual capital assets carry such a small weight that their contribution to ROE is not visible when expressed in one decimal place. Since data presented is expressed in one decimal place, one tenth of a percentage is lost in the sum of subtotals of interim results used for the calculation of the final result (final result for ROE of SSH + RS portfolio is rounded up to 6.5%) which is the result of rounding down in the second decimal place in case of some interim results (0.9%+3.2%+1.9%+0.4%). In case of an individual pillar for which no values have been given in the Table, there are no capital assets.

Graph: Contribution by a portfolio to the ROE of RS and SSH portfolio in 2016 in regard to the strategic nature of assets



Note: On account of low book-value of assets, individual capital assets carry such a small weight that their contribution to ROE is not visible when expressed in one decimal place. On account of presenting data expressed in one decimal place, one tenth of a percentage is lost in the sum of subtotals of interim results used for the calculation of the final result (final result for ROE of SSH + RS portfolio is rounded up to 6.5%) which is the result of rounding down in the second decimal place in case of some interim results (0.9%+3.2%+1.9%+0.4%).



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

Portfolio	Pillar - average ROE	Strategic	Important	Portfolio	WEIGHTED AVERAGE
RS	Energy sector	2.9%	9.9%	-6.3%	3.1%
RS	Financial sector	5.3%	14.3%	6.9%	10.7%
RS	Transport	5.8%			5.8%
RS	Tourism and economy	3.2%	7.0%	1.0%	3.0%
	WEIGHTED AVERAGE	4.6%	13.3%	4.3%	6.3%
SSH	Energy sector	4.5%	12.5%		12.4%
SSH	Financial sector	9.3%	10.1%	13.6%	9.5%
SSH	Transport	10.2%		-1.5%	9.6%
SSH	Tourism and economy	16.4%	10.7%	2.9%	7.1%
	WEIGHTED AVERAGE	9.5%	11.1%	3.0%	8.9%
SSH + RS	Energy sector	2.9%	11.1%	-6.3%	3.4%
SSH + RS	Financial sector	6.2%	14.1%	7.0%	10.6%
SSH + RS	Transport	5.9%		-1.5%	5.9%
SSH + RS	Tourism and economy	8.9%	8.5%	1.4%	4.2%
	WEIGHTED AVERAGE	4.8%	13.0%	4.2%	6.5%

Note: In case of an individual pillar for which no values have been given in the Table, there are no capital assets.



Table 14: ROE of TOP 5 companies in an individual pillar in 2017

	2015	2016	2017	Changes in percentage points for the period 2017-2016
ROE TOP5 companies in a pillar				
ENERGY SECTOR				
HSE GROUP	-0.5%	2.2%	0.8%	-1.4
GEN GROUP	2.1%	4.4%	3.8%	-0.6
ELEKTRO LJUBLJANA	5.0%	5.7%	4.6%	-1.1
ELEKTRO MARIBOR GROUP	4.5%	5.7%	4.3%	-1.4
ELEKTRO CELJE GROUP*	5.1%	5.1%	4.6%	-0.5
FINANCIAL SECTOR				
NLB GROUP	6.6%	7.5%	14.4%	6.9
ABANKA GROUP	9.8%	13.3%	7.0%	-6.3
ZAVAROVALNICA TRIGLAV GROUP	12.8%	11.4%	9.3%	-2.1
SID BANKA GROUP	3.0%	5.8%	2.8%	-3.0
POZAVAROVALNICA SAVA GROUP	12.0%	11.3%	10.1%	-1.2
TOURISM AND ECONOMY				
TELEKOM SLOVENIJE GROUP	9.8%	5.7%	1.3%	-4.4
KRKA GROUP	11.5%	7.6%	10.4%	2.8
SIJ GROUP	3.2%	13.3%	3.6%	-9.7
UNIOR GROUP	4.3%	7.8%	3.7%	-4.1
CINKARNA CELJE	4.9%	6.8%	18.4%	11.6
TRANSPORT				
DARS	2.4%	3.9%	5.2%	1.3
SŽ GROUP	9.7%	8.4%	9.6%	1.2
POŠTA SLOVENIJE GROUP	3.5%	4.4%	4.1%	-0.3
LUKA KOPER GROUP	10.9%	13.9%	10.2%	-3.7
DRI	5.6%	4.7%	6.5%	1.8

Note: Elektro Ljubljana is no longer a Group in 2017 (in previous Annual Reports the said company had a Group), whereas Elektro Celje Skupina has been included in the list in the Annual Report for 2017.

Table: Portfolio's ROE - as expected and as realised - in 2015-2019 period

Pillar	ROE 2015	ROE 2016	ROE 2017	AMAP 2018	AMAP 2019
Energy sector	2.2%	4.1%	3.4%	4.0%	4.6%
Financial sector	5.9%	8.9%	10.6%	7.7%	8.1 %
Transport	3.4%	5.0%	4.2%	5.7%	5.7%
Tourism and economy	12.6%	6.5%	5.9%	8.2%	9.7%
PORTFOLIO	4.7%	6.0%	6.5%	6.1%	6.4%

Note: Data referred to in columns AAMP 2018 and AAMP 2019 refer to the Annual Asset Management Plan (AAMP) in which the outlook for 2018 and 2019 was included. At the time of drawing up this Report, AAMP 2019, which includes the outlook for 2019 and 2020, is being prepared.



9.5 Dividend pay-outs for 2017

The total amount of dividends paid out from the **portfolios of SSH and RS capital assets** for FY 2017 (General Meeting Resolutions in 2018) is presented in a structured manner on account of the impact of one-off factors pointed out by SSH. The total of EUR 266,785,302 million of dividends arising from the ownership of SSH and RS capital assets was collected for FY 2017, when non-recurring factors, hard to be repeated in the future, are not taken into account. The above mentioned dividend amount includes dividends which have been paid by companies in which SSH and RS hold their stakes, and the said sum also includes one portion of dividends paid by NLB and as planned by SSH (EUR 85 million of dividends). The sum of EUR 266,785,302 of dividends does not include the difference of the dividend amount paid on account of the Resolution Counter-Proposal on the dividend amount adopted at the General Meeting of Shareholders of Telekom Slovenije d.d., and the difference between the dividend amount paid by NLB and the dividend amount planned by SSH. These two events mentioned above are considered as one-off events which are not likely to be repeated in the future. Specifically, at the General Meeting of Shareholders of Telekom Slovenije d. d., SSH submitted a counter-proposal with regard to the dividend amount which was passed, thus increasing the Portfolio of capital assets held by SSH and RS by additional EUR 34,923,264 EUR of dividends than would have been obtained if the basic Resolution Proposal on dividends was approved. In SSH's assessment the source for the pay-put of a higher dividend was provided by the one portion of the proceeds from the sale of Telekom Slovenije's assets in One.Vip in Macedonia (the purchase price amounted to EUR 120 million) which, however, should be considered as a one-off event. As regards the NLB dividend for FY 2017, SSH initially anticipated it to be paid out in the amount of EUR 85 million but due to the ECB's clearance to pay out EUR 270,6 million of dividends, SSH reports separately the higher amount of the paid NLB dividend (EUR 185,6 million, being the difference between EUR 270.6 million and EUR 85 million). As this dividend pay-out is considered a one-off event on account of a sale process in progress in NLB, as regards future expectations about the amount of dividend pay-puts, this fact has been specifically pointed out. **Both portfolios of capital assets held by SSH and RS for FY 2017 thus received the total amount of EUR 487,308,566 in dividends.**

At the same time, the commitment by the Republic of Slovenia to the European Commission with regard to the sale of Abanka in 2019 needs to be pointed out. For FY 2017, Abanka paid out EUR 42,6 million in dividend (EUR 69,0 million for FY 2016) in which regard it has to be stated that, in the future when Abanka is sold, no dividend will be received by the portfolio of capital assets from this source.

In terms of the content, a similar explanatory note is given with regard to the annual comparison (the result in FY 2017 and the result in 2016) of the total sum of dividend received from the **portfolio of RS's capital assets** for FY 2017, since in 2017, assets in NLB were 100% owned by RS. Capital assets held in NLB are managed under the RS's portfolio of assets which in FY 2017 has generated a significantly higher sum of dividends received as compared to the sum of dividends received from the RS's portfolio of capital assets for FY 2016. A significant difference in the amount of dividends received for FY 2017 as compared to this figure for FY 2016 is the result of the impact of one-off events explained above with regard to the pay-out of NLB dividends for FY 2017, and albeit for a smaller part, the impact of higher dividends paid out by Telekom Slovenije d.d.

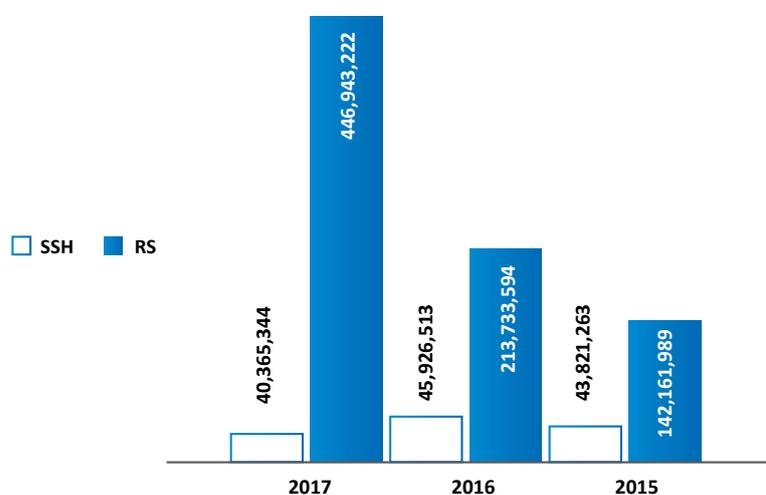
At the time of drawing up this Report, NLB is undergoing a sales process; in this regard, it has to be pointed out that dividend revenue from NLB will be smaller in the future as a result of a lower stake of RS in the said bank's shareholder structure once the bank is sold. The total sum of dividends received for FY 2017 amounted to EUR 446,943,222 (EUR 228,642,670 excluding the impact of non-recurring events), while dividends received for FY 2016 amounted to EUR 213,733,594.

The sum of dividends received from the **SSH's portfolio of capital assets** for FY 2017 (EUR 40,365,344), being lower than the sum of dividends received for FY 2016 (EUR 45,926,513), is the result of a no-charge transfer of a certain portion of shares of Pozavarovalnica Sava, d. d., Petrol, d. d. and Krka, d. d. from SSH



to RS in December 2017, pursuant to the Decision of the Government of the Republic of Slovenia, No. 47600-11/2017/3. Krka shares alone, which have been acquired by RS from SSH on account of a no-charge transfer, provided RSS with additional EUR 6.8 million of dividends for FY; if hypothetically, the said amount is adjusted for the sum of dividends received for FY 2017 from the SSH's portfolio of capital assets, when making a comparison with dividends received for FY 2016, the analysis with regard to the year-on-year comparison of the total sum of dividends received from the SSH's portfolio of capital assets is different. When taking into account the impact of the loss of dividends arising from the transfer of ownership stake in Pozavarovalnica Sava d.d., and Petrol d.d. from SSH to RS, the year-on-year comparison with regard to the total sum of dividends received for FY 2017 from the SSH's portfolio of capital assets is even more favourable. The sum of dividends received for FY 2017, excluding the impact of higher dividends paid out by Telekom Slovenije d.d., resulting from the Resolution Counter-Proposal on the dividend amount adopted at the General Meeting of Shareholders, amounts to EUR 38,142,632.

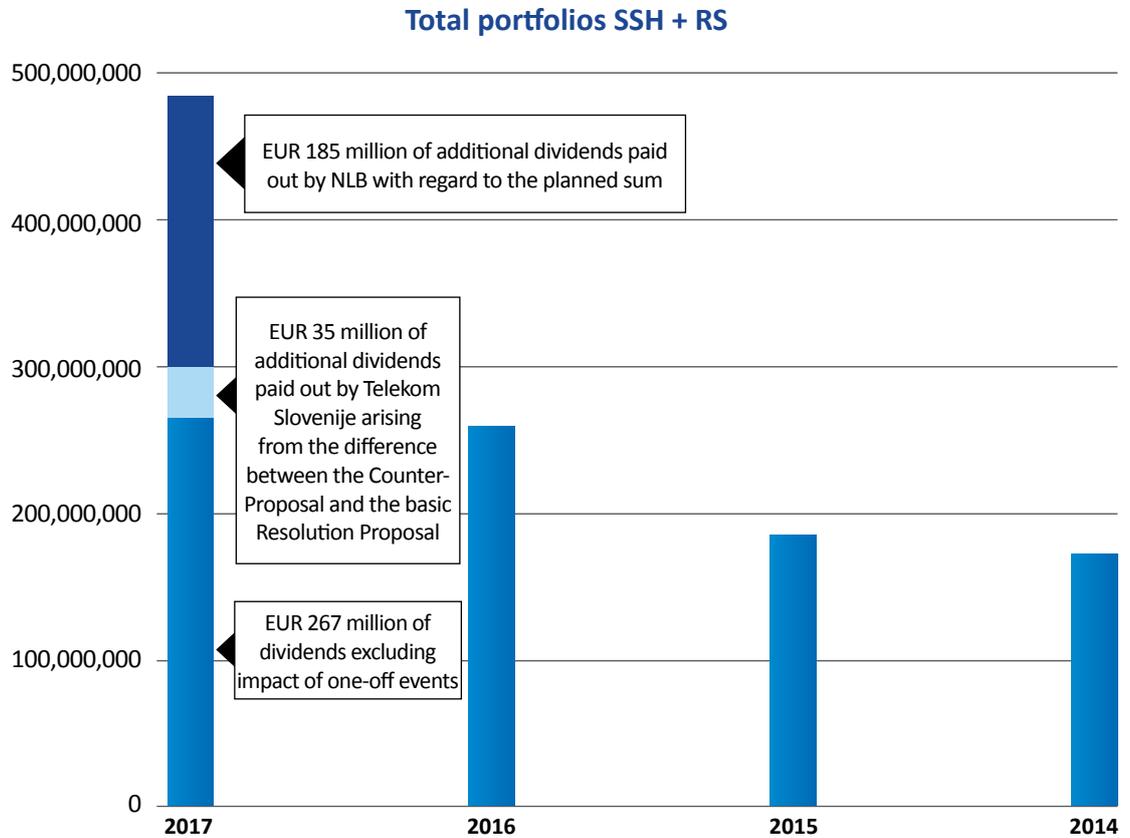
Graph: The amounts of all dividends received by SSH and RS (including dividend income arising from one-off events) for FYs 2015-2017 period (in EUR)



Note: All dividend amounts received by RS include dividends paid out by Zavarovalnica Triglav of which 34.47 per cent shareholding that is managed by SSH for RS is owned by the Pension and Disability Insurance Institute of Slovenia (ZPIZ). The table includes dividends paid out due to one-off events in 2017 (NLB and Telekom Slovenije).



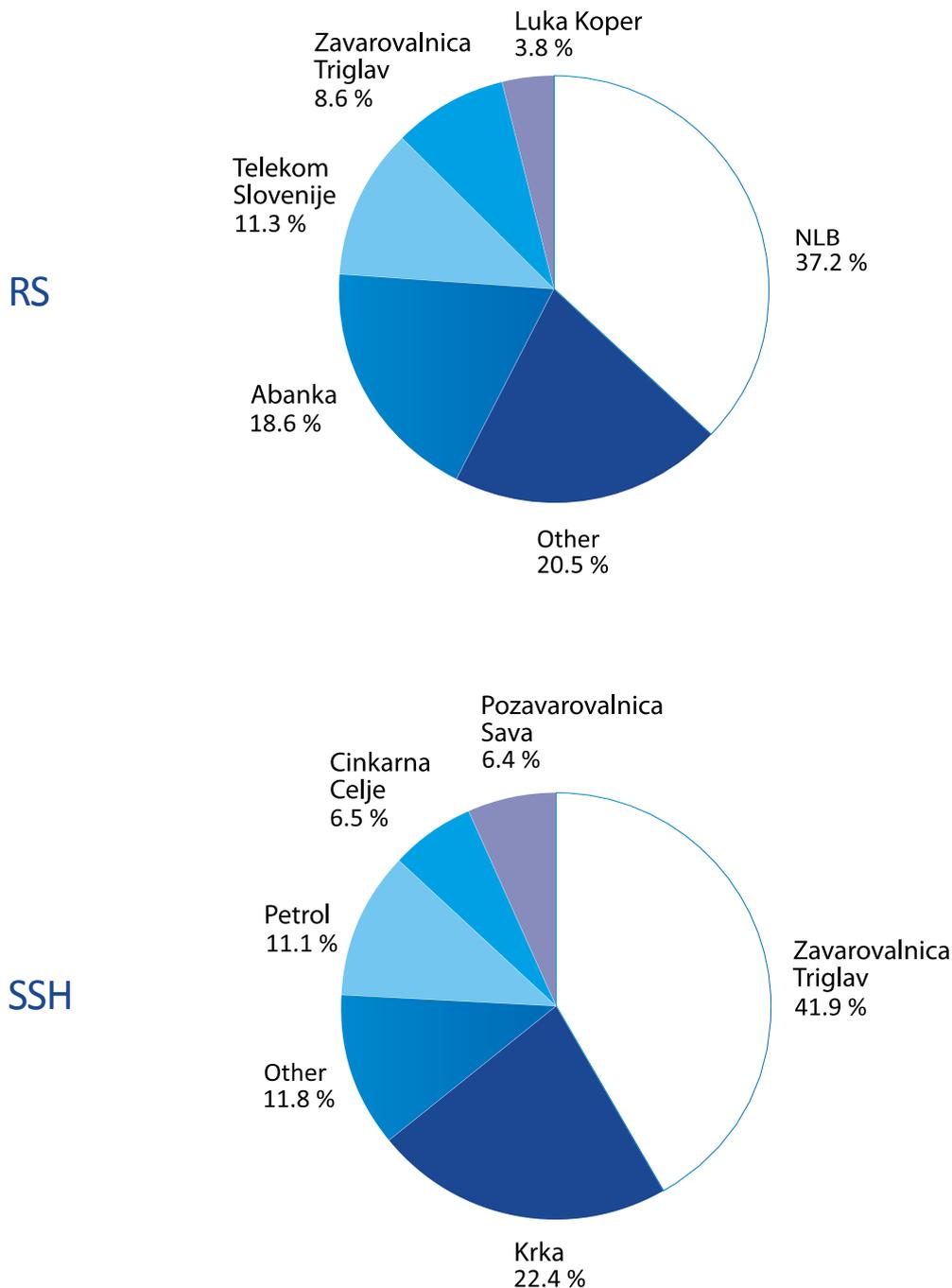
Graph: The amounts of dividends received from the portfolios of capital assets held by SSH and SSH taken together in the 2014-2017 period (in EUR), including the impact of dividend income arising from one-off events in 2017



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



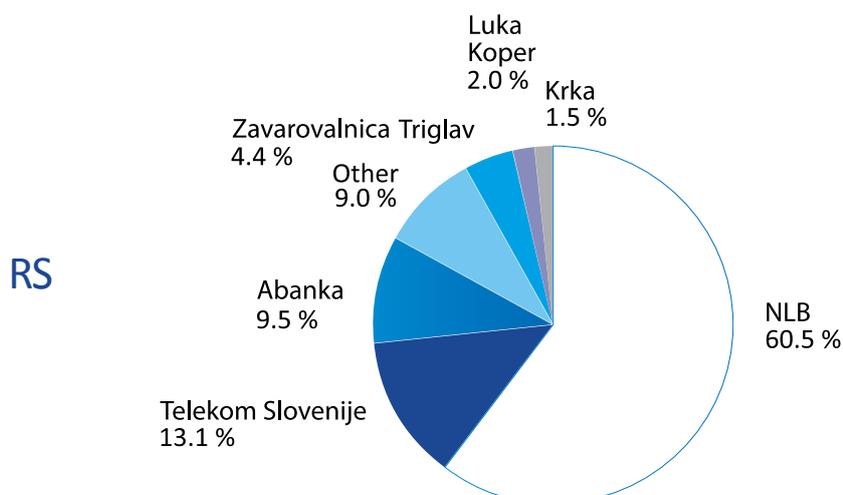
Graph: The proportion of individual companies in the sum of dividends received by RS and by SSH in FY 2017, excluding the impact of one-off events



RS received dividends for FY 2017 were paid out by 28 companies, in which regard the highest dividend amounts were paid out by NLB d.d. and Abanka d.d. The top five companies by dividend income paid provided for a 79.5% proportion of all dividends received for FY 2017. Even higher concentration of dividend pay-outs is noticed in SSH assets as the top five companies by dividend income paid ensured a 88.2% proportion of all dividends received for FY 2017. Companies which paid out the highest dividend amount for FY 2017 are Zavarovalnica Triglav d.d. and Krka d.d.



Graph: The proportion of individual companies in the sum of dividends received by RS in FY 2017, including the impact of one-off events



If the total NLB dividend amount paid out by NLB in the sum of EUR 270.6 million and the total dividend amount paid out by Telekom Slovenije d.d. in the sum of EUR 58.5 million are included in the comparison, then the structure of proportion of individual companies in the sum of dividends collected by RS for FY 2017 changes significantly, with the pay-out of NLB dividends presenting as much as 60.5% of all dividends received.

When examining the movement of the dividends-to-equity indicator, an explanation is required; the dividends-to-equity ratio for both RS+SSH portfolios is significantly higher if all dividends received for FY 2017 are taken into account, as compared to 2016. The table presents values for FY 2017 excluding the impact of one-off events but Notes under the Table provide an explanation of the size of the impact of dividends received due to one-off events.

Table: Dividends-to-equity ratio of RS and SSH portfolio of equity stakes in the 2015 -2017 period, excluding dividend income arising from one-off events

in EUR 000	RS			SSH			RS + SSH		
	2015	2016	2017	2015	2016	2017	2015	2016	2017
Total of book-value of assets as at 31 December	10,810,410	9,629,203	10,213,060	780,845	818,974	675,610	11,591,255	10,448,177	10,888,669
Dividend amount per financial year	142,162	213,734	228,643*	43,821	45,927	38,143*	185,983	259,660	266,785*
Dividends-to-equity ratio	1.3%	2.2%	2.2%*	5.6%	5.6%	5.6%*	1.6%	2.5%	2.5%*

*When all dividends received for FY 2017 are taken into account (including dividend income arising from one-off events), the dividends for RS for FY 2017 amount to EUR 446,943,222 EUR, which gives the dividend-to-equity ratio of 4.4% for RS for 2017. The sum of dividends paid to SSH, including one-off events (additional dividend income by Telekom Slovenije d.d.) amounts to EUR 40,365,344, which gives the dividend-to-equity ratio of 6.0 % for SSH for 2017. The total sum of dividends of SSH+RS portfolio for FY 2017, including one-off events amounts to EUR 487,308,566, which gives the dividend-to-equity ratio of 4.5 % for SSH+RS portfolio for 2017.



Table: Basic financial data for 20 largest companies in the RS and SSH portfolio as at 31 December 2017

Asset	RS's shareholding	SSH's shareholding	Book value of stakes by RS+SSH	Sector	Strategic orientation
DARS, d. d.	100		2,811,184,886.00	Traffic, transport and infrastructure	STRATEGIC
NLB d. d.	100		1,688,163,000.00	Banking	IMPORTANT
Holding Slovenske elektrarne d. o. o.	100		1,032,426,847.00	Energy sector	STRATEGIC
Gen energija d. o. o.	100		784,880,060.00	Energy sector	STRATEGIC
Abanka d. d.	100		580,283,000.00	Banking	PORTFOLIO
Zavarovalnica Triglav d. d.,	34.48	28.09	473,441,756.03	Insurance business	STRATEGIC
Telekom Slovenije d. d.	62.54	4.25	454,749,733.50	Postal services, Telecommunications	PORTFOLIO
SID - Slovenska izvozna in razvojna banka d. d.	99.41		425,077,160.00	Banking	STRATEGIC
Slovenske železnice d. o. o.	100		330,332,962.00	Traffic, transport and infrastructure	STRATEGIC
Elektro Ljubljana d. d.	79.5	0.30	245,674,168.07	Energy sector	STRATEGIC
Krka d. d.	7.21	9.00	241,116,376.35	Manufacturing	IMPORTANT
Pošta Slovenije d. o. o.	100		222,372,786.00	Postal services, Telecommunications	STRATEGIC
Elektro Maribor d. d.	79.5		220,114,661.46	Energy sector	STRATEGIC
Luka Koper d. d.	51	11.13	217,726,748.54	Traffic, transport and infrastructure	STRATEGIC
Elektro Celje d. d.	79.5		174,717,272.43	Energy sector	STRATEGIC
Petrol d. d.	10.1	12.68	159,871,746.10	Energy sector	IMPORTANT
Elektro Primorska d. d.	79.5		126,146,089.17	Energy sector	STRATEGIC
Elektro Gorenjska d. d.	79.42	0.31	123,590,476.00	Energy sector	STRATEGIC
Plinhold d. o. o.	52.26	0.05	106,194,068.06	Energy sector	STRATEGIC
SIJ - Slovenska industrija jekla d. d.	25		103,878,000.00	Manufacturing	IMPORTANT

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



Total assets	Equity	Net profit and loss for the period	EBITDA margin	ROE	Financial leverage
5751989678	2,811,184,886.00	141,145,144.00	81.96	5.15	2.05
12237745000	1,688,163,000.00	233,314,000.00	58.30	14.37	9.7
2132482162	1,032,426,847.00	7,709,972.00	8.37	0.75	2.07
1111035777	784,880,060.00	29,423,627.00	2.99	3.82	1.42
3654177000	580,283,000.00	41,595,000.00	63.27	6.96	12.86
3674676193	756,645,683.00	69,707,952.00	93.90	9.30	
1351994000	680,865,000.00	9,023,000.00	23.24	1.30	1.99
2497302000	427,600,000.00	11,762,000.00	70.24	2.80	15.49
574926962	330,332,962.00	30,629,299.00	13.00	9.63	1.74
480432984	307,862,366.00	13,978,169.00	44.26	4.61	1.56
1919131000	1,487,699,000.00	152,576,000.00	25.95	10.41	1.29
284392864	222,372,786.00	8,929,786.00	9.41	4.05	1.28
390499179	276,873,788.00	11,672,058.00	22.35	4.27	1.41
536478688	350,437,387.00	34,961,520.00	30.16	10.25	1.53
318122910	219,770,154.00	9,843,544.00	15.53	4.55	1.45
1656273259	701,867,154.00	81,128,886.00	3.48	12.51	2.36
231337408	158,674,326.00	7,346,342.00	17.63	4.71	1.46
232040144	155,011,258.00	6,974,762.00	47.91	4.58	1.5
345233500	203,009,115.00	7,842,547.00	60.19	3.86	1.7
1152184000	415,512,000.00	14,955,000.00	10.85	3.57	2.77



9.6 Summary of criteria for measuring performance of SOEs and information on fulfilment of criteria in 2017

The Annual Asset Management Plan (AAMP) was prepared for 2017 (AAMP 2017) which is why this Annual Report gives the opportunity to compare the planned ratio values with the actually realised values. As regards companies highlighted in blue, given values refer to other indicators as explained under the Notes below the Table.

Due to specific features of the industry, venture capital companies are not included in this presentation since their operations are hard to be assessed within the scope of AAMP (unpredictable and volatile environment of venture capital).

Table: Attainment of goals on the basis of criteria set in Annual Asset Management Plan 2017

Company	ROE*		EBITDA margin**	
	Realised 2017	AAMP 2017	Realised 2017	AAMP 2017
ENERGY SECTOR				
Elektro Celje d. d.	3.26	3.30	15.53	42.00
Elektro Gorenjska d. d.	3.24	3.30	47.91	46.00
Elektro Ljubljana d. d.	2.95	2.70	44.26	45.50
Elektro Maribor d. d.	3.76	3.50	22.35	40.80
Elektro Primorska d. d.	3.59	3.10	17.63	42.00
Elektrogospodarstvo Slovenije – razvoj in inženiring d. o. o.	-4.80	2.25	1.89	3.08
Gen energija d. o. o.	3.82	3.50	2.99	2.64
Geoplin d. o. o.	3.63	3.80	2.05	8.70
Plinhold d. o. o.	3.86	3.86	60.19	
Holding Slovenske elektrarne d. o. o.	0.75	2.96	8.37	10.91
INFRA, izvajanje investicijske dejavnosti d. o. o.			0.93	
Nafta Lendava, proizvodnja naftnih derivatov d. o. o.	-11.19	-5.68	-420.02	-0.37
Petrol d. d., Ljubljana	12.51	13.20	3.48	4.00
RTH, Rudnik Trbovlje-Hrastnik d. o. o.	-6.52	-92.82	13.11	3.06
RŽV, javno podjetje za zapiranje rudnika urana d. o. o.	-5.26	-1.50	0.98	4.50
FINANCIAL SECTOR				
Abanka d. d.	6.96	7.50	63.27	64.00
NLB d. d.	14.37	6.60	58.30	63.10
SID – Slovenska izvozna in razvojna banka d. d., Ljubljana	2.80	2.70	70.24	45.00
Pozavarovalnica Sava d. d., Ljubljana	10.10	11.00	95.80	95.00
Zavarovalnica Triglav d. d., Ljubljana	9.30	11.00	93.90	94.00
D.S.U. d. o. o.	4.88	4.00	62.71	64.09
KDD d. d.	13.57	8.62	27.40	25.33



Company	ROE*		EBITDA margin**	
	Realised 2017	AAMP 2017	Realised 2017	AAMP 2017
TOURISM AND ECONOMY				
Adria, turistično podjetje d. o. o., Ankarani	1.84	2.70	15.29	23.00
Bodočnost Maribor d. o. o.	4.77	6.00	5.96	9.00
Casino Bled d. d.	31.35	49.50	8.97	15.00
Cetis d. d., Celje	12.10	3.00	12.31	10.00
Cinkarna Celje d. d.	18.41	8.80	25.62	17.00
CSS d. o. o.	21.16	17.61	6.37	7.77
HIT d. d., Nova Gorica	11.75	8.00	14.67	16.00
Javno podjetje Uradni list Republike Slovenije d. o. o.	3.25	1.10	15.17	11.50
Krka d. d.	10.41	10.50	25.95	26.00
Loterija Slovenije d. d.	16.39	14.50	5.97	4.37
Mariborska livarna Maribor d. d.	-564.18	0.00	4.48	8.07
Pomgrad - vodnogospodarsko podjetje d. d.	1.56	3.00	7.82	7.50
PS za avto d. o. o., Ljubljana	-166.10	3.50	-22.58	20.00
Sava d. d.	16.42	8.00	18.20	22.00
SIJ - Slovenska industrija jekla d. d.	3.57	10.00	10.85	12.00
Studentenheim Korotan GmbH	-5.28	1.40	2.58	3.50
Telekom Slovenije d. d.	1.30	5.80	23.24	30.50
Terme Olimia d. d.	4.80	4.50	24.95	25.00
Unior d. d.	3.66	6.50	13.29	13.75
Vodnogospodarsko podjetje d. d., Kranj	-6.81	2.00	0.83	5.00
Vodnogospodarsko podjetje Drava d. o. o, Ptuj	18.55	15.20	9.92	7.00
Vodnogospodarsko podjetje Novo mesto d. d.	11.59	6.80	17.43	12.20
TRANSPORT				
2TDK, Družba za razvoj projekta, d. o. o.			0.68	
DRI upravljanje investicij d. o. o.	6.48	5.00	8.78	10.00
Družba za avtoceste v Republiki Sloveniji d. d.	5.15	3.12	81.96	76.97
Kontrola zračnega prometa d. o. o.	17.48	9.43	20.36	15.35
Luka Koper d. d.	10.25	12.60	30.16	40.00
Pošta Slovenije d. o. o.	4.05	4.10	9.41	11.70
Slovenske železnice d. o. o.	9.63	8.00	13.00	12.70

*The value of ROA and not ROE is indicated in the case of electricity distribution companies (in blue).

** In case of banks, instead of EBITDA margin, CIR ratio is given, and in case of insurance firms, combined ratio is presented (in blue)
The data missing from the Table in case of some companies are the result of specific circumstances present in case of companies mentioned (Plinhold's incorporation in 2017, no criteria have been determined by AAMP for 2DTK, Infra has a specific business model determining its financial statements).





10

METHODOLOGICAL,

LEGAL AND OTHER NOTES



Legal basis

It is very important for the State that professional, responsible, transparent and economic management of state assets is provided for. ZDSH-1 stipulates that not later than by 31 October, once a year, SSH submits to the National Assembly of the Republic of Slovenia an Annual Report on operations of the previous year.

Operation performance data for SOEs (available in Slovene version)

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

Comprehensive company presentations have been developed for top 20 companies using the criteria of the total book value of SSH and RS shareholdings as at 31 December 2017.

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

- companies in bankruptcy or liquidation (a common list of all such companies has been developed),
- companies in which the equity stake of SSH or RS is lower than 1%, and
- for other companies of less significant importance:
 - Inkos d.o.o. d., Krmelj, with RS ownership stake amounting to 2.54%. SSH attempted to sell the above mentioned shareholding twice in 2016 and 2017, but with no success.
 - Savaprojekt d. d., with RS ownership stake amounting to 3.34% and which SSH strives to sell.
 - RRA, regionalna razvojna agencija Celje d. o. o., with RS ownership stake amounting to 5.89%. Considering all relevant criteria, the company is insolvent, most likely facing bankruptcy proceedings.



Definitions regarding main financial indicators used in the Annual Report

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

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

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

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



Other Notes

Pursuant to Paragraph 5 of Article 46 of the Republic of Slovenia Budget for 2018 and 2019 Implementation Act, irrespective of Paragraph 1 of Article 19 of ZSDH-1, capital assets acquired by the Republic of Slovenia in accordance with the law regulating inheritance, are managed by the ministry responsible for finances. The result of such statutory arrangement in practice is that state capital assets held in one company may be managed both by SSH and by the ministry, that is, each of the bodies manages them in the proportion for which they are responsible. It is consistent with the law that shares and stakes managed by the ministry responsible for finance are excluded from stakes managed by SSH.

Sources:

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- Ministry of Finance of the Republic of Slovenia 2018. www.mf-rs.si.
- Ordinance On State-Owned Capital Assets Management Strategy (OdsUKND) was adopted by the National Assembly on 13 July 2015.
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- Slovenian Sovereign Holding, 2018 SSH Recommendations and Expectations
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- Slovenian Sovereign Holding, 2018. SSH Asset Management Policy
- Slovenian Sovereign Holding, SSH Premises for Voting on General Meetings of Shareholders in 2017
- Slovenian Sovereign Holding, 2018. Rules on Supervisory Board Member Selection (Conditions, Criteria, Procedures and Evaluation for Determining Suitability and Selecting Potential Candidates for Members of Supervisory Bodies of Companies with State's Capital Assets)
- Statistical Office of the Republic of Slovenia 2018. www.stat.si
- The Institute of Macroeconomic Analysis and Development, September 2018. www.umar.gov.si.
- Directors' Association of Slovenia, Managers' Association of Slovenia, Ljubljana Stock Exchange, 2016 Corporate Governance Code for Listed Companies.



List of acronyms and glossary of terms

AMI – Advanced Meter Infrastructure

ATVP – Securities Market Agency

AUKN – Capital Assets Management Agency of RS

AVK – Slovenian Competition Protection Agency

AZN – Insurance Supervision Agency

BAT – best available technology

BDP – gross domestic product

Balance Group – a group of members of the Balance Scheme defined in Article 2 of Rules on Regulated Electricity Market

CUDHg – Centre for the management of mercury heritage in Idrija

d. d. (PLC) – public limited company

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

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

DARS – Motorway Company of Republic of Slovenia

DRI – Družba za razvoj infrastrukture

Company – Slovenian Sovereign holding d. d.

DMR – Digital Mobile

DMS – Distribution Management System

DSM – Demand side management is the system that manages the utilization of or the generation of electricity by network users so that it decreases the demand for network reinforcements due to the electricity usage or generation on the part of network users.

DR – Demand response is the system that manages the usual consumption of electricity by final users with regard to: a) time changes of electricity price; b) incentives for reduced power consumption during high electricity prices on wholesale electricity markets; c) the status of electricity load.

DTK – venture capital companies

BAMC – Bad Asset Management Company

NA RS – National Assembly of the Republic of Slovenia

ECB – European Central Bank

EDC – electricity distribution company

EMS – Electromagnetic radiation

EBITDA – Earnings before Interest, Taxes, Depreciation and Amortisation

EAM – enterprise asset management

EE – electricity

ESCO – European Classification of Competences and Occupations

ECESA – Expert Committee for Economic and Social Affairs

ERP – Enterprise resource planning

ETF – Exchange traded fund is a fund traded on Stock Exchange



EFQM – EFQM Excellence Model is a general and voluntary framework which is based on nine criteria and results obtained should be dealt with when analysing any organisation.

EU – European Union

EU28 – European Union of 28 Member States

EUR – Euro currency

EURIBOR – Euro Interbank Offered Rate

FED – American Central Bank

FIP – Financial and Compensation Treaty

GIS – Geographic Information System

HPP – hydro power plant

HESS – Hidroelektrarne na spodnji Savi d. o. o. (Hydroelectric Power Plants on the Lower Sava River)

HSE – Holding slovenske elektrarne

ICT – Information and communication technology

IPO – initial public offering of shares

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

KDD – Central Securities Clearing Corporation

KK – Nomination Committee

CA – capital asset

Code – Corporate Governance Code for SOEs

Commission – Commission for handling alleged irregularities in SOEs

CPC – Commission for the Prevention of Corruption

kWh – the kilowatt hour

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

M & A – method of searching for a strategic investor

MoF – Ministry of Finance

MEDT – Ministry of Economic Development and Technology.

BUPF – Blue umbrella pension fund managed by Modra zavarovalnica

RSP – retail selling price

MRA – Master restructuring agreement

SME – small and medium-sized enterprises

MTK – tone control circuit

IFRS – International Financial Reporting Standards

MOI – Ministry of Infrastructure

MZ – Modra zavarovalnica

NDA – non-disclosure agreement

NEDO – International research project and a partnership between the Japanese agency NEDO and the Slovenian transmission system ELES, and Hitachi.

NEK – Krško nuclear power plant



FIP – Financial and Compensation Treaty

NPE – non-performing exposure

NKBM – Nova Kreditna banka Maribor

NLB – Nova ljubljanska banka

SSH SB – Supervisory Board of Slovenian Sovereign Holding

OECD – Organisation for Economic Cooperation and Development

OPEC – Organization of the Petroleum Exporting Countries

PIFE – Programme of Instruments for Financial Engineering

AM Policy – Asset Management Policy of SSH

RCR Zagorje – Regional Development Centre Zagorje

RS – Republic of Slovenia

RTH – Rudnik Trbovlje-Hrastnik (Trbovlje Hrasntik Mine)

RŽV – Žirovski vrh Mine

SSH – Slovenian Sovereign Holding

SEL – Savske elektrarne Ljubljana, d. o. o.

SEO net – electronic information system of the Ljubljana Stock Exchange

SIQ – Slovenian Institute of Quality and Metrology

SSH Group – Slovenian Sovereign Holding Group

SOD – Slovenska odškodninska družba, d. d.

SES – Slovenian Entrepreneurial Fund

SRRF – Slovenian Regional Development Fund

SAS – Slovenian Accounting Standards

SSA – Standstill Agreement

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

Strategy – Capital Assets Management Strategy

SUNSEED – Sustainable and Robust Networking for Smart Electricity Distribution

TTF – Title Transfer Facility, Virtual Trading Point

TWh – TheraWatt hour

UK – The United Kingdom of Great Britain and Northern Ireland

IMAD – Institute of Macroeconomic Analysis and Development

ZBan-1 – Banking Act

ZDSŽ – Slovenian Railway Company Act

ZFPPIPP – Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act

ZGD-1 – Companies Act

ZPKDPIZ – Act Governing Conversion of the Pension Fund Management and Investment Policy of Pension Fund Management (KAD)



ZSDH-1 – Slovenian Sovereign Holding Act

SOS-1 – Slovenian Compensation Fund Act

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

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

ZT – Zavarovalnica Triglav

ZTFI – Financial Instruments Market Act

ZSIRB – Slovenian Export and Development Bank Act

ZZLPPO – Law on completion of the privatization and privatization of legal persons owned by the Slovenian Development Corporation

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

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

ZVJTO – Reimbursement of Investments in Public Telecommunications Network Act

ZPFOLERD-1 – Transparency of Financial Relations and Maintenance of Separate Accounts for Different Activities Act



SLOVENIAN SOVEREIGN HOLDING



Annual Report - Management of Capital Assets of RS and SSH in 2017

SSH Report to the National Assembly of RS (Abbreviated version)

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Address: Mala ulica 5, 1000 Ljubljana

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

E-mail: info@sdh.si

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

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Due to the extensive nature of the Document, the abbreviated version of the Annual Report - Management of Capital Assets of the Republic of Slovenia and Slovenian Sovereign Holding for 2017 has been translated, excluding the original Chapters 9 - Company Details for 20 Largest SOEs, and Chapter 10 - Company Details of Other Companies with Direct Ownership Stake by the Republic of Slovenia and Slovenian Sovereign Holding. In spite of its abbreviated nature, the English version includes all the most significant highlights and information from the original Annual Report in Slovenian.



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