



**SLOVENSKI DRŽAVNI HOLDING, d. d.**

**CONFIDENTIAL**

**(III. GENERAL SECTION)**

# **ANNUAL ASSET MANAGEMENT PLAN FOR 2020**

**Ljubljana, January 2020**

**15/01/2020**

# **ANNUAL ASSET MANAGEMENT PLAN FOR 2020**

The State is an important owner of enterprises in Slovenia. As such, it has a great responsibility to be an active and professional owner. The ultimate objective of state-owned companies under SSH management is efficient and effective, profitable and economical operation, creation of value, and efficient management of services of general economic interest. This must be achieved by means of a balanced, stable and sustainable development of enterprises from the economic, social and environmental aspects.

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## TERMS AND DEFINITIONS

**AKOS:** Agency for Communication Networks and Services of the Republic of Slovenia

**Borzen:** Borzen, operater trga z elektriko, d.o.o. (the Power Market Operator)

**State-owned enterprise (SOE):** is a company in which the only shareholder or one of the shareholders are SSH and/or RS; capital investments are managed by SSH. The said term must be differentiated from the term "a financial asset of the state" which is defined by ZSDH-1 as a financial asset owned by the Republic of Slovenia, KAD or SSH.

**DSU:** Družba za svetovanje in upravljanje, d.o.o.

**DTK:** Venture capital companies.

**DUTB:** Družba za upravljanje terjatev bank, d.d., with the English name: Bank Assets Management Company (BAMC).

**ECB:** European Central Bank.

**Eles:** Eles, sistemski operater prenosnega elektroenergetskega omrežja, d.o.o. (Electricity Transmission System Operator)

**EC:** European Commission.

**EU:** European Union.

**IMF:** International Monetary Fund

**KAD:** Kapitalska družba, d.d. (Pension Fund Management).

**SSH Code:** Corporate Governance Code for SOEs, adopted in 2014 and last revised in November 2019

**AAMP:** is the Annual Asset Management Plan developed every year by SSH in accordance with Article 30 of ZSDH-1.

**Criteria:** is the Criteria for Measuring Performance of SOEs, a legal document of SSH which was adopted in 2015 and last revised in January 2020. As a rule, the document is updated every year simultaneously with AAMP. This document defines the criteria and the indicators for measuring the performance of SOEs.

**MoF:** is the Ministry of Finance.

**MoEDT:** is the Ministry of Economic Development and Technology.

**MoPA:** is the Ministry of Public Administration.

**MoESP:** is the Ministry of the Environment and Spatial Planning.

**SMEs:** is small and medium-sized enterprises.

**Mol:** is the Ministry of Infrastructure.

**(O)SGEI:** (Obligatory) services of general economic interest.

**SSH Asset Management Policy:** is the SSH Asset Management Policy adopted in March 2019

**Important assets:** are assets whose development function should be kept within the Republic of Slovenia.

**Portfolio assets:** are assets by means of which the Republic of Slovenia strives to attain solely economic goals.

**SSH Recommendations and Expectations:** SSH Recommendations and Expectations last revised in March 2018.

**RS:** is the Republic of Slovenia.

**SODO:** SODO sistemski operater distribucijskega omrežja z električno energijo, d.o.o. (Electricity Distribution System Operator)

**SSH Articles of Association** is the Articles of Association of SSH as applicable at the point in time.

**Strategy or Asset Management Strategy or OdsUKND:** is the State Assets Management Strategy adopted on 13 July 2015 by the Parliament in the form of the Ordinance on State-Owned Capital Assets Management Strategy (OdsUKND).

**Strategic assets:** are assets with which the Republic of Slovenia, in addition to economic goals, attains strategic goals.

**SSH:** Slovenski državni holding, d. d. (English name: Slovenian Sovereign Holding)

**RS Group:** RS and its affiliates.

**SOD:** Slovenska odškodninska družba, d.d., which has been transformed into SSH in accordance with ZSDH-1.

**SPS:** is the Public Fund of the Republic of Slovenia for Entrepreneurship or shortly The Slovene Enterprise Fund.

**TEU** – unit of cargo capacity describing container.

**IMAD:** Institute of Macroeconomic Analysis and Development.

**USA:** is the United States of America.

**ZCes-1:** is the Roads Act (Official Gazette RS, No. 109/2010 et seq.).

**ZGD-1:** is the Companies Act (Official Gazette RS, No. 42/2006 et seq.).

**ZIPRS1819-A:** is the Act Amending Implementation of the Republic of Slovenia's Budget (2018 and 2019) Act – ZIPRS1819-A (Official Gazette RS, No. 83/18).

**ZIS:** is the Gaming Act (Official Gazette RS, No. 14/2011 et seq.).

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

**ZPPOGD:** is the Act Governing the Remuneration of Managers of Companies with Majority Ownership held by the Republic of Slovenia or Self-Governing Local Communities (Official Gazette RS, No. 21/10, et. seq.).

**ZSDH-1:** is the Slovenian Sovereign Holding Act (Official Gazette RS, No. 25/2014).

**ZSDU:** is the Worker Participation in Management Act (Official Gazette RS, No. 42/07 et seq.).

**ZTFI:** is the Financial Instruments Market Act (Official Gazette RS, No. 108/2010 et seq.).

**ZLPPPO:** is the Act Concluding Ownership Transformation and Privatisation of Legal Entities owned by the Development Corporation of Slovenia (Official Gazette RS, No. 30/98, et. seq.).

ANNUAL ASSET MANAGEMENT PLAN  
FOR 2020

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**INTRODUCTION**

# I. INTRODUCTION

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The Annual Asset Management Plan (**AAMP**) is one of SSH's four key documents on asset management. The Plan determines detailed goals to be achieved by SSH in the management of assets held in an individual SOE in the coming financial year, as well as measures and policies for attaining these goals.

Similarly as in previous years, the current Annual Asset Management Plan, being the fifth such document issued, was prepared by taking into consideration the knowledge SSH has about special characteristics of operations of an individual SOE and its industry and by critically observing its development plans. When determining final and quantified goals for 2020, SSH also took into consideration opinions from companies with which a regular dialogue on asset management is kept within the limits of legal possibilities.

As a rule, SSH sets ambitious but realistic values of the expected strategic and economic and financial indicators for individual SOEs in the portfolio. In such manner, SSH implements its vision of generating value from capital assets for the owner. Target indicators determined in AAMP cover key operational aspects which are important for the development and competitiveness of an enterprise. AAMP also gives a forecast of cash flows from the management of assets managed by SSH.

It is worth pointing out that decision-making as stated within the scope of SSH's expectations falls under the sole responsibility of a company's management which, during a specific decision-making process, acting with due care and diligence, must make only those decision that are economically sound and for the benefit of a company. The supervision of the company's management and the making of economically sound decisions falls under the responsibility of the Supervisory Board of an individual company.

From the aspect of SSH, acting in the capacity of an active asset manager, this document is of key importance as it reflects expectations the owner has for 2020 and it enables SSH to monitor the implementation of goals set for this year.

## Estimates for 2019

In 2019, SSH continues to actively manage assets held by RS and, in the capacity of an active central ownership entity, carries out activities to realise strategic and economic and financial goals connected with state assets.

As regards the operations of companies under SSH's management in 2019, the first estimates show that the return on equity (ROE) of the portfolio of companies owned by RS and SSH will **achieve the target value of 6.2%, as it was set in AAMP 2019**. It is expected that the abovementioned target, which has been set at the same level as in 2018, will be achieved in spite of significant changes to the structure of the portfolio under SSH management. The fact is that, following the sale of banks, the proportion of the Financial Pillar as well as the proportion of important and portfolio assets in the SSH portfolio has significantly decreased for the benefit of higher proportion of assets from the Transport and Energy Sector Pillars and strategic assets which, as a rule, achieve lower ROE figures.

**In 2019 the planned dividend pay-out will be achieved and exceeded;** in AAMP 2019, the total sum of dividend pay-outs planned to be received by RS, SSH and ZPIZ amounts to EUR 242.6 million. The actual dividend pay-outs will be higher and will amount to at least EUR 252.9 million, of which EUR 193.2 million will be received directly by RS (of which EUR 11.1 million will be received as tangible assets). More than half of the RS's dividend income was paid out by the two banks, NLB and Abanka; in the first one, RS has decreased its equity holding, and in the second one RS has exited from the bank's ownership. This has a significant impact on the amount of dividend income planned for 2020.

In 2019, SSH took an active part in activities aimed at **the implementation of the Strategy for the Sustainable Growth of Slovenian Tourism for 2017 - 2021** (Tourism Strategy) adopted by the Government of RS. On the basis of the government decision, SSH has prepared the Investment Paper for assets held in Istrabenz Turizem which shows long-term synergies in the case of merging this company with other companies operating in tourism industry as well as economic benefits of a special vehicle company to which Istrabenz Turizem would be transferred. In accordance with the Tourism Strategy and the amended AAMP 2019, on behalf of and for the account of RS, SSH entered into the Sale and Purchase Agreement for Shares held in Terme Olimia. SSH also prepared the Plan for the consolidation, management and restructuring of state-owned tourism companies - the amended AAMP for Tourism industry (AAMP Tourism), as envisaged by the Tourism Strategy. Considering the fact that the Government of RS failed to discuss AAMP Tourism by the end of 2019, the said document is included in the 3rd Chapter of the Special Section of AAMP 2020 in full. This makes it possible for SSH to carry out activities necessary to implement the Tourism

Strategy. In addition, some elements of AAMP Tourism are reasonably included in the management activities planned to be carried out for selected SOEs operating in tourism industry. As regards the carrying out of activities in tourism industry envisaged in the 3rd Chapter of the Special Section of AAMP 2020, the time plan will be suitably adapted after AAMP 2020 is adopted.

In addition to regular asset management activities, SSH made it possible that **commitments given by RS to the European Commission in connection with NLB and Abanka were satisfied in a timely manner**. These two complex processes, the sale of 75% equity stake minus 1 share of NLB and the sale of 100% equity stake of Abanka, were carried out in a transparent and efficient manner, in accordance with comparable international practice and have provided for RS a monetary income in the value of EUR 553.7 million. Prior to their sale, in 2019, both banks paid out dividends to RS in the total value of EUR 116.6 million. In addition, RS also acquired from Abanka 3.8% equity stake in Sava Re, which is classified as important asset, and the National Gallery received the art collection which used to be owned by Abanka.

SSH continuously advocates the increase in the quality of corporate governance. In this regard, in cooperation with the European Commission, the project has been underway in SSH for strengthening the performance and governance of state-owned enterprises in 2019. The project is financed by EC while the technical assistance for the project is provided by EBRD. Within the scope of its continuous activities, SSH has updated one of its key asset management documents, i.e. the SSH Asset Management Policy, and at the time of drafting this document, activities for updating the Corporate Governance Code for SOEs are taking place.

### Outlook for 2020

In 2020, SSH will continue to actively manage assets held by RS and SSH, and considering changes announced in the management of state assets, SSH will **strive to enhance its role of the central ownership entity**.

Tabela 1: **ROE of the total RS's and SSH's portfolio from 2014 to 2018 and an estimate for 2019 and an outlook for 2020 in %**

PILLAR	ROE						
	2014	2015	2016	2017	2018	2019 (estimate)	AAMP 2020
ENERGY SECTOR	1.1	2.2	4.1	3.4	3.2	4.4	5.2
FINANCIAL SECTOR	0.6	5.9	8.9	10.6	9.6	8.7	8.0
TOURISM AND ECONOMY	2.8	12.6	6.5	4.2	7.6	10.0	8.5
TRANSPORT	3.7	3.4	5.0	5.9	6.3	5.8	5.0
<b>PORTFOLIO</b>	<b>1.8</b>	<b>4.7</b>	<b>6.0</b>	<b>6.5</b>	<b>6.2</b>	<b>6.2</b>	<b>5.9</b>

As it is clear from the Table above, for the **Financial Sector Pillar** and for the **Tourism and Economy Pillar**, which include small proportion of strategic assets, SSH plans to achieve the target ROE of **at least 8%** in 2020, as set in the State Assets Management Strategy. As compared to the estimate for 2019, a slightly lower ROE figure planned for 2020 reflects the impacts of the forecasted economic slowdown in both Pillars which, according to expectations, may be reflected in manufacturing industry (for example, SIJ, Cinkarna Celje, and others), as well as in the banking and insurance sectors where, simultaneously with the change of ownership in large banks and insurance companies, the competition is increasing. A slightly lower ROE figure planned for 2020 in these two sectors is also the result of individual one-off positive impacts recorded by some companies in 2019 (for example, CIJ, SID), mostly on account of the sale of their assets. It needs to be added that due to the sale of banks in recent years, the structure of the Financial Sector Pillar changed significantly - the change is reflected in a highly increased proportion held by SID bank. Due to its specific promotional and development role, the operation of this bank differs significantly from the operation of commercial banks, as it does not pursue the goal of maximising profits, in accordance with its statutory provisions. Assuming this bank is not included in the Financial Sector Pillar, the ROE of this Pillar as planned for 2020 amounts to 10.1%, whereas its estimate for 2019 has stood at 10.3%.

For the Energy Sector Pillar and for the Transport Pillar the planned values for ROE 2020 move around 5% as strategic assets dominate both pillars and their specific characteristics have an important impact on the performance results. Better results than estimated for 2019 are expected to be achieved by the Energy Sector Pillar in 2020 whereas a lower ROE figure is expected for the Transport Pillar mainly as a result of some positive one-off impacts which influenced the performance of DARS in 2019 and secondly, due to the increase in the share capital that was carried out in Slovenske železnice which will have a negative impact on the ROE calculation in the future.

The target ROE of the portfolio under SSH's management, taking into account the structure of the portfolio, has thus been determined to stand at 5.9% in 2020. It needs to be pointed out, however, that it would have stood at 6.1% if some decisions were not adopted by the State which will have a negative impact on ROE of the portfolio under SSH's management. The increase in the contribution for the decommissioning of the Krško Nuclear Power Plant (NEK) is envisaged to negatively affect ROE of the GEN Group by 0.52 percentage points, by 0.13 percentage points ROE of the Energy Sector Pillar and by **0.05 percentage points ROE of the total portfolio under the management of SSH**. The impact of the increase in the share capital of Slovenske železnice, which amounted to EUR 154 million, is reflected in the ROE indicator of this company which is to be lower by 1.9 percentage points, ROE of the Transport Pillar will be lower by 0.18 percentage points and ROE of the total portfolio under the management of SSH is to decrease by **0.08 percentage points**. Due to the impact of the regulatory changes as regards the revenue arising from the provision of ancillary services, the impact of the loss in revenue recorded by HSE is envisaged to negatively affect ROE of HSE by 0.62 percentage points, ROE of the Energy Sector Pillar by 0.2 percentage points and ROE of the total portfolio under the management of SSH by **0.06 percentage points**.

Favourable economic conditions are expected for Slovenia for 2020, however, according to IMAD's forecast, a slight downturn is expected for 2021; as a result, SSH expects from companies under its management to carry out all the necessary measures in a timely manner in order to enable their successful performance during the economic slowdown.

**Implementing a relevant dividend policy** is one of core activities in the management of state assets, enabling SSH to pursue goals aiming at the maximisation of cash flows for the owner while simultaneously taking into account the performance results of individual companies under its management and their development needs. As mentioned, the sum of planned dividend income in 2020 will be significantly affected by the changed structure of the SSH's portfolio of assets due to the sale of banks. It is planned that, in 2020, RS will receive EUR 102.9 million of dividend pay-outs (including the dividends for ZPIZ arising from the ownership of Zavarovalnica Triglav shares), while SSH will receive EUR 39.5 million of dividend pay-outs, amounting to the total of EUR 142,4 million.

After SSH has intensively run processes for the sale of state assets in some large companies in recent years, important sale processes are not envisaged for 2020. On the other hand, SSH plans to acquire assets in some companies, from the Energy Sector Pillar in particular. One of SSH's main activity for 2020 will thus be focused on further implementation of the Tourism Strategy, after the necessary consent by the Government of RS is obtained.

#### **A gap between the target ROE for 2020 from AAMP and the State Assets Management Strategy**

The Asset Management Strategy, which was adopted by the Parliament of the Republic of Slovenia in 2015, set an ambitious ROE target of 8% for 2020. This is ROE planned for all state assets, including those which have never been under the SSH's management and those which have been sold by SSH in accordance with AAMPs. Sales of state assets which have been carried out have a significant impact on the change in the structure of the portfolio under management and consequently to the planned value of ROE and the planned amount of dividend income. The most important sale processes took place in the Financial Sector Pillar. Assuming that NKBM and Abanka remained in the portfolio of assets, and the State retained a 100% equity holding in NLB, in 2020, ROE of the portfolio under management would amount to a **0.9 percentage point higher figure** than currently planned.

Tabela 2: **Proportion\* of pillars in the portfolio under SSH's management, by years, in %**

PILLAR	2014	2015	2016	2017	2018	30/06/2019
TRANSPORT	27.7	28.2	33.2	33.1	37.7	41.6
ENERGY SECTOR	27.9	25.8	27.8	27.9	31.3	33.0
FINANCIAL SECTOR	36.8	38.3	30.1	30.4	22.0	15.4
TOURISM AND ECONOMY	7.6	7.8%	8.9	8.7	9.0	10.0
PORTFOLIO	100.0	100.0%	100.0	100.0	100.0	100.0

Note:

\*All calculations in this document are made under the assumption that Abanka was sold before 30 June 2019 (at the time of the execution of the SPA).

Compared to the situation in 2015 and after the sale of banks, the proportion of the Financial Pillar, which has recorded the highest ROE in recent years, has substantially decreased (specifically, from 38.3% to 15.4%) while the proportion of the Transport and Energy Sector Pillars is increasing (from 28.2% to 41.6% and from 25.8% to 33.0%, respectively). The above



mentioned changes are reflected so that the proportion of strategic assets is increasing in the SSH' portfolio of assets and it represents as much as 82% of the portfolio value.

Tabela 3: *Proportion of assets in the SSH's portfolio by classification of assets, in %*

PROPORTION OF THE PORFOLIO	2014	2015	2016	2017	2018	30/06/2019
STRATEGIC	66.8	67.8	66.9	67.6	75.9	82.0
IMPORTANT	14.5	18.1	21.5	21.4	13.0	12.4
PORTFOLIO	18.7	14.1	11.6	11.1	11.1	5.6
PORTFOLIO	100.0	100.0	100.0	100.0	100.0	100.0

**The primary goal of managing strategic assets is attaining strategic and development goals of RS**, that is, realising important social interests such as providing the relevant level and accessibility of the infrastructure, rendering services of general economic interest, ensuring security objectives, development objectives and realising other significant social interests. **Within the scope of its asset management activities, when dealing with strategic assets, SSH strives for effective and efficient operation of companies classified as strategic assets.**

Operation of these companies is affected by certain factors as a result of which these companies cannot attain ROE figures targeted for 2020 by the State Assets Management Strategy, neither can they achieve figures attained by other companies. These factors are mostly the result of various regulations by means of which the State directly influences the revenue generated by these companies (for example, tolls, network charges, postal charges) or the sum of special contributions paid by these companies (for example, the contribution for the decommissioning of NEK) or for some other reasons, connected with special characteristics of their operation, on account of which these companies have high equity which has a negative impact on the ROE achieved. The total impact of the above mentioned circumstances on the achieved or planned ROE is thus difficult to quantify, although it can be estimated for how much the impacts of one-off events additionally decrease the value of ROE of the portfolio of assets under SSH's management in an individual year. As explained in the Introduction, according to the SSH estimate, the outlook for 2020 shows that, as a result of these impacts, ROE of the portfolio under management will be at least by **0.2 percentage** lower than in 2019. Since the adoption of the State Assets Management Strategy, some other regulatory changes have been adopted which were unknown at the time of developing the said Strategy but their impact on the operational results of companies is already present. For example, one of such changes refers to the change of the act governing network charges which in 2019 has affected the operational results of electricity distribution companies and of Plinhold. These changes similarly affect the portfolio's ROE planned for 2020 and as a result of them, ROE is planned to be by **0.1 percentage** lower than it would be with no regulatory changes having taken place.

It needs to be pointed out that individual companies included in the group of strategic assets significantly differ one from the other. On one hand, the strategic assets group includes companies fully operating at arm's length, some of them are listed companies. In case of such companies, economic goals are also pursued, in addition to strategic goals. These companies (Luka Koper and Zavarovalnica Triglav are an example of a listed company), which are tasked to attain strategic goals, achieve very good economic and financial results which are comparable to or even better than results achieved by their peers.

The other group of companies classified as strategic assets includes companies with which RS strives to pursue broader social goals of non-commercial nature. This group includes DARS, the Motorway Company of the Republic of Slovenia, which is the most valuable company in the portfolio under SSH's management considering its value of equity. **The Ministry of Infrastructure of the Republic of Slovenia** (Mol), as the sectoral ministry responsible for DARS, explicitly emphasises, that **attaining ROE cannot be a relevant criterion** to assess DARS's performance. According to the opinion by the said ministry, which is the sectoral ministry for companies from the Transport and Energy Sector Pillars, representing as much as 75% of the portfolio under SSH's management, for the owner, the only relevant criteria referring to DARS are firstly, the satisfaction of liabilities arising from the concession contract and from the contract for the construction of motorways in a good quality and cost efficient manner, and secondly, timely settlement of liabilities arising from loans, in connection with the envisaged Guarantee Act. As regards revenue of DARS, the highest proportion of revenue is generated by tolls (95%) to which the company has no influence as they are determined by responsible regulators. In addition, DARS carries out investment activities in connection with the National Motorway Construction Programme 2004 regardless of the fact, whether a construction of a certain motorway section is economically viable for DARS or not. Another example is SID Bank which differs significantly from other commercial banks due to its promotional and development role. The Slovene Export and Development Bank Act explicitly states that during its operation the bank shall not pursue the goal of maximising profits and that it does not compete with other financial institutions. The group of strategic assets in which regard the achievement of economic and financial goals is greatly affected by

the state (highly regulated companies) also includes all electricity distribution companies (EDC). Excluding the above mentioned companies from the calculation of ROE for the portfolio, would mean a **1.3 percentage** higher ROE for the SSH's portfolio of assets.

SSH manages several other strategic companies of which one part of operation is of market nature while the other part is restricted with regulatory requirements. These companies include: HSE, GEN, Slovenske železnice, Pošta Slovenije and Plinhold.

In case the above mentioned factors (firstly, the impact of the sale of three banks, secondly, the impact of regulatory changes made in 2019, thirdly, the capital increase in Slovenske železnice and finally, the exclusion of companies with high regulatory restrictions) were excluded from ROE calculation (ROE - (SID, DARS, and EDC), target ROE would amount to 8.3 % in 2020.

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, and the impact of regulatory restrictions and requirements.

The findings of the study which is being prepared for SSH and MoF by a consultant within the *Strengthening the performance and governance of State Owned Enterprises Project*, under the auspices of EC and with technical assistance rendered by EBRD show that ROE of the portfolio, as the sole criterion for measuring performance of companies under management and for measuring performance of the portfolio of state-owned assets is not suitable due to the diversity of assets in the portfolio. It is recommended that when determining criteria for measuring performance of the portfolio of state-owned assets, the diversity of the portfolio assets is taken into account: in addition to ROE, other indicators should be applied and their values should be measured separately by individual sectors (asset management pillars) or assets should be grouped in a different manner according to common characteristics (for example, the pursuit of pure economic goals on one hand and the provision of services of general economic interest, on the other hand).

ANNUAL ASSET MANAGEMENT PLAN  
FOR 2020

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**GENERAL SECTION**

## II. GENERAL SECTION

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### 1. COMPOSITION AND CONTENT OF ANNUAL ASSET MANAGEMENT PLAN

**The Annual Asset Management Plan is composed of the General Section and of the Special Section.** The Special Section mainly includes sensitive business data which is why the whole section has been classified as "CONFIDENTIAL". This is the reason for not publishing it publicly.

The **General Section of AAMP** gives a short presentation of key documents for asset management, the entire asset management portfolio of SSH is presented and the definition of companies which have not been included in the Special Section of AAMP is given. The said Section also presents fundamental and additional goals in the management of assets and it includes a chapter with macroeconomic forecasts; it continues with providing an overview of ROE figures as they have been achieved in comparison to their planned values, presenting them according to individual criteria and finally, it presents the data on cash flows which are expected to be generated from the management of assets, that is, income arising from dividend pay-outs. The General Section of AAMP presents well-founded inconsistencies in the methodology for determining the target return on equity as stated in the Asset Management Strategy.

The **Special Section of AAMP** gives a presentation of individual pillars/areas of assets under management. Under each pillar, the Assets Management Plan is presented separately for assets in each company. The Plan gives a detailed definition of asset management goals for the coming year and an outlook for 2021 for those companies which, considering the book value of shareholders' equity - a weight in the asset management portfolio - have the highest impact on the performance of SSH portfolio from the aspect of return of equity. Key criteria for measuring the performance in the attainment of asset management goals are defined, together with measures and policies for attaining these goals. An exception to the above mentioned presentation method is the illustration of measures for electricity distribution companies and for capital investments in venture capital companies. In this case, measures are defined for these companies as a whole since activities envisaged in connection with asset management are similar for all of them.

It is worth pointing out that decision-making as stated within the scope of SSH's expectations falls under the sole responsibility of the company's leadership which must take only those decision with due care and diligence that are economically sound and for the benefit of the company. The supervision over the management of the company and over making sound economic decisions falls under the responsibility of the company's Supervisory Board/Board of Directors.

Considering special characteristics of industries in which companies operate, criteria for measuring performance of companies are highly complex which is why it is advised to use the Criteria for Measuring Performance of SOEs in conjunction with this AAMP.

The Special Section also states the forecast cash flows arising from sales and acquisitions of assets to be undertaken 2020 in 2021. The Special Section also includes AAMP Tourism.

#### LIMITATION OF LIABILITY

The Document was developed in accordance with the principle of due care and diligence (in Slovene: "*s skrbnostjo vestnega in poštenega gospodarstvenika*"), and by applying the necessary expertise. Forecasts included in this document are based on estimates and assumptions made by SSH in regard to the operations of companies. Inside information of stock corporations was not available to SSH when developing this document.

## 2. KEY ASSET MANAGEMENT DOCUMENTS

The Slovenian Sovereign Holding Act (ZSDH-1) states four key legal documents necessary for the management of assets owned by SSH and for assets of RS which are managed by SSH. These are: (i) Asset Management Strategy; (ii) Annual Asset Management Plan; (iii) SSH Asset Management Policy and (iv) SSH Code of Corporate Governance. In addition to the above stated documents there are three additional documents which are connected with the latter in terms of their content. These are: (i) Criteria for Measuring Performance of SOEs, (ii) Platform of SSH for Voting on AGMs of companies and (iii) SSH Recommendations and Expectations.

The **Asset Management Strategy**, which was adopted by the National Council of the Republic of Slovenia on 13 July 2015 in accordance with Article 28 of ZSDH-1, provides for the following: (i) the definition and classification of assets to individual types of assets in accordance with Article 10 of ZSDH-1, (ii) the definition of development directions of RS in the capacity of a shareholder, and (iii) individual strategic goals which RS aims to achieve with every asset defined as strategic asset. The Article 10 of ZSDH-1 further stipulates that all assets of SSH and RS be classified in one of three classes of assets, that is, into strategic, important or portfolio groups of assets. When individual asset is not classified into one of the above mentioned class of assets it is considered to be portfolio asset.

In accordance with Article 30 of ZSDH-1, the **Annual Asset Management Plan (AAMP)** is adopted by the SSH Management Board on the basis of the adopted Asset Management Strategy. The consent by the SSH Supervisory Board must be granted to make the said document valid; the consent should be delivered not later than by the end of November, for the following calendar year. Subsequently, AAMP must be approved by the Government of RS, upon the proposal given by MoF.

**SSH may carry out certain actions in connection with asset management without any modifications or amendments be made to AAMP** when justified grounds are given and when such actions are in accordance with the law, the SSH's Articles of Association and when they do not significantly contravene the envisaged asset managements actions stated in the Special Section of AAMP for the relevant year. These actions are:

- with the aim of balancing the liquidity, SSH may sell or in another manner dispose of assets held by SSH under condition that the book value<sup>1</sup> of a company with state assets, which is the subject of the disposition in an individual year, does not exceed EUR 5 million;
- SSH may manage and disposes of state assets which are acquired by SSH during the year and which do not form the part of AAMP, under condition that the book value of a company with state assets, which is the subject of the asset management or the disposition of assets, does not exceed EUR 1 million;
- SSH may pursue all activities in connection with the acquisition of assets for RS when such acquisition has received a prior approval by the Government of RS by way of a resolution, irrespective of the capacity held by the Government of RS when passing such resolution (either as the General Meeting of SSH or as the state authority or in any other capacity, if, however, the will of the Government of RS about the acquisition may be clearly understood and SSH has been informed on this matter)<sup>2</sup>;

It is considered that asset management actions, which satisfy the criteria referred to in the preceding paragraph, are carried out in accordance with and on the basis of AAMP.

Another important legal document which is connected in terms of the content with AAMP is the **Criteria**. The said [document defines document defines](#) the criteria (indicators) for SSH to monitor the performance of operations of companies with state assets. In addition to measuring and assessing past performance results, the performance criteria are intended for a more detailed determination of expectations on the part of SSH towards SOEs about their future business results. These criteria are not quantified which is why they have to be applied with every AAMP. As a matter of fact, in AAMP, the performance criteria are quantified, representing SSH's expectations from SOEs as regards their attainment of future business results while in retrospect,

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<sup>1</sup> The book-value is the amount of equity according to the last published balance sheet of a company, calculated in regard to the holding of shares which is the subject of the disposition.

<sup>2</sup> Regardless of the Government's decision which never has the form of an instruction, SSH is obliged to carry out all processes for the acquisition of assets in accordance with the SSH Asset Management Policy. The general authority referred to in this section of AAMP only makes it possible to implement measures for SSH's asset management, when SSH takes such a decision, without having to amend AAMP; the Government of RS would, in fact, have to take a new decision on the matter although Government's decision about the acquisition was already made. The acquisition is carried out only in case when the purchase price for an SOEs is lower than the estimated value of the SOE, or if it is within the range of its estimated value. After a potential acquisition of new assets actually takes place, AAMP for an individual SOE is produced in reasonable time.

these criteria form a quantified basis for measuring and assessing past performance of companies in regard to the expectations set by SSH.

**The SSH 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. In addition, the said documents defines in detail the processes for the disposal of state assets. It is adopted by the SSH Management Board and the consent for its adoption is granted by the SSH Supervisory Board.

**The SSH Code** contains principles and recommendations for good practice in corporate governance of SOEs. The fundamental goal of a company with state assets is to maximise the value of the company and to generate the highest possible returns for the owner, unless otherwise stipulated in the law or in the Articles of Association.

**Platform of SSH for Voting on AGMs of companies** includes premises for representatives of SSH for their action at AGMs of companies and general standpoints of SSH in connection with some important topics discussed at AGMs. The said document is adopted by the SSH Management Board and is updated every year prior to the beginning of the AGM season.

**The SSH Recommendation and Expectations**, characterized by a predetermined and clear framework and public publication, communicates to SOEs some specific recommendations and expectations which SSH anticipates to be observed by SOEs. They especially include advice in regard to business planning, periodic reporting, processes involving transactions which affect company's expenses, cost optimisation and other similar recommendations.

### 3. SSH'S ASSET MANAGEMENT PORTFOLIO

SSH manages state assets and their asset management is presented in detail in this document.

SSH also manages the portfolio of SSH's liquid assets (deposits and other instruments from the money market, debt securities, UCITS) which are intended to balance its current liquidity necessary for the operation of SSH. This portfolio is not included in AAMP.

#### 3.1. State assets managed by SSH

SSH manages assets which are owned by SSH and assets which are owned by RS but managed by SSH.

As of 31/10/2019., SSH managed assets in 96 companies, of which 62 companies held stakes owned solely by RS and 22 companies held stakes owned solely by SSH while the remaining 12 companies held stakes owned by both RS and SSH.

Out of the total number of companies under SSH management, 65 of them were active, whereas the remaining companies included assets in companies in bankruptcy proceedings or in liquidation. The said active assets included 49 companies with assets owned solely by RS and 13 companies with assets owned solely by SSH while both RS and SSH held assets in the remaining 10 companies.

Within the portfolio of 96 of companies with state assets, 13 companies with assets owned by RS were placed under the SSH's management, as a result of the enacting of the provisions of ZIPRS1819-A. Of these companies, 1 company is in the process of liquidation. These companies were acquired by RS by inheritance.

Tabela 4: *Lists of SSH and/or RS assets in companies under SSH management as of 31/10/2019*

Lfd. No.	Company	Asset type	RS ownership stake (%)	SSH ownership stake (%)
<b>ENERGY SECTOR</b>				
1	ELEKTRO CELJE D.D.	STRATEGIC	79.50	
2	ELEKTRO GORENJSKA D. D.	STRATEGIC	79.48	0.31
3	ELEKTRO LJUBLJANA D.D.	STRATEGIC	79.50	0.30
4	ELEKTRO MARIBOR D.D.	STRATEGIC	79.86	
5	ELEKTRO PRIMORSKA D.D.	STRATEGIC	79.50	
6	EGS-RI D.O.O.	PORTFOLIO	100.00	
7	GEN D.O.O.	STRATEGIC	100.00	
8	GEOPLIN D.O.O. LJUBLJANA	IMPORTANT	25.01	
9	HSE D.O.O.	STRATEGIC	100.00	
10	INFRA D.O.O.	IMPORTANT	100.00	
11	NAFTA LENDAVA D.O.O.	IMPORTANT	100.00	
12	PETROL D.D.	IMPORTANT	10.10	12.68
13	PLINHOLD D.O.O.	STRATEGIC	60.10	0.05
14	RŽV D.O.O.	PORTFOLIO	100.00	
<b>FINANCIAL SECTOR</b>				
15	ABANKA D.D.	PORTFOLIO	100.00	
16	D.S.U. D.O.O.	IMPORTANT	100.00	
17	DTK MURKA, DRUŽBA TVEGANEGA KAPITALA, D.O.O.	IMPORTANT	49.00	
18	M1 D.D.	PORTFOLIO	0.00	

19	META INGENIUM, DRUŽBA TVEGANEGA KAPITALA, D.O.O.	IMPORTANT	49.00	
20	NLB D.D.	IMPORTANT	25.00	
21	SAVA RE D.D.	IMPORTANT	13.89	17.68
22	PRVI SKLAD, DRUŽBA TVEGANEGA KAPITALA, D.O.O.	IMPORTANT	48.90	
23	SID BANKA, D. D.	STRATEGIC	99.41	
24	STH VENTURES, DRUŽBA TVEGANEGA KAPITALA, D.O.O.	IMPORTANT	49.00	
25	ZAVAROVALNICA TRIGLAV D.D.	STRATEGIC	34.48	28.09
<b>TOURISM AND ECONOMY</b>				
26	A.L.P. PECA D.O.O.	PORTFOLIO	9.09	
27	ADRIA D.O.O.	PORTFOLIO		11.74
28	BODOČNOST MARIBOR D.O.O.	PORTFOLIO	77.52	
29	CASINO BLED D.D.	PORTFOLIO		33.75
30	CASINO PORTOROŽ D.D.	PORTFOLIO		9.46
31	CETIS D.D. CELJE	PORTFOLIO		7.47
32	CINKARNA CELJE D.D.	PORTFOLIO		11.50
33	CSS D.O.O.	PORTFOLIO	97.96	
34	ELEKTROOPTIKA D.D.	PORTFOLIO	0.01	70.48
35	HIT D.D. NOVA GORICA	PORTFOLIO		20.00
36	INKOS D.O.O.	PORTFOLIO	2.54	
37	URADNI LIST REPUBLIKE SLOVENIJE D.O.O.	STRATEGIC	100.00	
38	KOTO D.O.O.	PORTFOLIO	66.23	
39	KRKA D. D.	IMPORTANT	7.21	9.00
40	LOTERIJA SLOVENIJE D.D.	STRATEGIC		15.00
41	POMGRAD - VGP D.D.	IMPORTANT	25.01	
42	PS ZA AVTO D.O.O., LJUBLJANA	PORTFOLIO		90.00
43	RCR D.O.O.	PORTFOLIO	0.09	
44	SAVA D.D.	IMPORTANT		18.69
45	SAVAPROJEKT D.D.	PORTFOLIO	3.47	
46	SIJ D.D.	IMPORTANT	25.00	
47	STUDENTENHEIM KOROTAN GMBH	PORTFOLIO	100.00	
48	TELEKOM SLOVENIJE D.D.	PORTFOLIO	62.54	4.25
49	TERME OLIMIA D.D.	IMPORTANT		4.01
50	UNIOR D. D.	PORTFOLIO		39.43
51	VARNOST SISTEMI D.O.O.	PORTFOLIO		9.74
52	VGP D.D.	IMPORTANT	25.00	
53	VGP DRAVA PTUJ D.O.O.	IMPORTANT	25.00	
54	VGP NOVO MESTO, D.D.	IMPORTANT	25.00	
<b>TRANSPORT</b>				
55	DARS D.D.	STRATEGIC	100.00	
56	INTEREUROPA D. D.	PORTFOLIO		1.73
57	KZPS D.O.O.	STRATEGIC	100.00	
58	LUKA KOPER, D. D.	STRATEGIC	51.00	11.13
59	POŠTA SLOVENIJE D.O.O.	STRATEGIC	100.00	
60	SŽ D.O.O.	STRATEGIC	100.00	

**Note:**

Holdings are rounded up to two decimal places. When the holding of 0.00% is referred to, this means that there is an ownership stake in the company but it has been rounded up to 0.005 %.



Tabela 5: *Lists of assets held by SSH and/or RS in companies in bankruptcy proceedings or in liquidation, as of 31/10/2019*

Lfd. No.	Company	RS's ownership stake	SSH's ownership stake
1	GIO D.O.O., LJUBLJANA - IN LIQUIDATION		71.27
2	RUDNIK KANIŽARICA V ZAPIRANJU D.O.O., ČRNOMELJ - IN LIQUIDATION	100.00	
3	RTH D.O.O. TRBOVLJE - IN LIQUIDATION	100.00	
4	AERO D.D. - IN BANKRUPTCY		1.44
5	CASINO MARIBOR D.D. - IN BANKRUPTCY		22.83
6	DRUŽBA ZA SPODBUJANJE RAZVOJA TNP D.D. - IN BANKRUPTCY	51.05	
7	GLIN IPP D.O.O. - IN BANKRUPTCY	16.06	
8	GRADIS SKUPINA G D.D. - IN BANKRUPTCY		1.36
9	LIPICA TURIZEM D.O.O. - IN BANKRUPTCY	100.00	
10	MAKSIMA HOLDING D. D. – IN BANKRUPTCY	0.01	
11	MAKSIMA INVEST D.D. - IN BANKRUPTCY	0.00	
12	MURA D.D. - IN BANKRUPTCY		12.23
13	NFD HOLDING D.D. - IN BANKRUPTCY	0.00	
14	NOVOLES D.D. - IN BANKRUPTCY		16.69
15	PEKO D.D. - IN BANKRUPTCY	61.16	
16	POLZELA D.O.O. - IN BANKRUPTCY	71.43	28.57
17	RIMSKE TERME D.O.O. - IN BANKRUPTCY	3.83	13.55
18	RRA CELJE D.O.O. - IN BANKRUPTCY	100.00	
19	RUDNIK SENOVO V ZAPIRANJU D.O.O. - IN BANKRUPTCY	5.89	
20	SVEA D.D., ZAGORJE OB SAVI - IN BANKRUPTCY		15.57
21	TAM MARIBOR D.D. - IN BANKRUPTCY	10.85	
22	UNIVERZALE D.D. - IN BANKRUPTCY		8.53
23	VEGRAD D.D. - IN BANKRUPTCY		29.00

Tabela 6: *Lists of assets transferred under SSH's management in accordance with ZIPRS1819-A as of 31/10/2019*

Lfd. No.	Company	RS's ownership stake
1	ALPINUM D.D.	0.04
2	ARRIVA ŠTAJERSKA D. D.	0.04
3	HARAM HOLDING, D. D.	0.01
4	IBT TRBOVLJE, D. D.	0.04
5	KOMPAS KAPITAL D.O.O.	0.35
6	KOMPAS RAC D.D. LJUBLJANA - IN LIQUIDATION	0.01
7	KS NALOŽBE D. D.	0.01
8	MERCATOR, D.D.	0.00
9	NTU D.D.	0.03
10	POMORSKA DRUŽBA D.D., PORTOROŽELENJE,	0.10
11	PUP VELENJE, D.D.	0.05
12	TELEMACH POBREŽJE, D.D.	0.01
13	VIPA HOLDING, D. D.	0.00

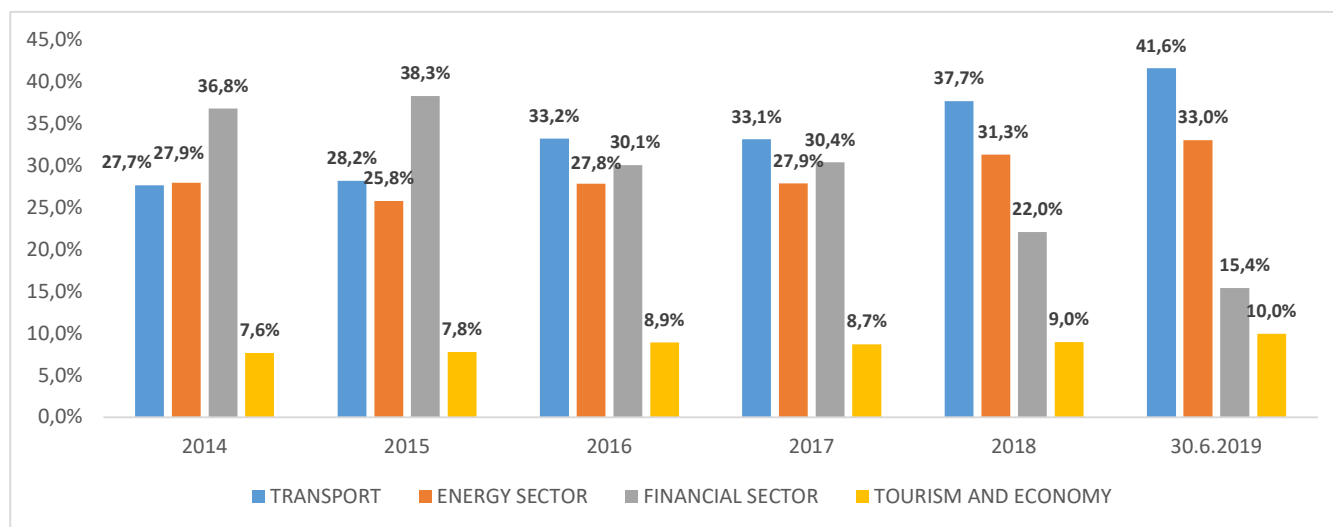
Note:

Holdings are rounded up to two decimal places. When the holding of 0.00% is referred to, this means that there is an ownership stake in the company but it has been rounded up to 0.005 %.

### 3.2. The structure of the portfolio under SSH's management

The structure of the portfolio of assets under SSH's management changed dramatically in the period from 2014 to 2019. In the period observed, the proportion of the Financial Sector Pillar more than halved due to the sale of three banks. On the other hand, the Transport Pillar gained in importance (its proportion in the total SSH's portfolio increased by more than 50%), together with the Energy Sector Pillar (its proportion in the total SSH's portfolio increased by a solid 18%). The Tourism Pillar similarly recorded an increase but its proportion in the period observed is the lowest.

Slika 1: *Proportion of pillars in the portfolio under SSH's management, by years*



Slika 2: *Proportion of pillars in the portfolio under SSH's management as of 30/6/2019*

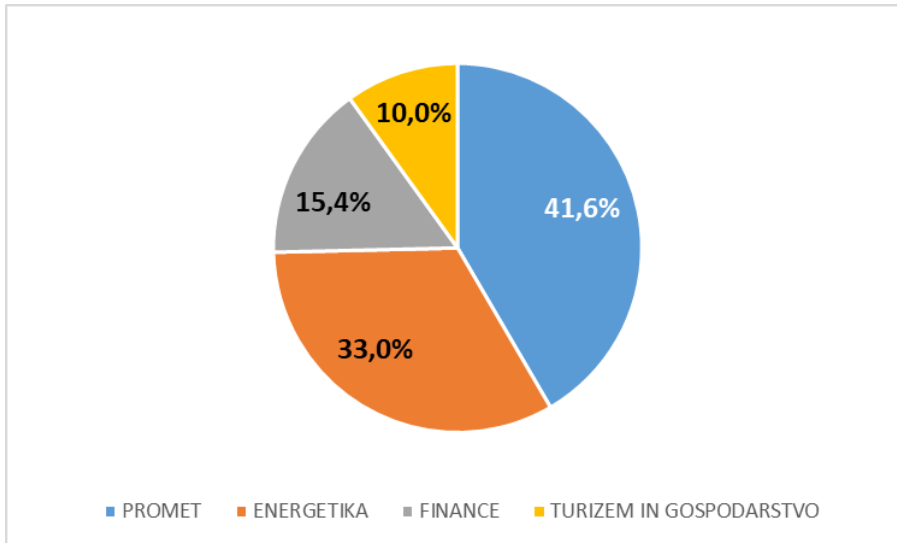
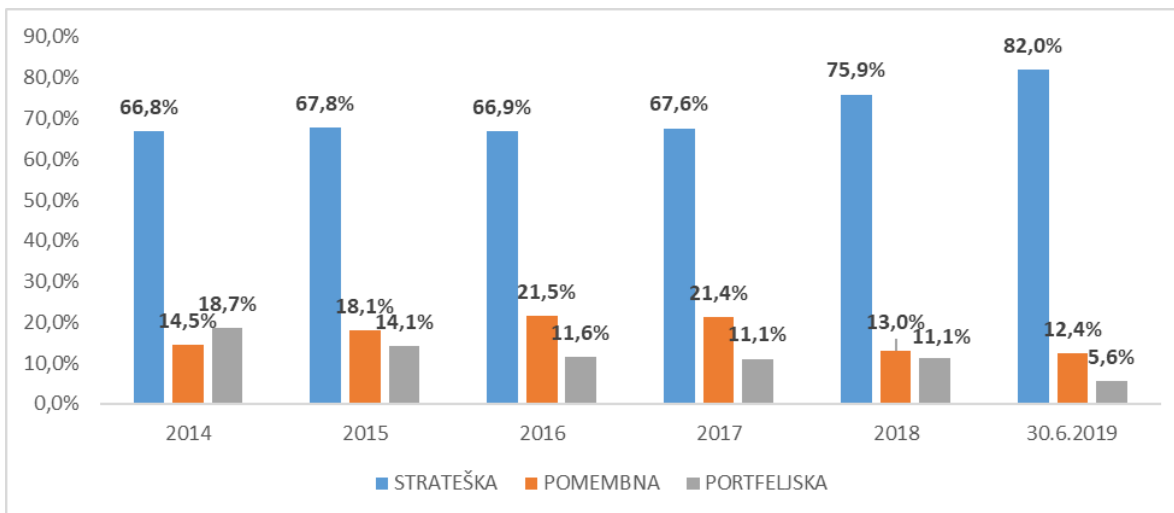


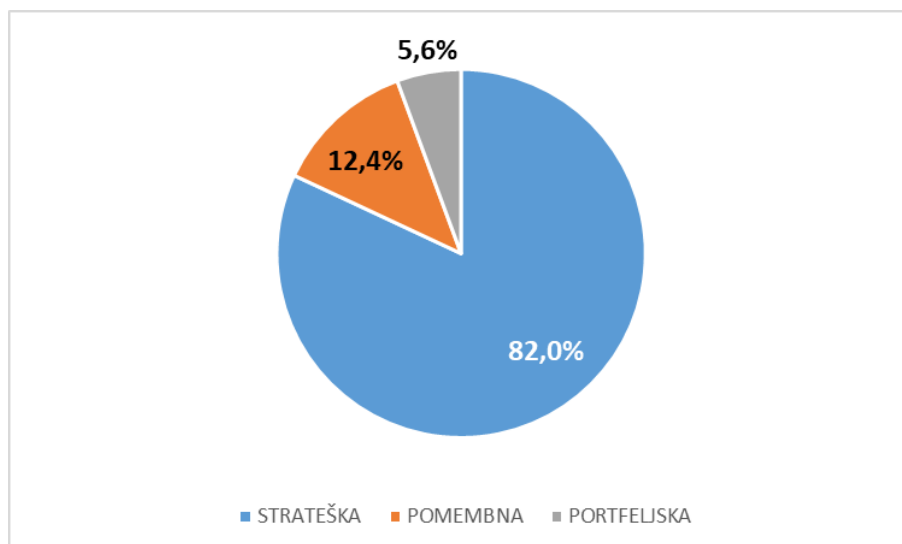
Figure 1

The period observed has seen the portfolio of assets under SSH's management change as regards the classification of assets. Due to the sale of NLB, the proportion of important assets in the total portfolio of assets under SSH's management decreased. Likewise, the sale of another two banks, NKBM and Abanka, affected the decrease in the asset portfolio.

Slika 3: *Proportion of Proportion of pillars of assets in the portfolio under SSH's management, by years*



Slika 4: *Proportion of assets in the SSH's portfolio by classification of assets, as of 30/6/2019*



### **3.3. State assets which are not included in this AAMP neither in the Special Section of AAMP**

The classification of state assets stated in the Asset Management Strategy referred to in Table 10 also includes assets which are not managed by SSH. They include the following companies with RS's assets:

- **for which SSH does not hold any powers to participate at their General Meeting** (for example, KAD, STA d.o.o.); as a result, SSH cannot enforce any shareholder's entitlements;
- **which are under direct management of RS in accordance with special legislation** (for example, SODO, ELES, Borzen, Slovenski državni gozdovi, DRI, 2TDK);
- **state assets in companies in the process of acquisition:** in case of companies whose equity holdings are in the process of being acquired by SSH and/or RS, and RS and/or SSH do not hold them yet, SSH will prepare separate asset management plans for these companies if and when assets in such companies are actually acquired; only at that point in time, SSH may commence with their management.

**All of state assets managed by SSH are included in the Special Section of AAMP with the exception** of state assets in companies which are subject to special circumstances owing to which the preparation of the Special Section of AAMP is not reasonable. These are:

- **assets in companies undergoing bankruptcy proceedings or in liquidation (inactive companies):** SSH does not carry out any asset management related activities in companies in bankruptcy proceedings whereas in case of companies in liquidation, the main goal of asset management is a successful completion of liquidation proceedings. As an exception, such assets may be included in a special section of AAMP when additional management activities are necessary or envisaged;
- **assets for which a Sale and Purchase Agreement with regard to the total stake held by SSH and/or RS has been concluded or any other type of written agreement** has been concluded but not yet finally realised. The management activities undertaken in such companies are minimal. In the management of state asset of these companies the goal of SSH is to successfully carry out activities envisaged to be taken in the period between the signing of the agreement and the closure of the transaction and activities which are required for a successful closure of the transaction. If the process for the sale of these assets fails to be successfully closed, SSH will immediately start with the preparation of separate AAM for these assets (Abanka d.d., Casino Portorož, d.d., Casino Bled, d.d.);
- **assets in companies in which RS and/or SSH hold only a minority equity holding;** given that the equity holding is low, SSH has a very limited impact on the corporate governance of such companies. In the management of such assets, SSH will strive to act for the benefit of RS and/or SSH, by taking into account the principle of economy and SSH's influence on voting. The fundamental goal pursued by SSH in the management of these assets is to ensure suitable conditions to sell these assets. Their sale will be conducted by means of a public call to submit bids. There are 22 such companies and they are presented in the Table 7 of this document;

- **assets in companies from the transport sector for which preparatory activities for their acquisition** are under way and for which amendments to AAMP are in progress.

Tabela 7: **List of assets managed by SSH in active companies and not included in the Special Section of AAMP, as of 31/10/2019**

Lfd. No.	Company	Asset type	RS ownership stake (%)*	SSH ownership stake (%)	TOTAL ownership stake (%)
1	ABANKA D.D.	PORTFOLIO	100.0		100.0
2	A.L.P. PECA D.O.O.	PORTFOLIO	9.09		9.09
3	ALPINUM D.D.	PORTFOLIO	0.04		0.04
4	ARRIVA ŠTAJERSKA D. D.	PORTFOLIO	0.04		0.04
5	CASINO BLEED D.D.	PORTFOLIO		33.75	33.75
6	CASINO PORTOROŽ D.D.	PORTFOLIO		9.46	9.46
7	ELEKTROOPTIKA D.D.	PORTFOLIO	0.01	70.48	70.49
8	HRAM HOLDING D. D.	PORTFOLIO	0.01		0.01
9	INKOS D .O. O.	PORTFOLIO	2.54		2.54
10	INTEREUROPA D. D.	PORTFOLIO	1.73		1.73
11	IBT TRBOVLJE D. D.	PORTFOLIO	0.04		0.04
12	KOMPAS KAPITAL D.O.O.	PORTFOLIO	0.35		0.35
13	KS NALOŽBE D. D.	PORTFOLIO	0.01		0.01
14	MERKATOR D.D.	PORTFOLIO	0.00		0.00
15	M1 D.D.	PORTFOLIO	0.00		0.00
16	NTU D.D.	PORTFOLIO	0.03		0.03
17	RCR D.O.O.	PORTFOLIO	0.09		0.09
18	POMORSKA DRUŽBA D.D.	PORTFOLIO	0.10		0.10
19	PUP VELENJE D.D.	PORTFOLIO	0.05		0.05
20	SAVAPROJEKT D.D.	PORTFOLIO	3.47		3.47
21	TELEMACH POBREŽJE D.D.	PORTFOLIO	0.01		0.01
22	VIPA HOLDING D. D.	PORTFOLIO	0.00		0.00

**Note:**

Holdings are rounded up to two decimal places. When the holding of 0.00% is referred to, this means that there is an ownership stake in the company but it has been rounded up to 0.005 %.

## 4. FUNDAMENTAL OBJECTIVES IN ASSET MANAGEMENT AND PREMISES FOR MEASURES AND ACTIONS TO ATTAIN GOALS

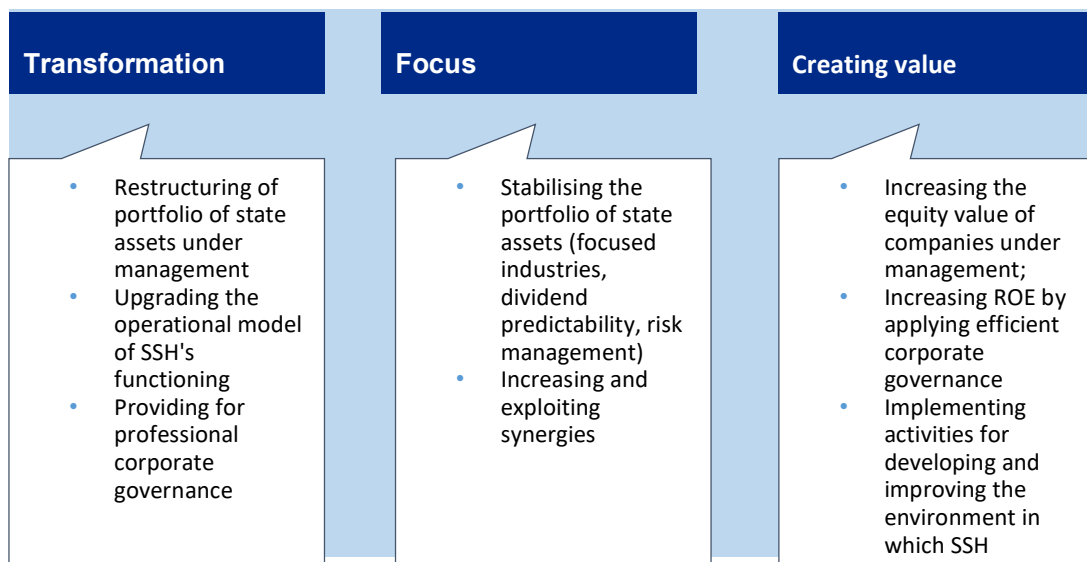
### 4.1. Vision, strategic policies and goals in asset management

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 state assets and to perform other tasks.

#### Vision

**Generating value from capital assets for the owner.**

#### Strategic directions



#### SSH's objectives related to management of assets owned by RS and SSH

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

The goal pursued by SSH in the management of state assets is the attainment of fundamental goals and additional goals determined in the State Assets Management Strategy and goals determined in each Annual Assets Management Plan (AAMP).

### 4.2. Fundamental goals for managing state assets and their classification

In managing assets, in accordance with ZSDH-1, goals differ according to the classification of a company and state assets into 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 (fundamental goals in asset management).

Fundamental goals in asset management are:

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

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

- **Strategic assets** are assets in regard to which **strategic and economic goals are pursued**. The minimum stake to be kept in companies classified as strategic is 50 % plus one vote, in accordance with Article 14, Paragraph 1 of ZSDH-1.
- **Important assets** are assets in regard to which **development and economic goals are pursued**. The minimum stake to be kept in companies classified as important is 25 % plus one vote, in accordance with Article 14, Paragraph 2 of ZSDH-1.
- **Portfolio assets** are assets in regard to which solely **economic goals** are pursued. SSH may freely dispose of portfolio assets.

The Asset Management Strategy defines in detail the main substantive criteria for classifying assets into strategic, important and portfolio assets. These criteria are categorized into **four groups**:

- strategic and development criteria,
- sectoral and entrepreneurial criteria,
- network criteria, and
- fiscal criteria.

Within these criteria, individual indicators have been determined together with the relevant weight which is used when rating individual assets; the classification of an asset into an individual group of assets depends on the total number of points received in the score.

Such scoring of assets in accordance with the substantive criteria referred to in the Asset Management Strategy mentioned above shows that the State holds:

- a) strategic assets in the following companies:
  - undertakings carrying out key infrastructural duties,
  - companies carrying out economic activities which are important for stable and safe supply of resources and energy, in addition to public grid operators:
  - companies rendering important public obligations (services of general economic interest):
  - companies increasing the competitiveness of the entire forest-wood value chain:
- b) important assets in the following companies:
  - systemic financial institutions and venture capital funds,
  - lottery and gambling,
  - companies which are important in terms of their development and technological functions, and are proficient in key technologies, and RS wishes to keep their key development components in Slovenia, and
  - companies which have an important role in the integration of companies within the supply chain and for the internationalisation of the economy.

## **4.3. Goals in AAMP**

### **4.3.1. Premises for measures and actions to attain goals of AAMP**

When determining the direction, measures and actions to be kept and undertaken by SSH in managing companies with state assets and when defining goals to be achieved in detail, the following **premises** are particularly taken into account:

- **fundamental guidelines** laid down in the Asset Management Strategy,
- **fundamental asset management goals** on account of which an individual company with state assets 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 the **corporate and legal leverage** which derives from its capacity of a shareholder. Other statutory restriction must be taken into account when managing state assets. These limitations are explained in detail in Chapter 4.3.2. of this AAMP;
- When preparing an Annual Asset Management 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 if these plans are compliant with SSH's goals. These plans are fully or, in their significant parts, summarised by SSH in the special section of this AAMP discussing individual companies when this is reasonable; in addition, SSH makes a stand in regard to the fact whether SSH's support is to be provided for the strategy of a company or whether SSH will attempt to make some changes to their strategies in a legally admissible manner. In SOEs, which are organized as stock corporations, SSH has a **limited access to information** since, under the applicable law, the shareholder's right to information is restricted. In the Special Section of AAMP this may appear to be presented as an incomplete summary of strategic goals and of development directions of an individual company. When the prognosis of all relevant circumstances cannot be ascertained with a sufficient level of probability, directions, measures and actions in the General and Special Sections of this AAMP are defined as an **alternative**, subject to the occurrence of certain events.

### 4.3.2. Statutory restrictions in managing state assets

SSH manages state assets in accordance with applicable laws and regulations and the adopted legal documents on asset management. Certain rules and statutory solutions may be viewed as limitations in managing state assets, however, they also have their own purpose, usually of a protective nature. In this regard, the following limitations in asset management are pointed out:

- The provision of Article 20, Paragraph 3 of ZSDH-1 stipulates that SSH must not interfere with the independence of the corporate bodies, and especially, it must not intervene with individual business and governance decisions.
- It has been made clear in Chapter 4.31. that an important restriction in managing state assets is imposed by provisions of ZGD-1 which refer to the restricted shareholder's right to information. When public companies are referred to, the provisions of ZTFI must also be taken into consideration.
- SSH must observe provisions of the take-over legislation which force a shareholder to publish a take-over bid for all remaining shares not yet held by the shareholder when the take-over threshold or the additional take-over threshold is reached. In other words, this means that SSH cannot increase the participation of the State in a target company above the take-over threshold or above the additional take-over threshold when there is no willingness to acquire the remaining shares of the target company.
- SSH must observe the provisions of the law which regulates the prevention of the restriction of competition. Among other things, this means that in case of a potential concentration, the responsible authority must be notified of the latter and activities aimed at implementing the concentration must be suspended until the decision on the compliance of concentration with competition rules is issued. SSH avoids concentration when it is believed that concentration of undertakings is questionable from the aspect of legal competition rules and submits to the regulatory body a proposal of correction measures.
- In case of certain measures regarding asset management, SSH must take into account the rules on state-aid. These must also be considered in the processes for the sale of state assets which, among other things, means that, as a rule, in the SPA, a prospective buyer cannot be obliged to satisfy non-financial commitments.
- SSH must take into account the Asset Management Strategy within the scope of which asset management measures are determined in every AAMP.

The remuneration policy is considered as being an important leverage for motivating the management in order to attain company's goals and strategy. ZGD-1 envisages that it is the General Meeting of a company that adopts a remuneration policy with regard to income to be received by the bodies of management. As the remuneration policy with regard to enterprises in direct and indirect majority ownership of SSH/RS is regulated by ZPPOGD, no remuneration policy for management and supervision bodies is passed at the General Meetings of such companies. Instead of a General Meeting, the remuneration policy is adopted by Supervisory Boards in some SOEs. SSH is informed of the remuneration received by top executives in their Annual Reports and at regular AGMs of SOEs and expects their income to be disclosed in accordance with the provision of Article 294 of ZGD-1 and the Corporate Governance Code for SOEs. As regards the disclosure of remuneration policy, SSH's stand is that it has to be compliant with ZPPOGD and Article 270 of ZGD-1 stipulating that remuneration received by an individual member must be proportionate to his/her duties and financial condition of a company. In accordance with Article 7 of this Act, the supervision over the implementation of ZPPOGD is carried out by MoEDT directly in the following manner: immediately after the company's body of supervision concludes the contract with the management body, the contract is submitted to the mentioned ministry for its review.

## 5. ADDITIONAL GOALS FOR ASSET MANAGEMENT AS STATED BY STRATEGY

### 5.1. Implementing strategic and development objectives

Strategic and development objectives in asset management are pursued in managing strategic and important assets.

These objectives are attained by implementing the following measures:

- the cooperation with all stakeholders, particularly responsible sectoral ministries, which takes into account current sectoral strategies and policies and harmonised national development priorities from strategic and development documents;
- prudently implemented decision-making processes with regard to long-term development documents of SOEs, in accordance with applicable instruments of incorporation;
- expectations with regard to SOEs which will ensure proper balance between economic goals and strategic and development goals, especially from the point of view of the required ROE, dividend policy and development and investment activities.

### 5.2. Increasing return on equity

In the long term, increasing the value of shareholders' equity of enterprises and return on equity of companies under SSH's management will be ensured by implementing the following measures:

- setting ambitious yet realistic targets for the expected strategic, economic and financial performance indicators, supervising performance results and comparing them to goals set in AAMP and implementing key asset management activities at the enterprise level;
- benchmarking of the top SOEs with comparable international enterprises;
- pursuing a suitable dividend policy considering the company's position, performance, planned investment activities and development of a company;
- appointing members of Supervisory Board by applying objective criteria applicable for all members of Supervisory Boards of SOEs, thus providing for a good quality and heterogeneous composition of Supervisory Boards
- checking on key risks while companies are expected to prepare measures for monitoring and diminishing risks;
- sustainable operation and innovation activities are included in the company's strategy;
- constant improvements in corporate governance practice;
- assuring for corporate integrity and achieving the highest ethical standards in operation;
- having a fruitful dialogue and providing for active engagement of all key SSH's stakeholders in the process of asset management.

**Setting ambitious yet realistic values for the expected strategic, economic and financial performance indicators and regular supervision over performance results.** 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. Goals are set by SSH for the majority of companies with assets held by RS and SSH which is then reflected in better systemic organisation of corporate governance as well as in performance results. SSH strives for achieving good operational results in the long term. As regards the monitoring of operations, SSH has established a system of quarterly reporting and, in case of some companies under management, monthly reporting to SSH has been put in place. This system ensures better information which is the basis for timely action taking and decision making in connection with assets in individual companies. SSH will continue to communicate with companies in the established manner, dealing with all topics which are important for the performance, risk management and performance of companies.

**Benchmarking.** SSH monitors and compares key indicators of individual portfolio companies with competitors (i.e. benchmarking), sets goals in line with those of internationally comparable companies, and thus enables more active and more efficient asset management. In addition, it follows trends and development of individual sectors and companies, and at the level of companies, monitors the fulfilment of their business plans.

**Suitable dividend policy considering the company's development cycle.** 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.

**Heterogeneous Supervisory Board composition of good quality.** SSH is responsible for ensuring a heterogeneous composition of Supervisory Boards and a strict supervision over the work carried out by Management Boards of SOEs. Among other matters, with regard to Supervisory Board Members, this includes paying attention to their professional competence, business credibility, financial and strategic knowledge, knowledge of the basics of business administration; members must be strong team players, they must understand the business culture and be committed to observe the principles of business ethics. 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. SSH will continue to strive to attract a wide selection of experts from the areas of work with a shortage of accredited candidates.

**Checking on key risks while companies are expected to prepare measures for monitoring and diminishing risks.** Considering industries and markets on which enterprises operate, it is important for SOEs to identify risks and business opportunities, managing them so as to operate in a sustainable manner from economic, social and environmental aspects. SSH will continue to provide support to all portfolio companies to tackle changed circumstances of operation in an efficient manner and to provide for long-term growth and employment. Within the scope of periodic meetings, main risks are verified and methods for their management are dealt with.

**Sustainable operation and innovation activities are included in companies' strategies.** The inclusion of sustainable policies in a company's business model may result in gaining a competitive advantage in the long run. Transformation into advanced and sustainable business model is thus important for competitiveness and successful performance of an enterprise. The added value of such operation includes social responsibility, responsible leadership and high business ethics which must become a part of strategies, policies, programmes and organizational measures. Another important factor of a company's competitive advantage is innovation which ensures that an enterprise adds value to its activities. More than ever, it is critical that supervisory boards focus on supporting the companies they serve and oversee, that they regularly reflect on whether innovation receives sufficient attention during supervisory board's sessions, and that they carefully consider what role they should play with regard to management on the topic of innovation (setting objectives, regular monitoring of innovation strategy, risk management, reporting on efficiency in innovation governance).

**Assuring corporate integrity and achieving the highest ethical standards in operation.** For all SOEs, it is highly important that they operate in the direction of:

- exercising high ethical business standards and actively preventing corruption. Consistently observing the guidelines of Code of Corporate Governance for SOEs and ethical standards is one of the methods of an exemplary operation, in addition to establishing standards introduced by the Integrity and prevention of Corruption Act which apply for companies not liable to introduce such standards by the law;
- ensure working conditions of good quality, healthy working environment and satisfaction of human rights;
- Companies should strive to enforce diversity policy and continually improve organisational culture;
- to formulate and realize sustainable development policies.

In 2020, SSH will continue to upgrade key elements of this goal by introducing changes to the SSH Code.

**Having a fruitful dialogue and providing for active engagement of all key SSH's stakeholders in the process of asset management.** SSH regularly organises periodic meetings held with management and/or Supervisory Boards in order to find out, within its statutory responsibilities, about performance results, planned activities and other more important challenges faced by individual companies. An important part of asset management related activities includes cooperation with sectoral ministries with regard to sectoral policies and industry strategies, together with cooperation with social partners within and outside the consultation body ECESA. SSH cooperates constructively with all stakeholders important for the realisation of either SSH's asset management goals or for goals of an individual company.

### ***5.3. Rise in culture of corporate governance***

In Chapter 3.2, the Asset Management Strategy states that the goal of SSH is to raise the culture of corporate governance in all companies with state assets, including in SSH. Some additional goals for asset management have been set in the said Strategy.

These goals are as follows: developing and implementing standards of good practice in corporate governance, establishing an organised and functioning system of internal controls, internal audit and risk management, providing positive examples and improving the integrity and ethical conduct of employees.

SSH has already taken key measures for raising the culture of corporate governance - it adopted the SSH Code of Corporate Governance for SOEs and the SSH Recommendations and Expectations which have been addressed to SOEs. In addition, the SSH Asset Management Policy has been adopted. All of the above mentioned documents are periodically improved and updated considering the developments in legislation, advances in good practice in corporate governance and SSH's own understanding about the necessary improvements of the system of corporate governance of SOEs. Now and then, to some companies, SSH addresses different explanatory notes and its standpoints in connection with the application of the above mentioned documents, and when necessary, provides broader remarks about the proper understanding of provisions of the company law. SSH has enforced its corporate rights in some companies so that their Articles of Association have been adopted pursuant to which corporate governance is implemented in these companies through corporate legal norms.

SSH regularly monitors operations of SOEs through the system of periodic reporting by SOEs on their operational results, through plans being submitted by SOEs, at meetings organised with the management of SOEs and by means of reports on risk management pursued by SOEs. In addition, SSH takes care that constant training is provided for members of management and supervisory bodies of SOEs; free-of-charge training sessions are usually organised on a monthly basis. In addition, SSH makes it possible that representatives of companies and other interested parties report anonymously about potential irregularities discovered in the operation of SOEs; SSH offers protection for whistle blowers.

Activities for the update of the SSH Code are in progress at the time of preparing this document. Amendments to the Corporate Governance Code refer to the corporate integrity system and to internal succession planning, encouraging companies to establish efficient systems in this regard. This is particularly necessary in SOEs where specific knowledge and skills are necessary and in which departures of key executives may lead to serious disturbances in operation. The analysis of observance of SSH Code and SSH Recommendations and Expectations is generally done every two years.

SSH will monitor further developments of legislation, cases of good practice and will try to detect issues and continue with the development of the corporate governance system accordingly. When necessary, initiatives for amendments and modifications of legislation will be submitted to the responsible ministry.

#### **5.4. Improving efficiency in disposition of assets**

In case of SOEs for which the analysis will show that fundamental goals in asset management are best achieved by disposing of such assets, more in-depth goals of such measure are presented in AAMP. When strategic or important goals in connection with an individual company with state assets may also be achieved by selling off one part of the company or by disposing of it in other manner, goals referred to in Chapter 3.3 of the Asset Management Strategy are additionally taken into account. These goals are: employment, competitiveness and business performance of the company, improvements of public services and future development of the society, ensuring responsible owners who will provide long-term and successful development of the company in the future. In this regard, the rules of the EU law on state-aid are fully observed. When, at the discretion of SSH, economic goals in regard to the ownership of portfolio assets are best achieved by their disposition, the objective of such disposition is always the highest proceeds from the sale. When the SSH's assessment shows that fundamental or additional goals in asset management may be better achieved by firstly restructure a company, the goal SSH pursues in this case is to direct the company towards its restructuring in a legally admissible manner. In line with the legal framework given, SSH is then actively involved in the process of restructuring.

SSH has adopted the Asset Management Policy which regulates in detail the processes for the acquisition and disposition of state assets. As regards their legal regulation, these processes are organised so that good practice and rules of the discipline from the relevant area are taken into account. SSH consistently observes provisions of the **SSH Asset Management Policy** which are periodically improved and updated. SSH will continue pursuing this activity in the future. These provisions were fully observed in previous processes for the sale and acquisition of assets.

#### **5.5. Prevention of concentration by other owners (the State as the largest owner)**

In Chapter 2.3(3), the Asset Management Strategy states as follows: *In regard to individual important assets which are specially determined in this Strategy, the prohibition of the concentration and dispersed ownership by private owners apply, specifically,*

*up to the total amount of the state owned assets.* The above mentioned goal refers to the following companies with state assets: NLB, Petrol, Pozavarovalnica Sava, Sava and Krka.

In 2018, SSH modified the Articles of Association of NLB, d. d. by way of which the restriction on the transferability of shares was been imposed in accordance with the provisions of ZGD-1; thus, an approval by the company is now needed for the transfer of shares (i.e., an instrument restricting the transfer of shares) which may be denied when an acquirer exceeds the threshold of 25% of NLB voting shares plus 1 share.

As regards Pozavarovalnica Sava, Sava, Petrol and Krka, legal leverage available to SSH does not make it possible to effectively prevent any other shareholder to exceed the State's voting power. Important factors affecting the realisation of this goal of the Asset Management Strategy include dispersed ownership, the liquidity on the regulated market and maintenance of the existing ownership stake of the State. The interest of the State in the role of an owner may also be reached by concluding a shareholder agreement, within the scope of statutory permissible options (ZPre and other acts).

## **5.6. Consent granted by SSH in processes for disposition of assets**

In accordance with Paragraph 3.3 (4) of Asset Management Strategy, SSH must verify all companies with strategic and important assets under its management, together with their assets in other companies (companies in their majority ownership, affiliates, minority equity stakes in enterprises) and, in doing so, SSH must follow the objective a company has in carrying out its core business, i.e., in providing support for key activities of its parent company. The Supervisory Board of such company must obtain a prior consent by SSH in case of disposing of state assets in a company whose activities support the core activity of a company which has been classified as strategic or important in the Strategy,

In case of many companies with limited liability in which SSH exercises at least 75% share of voting rights, SSH has introduced relevant provisions in their incorporation documents which stipulate that the management of a company must obtain a consent by the company's General Meeting/company members/the founder for the disposition of assets which are subject to this goal. In companies in which this measure has not yet been implemented, its implementation is foreseen in the future.

### **Other potential measures:**

- In case of stock corporations, the Management Board itself may submit a business decision (a decision on the disposition of assets, in the case in question) to the General Meeting although the Management Board may not be forced to do so.
- In an individual company with state assets SSH may, upon the company's explicit request, (only) give its opinion whether the disposition of certain state assets, which are subject of the Chapter 3.3. of the Strategy, contravenes the goal of the State having the strategic ownership in a certain company.

### **Reasoning:**

The Strategy is not a regulation of such nature which would bind Supervisory Boards of companies with state assets. It would also be contrary to the provisions of ZGD-1 and to Article 20 of ZSDH-1, if SSH, in the capacity of SSH, issues such consent to these companies. As a matter of fact, at General Meetings, SSH may only vote on a resolution proposal to issue a consent or passes the resolution on the issue of the consent when acting as a sole shareholder. The decision to dispose of state assets is a business decision which is why the authority to submit such decision on the disposition of assets to the General Meeting of a company or to a company member is vested in the management body or in the management body together with the Supervisory Board and not in the Supervisory Board alone. Therefore, SSH implements the quoted provision of the Strategy in line with and adapted to the legal organisational form of a company with state assets and according to the ownership stake of the State in such enterprise. SSH will amend Articles of Association of companies in a manner so that prior to the disposition of state assets, a limited liability company will be required to obtain a consent by the General Meeting of the company or the sole shareholder, obviously, within the legal framework given, and in cases where this has not yet been implemented. Then, acting in the capacity of a company member, SSH will vote for and adopt the Resolution to issue the consent. In case of stock corporations in 100% state ownership, it is expected that, in accordance with the law, the Management Board of a company will submit to the General Meeting the said Board's decision on the disposition of assets. In case of other stock corporations, it should be at the discretion of the Management Board to either observe the quoted provision of the Strategy and submit to the General Meeting its decision on the disposition of assets or not. Upon a request of an individual company, SSH will provide its opinion on whether a certain disposition of state assets, which are the subject of Chapter 3.3 of the Strategy, contravenes the goal of maintaining strategic ownership of the State in a certain company; SSH's opinion is not binding in this case.

## 5.7. Listing SOEs on regulated securities market

The support provided by SSH for listing shares of important economic players on regulated market is stated as an additional goal in asset management, specifically, referred to in Chapter 3.6 of the Strategy. SSH will support enterprises with the potential of being capitalised at more than EUR 300 million to get listed on the Ljubljana Stock Exchange in order to increase their market capitalisation, and thus the value of an enterprise with state assets and their affiliates. SSH will encourage enterprises with market capitalisation approaching EUR 1 billion to get listed on international capital markets.

### Measures in progress:

In case of companies which satisfy the criteria stated in the Strategy in regard to the listing of their shares on regulated securities market, SSH will regularly monitor and analyse the needs and the effects of listing such shares to (international) regulated capital markets. The criteria stated in the Strategy for listing shares of companies on regulated securities market is the volume of companies' market capitalisation, which, *per se*, does not give sufficient grounds for a company to go public; the main reasons are to be found in the need to raise fresh capital (equity or debt capital) which means that the company plans further growth of its operation which cannot be financed with its current financial condition. A company may plan to take over other companies and its own shares may be used to pay for the transaction instead of monetary assets. It may also be that a company wishes to increase its recognition and to ensure a higher level of transparency and better organisation of its operations which may have a positive indirect impact on the value and operation of the company. Negative aspects of admitting shares of companies to regulated market are always considered and analysed.

## 6. MACROECONOMIC OUTLOOK

According to the forecast by the analysts of the International Monetary Fund (IMF), global economy is expected to grow by 3.4% and by 3.6% in 2020 and in 2021, respectively, while it is predicted to stand at 3.0% in 2019. The estimate about the higher growth of the global GDP in 2020 is based on assumptions that, generally speaking, financial market sentiment remains supportive of the GDP growth while temporary factors inhibiting growth in the Euro area fade away and conditions in individual problematic economies (Turkey, Argentina, Iran) stabilise and that growth in economies (Brazil, Mexico, India, Russia, Saudi Arabia), which recorded a significant downturn in 2019 as compared to 2018, picks up in 2020. Higher global growth estimate is also the result of expectations that significant collapse in economies such as Iran and Venezuela does not take place and expected positive impacts of central bank measures are not blunted by a disorderly Brexit and by escalating trade tensions. Economic growth may be expected both in advanced economies (forecasted to stand at 1.7%) and in developing countries (forecasted to stand at 4.6%). For the most part, the IMF's October outlook gives slightly lower growth estimates as compared to their July counterpart which is the result of tensions in 2019 relating to trade war and tech war between the important world economies, weaker international trade flows and production output. According to the IMF's October outlook, GDP growth in advanced economies is projected to stand at 1.7% and at 3.9% in the developing economies. In the Euro area, GDP growth is projected at 1.2% in 2019 and at 1.4% in 2020, according to the IMF. Similarly, as in the past periods, global growth will be mainly shaped by measures adopted by important central banks, with ECB and FED acting as the most important players. Analysts involved in the survey by Bloomberg financial portal see the ECB interest rate on deposit facility at -0.5% at the end of 2019 and 2020 (median of the estimated values), at -0.6% at the end of 2020 and at -0.5% at the end of 2021. Currently, the ECB interest rate on deposit facility amounts to -0.5% and some commercial banks in Europe have already imposed charges on deposits. In their forecasts, analysts see ECB base rate (ECB refinancing rate) at 0% (median value of forecasts) in 2019, 2020 and 2021 and the given values currently do not show any probability of the ECB increasing the base rate in the next two years. In December 2018, the FED increased its key interest rate by 25 basis points, after it had increased the rate at several meetings in 2018. However, a turnaround in several-year trend of raising key interest rate took place in 2019, as at its meeting in July 2019, FED decreased key interest rate by 25 basis points to stand at 2.25% which was the first cut since December 2008. In September 2019 FED lowered the key interest rate by 25 basis point to stand at 2.00% and in October 2019 it cut interest rate for the third time to 1.75% (the upper value of the range is 1.75% while the lower stands at 1.50%). In their forecasts, analysts see the upper limit of the FED key interest rate range at 1.75% at the end of 2019, at 1.50% at the end of 2020 and at 1.75% at the end of 2021 (median value of forecasts). According to the analysts' outlook, additional cut in key interest rate by FED in the future period cannot be excluded.

Tabela 8: **Overview of history data and forecasts for Slovenia (IMAD, OECD, EC, analysts)**

Indicator (in %)	2015	2016	2017	2018	2019O	2020O	>2021O
Real gross domestic product (GDP) (analysts' estimate)	2.3	3.1	4.9	4.1	3.2	2.7	2.5
IMAD					2.8	3.0	2.7
EC					2.6	2.7	2.7
OECD					3.4	3.1	
CPI, inflation (analysts' estimate)	-0.5	-0.1	1.4	1.7	1.5	1.8	1.8
IMAD					1.8	2.0	2.3
EC					1.8	1.9	2.0
OECD					1.4	2.1	

Source: Bloomberg, IMAD

According to IMAD (baseline scenario), the economic growth in Slovenia for the future period will be lower than in the last two years and it will mainly reflect the economic slowdown in RS's trading partners and deteriorated expectations for the rest of the year. In 2018, GDP growth amounted to 4.1% and in the next two years will move between 3.0% and 2.7%. The most important factor driving economic growth will be export demand, albeit it has been slowing down in the last period, and private and government consumption. Private consumption is expected to strengthen, especially on account of favourable movements in the labour market which continues to record improved employment levels and higher wages, and as a result of movements in social transfers. Investment activity will depend on government investment and the absorption of EU funds from the new financial perspective. According to IMAD, the moderation of economic growth in 2019 is also due to a smaller contribution of the balance of external trade and lower growth in investment which will slow down in line with the moderation of export orders. With further recovery in the real-estate market, greater investments may be expected in the housing sector. IMAD's forecast for 2020 shows a slightly higher economic growth than estimated for 2019 although this is also due to the positive impact of six more working days. Employment growth will be easing gradually in the 2019–2021 period under the impact of weaker growth in economic activity and, increasingly, demographic trends. In the future, labour market conditions will represent an ever greater barrier to value added growth.

Inflation is expected to rise from 1.8% this year to 2.3% in 2021, which is in line with the impact of consumption.

Risks to the economic growth forecast in RS mostly refer to uncertainties in international economic environment as Slovenian economy is characterised by its export orientation. In its Autumn Forecast of Economic Trends, IMAD has prepared a forecast for an alternative scenario. Under this scenario, GDP growth would be 1.7% in 2020 and 2% in 2021, although it has also been pointed out that this alternative is unlikely to materialize. As a matter of fact, it would require additional slowdown in foreign demand which would be reflected in lower growth of Slovenian exports.

Tabela 9: **ECB's macroeconomic outlook for the Euro area**

Indicator (in %)	2015	2016	2017	2018	2019O	2020O	2021O
Real GDP	2.1	1.9	2.5	1.9	1.1	1.2	1.4
CPI, inflation	0.2	0.2	1.5	1.8	1.2	1.0	1.5

Source: Bloomberg

The economic growth forecasts for the **Euro area** have deteriorated in the last period. In spite of deteriorated forecast, the economic growth is to reach 1.2% and 1.4% in 2020 and 2021, respectively. Owing to a slowdown in international trade, negative impacts are reflected in new export orders and in manufacturing activities in the Euro area, especially in Germany. The future GDP growth of the Euro area will also depend on the productivity growth and demographic trends in which regard Europe experiences several issues. Currently, the ECB monetary policy, low unemployment and income growth function in support of the economic growth. For investors, it will be very important what the ECB's decision will be in regard to the current interest rate policy and whether another rate cut will be made. Analysts are also questioning the effects of the new programme package of the quantitative easing on economic indicators. It will also be interesting to see, what types and the scope of monetary policy instruments ECB will select in the future period to raise inflation towards its target value. At the October meeting, ECB expressed its commitment to implement the bond purchase programme for so long as necessary and that the said programme will end shortly before the first interest rate hike. The selected form of assistance to the economy, for achieving nominal growth by ECB, will indirectly determine whether the assistance will be limited on monetary factors only or whether, through its measures, ECB will invite EU leaders to assist in raising economic growth by fiscal measures. As interest rate indirectly determines the value of a currency, decreasing the value of the Euro against other currencies is problematic from the point of view of an export-oriented European economy, especially if other countries impose counter measures by means of customs tariffs which diminish the competitiveness of European export in goods and services on the global market.

Tabela 10: *FED's macroeconomic outlook for the USA by FED*

Indicator (in %)	2015	2016	2017	2018	2019O	2020O	2021O
BDP – gross domestic product	2.9	1.6	2.4	2.9	2.2	2.0	1.9
Consumer Price Index (actual inflation, CPI index, PCE index estimate)	0.1	1.3	2.1	2.5	1.5	1.9	2.0

Source: *Bloomberg*

The FED's forecasts show that the economic growth in the **USA** in the 2019 - 2021 period will move from 1.9 % to 2.2 % from 2019 to 2021, while inflation is not to exceed 2.0% according to the PCE index. The current state of the US economy is favourable according to the employment criteria, whereby projections about GDP growth for the coming years show lower values than recorded for the GDP growth in 2018 and 2017. Currently, the analysts see a 35% chance that a recession will occur in the next 12 months which is indirectly supported by a reversed yield curve (situation on the bond market in August 2019). According to the baseline scenario for economic prospects, FED expects a moderate economic growth, strong labour market and a gradual rise in inflation towards the 2% target (in 2021). In their press release following the October meeting, FED views the current monetary policy as suitable as long as economy continues to attain modern growth and labour market remains strong. If given favourable expectations fade away, FED has not excluded to make additional interest rate cuts, as reported in the press release. The main generator of a slightly lower economic growth in the future will be private consumption which is determined through income generated from work. In spite of the falling trend in the growth of this category, the growth in income generated from work is still above the inflation growth which is why it is projected that this category will drive economy in the future. At its last meeting in October 2019, FED cut interest rates for the third time in 2019 in an attempt to ensure American economy to overcome the trade war without falling into a recession. With FED's stating that, along with policy actions, FED will monitor the effects of information bearing on the outlook while assessing the appropriate path of the target range for the interest rate (less strong statement than the one given at the meeting in September 2019), it seems that at the October meeting FED signalled that for cutting interest rate, tighter conditions will have to be met (unwelcome downward slide in economic outlook) than those present on the occasion of the first three cuts in 2019.



## 7. ROE OF ASSET MANAGEMENT PORTFOLIO - AS EXPECTED AND AS REALISED - BY PILLAR/AREA

### 7.1. Proportion of largest companies with state assets and pillars in portfolio as of 30/6/2019

Tabela 11: *The proportion of TOP 5 companies with state assets in individual pillar (using the book value as the relevant criterion) in regard to the total SSH portfolio of state assets under management as of 30/6/2019, in %.*

Asset	Proportion in RS+SSH portfolio
<b>TRANSPORT</b>	
DRUŽBA ZA AVTOCESTE V REPUBLIKI SLOVENIJI (MOTORWAY COMPANY OF THE REPUBLIC OF SLOVENIA) D. D., CELJE	31.04
SLOVENSKE ŽELEZNICE, D.O.O.	5.34
PUJKA KOPER, D. D.	2.56
POŠTA SLOVENIJE, D.O.O.	2.40
ŘONTROLA ZRAČNEGA PROMETA, D.O.O. (Slovenia Control)	0.22
<b>TOTAL TOP 5 TRANSPORT</b>	<b>41.57</b>
<b>ENERGY SECTOR</b>	
ÖHOLDING SLOVENSKE ELEKTRARNE, D.O.O.	11.53
ÖGEN ENERGIJA, D.O.O.	8.61
ÖLEKTRO LJUBLJANA D.D.	2.66
ÖLEKTRO MARIBOR, D.D.	2.36
ÖLEKTRO CELJE D.D.	1.87
<b>TOTAL TOP 5 ENERGY SECTOR</b>	<b>27.02</b>
<b>FINANCIAL SECTOR*</b>	
ÖZAVAROVALNICA TRIGLAV, D.D., LJUBLJANA	4.78
ÖŠID - SLOVENSKA IZVOZNA IN RAZVOJNA BANKA, D.D., LJUBLJANA	4.60
ÖNLB, D.D.	4.16
ÖPOZAVAROVALNICA SAVA, D. D., LJUBLJANA	1.17
ÖĀ.S.U. D.O.O.	0.66
<b>TOTAL TOP 5 FINANCIAL SECTOR</b>	<b>15.37</b>
<b>TOURISM AND ECONOMY</b>	
ÖELEKOM SLOVENIJE D.D.	4.37
ÖKRKA D. D.	2.80
ÖŠIJ - SLOVENSKA INDUSTRIJA JEKLA, D.D.	1.21
ÖĀNIOR D. D.	0.71
ÖŠAVA, D. D.	0.21
<b>TOTAL TOP 5 TOURISM AND ECONOMY</b>	<b>9.30</b>
<b>TOTAL TOP 5 ALL PILLARS</b>	<b>93.26</b>

*Note:*

*RS's ownership stake in Abanka has been excluded from the asset portfolio and from the calculation (RS is a currently only a formal owner of the 100% equity stake in Abanka since conditions precedent from the SPA have not yet been satisfied).*

Tabela 12: *Proportion of pillars in the portfolio under SSH's management as of 30/6/2019, in%*

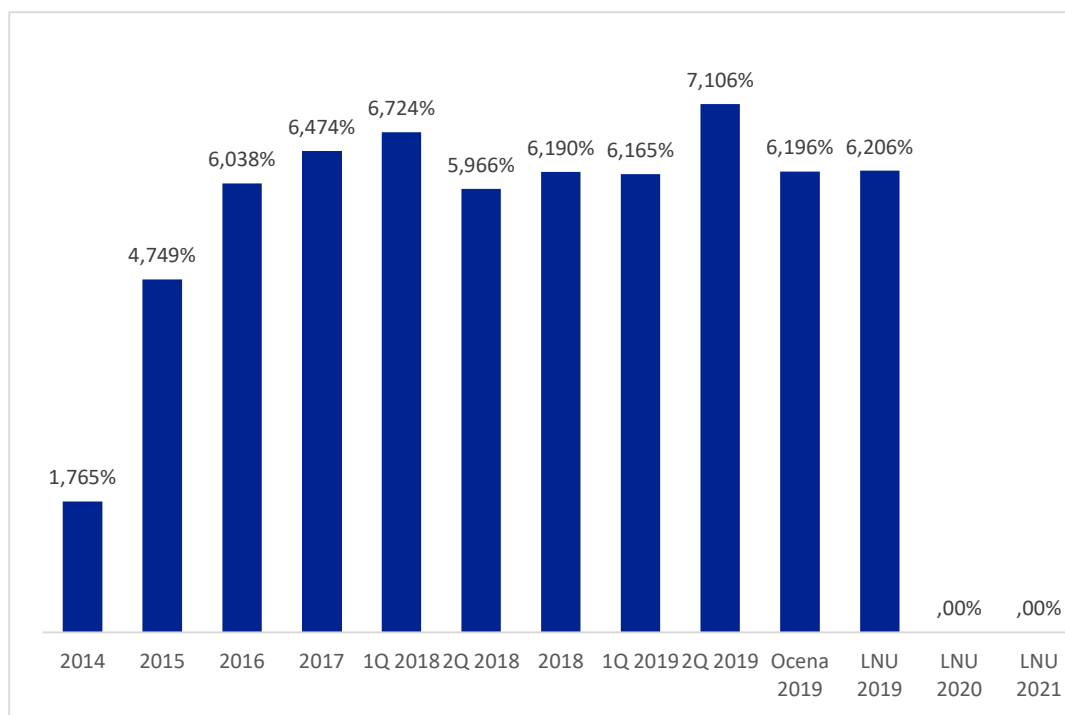
Pillar	Proportion in RS+SSH portfolio
TRANSPORT	41.6
ENERGY SECTOR	33.0
FINANCIAL SECTOR	15.4
TOURISM AND ECONOMY	10.0
<b>TOTAL</b>	<b>100.0</b>

## 7.2. ROE of the portfolio in the 2016 – 2021 period, by pillars

Tabela 13: *ROE of pillars in the portfolio under SSH's management, by years, in %*

Pillar	2016	2017	2018	2019 (Estimate)	AAMP 2019	AAMP 2020	AAMP 2021
TRANSPORT	5.0	5.9	6.3	5.8	5.5	5.0	4.9
ENERGY SECTOR	4.1	3.4	3.2	4.4	5.2	5.2	5.3
FINANCIAL SECTOR	8.9	10.6	9.6	8.7	8.3	8.0	7.8
TOURISM AND ECONOMY	6.5	4.2	7.6	10.0	9.2	8.5	8.6
<b>Portfolio RS+SSH</b>	<b>6.0</b>	<b>6.5</b>	<b>6.2</b>	<b>6.2</b>	<b>6.2</b>	<b>5.9</b>	<b>5.8</b>

Slika 5: *ROE of portfolio of assets under SSH's management, by years, in %*



### 7.3. ROE of the portfolio in 2016 - 2021 period, by classification of assets under management

Tabela 14: *ROE of the portfolio of assets under SSH's management, by classification of assets, by years, in %*

Classification	2016	2017	2018	2019 (estimate)	AAMP 2019	AAMP 2020	AAMP 2021
STRATEGIC	5.0	4.8	5.0	5.3	5.4	5.1	5.0
IMPORTANT	7.8	13.0	10.6	12.0	10.4	10.2	10.3
PORTFOLIO	8.6	4.2	8.8	6.5	8.4	7.8	7.8
Portfolio RS+SSH	6.0	6.5	6.2	6.2	6.2	5.9	5.8

Tabela 15: *Book-value of RS and SSH assets and ROE of portfolio of assets under SSH's management by classification of assets, as of 30/6/2019*

Classification	Book value of shares of RS + SSH as of 30/6/2019 (in EUR)	Proportion of the portfolio	ROE (in %) (Estimate 2019)
STRATEGIC	8,010,783,829	82.0	5.3
IMPORTANT	1,210,391,169	12.4	12.0
PORTFOLIO	551,067,256	5.6	6.5
Portfolio RS+SSH	9,772,242,255	100.0	6.2

### 7.4. ROE of the portfolio in 2016 - 2021 period, by quotation of shares of companies under management

Tabela 16: *The weighted rate of return on equity (ROE) of the SSH portfolio of assets under management, by quotation of shares, by years*

Quotation at the Stock Exchange	2016	2017	2018	2019 (estimate)	AAMP 2019	AAMP 2020	AAMP 2021
LISTED	9.4	7.5	10.4	10.0	10.3	10.1	10.0
NON-LISTED	5.4	6.3	5.3	5.3	5.2	4.9	4.9
Portfolio RS+SSH	6.0	6.5	6.2	6.2	6.2	5.9	5.8

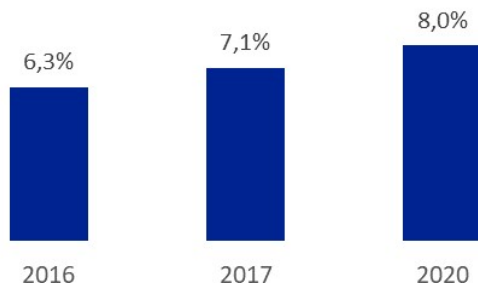
Tabela 17: *Book-value of RS and SSH assets and ROE of the portfolio by quotation of shares, as of 30 June 2019, in%*

Quotation at the Stock Exchange	Book value of shares of RS + SSH as of 30/6/2019 (in EUR)	Proportion of the portfolio	ROE (Estimate 2019)
LISTED	1,788,905,472	18.3	10.0
NON-LISTED	7,983,336,783	81.7	5.3
Portfolio RS+SSH	9,772,242,255	100.0	6.2

## 8. METHODOLOGY FOR DETERMINING TARGET ROE AS STATED IN ASSET MANAGEMENT STRATEGY

The Asset Management Strategy states that one of key goals for the management of state assets is the profitability of state assets; in regard to the book value of equity of companies with state assets, the rate of return should amount to 7.1% in 2017 and to 8.0% in 2020.

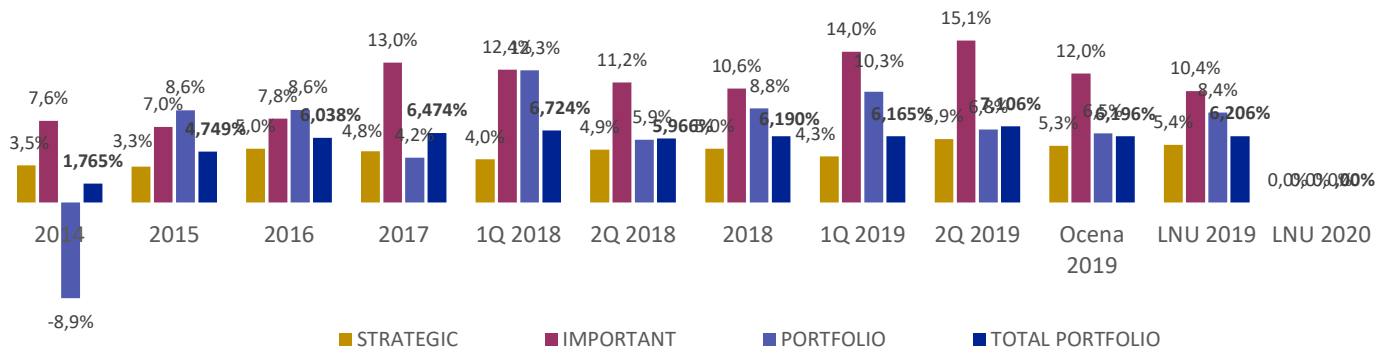
Slika 6: *Target return on equity (ROE) for all state assets by 2020 as stated in the Strategy (in %)*



This is ROE planned for all state assets, including those which have never been under the SSH's management and those which have been sold by SSH. Sales of state assets which have been carried out have a significant impact on the change in the structure of the portfolio under management and consequently to the planned value of ROE and the planned amount of dividend income. The most important sale processes took place in the Finance Sector Pillar. Assuming that NKBM and Abanka remained in the portfolio of assets, and the State retained a 100% equity holding in NLB, in 2020, ROE of the portfolio under management would amount to a **0.9 percentage point higher figure** than currently planned.

As of 30 June 2019, strategic assets represented as much as 82% of all the portfolio assets. The primary goal of strategic assets is attaining strategic goals of RS; that is, realising important social interests such as providing the relevant level and accessibility of infrastructure, rendering public services, ensuring security objectives, development objectives and realising other significant social interests. This illustration of peculiarities regarding the return on equity from assets classified according to the classification of assets referred to in the State Assets Management Strategy, i.e. strategic, important and portfolio assets, clearly shows that on average, companies which are classified in the group of strategic assets achieve lower rates of return.

Slika 7: *ROE of portfolio in 2014 - 2021 period, by classification of assets*



Note:

*The main reason for negative ROE of the portfolio in 2014 in the amount of -2,5% is the loss generated by Abanka, d.d., in the amount of EUR 188 million.*

Operation of these companies is affected by certain factors as a result of which these companies cannot attain ROE figures targeted for 2020 by the State Assets Management Strategy, neither can they achieve figures attained by other companies without such restrictions. In addition to restriction factors already mentioned (DARS, SID), these factors refer to the following:

- regulations with which the state directly influences the revenue generated by companies (for example, network charges, postal charges);
- regulations with which the state determines key substantive and financial parameters of operation which directly affect ROE indicators (five electricity distribution companies which represent almost one tenth of the RS portfolio according to their value);
- regulations with which the state directly determines the amount of special contributions paid by these companies (for example, contribution for decommissioning of NEK);
- financial liabilities due to state which impose a burden on companies' costs of financing (for example, SŽ);
- the financial statements of companies include assets which are of infrastructural importance for the entire state and society and are not held for sale; the result is that equity of these companies is high which makes attaining of higher ROE indicators more difficult;
- other regulatory provisions.

The total impact of the above mentioned circumstances on the achieved or planned ROE is thus difficult to quantify, although it can be estimated for how much the impacts of one-off events will additionally decrease the value of ROE of the portfolio of assets under SSH's management in an individual year. According to the SSH estimate, as a result of these impacts, ROE of the portfolio under SSH's management will be at least by **0.2 percentage** lower than in 2019. The increase in the contribution for the decommissioning of the Nuclear Power Station Krško is envisaged to negatively affect the ROE of the GEN Group by 0.52 percentage points and by **0.13 percentage points** the ROE of the Energy Sector Pillar and by **0.05 percentage points** the ROE of the total portfolio under the management of SSH. The impact of the increase in the share capital of Slovenske železnice, which amounted to EUR 154 million, is reflected in the ROE of this company which is lower by **1.9 percentage points**, ROE of the Transport Pillar is thus lower by **0.18 percentage points** and ROE of the total portfolio under the management of SSH is decreased by **0.08 percentage points**. The impact of the loss in revenue recorded by HSE due to regulatory changes as regards the revenue arising from the provision of ancillary services, is envisaged to negatively affect ROE of HSE by **0.62 percentage points**, ROE of the Energy Sector Pillar by **0.2 percentage points** and ROE of the total portfolio under the management of SSH by **0.06 percentage points**. Some other regulatory changes which were unknown at the time of developing the said Strategy affected the operational results of companies in 2019. The amendments of the act governing the network charges thus affected the operational results of electricity distribution companies and of Plinhold. These changes obviously also affect ROE indicators planned for 2020. In regard to individual electricity distribution companies these changes represent lower ROE values by from **0.33 percentage points** to **0.56 percentage points**, and in case of Plinhold, ROE is decreased by **1.6 percentage points**. The total impact of these changes on Energy Sector Pillar is **0.2 percentage points** and in case of the total portfolio, **0.1 percentage points**.

It needs to be pointed out that individual companies included in the group of strategic assets significantly differ one from the other. On one hand, the strategic assets group includes companies fully operating at arm's length, some of them are stock corporations. In case of such companies, economic goals are also pursued, in addition to strategic goals. These companies (Luka Koper and Zavarovalnica Triglav are an example of a listed company), tasked to attain strategic goals, achieve very good economic and financial results which are comparable to or even better than results achieved by their peers.

The other group of companies classified as strategic assets includes companies with which RS strives to pursue broader social goals of non-commercial nature. This group includes DARS, the Motorway Company of the Republic of Slovenia, which is the most valuable company in the portfolio under SSH's management considering its value of equity. **The Ministry of Infrastructure of the Republic of Slovenia** (Mol), as the sectoral ministry responsible for DARS, explicitly emphasises, that **attaining ROE cannot be a relevant criterion** to assess DARS's performance. According to the opinion by the said ministry, which is the sectoral ministry for companies from the Transport and Energy Sector Pillars, representing as much as 75% of the portfolio under SSH's management, for the owner, the only relevant criteria referring to DARS are firstly, the satisfaction of liabilities arising from the concession contract and from the contract for the construction of motorways in a good quality and cost efficient manner, and secondly, and secondly, timely settlement of liabilities arising from loans, in connection with the envisaged Guarantee Act. As regards revenue of DARS, the highest proportion of revenue is generated by tolls (95%) to which the company has no influence as they are determined by responsible regulators. In addition, DARS carries out investment activities in connection with the National Motorway Construction Programme 2004 regardless of the fact, whether a construction of a certain motorway section is economically viable for DARS or not. Another example is SID Bank which differs significantly from other commercial banks due to its promotional and development role. The Slovene Export and Development Bank Act explicitly states that during its

operation the bank shall not pursue the goal of maximising profits and that it does not compete with other financial institutions. The group of strategic assets in which regard the achievement of economic and financial goals is greatly affected by the state (highly regulated companies) also includes all electricity distribution companies. Excluding the above mentioned companies from the calculation of ROE for the portfolio would mean a **1.3 percentage** higher ROE of the SSH's portfolio of assets.

SSH manages several other strategic companies of which one part of operation is of market nature while the other part is restricted with regulatory requirements. These companies include: HSE, GEN, Slovenske železnice, Pošta Slovenije and Plinhold.

In case the above mentioned factors (firstly, the impact of the sale of three banks, secondly, the impact of regulatory changes made in 2019, thirdly, the capital increase in Slovenske železnice and finally, the exclusion of companies with high regulatory restrictions) were excluded from ROE calculation (ROE - (SID, DARS, and EDC), target ROE would amount to 8.3 % in 2020.

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, and the impact of regulatory restrictions and requirements.

Considering the above stated, SSH believes that, in the future, it makes sense to set the methodology for determining the target return on equity (ROE) of the portfolio of assets - being one of the key goals of asset management - by individual groups of assets, for example, by industry/by pillar or by the classification of assets, either in the State Assets Management Strategy or in another legal document.

SSH also proposes that in regard to strategic assets, the introduction of other criteria for measuring the attainment of strategic goals should be considered in order to measure the attainment of their strategic goals and to suitably consider restrictions which SSH faces in having an impact on ROE of strategic assets, as their performance is highly dependent on revenues generated on the basis of contractual relations with the State (carrying out services of general economic interest, recipients of public funds).

The findings of the study which is being prepared for SSH and MoF by a consultant within the *Strengthening the performance and governance of State Owned Enterprises Project*, under the auspices of EC and with technical assistance by EBRS show that ROE of the portfolio, as the sole criterion measuring performance of companies under management and measuring performance of the portfolio of state-owned assets is not suitable due to the diversity of assets in the portfolio. It is recommended that when determining criteria for measuring performance of the portfolio of state-owned assets, the diversity of the portfolio assets is taken into account: in addition to ROE, other indicators should be applied and their values should be measured separately by individual sectors (asset management pillars) or assets should be grouped in a different manner according to common characteristics (for example, the pursuit of pure economic goals on one hand and the provision of services of general economic interest, on the other hand).

## 9. FORECAST CASH FLOWS ARISING FROM ASSET MANAGEMENT - PART 1

In accordance with ZSDH-1, SSH exercises all powers, authority, rights and obligations held by SOD prior to the company transformation. In this regard, SSH,(i) on behalf of and for the account of SSH, is obliged to provide for funds which are necessary for settling liabilities due to beneficiaries under regulations which regulate the denationalisation of property, and (ii) on behalf of and for the account of RS, provides for funds which are necessary for settling liabilities due to beneficiaries under the following three Acts: firstly, the Reimbursement of Investments in Public Telecommunications Network Act (ZVVJTO), secondly, the Act regulating the Issuing of Bonds in Compensations for Confiscated Property pursuant to the Abrogation of the Penalty of Confiscation of Property (ZIOOZP), and thirdly, the Act on Payment of Compensation to Victims of War and Post-War Violence (ZSPOZ).

It is estimated that the total of EUR 138 million will have to be granted by SSH for settling its statutory obligations arising under regulations governing the denationalisation of property. Due to the transfer of the majority of assets to RS at the end of 2020, in accordance with ZSOS-C, and considering the repayment of SOS3 bond in 2020 (EUR 102.5 million), SSH will be left with no relevant assets and liquid funds (dividends) to settle its liabilities in 2021. When developing AAMP for 2020, SSH must therefore take into account the liquidity needs of SSH which arise from the above mentioned statutory and contractual obligations.

The remainder of this Chapter presents the expected cash flows arising from dividends received from state assets whereas forecast cash flows arising from sales and acquisitions of state assets to be undertaken in 2020 are presented in the Special Section of AMAP.

### 9.1. Expected cash flows arising from dividends paid out by companies with state assets under management

SSH estimates that:

- **in 2020:** RS will receive EUR 102.9 million from dividends paid out by companies with assets held by RS (including dividends received by ZPIZ on account of shares held in Zavaorvalnica Triglav) and SSH will receive EUR 39.5 million from dividends paid out by companies with state assets held by SSH;
- **in 2021:** RS will receive EUR 162.0 million from dividends paid out by companies with assets held by RS (including dividends received by ZPIZ on account of shares held in Zavaorvalnica Triglav) and SSH will receive EUR 2.5 million from dividends paid out by companies with state assets held by SSH.

Tabela 18: **Income\* received by RS, ZPIZ and SSH from dividends paid out by companies with state assets by years (in EUR mio)**

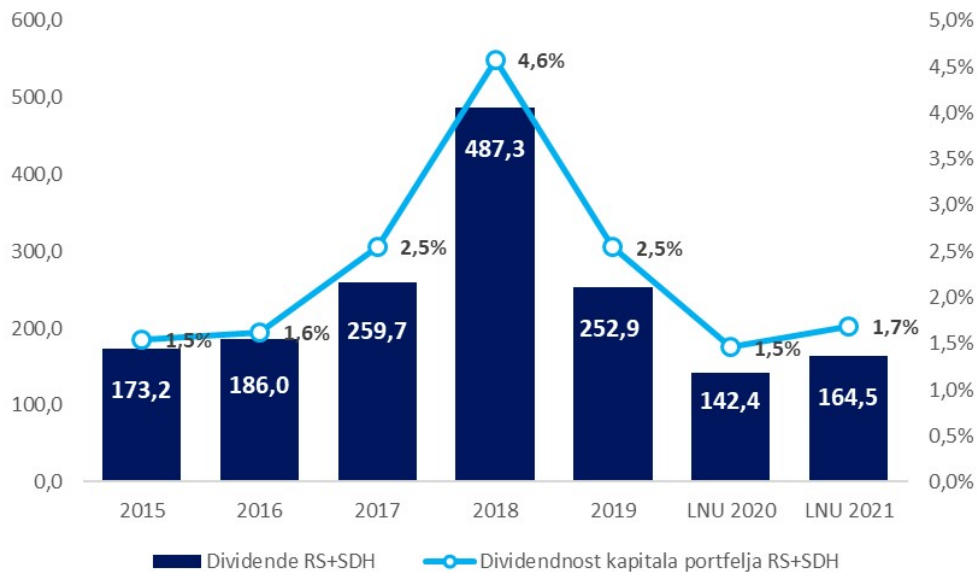
Year	2016	2017	2018	2019	Plan 2020	Plan 2021
RS (excluding dividends for ZPIZ)	122.6	194.1	427.4	193.2	83.3	142.5
ZPIZ**	19.6	19.6	19.6	19.6	19.6	19.6
<b>Total RS and ZPIZ</b>	<b>142.2</b>	<b>213.7</b>	<b>447.0</b>	<b>212.8</b>	<b>102.9</b>	<b>162.0</b>
SSH	43.8	45.9	40.4	40.1	39.5	2.5
<b>Total RS and ZPIZ and SSH</b>	<b>186.0</b>	<b>259.7</b>	<b>487.3</b>	<b>252.9</b>	<b>142.4</b>	<b>164.5</b>

Note:

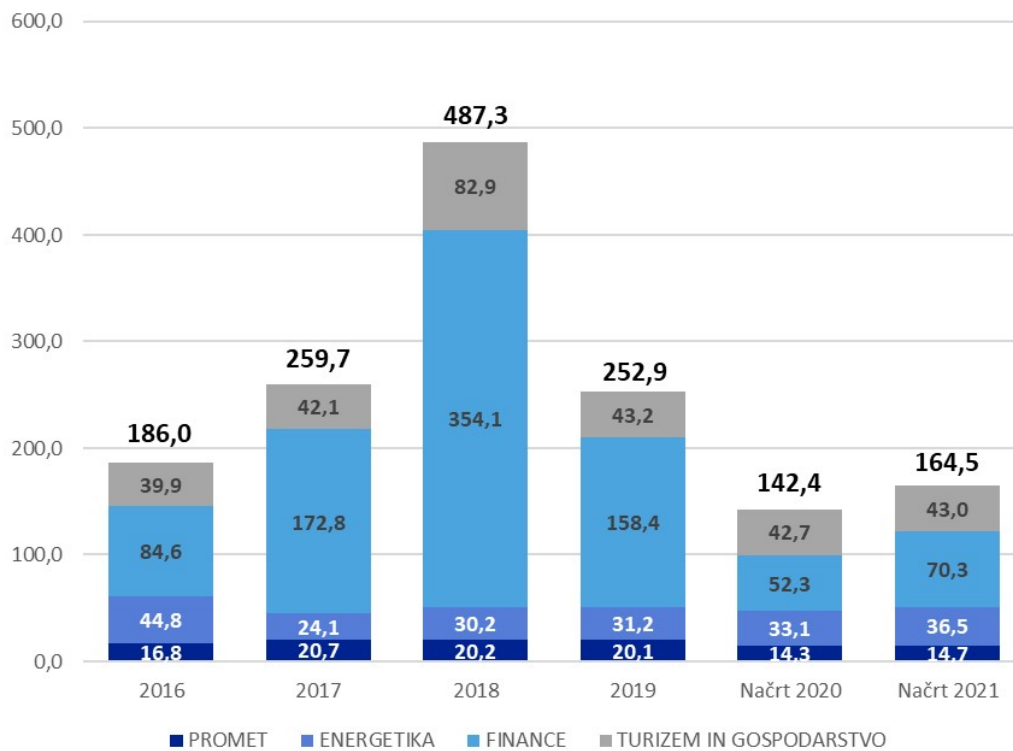
\*The dividend amount received by RS, ZPIZ and SSH in a current year based on the distribution of distributable profit for a preceding year (for example, the total dividend income received by RS, ZPIZ and SSH in 2019 as voted by General Meetings of companies under management in 2019 refers to distributable profit of FY 2018).

\*\* This is dividend income received by ZPIZ from the ownership of shares held in Zavaorvalnica Triglav, which are managed by SSH on behalf of and for the account of ZPIZ.

Slika 8: *Income received by RS and SSH from dividends paid out by years (in EUR mio)*

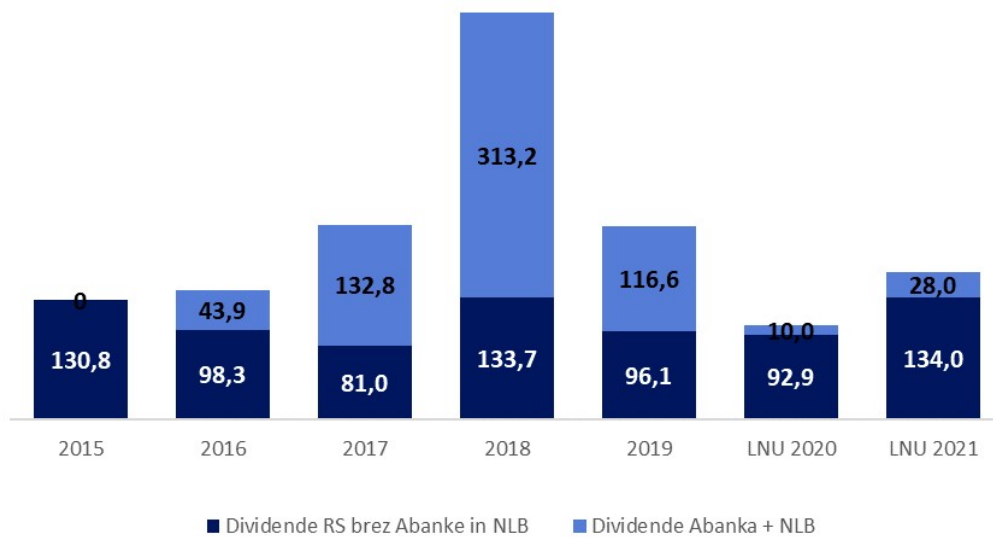


Slika 9: *Income received by RS and SSH from dividends paid out by years and by pillars (in EUR mio)*





Slika 10: *Income received by RS from dividends paid out by years (in EUR mio)*



Slika 11: *Income received by RS from dividends paid out by years (in EUR mio)*

