

**ANNUAL REPORT -
MANAGEMENT OF
CAPITAL ASSETS
OF RS AND SSH**

2020

SSH'S REPORT TO THE NATIONAL ASSEMBLY
OF RS (ABBREVIATED VERSION)



SLOVENSKI DRŽAVNI HOLDING, d. d.

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

The ultimate objective of state-owned enterprises under SSH's management is efficient, effective and economic operation, generation of value, and in many cases, efficient implementation of services of general economic interest. This must be achieved in a sustainable manner, by taking into account economic, environmental and social aspects.

Ljubljana, October 2021

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INTRODUCTION

1 KEY HIGHLIGHTS FOR 2020 ON MANAGEMENT OF CAPITAL ASSETS OWNED BY RS AND SSH



5.9%

Targeted ROE of total RS and SSH portfolios for 2020, as stated in Annual Asset Management Plan

4.3%

ROE of RS and SSH portfolios in 2020



EUR 131.5 million

The targeted sum of dividends paid out from RS and SSH Portfolio in 2021 (for FY 2020), as stated in the Annual Asset Management Plan (together with dividend income conditional on regulators' consents)

EUR 150.9 million

The total sum of dividends paid out from RS and SSH Portfolio in 2021 (for FY 2020)



EUR 9.9 billion

Book-value of assets owned by RS and SSH as at 31 December 2020

1.1 Key highlights for 2020 on management of capital assets owned by RS and SSH

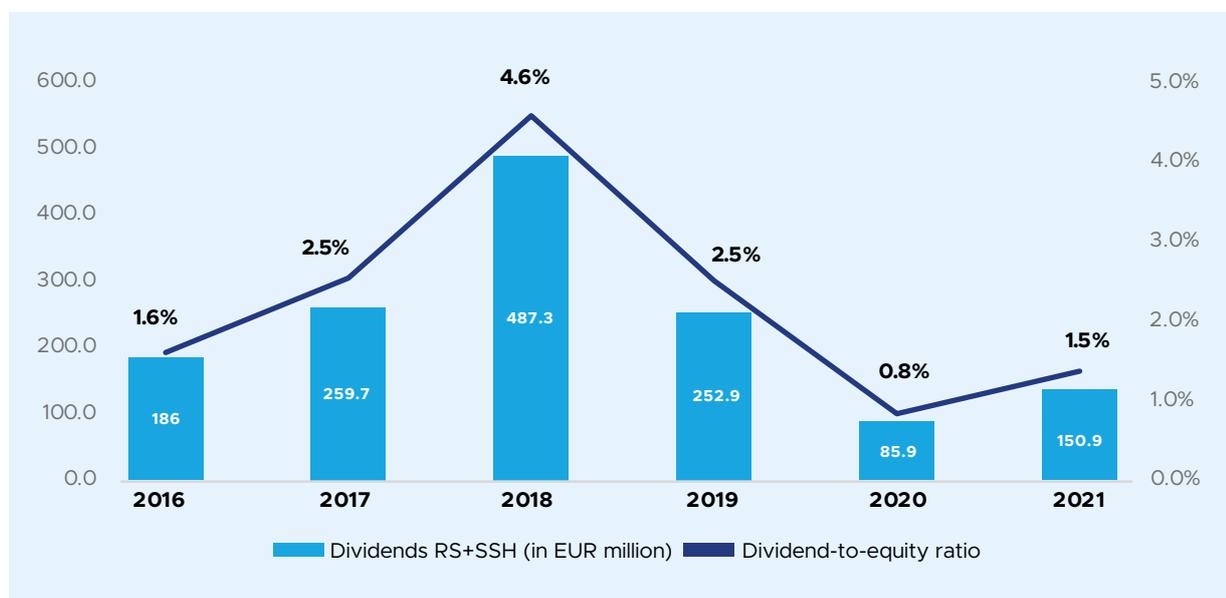
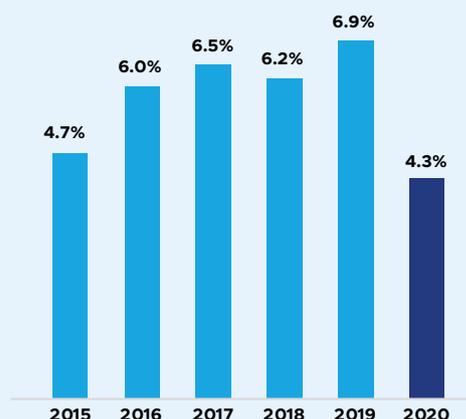
As of 31 December 2020, 69 active (as of 31 December 2019, there were 72 such companies) and 26 inactive companies (companies in bankruptcy or liquidation) were included in the portfolio of capital assets under SSH's management. The book-value of capital assets under management amounted to EUR 9.9 billion, which is EUR 0.4 billion less than at the end of 2019. The decrease in the value of the portfolio is mostly attributed to the sale of RS's shareholding in Abanka which was completed on 5 February 2020. No other major changes to the portfolio were recorded in 2020.

The concentration of assets in the portfolio remained high - the 10 largest portfolio companies represented as much as 79% of the portfolio and the 20 largest companies accounted for more than 97% of the portfolio's total book-value. The strategic assets comprised the greatest share of assets, approximately, 81%.

ROE of the portfolio under management amounted to 4.3% in 2020, which is by 2.6 percentage points less than in 2019, and by 1.6 percentage point lower than the goal targeted in the Annual Asset Management Plan 2020 (AAMP 2020). The reason for poorer performance results is the COVID-19 pandemic which profoundly changed the way the business is done and had an impact on global macroeconomic conditions. Otherwise, the effects of the COVID-19 crisis had a different impact on the operation of individual companies.

In 2021 (for FY 2020), the dividend income paid out by companies from the SSH portfolio will amount to the total of EUR 150.9 million, of which EUR 111.1 million will be distributed to RS, and 39.8 million to SSH. This sum is significantly higher than in 2020 (for FY 2019) and higher than planned in AAMP. The top dividend payers included Krka, Telekom, NLB and Zavarovalnica Triglav which contributed 62% of all dividend pay-outs.

Return on equity (ROE)



2 LETTER BY MANAGEMENT BOARD

The 2020

output of the RS's and SSH's portfolio was significantly affected by the COVID-19 epidemic. After the outbreak of the epidemic, SSH enhanced its asset management activities in the most important portfolio companies and monitored closely for a prolonged period of time all those companies which represent the critical infrastructure of Slovenia, particularly companies from the Energy and Transport sectors. SSH was also regularly informed of the assessments about the impact of the COVID-19 epidemic on the portfolio companies' operations, especially on their revenues, and monitored measures undertaken, firstly, to protect employees' health and, secondly, to ensure sufficient liquidity. SSH regularly carried out all other asset-management related activities, monitored intervention measures taken by the State and presented several initiatives to their proposers. Companies managing state's critical infrastructure ensured smooth and stable operation which was of great significance for the Slovenian economy.

Performance results for 2020 show that the portfolio's ROE amounted to 4.3%. It has to be pointed out that the result does not include a one-off impact of the impairment of assets held by HSE due to TEŠ, neither one-off positive impact recorded by NLB on account of its take-over of Komercijalna banka Beograd. Considering all of the above-mentioned items, ROE of the portfolio amounted to 2.2% in 2020. The effects of the COVID-19 crisis had a different impact on the operation

of individual companies. The companies from the SSH's portfolio which were hit the most by the crisis include enterprises from the tourism industry, manufacturing, and transport industry. Some other sectors were less severely affected so far, and the least impact of the COVID-19 crisis was experienced by the pharmaceutical industry and telecommunications. A fall in the ROE value was also negatively affected by certain regulatory modifications, such as, for example, amendments to the Legal Act on the methodology for determining the regulatory framework and network charges for the electricity distribution system.

RS and SSH will receive the total of EUR 150.9 million of dividend income in 2021 (for FY 2020).

The total sum of dividends increased significantly compared to the preceding year and was higher than generated in 2020. In 2021, regulators have relaxed their conditions on dividend pay-outs applicable to banks and insurance companies, which enabled them to pay out dividends. In nominal terms, Krka was one of the individual companies that contributed the most to dividend income and was followed by Zavarovalnica Triglav, NLB, Telekom Slovenije, Gen energija and Petrol. The above mentioned six companies will pay 78% of all dividends.

The concentration of assets in the portfolio remained to be high – top 10 companies represented as much as 79% of the portfolio assets, and 20 largest companies

accounted for 97% of the book-value of the entire portfolio. Only the largest company, DARS, which is classified as a strategic asset, took up almost 30% of the portfolio's value, and together with other strategic assets, with their share on increase, represented 80.9% of the portfolio's value. Measured by book-value, the value of direct ownership stakes of RS and SSH amounted to **EUR 9.9 billion** at the end of 2020.

Enhancing sustainability of SOE's operations is at the forefront of asset management activities

Management and supervisory boards are responsible for a company's long-term resilience in the business environment which changes fast also because of the consequences of climate change. One of their key responsibilities is the oversight and efficient management of climate risks and opportunities.

By adopting recommendations addressed to SOEs in July 2020, SSH aimed at encouraging SOEs to pursue economic, social and environmental transformation of

their business strategies and models which should lead to better competitiveness, lower risk levels and sustainable performance in the long term. In order to promote sustainable operations, SSH adopted other measures by way of which it introduced additional sustainability indicators in the internal monitoring of companies and included additional qualitative goals in the annual plans of companies; in addition, sustainability topics were included on the agenda of periodic meetings with companies as well as in the education programme.

For success in sustainability, it is crucial that sustainable operations are integrated into all corporate governance systems which are present at the level of companies. In order to maintain the competitiveness of their companies, manage risks and opportunities, ensure financial performance and meet stakeholder's expectations, management and supervisory bodies will have to incorporate the new reality into their own corporate culture, constantly strengthen competencies in this field and cooperate constructively with the aim to achieve the long-term sustainable performance.



Dr Janez Žlak,
President of Management Board



Janez Tomšič,
Member of Management Board



**ON MANAGEMENT
OF CAPITAL ASSETS
HELD BY RS AND SSH**

3 PRESENTATION OF SLOVENIAN SOVEREIGN HOLDING

SSH is the umbrella manager of state capital assets, managing capital assets of RS and SSH. Its comprehensive and diversified portfolio includes various sectors, specifically: energy industry, manufacturing, insurance businesses, banks, traffic, transport and infrastructure, general economic sector and tourism as well as other branches of industry. The management of state capital assets is SSH's core business.

SSH was established on 26 April 2014 when the Act entered into force regulating its establishment, status, tasks, asset management related and some other relevant matters (ZSDH-1). By transforming SOD, SSH continues to exercise all powers, responsibilities, rights and obligations which used to be held by SOD. SSH as

a liable party to proceedings takes part in proceedings for determining compensation for nationalised assets and provides for regular settlement of liabilities arising from denationalised assets. In the capacity of the holder of public powers on behalf of and for the account of the Republic of Slovenia, SSH runs procedures for the issue of decisions on the compensation amount and settles liabilities under the following laws: ZSPOZ and ZIOOZP.

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

Company details - significant data



SLOVENSKI DRŽAVNI HOLDING, d. d.

Corporate name:	Slovenian Sovereign Holding
Registered office:	Ljubljana
Business address:	Mala ulica 5, 1000 Ljubljana
Telephone No.:	++386 1 300 91 13
Web site and e-mail:	www.sdh.si, info@sdh.si
Activity code:	K 64.990
VAT ID:	SI46130373
Registration No.:	5727847
Transaction Account:	SI56 0291 3001 6492 958 held by NLB
Date of legal entity's establishment:	19 February 1993
Date of SSH's incorporation:	26 April 2014
Date of company transformation from SOD into SSH:	11 June 2014
Registered legal form:	Public limited company registered before Ljubljana District Court, under the Reg. Entry No. 1/21883/00
Share capital:	EUR 260,166,917.04
No. of employees as of 31 December 2020:	58
Membership in other organisations:	Directors' Association of Slovenia, Association of Employers of Slovenia, Chamber of Commerce and Industry of Slovenia
Management Board:	Dr Janez Žlak, President of Management Board (since 7 October 2020), Janez Tomšič, Member of Management Board (since 23 April 2021). In 2020 and 2021, SSH MB also included the following presidents and members: Vanessa Grmek, Member of Management Board (from 1 February 2021 to 22 April 2021), Boris Medica, Member of Management Board (since 1 December 2019 until 31 January 2021), Boštjan Koler, Member of Management Board (since 1 December 2018 until 31 January 2021), Gabrijel Škof, President of the Management Board (from 1 October 2019 to 1 July 2020), Igor Kržan, President of Management Board (from 2 July 2020 until 6 October 2020).

Members of Supervisory Board:	<p style="text-align: right;">Karmen Dietner, President, Damjan Simič, MSc., Deputy President (Member since 17 July 2020, Deputy President since 26 August 2020), Janez Vipotnik, Member, Damjan Emeršič, MBA, Member (since 17 July 2020), Dr. Leon Cizelj, Member (from 22 September 2021).</p> <p style="text-align: right;">In 2020 and 2021, Supervisory Board also included the following members: Igor Kržan, Member (until 5 January 2021)*, Duško Kos, Deputy President (until 17 July 2020), Damjan Belič, Member (until 17 July 2020).</p>
Members of the SB's Audit Committee:	<p style="text-align: right;">Ivan Simič, MSc, President, Karmen Dietner, Member, Darinka Virant, External Member.</p> <p style="text-align: right;">In 2020, the Nomination Committee also included the following members: Duško Kos, President (until 17 July 2020), Damjan Belič, Member (until 17 July 2020).</p>
Members of SB's Risk Committee:	<p style="text-align: right;">Janez Vipotnik, President, Damjan Emeršič, MSc, Member, Darinka Virant, External Member.</p> <p style="text-align: right;">In 2020, the Nomination Committee also included the following members: Igor Kržan and Karmen Dietner.</p>
Members of Nomination Committee:	<p style="text-align: right;">Samo Roš, President, Urška Podpečan, Deputy President, Vlasta Lenardič, Member (since 6 April 2020).</p> <p style="text-align: right;">In 2020, the Nomination Committee also included the following member: Brigita Vončina, Member (until 5 April 2020).</p>
Members of ECESA:	<p style="text-align: right;">Zdenko Lorber, President (the Slovenian Union of Alternative Trade Unions of Slovenia), Saša Klara Kumer, Deputy President (the Association of Free Trade Unions of Slovenia), Miroslav Garb (Neodvisnost, the Confederation of new Trade Unions of Slovenia Independence), Albert Pavlič (Association of Workers Trade Unions of Slovenia – Solidarity), Jakob Počivavšek (Pergam Confederation of Trade Unions), Branimir Štrukelj (Confederation of Slovenian Public Sector Trade Unions), Damjan Volf (Trade Unions Confederation 90 of Slovenia).</p>

*Term of office was suspended from 2 July 2020 to 6 October 2020.

3.1 SSH vision, mission, and values

Vision

Generating value from capital assets for the owner.

Mission

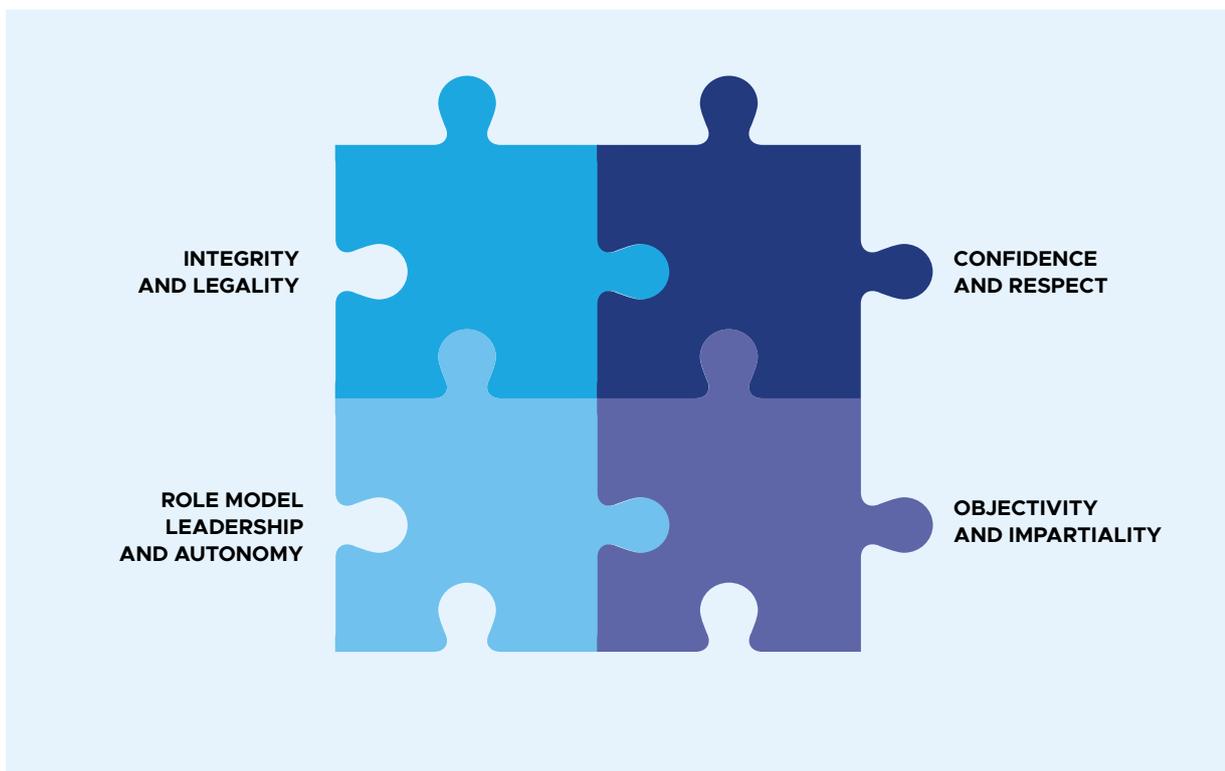
Since RS and SSH are important owners of capital assets held in economic entities in Slovenia, therefore, the main duty of SSH is a responsible, professional and active management of these assets. Among other matters, active governance means focusing on creating value for owners, that is the Republic of Slovenia and SSH.

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

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

Our values

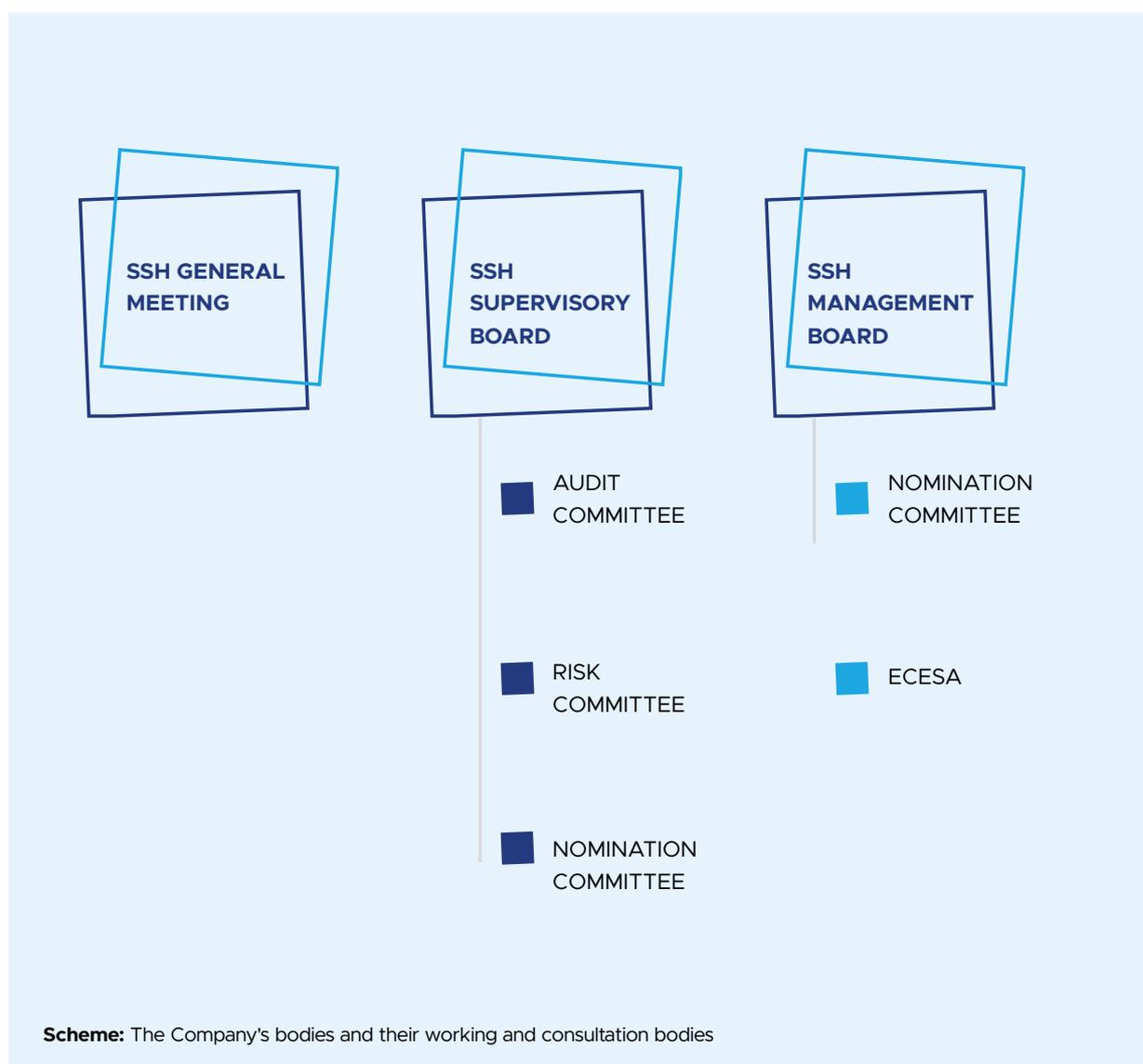
The values which from the foundation of SSH operations are inter-related, giving the basis for activities pursued by SSH.



3.2 The legal form and organisational structure of SSH

Slovenian Sovereign Holding holds the status of public limited company with a two-tier management system. It has four bodies: the General Meeting, the Supervisory Board, the Management Board, and the Expert Committee for Economic and Social Affairs (hereinafter referred to as: ECESA). The founder and the sole shareholder of SSH is the Republic of Slovenia (hereinafter referred to as: RS). The powers and duties held by the SSH General Meeting are carried out by the Government of the Republic of Slovenia. The SSH Supervisory Board consists of five members who are all appointed by the National Assembly of the Republic of Slovenia upon a proposal by the Government of the Republic of Slovenia. The SSH Management Board consists of three members. The President and two members are appointed by the SSH Supervisory

Board. The Expert Committee for Economic and Social Affairs is a seven-member consultation body of the SSH's Management Board. Its members are appointed by the Slovenia's representative trade unions and confederations who are members of the Economic and Social Council. Their appointment is approved by the SSH Management Board. There are two committees operating within the SSH Supervisory Board: Audit Committee and the Risk Committee. The Nomination Committee is formed for the purpose of appointing members of the SSH Management Board. There are two consultation bodies operating within the SSH Management Board: specifically, under the explicit statutory provision and the provision stated in the Articles of Association, ECES which has the status of a SSH body, and the Personnel Committee.



3.3 Purpose of SSH's establishment

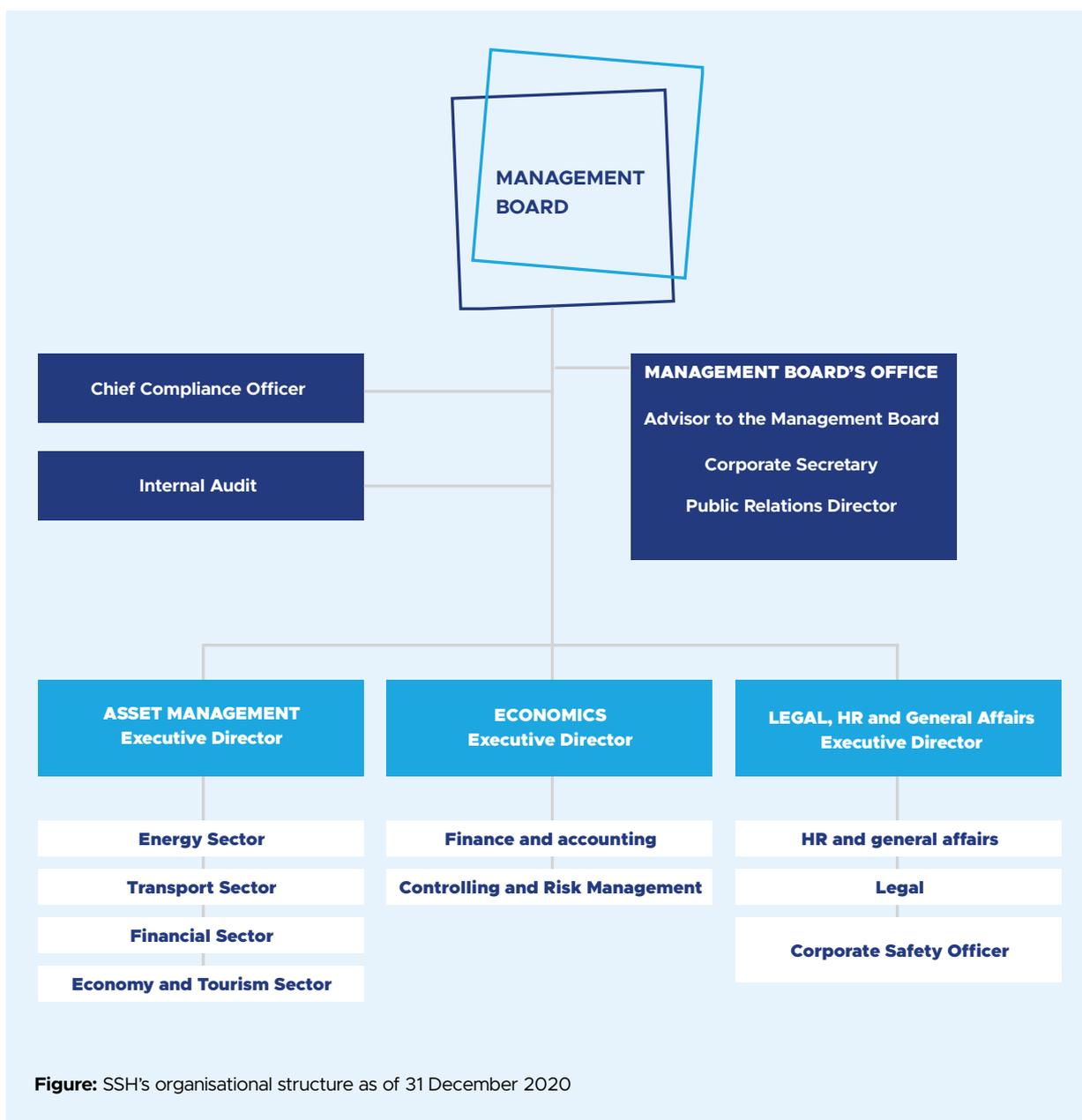
The Slovenian Sovereign Holding was established with the purpose of providing a concerted, transparent, professional management of the State's capital assets separated from the daily politics. Slovenian Sovereign

Holding continues to carry out powers, responsibilities, rights, and obligations that used to be managed by SOD (the settlement of liabilities due to beneficiaries under several laws).

3.4 Internal organisation of SSH

SSH is run by the management Board. During few periods of 2020, some departments were run by executive directors and some organisational units by professional directors, as is clear from the SSH's organisation-

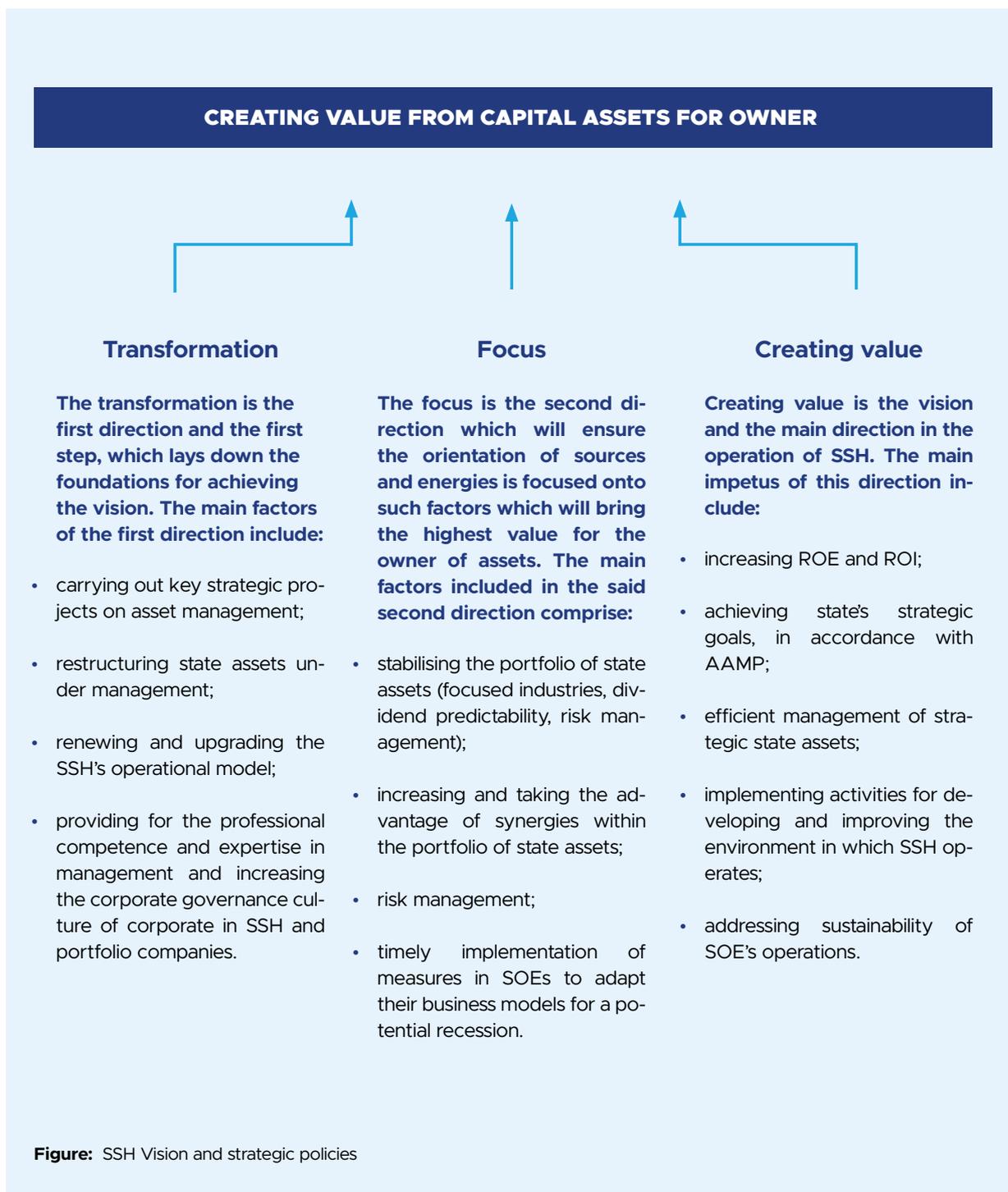
al structure presented below. Other professional jobs were created for carrying out special positions with special authority and responsibility.



3.5 SSH Strategic policies and goals

Strategic policies are directions selected for coming close to the SSH vision in the next long-term period. They are the foundation for defining the operation of

SSH as an integrated organisation with a duty to manage capital assets and perform other tasks.



3.5.1 Goals

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

The ultimate objective of state-owned companies being managed by SSH is effective, profitable, economical operation, creation of value, and in many cases, efficient management of individual assignments in public interest. This must be achieved in a sustainable manner, by taking into account economic, environmental and social aspects.

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

- efficient, diligent, transparent and responsible management of capital assets, in accordance with the provisions of ZSDH-1;
- attaining strategic, economic and financial as well as other goals of companies as defined in the State Assets Management Strategy, in every Annual Asset Management Plan, and ultimately, the goals which are set for SSH by the RS Government on an annual basis;
- continuous improvement of operations in portfolio companies;
- increasing their value of capital and their return on equity.

Other goals pursued by SSH as economic entity are:

- providing for sufficient liquidity to repay all matured statutory and contractual liabilities due by SSH, including optimum management of assets in accordance with mid-term and long-term needs for funding;
- ensuring suitable sources of financing for the future;
- timely implementation of tasks under public powers;
- efficient implementation of all support functions inside the Company, cost management and process optimisation;
- risk management.

4 COMPLIANCE, INTEGRITY AND INTERNAL AUDIT

4.1 On Compliance

SSH is the only company in RS whose foundations for setting up the compliance and corporate integrity system are laid down by a special act (ZSDH-1). In SSH, statutory provisions are improved by means of having a detailed definition of procedures and measures stated in the corporate documents, by having appointed a Chief Compliance Officer and by providing his job description and by means of employees, the Management Board and the Supervisory Board Members taking an active role in risk detection and in carrying out measures referred to in the Business Integrity Plan.

By having defined priority goals, which among other goals include SSH's commitment for transparent operation and ethical conduct in accordance with the highest expectations and standards, the foundations have been laid and policies have been set for all SOEs under SSH's management.

4.2 Implementing Business Integrity Plan

As regards corporate compliance, SSH acted in accordance with the provisions of ZSDH-1 and provisions of internal corporate documents which were amended in 2020, in accordance with the changes in the environment, organisational changes, recommendations by external institutions and changes to some internal procedures. The Company ensured that all permanent and one-off measures from the Business Integrity Plan were implemented in 2020. The said Plan was regularly

amended with newly identified risks for which suitable permanent and one-off measures were adopted. The Business Integrity Plan was discussed at the regular sessions of the Risk Committee and at meetings held by the Chief Compliance Officer. The Chief Compliance Officer regularly reported to the SSH Management Board and to the SSH Supervisory Board on the implementation of the Integrity Plan.



Ongoing review of risks and measures from the Integrity Plan within SSH and quarterly reporting on the implementation of the said plan to the Supervisory Board



Corporate documents (internal rules and regulations), register of gifts and traceability of communication with state bodies



Advisory services and training sessions for employees and for the portfolio companies



Cooperation with supervisory bodies and investigation institutions



Committee for handling irregularities in portfolio companies

Figure: SSH's main integrity tools

4.3 Code of Ethics

SSH revised and improved the Code of Ethics of SSH in 2020 and upgraded it with commitments in regard to leading by example, zero tolerance to corruption, observance of human rights in business, sustainable

development and interpersonal relations in the company. The Code of Ethics was presented to all employees at workshops organised for individual organisations units. Employees committed to observe its provisions.

4.4 Guidelines for SOEs in regard to business ethics, compliance and integrity

When revising the Corporate Governance Code for SSH, SSH formulated recommendations for SOEs to adopt the Code of Ethics, as well as commitments for SOEs to establish their corporate compliance and integrity system. Key recommendations represent minimum requirements which have to be included in the Code of Ethics of every individual company. SSH expects from SOEs to undertake the following activities: create a work post for a Chief Compliance Officer, prepare the Integrity Plan or the Anti-Corruption Pro-

gramme, identify corruption risks and define illegal and unethical conduct, prepare an education and further training programme for employees, and design a system for reporting on irregularities, as well as establish mechanisms for suitable and efficient action, ensure traceability and keeping of the reports register, protect whistle-blowers, and regularly report to the management and supervisory bodies on reports of irregularities received and handled and actions taken.

4.5 The system for handling reports on alleged irregularities

Within the scope of the system established for addressing suspicions of irregularities, which also includes the protection of whistle blowers, on its web site, SSH also addresses all individuals from SOEs who have detected any suspicions of alleged irregularities or illegal actions.

Everybody who is familiar with any form of suspicion of irregularity in the operations of SOEs is invited to report to SSH on any such irregularity. A report is submitted to the Chief Compliance Officer who then decides on further actions and procedures, considering the content of such a report. The report of an irregularity in an SOE is thoroughly examined by SSH's professional services, additional information is obtained and, when needed, a proposal with a set of relevant measures is then prepared in accordance with SSH's authority.

SSH received 42 reports on irregularities in 2020, of which 26 treated alleged irregularities in SOEs. They were dealt with by a special four-member internal Committee, in cooperation with a relevant asset manager. On the basis of additional information received and by taking into account answers clarifying the content of reports received from responsible bodies in individual SOEs as well as measures implemented in SOEs, the Committee formulated its opinion and SSH carried out additional activities, when necessary.

4.6 Internal Audit

The SSH's internal audit functions as an independent department. The basis for its functioning is the Internal Audit Charter which has been approved by the SSH Management Board and SSH Supervisory Board. The Internal Audit Service is bound to adhere to the hierarchy of rules of professional conduct in internal auditing. Functioning within the framework of SSH, the Internal Audit is responsible for carrying out permanent and comprehensive supervision over the legality and accuracy of SSH's operations, as well as for verifying the functioning of internal controls installed within business processes. The main task of the Internal Audit is to provide the Management and the Supervisory Board an unbiased assessment about the adequacy and efficiency of the SSH's risk management system.

In 2020, the Internal Audit carried out five audit reviews with advisory services and two audit reviews in SOEs under SSH's governance. Reviews referred to issues concerning operational compliance and performance. The most important audit reviews referred to the asset management processes, to the security of operations, business continuity and to HR management. The legal basis for SSH's audit reviews in SOEs is the Protocol on exercising the right to audit operations in individual SOEs under SSH's governance. The purpose of including SOEs

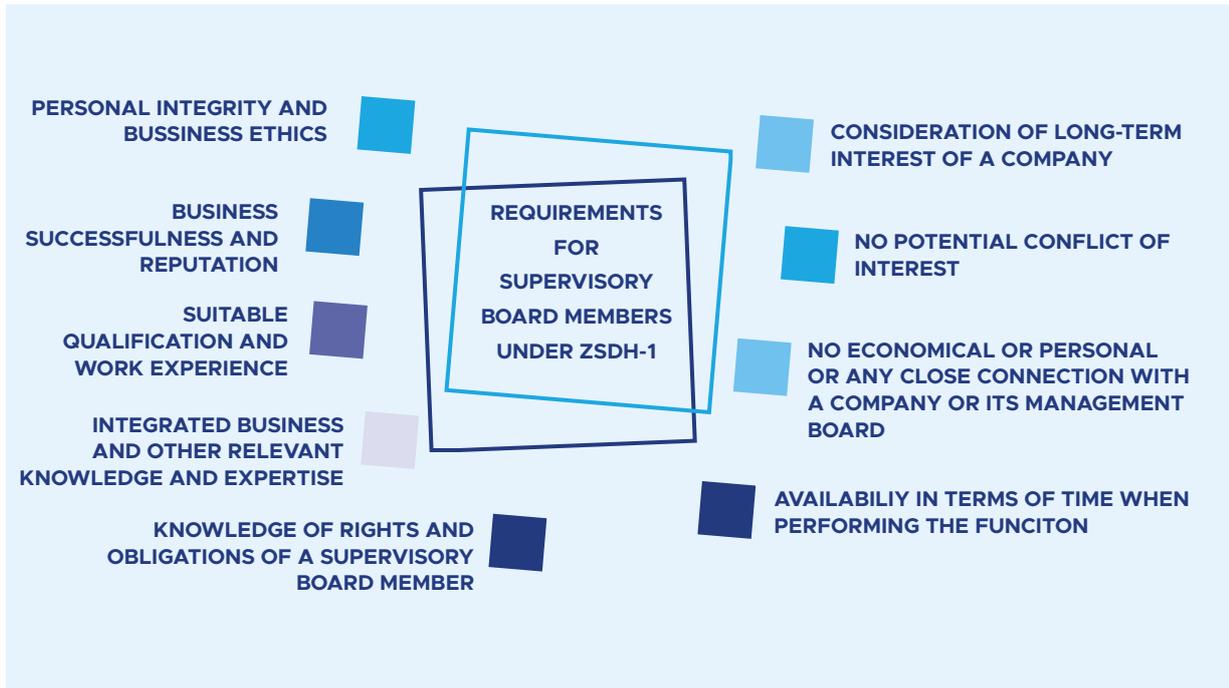
in the scope of activities carried out by the SSH's Internal Audit is to reinforce the SSH's review and oversight over their operation; this is an important step forward in ensuring good quality management of state assets. The SSH's Internal Audit assists asset managers in their review of certain transactions or processes and such an internal audit may additionally contribute to better governance and supervision of an individual company under management. The Audit Reports include proposals to audited companies with the aim to ensure an even better risk management of processes under review. By conducting audits in the portfolio companies, SSH wishes to make a positive influence on the regularity and effectiveness and efficiency of operations in SOEs as well as to minimise risks which are particularly important for SSH and for the Republic of Slovenia.

In 2020, the Internal Audit organised a consultation for internal audit services of the portfolio companies in which RS has a majority shareholding. The topic discussed referred to the planning of the internal audit service. The consultation proved to be a very efficient tool for the development of the internal audit discipline in the portfolio companies and the companies demonstrated high interest for organising such events in the future.

5 SUPERVISORY BOARDS OF SOEs AND CANDIDACY PROCEDURES

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

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

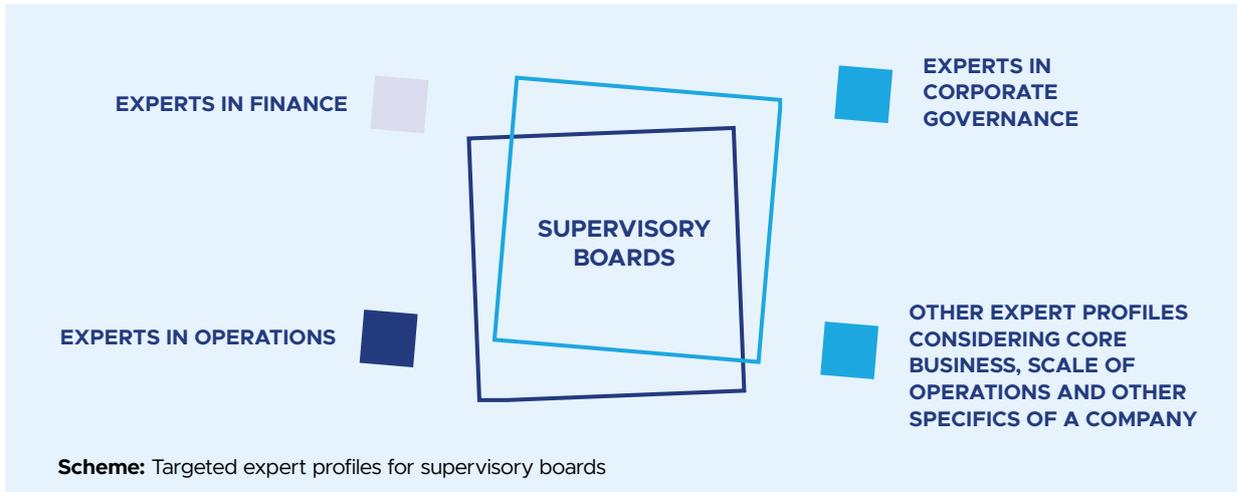


In addition to statutory terms and conditions, members of supervisory boards must also have the necessary knowledge and skills, such as competence, business credibility, financial and strategic knowledge, basic knowledge of business administration, members must be strong team players, understand the business culture and committed to observe the principles of business ethics.

The members of supervisory boards must have the necessary business experience and business maturity for assessing global business trends and opportunities, benefits, and risks which a company is exposed to, full understanding of business cycles and a company's business model, its strategic directions and business policies and the capability of an independent judgement for the benefit of the company. The members of supervisory boards must make decisions on selection of board members in companies and direct and evaluate the work carried out by executives (management boards).

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

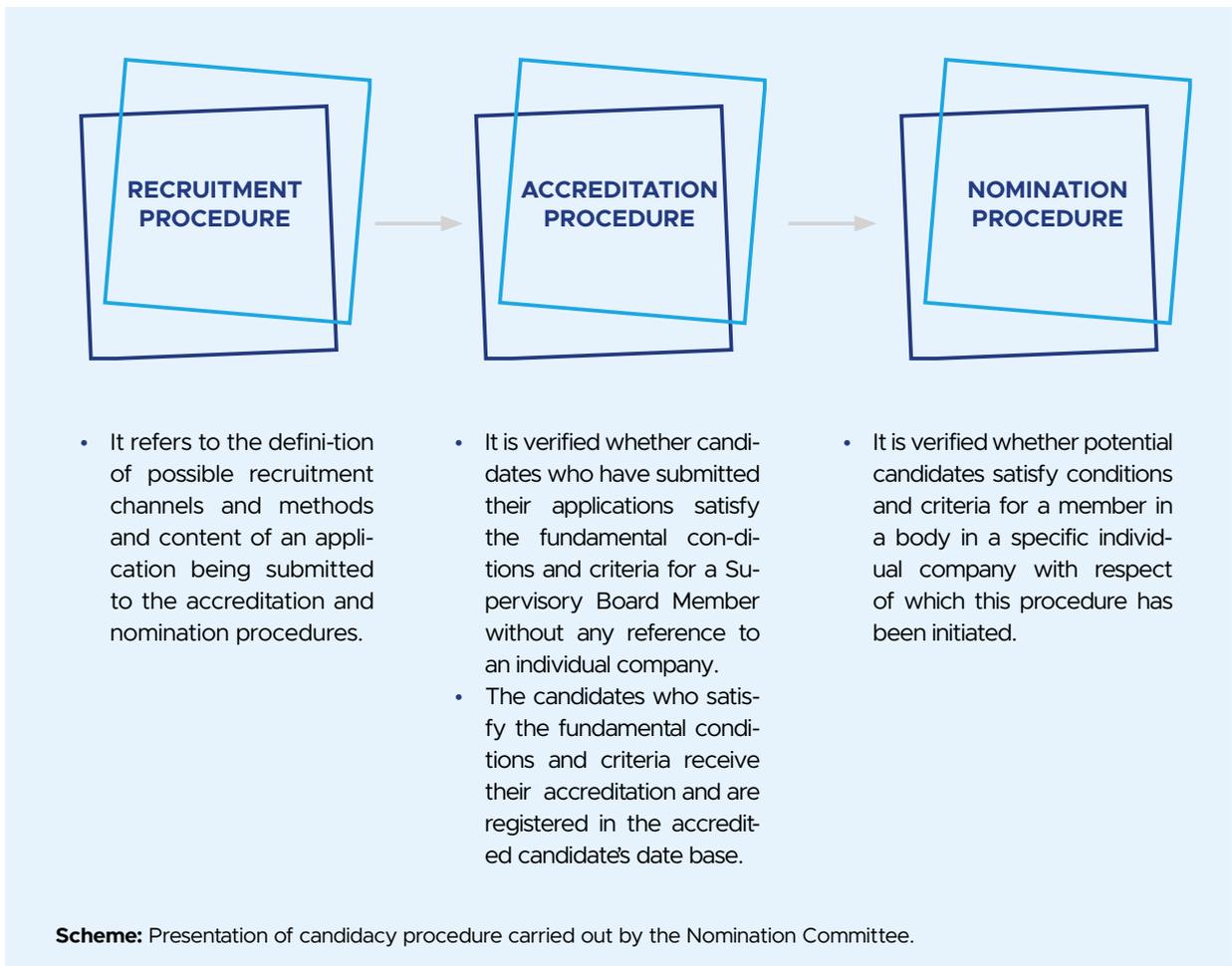
In accordance with Article 21 of ZSDH-1, at General Meetings of companies, SSH must vote so as to appoint experts in finance, corporate governance, operations of an individual company, together with other officers with professional profiles necessary for the efficient supervision over an individual company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



5.1 About SSH’s Nomination Committee

The **Nomination Committee** is a consultation body of the SSH Management Board, which, pursuant to ZSDH-1 and SSH Asset Management Policy, implements procedures for recruiting candidates for members of Supervisory Bodies of SOEs, and procedures for their accreditation and nomination. The Nomination

Committee is composed of three members: an expert in corporate governance, an expert in the functioning of bodies of supervision as well as an expert in HR management. The members of the Nomination Committee are appointed by the SSH Management Board for a four-year term of office.



5.2 Work performed by Nomination Committee in 2020

The Nomination Committee has been functioning with its current members since April 2020. These are: Samo Roš, the President of the Nomination Committee, an expert in corporate governance; Urška Podpečan, the Deputy President of the Nomination Committee, an expert in the functioning of Supervisory Boards (both members have been the said Committee's members since 1 April 2019); and Vlasta Lenardič, Member, an expert in HR Management, who became the Committee's member on 6 April 2020.

The Nomination Committee carried out 42 regular and 4 correspondence sessions. At its regular sessions, the Committee discussed 53 applications for carrying out procedures in 22 diverse SOEs, specifically, for: HSE, d. o. o., KAD, d. d., Elektro Celje, d. d., Bodočnost, d. o. o., Pomgrad, d. d., KOPP, d. o. o., Savo RE, d. d., NLB, d. d., Zavarovalnico Triglav, d. d., Krko, d. d., Telekom Slovenije, d. d., Cinkarno Celje, d. d., Geoplin, d. o. o., Slovenske železnice, d. o. o., DARS, d. d., KZPS, d. o. o.,

Petrol, d. d., Elektrooptiko, d. d., Infro, d. o. o., VGP Novo mesto, d. d., Gen energijo, d. o. o., STH Ventures, d. o. o. In addition to the above mentioned applications for carrying out procedures to appoint supervisory board members, the Nomination Committee also dealt with four applications to carry out procedures to assess the suitability of candidates for the top management positions in Nafta Lendava, d. o. o., PS Za avto, d. o. o., Študentski dom Korotan, d. o. o., and CSS, d. o. o., invalidsko podjetje.

For the most part, the operations of the SSH Nomination Committee are digitalised. The application process for the candidates who are interested in becoming members of supervisory bodies of SOEs, is similarly digitalised: in fact, they may submit their application for accreditation together with all required evidence to the Nomination Committee's Portal found on the web site address: <https://kk.sdh.si/>.

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

In 2020, SSH organised five training sessions for management and supervisory bodies of companies from the portfolio managed by SSH. The supplementary training sessions organised in January and in February were organised off-line (Review of key authorities and responsibilities of Audit Committees from the aspect of the Agency for Public Oversight of Auditing, acting in the capacity of the auditing regulator, and the Cyber safety: an integrated management of cyber risks, change in awareness and in corporate safety). The following sessions were organized on-line on the web platform Zoom: Sustainable business strategies of companies, and the Analyses of Balance Sheet and Finance. They were carried out in cooperation with the Centre of Business Excellence of the Faculty of Economics. All events were well attended.



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

Ensuring the diversity of membership of supervisory bodies is important to improve the quality of decision-making, for example, in regard to strategies and

risks, as it enables a wider spectre of perspectives, opinions, experience, perceptions and values. The goal of the Diversity Policy is to achieve better efficiency of a Supervisory Board and the Management as a whole.

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

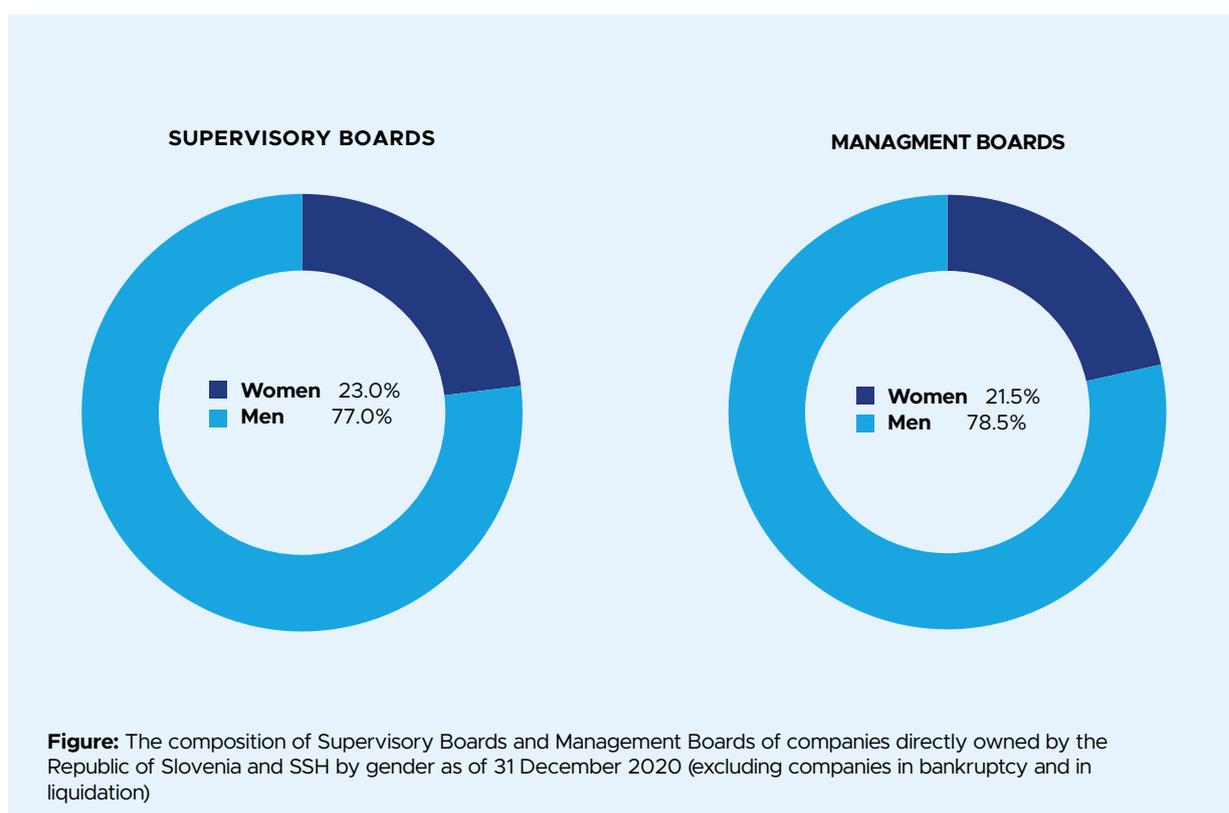
At the end of 2020, there were 428 potential candidates registered in the register of potential candidates for members of supervisory bodies of SOEs at the Nomination Committee's Portal. The share of women registered at the Portal is slightly less than 18% which is a decline compared to the preceding year when it stood at 23%.

The age groups which are the best represented among the candidates registered at the Nomination Committee's Portal are the 41-50 age group (36%) and the 51-60 age group (35%). The age group of over 61 years is less represented and the lowest share is attributed to the age group of candidates under 40 years of age.

5.4.2 The diversified composition of Supervisory and Management Boards of companies owned by the Republic of Slovenia and SSH by gender

In 2020, the composition of Supervisory and Management Boards by gender was similar as in 2019, i.e. mostly imbalanced. Men continue to strongly prevail in Supervisory and Management Boards, which was also shown in 2020. As regards the relation between men

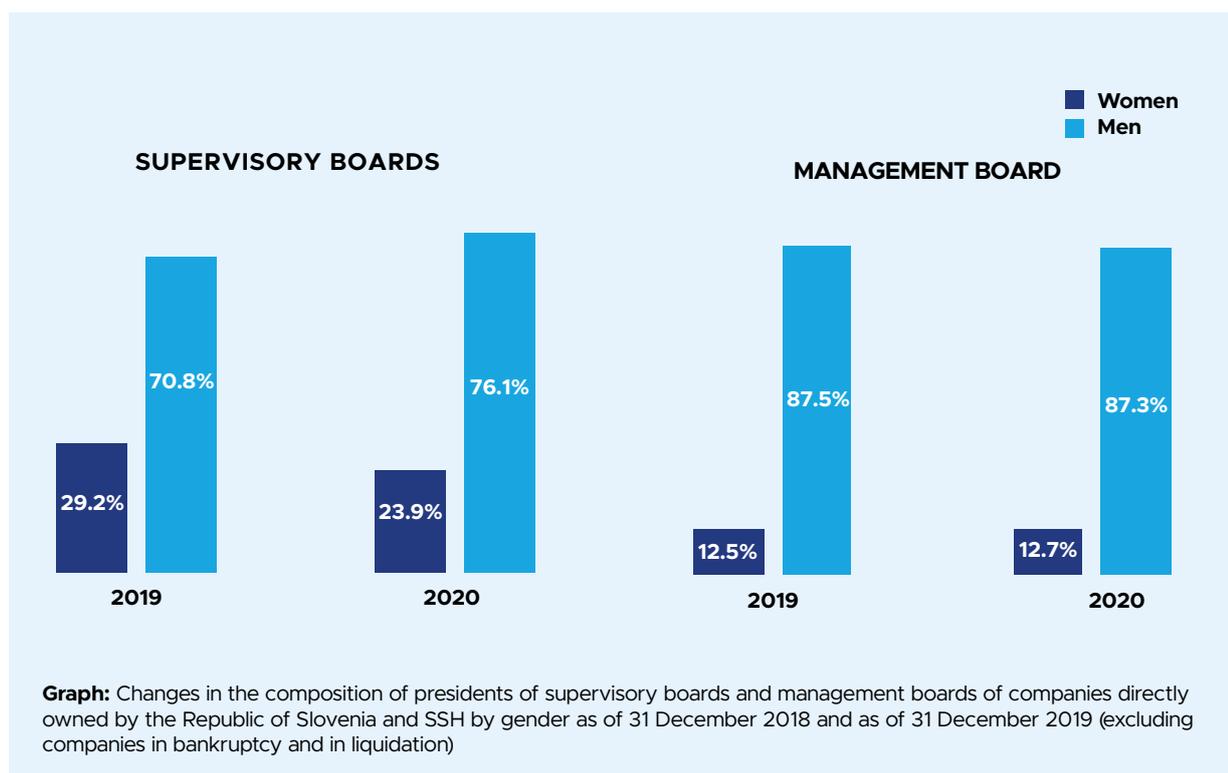
and women in the gender presence, the upward trend in favour of women was registered until 2020, however, it turned in favour of men in 2020, specifically, by 1.9 percentage point in case of Supervisory Boards, and by 0.7 percentage point for Management Boards.



A similar disproportion as regards gender presence was noted in presidential positions of management and supervisory bodies; in 2020, as compared to the end of 2019, the relation in the gender presence and in the presidential position of Supervisory and Management Boards of companies turned in favour of men.

The Supervisory Boards of companies directly owned by the Republic of Slovenia and SSH were presided

over by men in 76.1% of cases (as compared to the situation at the end of 2019, the share of women declined from 29.2% to 23.1%), while Management Boards maintained the share recorded in 2019 and had as many as 87.3% of male presidents (the share of female presidents increased only by 0.2 percentage points, specifically, from 12.5% in 2019 to 12.7% in 2020).



6 LEGAL FRAMEWORK FOR MANAGING CAPITAL ASSETS OF RS AND SSH AND AMENDMENTS OF ASSET MANAGEMENT-RELATED DOCUMENTS IN 2020

The main activities for improving the level of corporate governance in SOEs which were implemented in 2020 include the following:

- the adoption of the Annual Assets Management Plan for capital assets held by RS and SSH;
 - the adoption of the amendments to the SSH Recommendations and Expectations Recommendations for the adoption of other rights for members of a management body;
 - the recommendation on the waiver of part of the remuneration of members of the supervisory boards of SOEs due to the COVID-19 epidemic,
- recommendations on the sustainable operation and respect for human rights in business;
 - the preparation and publication of three sample company rules for conducting electronic general meetings based on the provisions of the company's Articles of Association, electronic general meetings pursuant to the provisions of the ZIUOPDVE and virtual general meetings pursuant to the provisions of the ZIUOPDVE;
 - the adoption of the SSH's Premises for Voting on General Meetings in 2020;
 - and the analysis of the observance of the Corporate Governance Code for SOEs and SSH Recommendations and Expectations.

6.1 The framework of functioning for SOEs

	Publicly traded SOEs	Non-publicly traded SOEs	Single-person companies owned by the State
Legal framework	ZGD-1, ZBan-2, ZZavar-1, ZTFI, ZPre-1, Articles of Association, Corporate Governance Code for Joint Stock Companies, Corporate Governance Code for SOEs	ZGD-1, special legislation, Articles of Incorporation, Corporate Governance Code for SOEs, Corporate Governance Code for Non-Publicly Traded Companies	ZGD-1, special legislation, Articles of Incorporation, Corporate Governance Code for SOEs
Goals and assignments	Increasing the value of a company in the long term	Increasing the value of a company in the long term, other tasks and duties stipulated by the law and Articles of Incorporation	Increasing the value of a company in the long term, other tasks and duties stipulated by the law and Articles of Incorporation
Hierarchy of top Company's bodies	General Meeting of a company	General Meeting of a company and shareholders as a body	Sole shareholder

Some special laws apply for enterprises with the controlling influence of the State. These are: Act Governing the Remuneration of Managers of Companies with Majority Ownership held by the Republic of Slovenia

or Self-Governing Local Communities, ZSDH-1 (individual provisions, for example Paragraph 9 of Article 60, Article 62 and Paragraph 2 of Article 64 and Articles 69, 70 and 71).

6.2 The corporate governance system of SOEs –legal bases and documents on asset management and their amendments in 2020

SSH manages state assets in accordance with ZSDH-1, ZGD-1, other acts and regulations, Articles of Association and other legal documents related to asset management, taking into consideration the legal form of an individual company and in line with good practice in corporate governance. When pursuing its asset management activity, SSH abides to the limits in corporate governance and to powers held by management and supervisory bodies of companies under management, as stipulated by Article 20 of ZSDH-1.

The systemic nature of corporate governance pursued by SSH is shown in the adopted asset management-related documents which represent the foundation for corporate governance and are the main condition for ensuring transparency in corporate governance. These documents are: the State Assets Management Strategy, the Annual Asset Management Plan (AAMP); Criteria for Measuring Effectiveness of SOEs, Corporate Governance Code for SOEs, SSH Recommendations and Expectations, SSH Asset Management Policy and SSH Premises for Voting at General Meetings.

By means of assuming an active asset management approach, SSH continued to ensure good practice in corporate governance is being implemented in 2020, in order to attain the set asset management goals.

The key document for corporate governance is the State Assets Management Strategy by way of which state assets are classified into strategic, important and portfolio assets. By classifying capital assets in an individual group of assets, goals for asset management and the minimum state shareholding in an individual company have been set.

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

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

6.2.1 Capital Assets Management Strategy

The National Assembly of the Republic of Slovenia adopted the State Assets Management Strategy on 17 July 2015, by way of the Ordinance On State-Owned Capital Assets Management Strategy (OdSUKND, Official Gazette RS, No. 53/15 of 17 (hereinafter referred to as: "the Strategy"). By the law, the Strategy is envisaged as a principal asset management document by way of which, the Parliament communicates the state ownership policy regarding SOEs to the asset management company (SSH), the Government, investors, citizens and all the interested public groups. The content of the Asset Management Strategy refers to the definition and classification of state assets to individual types of assets (strategic, important and portfolio as-

sets), the definition of development guidelines of the State as a shareholder in companies and the definition of individual strategic objectives pursued by the State with strategic assets. In the Asset Management Strategy, the Parliament has given a special emphasis to raising the corporate governance culture, to increasing effectiveness in disposition of assets, to carrying out sound and prudent acquisition of capital assets, to increasing return on equity and to considering listing companies on the regulated market. No amendments to the Strategy were adopted in 2020. In principle, the said document is not implemented directly, and it forms the basis and the guidelines for the preparation of the Annual Assets Management Plan.

6.2.2 Annual Asset Management Plan

On the basis of the Strategy, every year, the Government grants its consent to every Annual Asset Management Plan (AAMP) prepared by SSH. The Annual Asset Management Plan defines detailed objectives for the asset management company (SSH) with respect of the management of individual assets to be pursued in an individual financial year; they have to be moving within the scope of objectives set out in the Asset Management Strategy. It also includes a specific plan (a definition of measures

and policies) for attaining asset management goals, while it also determines expected cash flows generated from the management of state capital assets.

SSH prepared the Annual Asset Management Plan (AAMP) for 2021 at the end of November 2020 to which the RS Government granted its consent on 23 December 2020. The General Section of the AAMP is publicly published, whereas the Special Section is confidential.

6.2.3 Criteria for Measuring Performance of SOEs

Pursuant to Article 17, Paragraph 1 of ZSDH-1, SSH adopted the revised Criteria for Measuring Performance of SOEs (hereinafter referred to as: the "Criteria for Measuring Performance"), to which the Government of the Republic of Slovenia's consent was granted on 23 December 2020. The Criteria for Measuring Performance are an internal document of a shareholder in which the criteria (indicators) are defined for SSH

to monitor the performance of operations of companies with state assets. These indicators are divided into financial and non-financial indicators; they are determined individually for each company or a group of companies, taking into account their specific characteristics. These indicators are quantified for every individual company or a group on an annual basis by way of every Annual Asset Management Plan (AAMP).

6.2.4 SSH Asset Management Policy

The Asset Management Policy of Slovenian Sovereign Holding (hereinafter referred to as: the "Policy") is a legal document which presents principles, procedures and criteria which are applied by SSH in carrying out its duties and activities in accordance with ZSDH-1. The Asset Management Policy is divided into two parts, a general part which includes the fundamental framework of the SSH's operation, together with some fundamental guidelines for SSH in performing its duties. It also includes a special section. The special section of the Asset

Management Policy is drawn up in the form of articles and it stipulates rules of conduct in individual situations, specifically, in candidacy procedures, in procedures related to the acquisition and disposition of State's capital assets, and in some other cases. Both parts of the Asset Management Policy are binding on SSH. The purpose of the Asset Management Policy is to provide for the transparency and traceability of decisions made by SSH. The Assets Management Policy, which was adopted in March 2019, applied for 2020.

6.2.5 Corporate Governance Code for SOEs

SSH adopted the Corporate Governance Code for SOEs (hereinafter referred to as: the “Code”) on 19 December 2014. This Code was revised several times; the last revision took place in March 2021 (the content of these last amendments and modifications will be reported in the annual report for 2021). The Code contains principles and recommendations for good practice in corporate governance of SOEs. The Code is addressed to SOEs. It should also be applied by subsidiaries in a group of which a state-owned enterprise is a parent company. By analogy, the Code is also used by SSH for its operation. Some principles are of a general nature

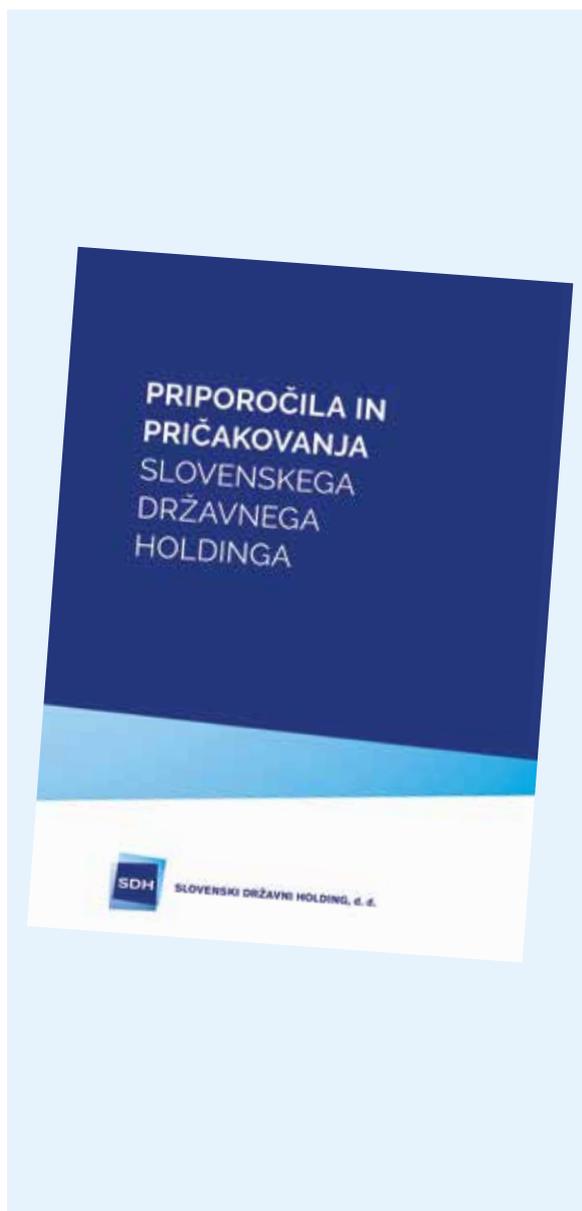
and refer to all SOEs, while some recommendations refer to companies with specific legal form and organisational structure, taking into account the ownership structure of the company and whether the company's shares are traded on the regulated market. The Code also includes certain general expectations SSH has in relation to SOEs. The purpose of the Code is to set the standards of governance in and supervision over SOEs and to develop a transparent and understandable system of corporate governance in the above-mentioned companies. The Code is addressed to SOEs under the “comply or explain” principle.

6.2.6 SSH Recommendations and Expectations

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

Slovenian Sovereign Holding first adopted the SSH Recommendation and Expectations in 2014, in accordance with the above-mentioned authority; by means of these recommendations and by applying the “comply or explain” principle, SSH expects from SOEs to align their activities in individual narrow areas with SSH's recommendations.

In July 2020, the SSH's Management Board added two recommendations to the SSH Recommendation and Expectation, i.e., Recommendation No. 7, and Recommendation No.8.: the **Recommendation on Sustainable Business of SOES** and the **Recommendation on Observance of Human Rights in Business**, respectively. SSH aims to encourage SOEs for pursuing economic, social and environmental transformation of their business strategies and models which should lead to better competitiveness, lower risk levels and sustainable performance. SOEs are expected to incorporate all three aspects of sustainable operation (economic, social and environmental) into their business strategy and/or their business model by way of defining actual measures which will also be implemented in the pursuit of the sustainable operation by the controlling company at the level of the Group of affiliated companies. In this process an SOEs sets up goals, which have to be determined in a quantitative and/or qualitative manner, to be pursued in connection with individual aspects of sustainable business and individual measures along with the time frame for their achievement. The recommendations on human rights have introduced higher standards as regards observance of human rights in business and represent an important component of sustainable business operations.



In August 2020, the SSH Management Board supplemented the SSH Recommendations and Expectations with Recommendation No. 9., which refers to the adoption of the rules on **other rights, according to which other rights should be observed by supervisory bodies when concluding agreements with members of management bodies for performing the duty of running the company and organising its operations.**

The said recommendation defines certain terms which refer to such rights. It also specifies the duty of the supervisory body to inform the General Meeting of a company of such rules on other rights and on their grounds for defining individual rules.

The goal of SSH Recommendations on Other Rights is, firstly, to better unify the regulation of other rights among SOEs, particularly with respect to the rights which may incur additional costs for a company, and, secondly, to provide guidance on the highest permissible amounts. It is highly important that any doubts on the correct application of ZPPOGD are clarified and that all SOEs interpret the provisions of ZPPOGD in the same manner. The Recommendations on Other Rights will contribute to higher transparency in this field as they will be publicly published. In addition, they will act in a preventive manner as they should prevent or at least minimise any potential future mistakes or excesses.

6.2.7 SSH Premises for Voting on General Meetings of Shareholders in 2020

SSH adopted the **Premises for Voting on AGMs for 2020 in March 2020.** Among other matters, the document clarified in more details SSH's expectations in regard to the remuneration of members of a management body and the Remuneration Policy of the portfolio companies, including their affiliates, when disclosed at the General Meetings of these companies. The purpose

for disclosing income received by members of a management body is to ensure better transparency. SSH considered information disclosed when drawing up the Recommendation on other rights for members of a management body; during this exercise it was established that other rights of members of a management body are not regulated in an unusual or excessive manner.

6.2.8 Other recommendations, standpoints and documents issued in 2020

SSH may also adopt other guidelines (recommendations) and viewpoints and address them to SOEs, in accordance with Article 32, Paragraph 4 of ZSDH-1. Thus, considering the economic and financial situation caused by the COVID-19 epidemic, SSH adopted and published the **Recommendation on the waiver of remuneration by members of the supervisory boards of SOEs** at the end of March 2020. The said recommendation is addressed to SSH's portfolio companies regardless of the shareholding and voting rights held by RS and/or SSH. The document recommended to members of a supervisory body, non-executive members of the boards of directors and external members of the committees of the supervisory boards or boards of directors to voluntarily waive 30% of their income to which they were otherwise entitled. The recommendation was valid for the period from March 2020 to the end (first wave) of the COVID-19 epidemic. Voluntarily and upon their own initiative, all members of the then SSH Supervisory Board and an external member of the commissions of the SSH Supervisory Board also waived their income in the proposed percentage.

Due to the smooth implementation of corporate activities during the COVID-19 epidemic, SSH prepared for SOEs three sample rules on how to conduct electronic general meetings pursuant to the provisions of company's Articles

of Association, electronic general meetings pursuant to the provisions of ZIUOPDVE and virtual general meetings pursuant to the provisions of ZIUOPDVE.

During the COVID-19 epidemic, SSH took an active part in the preparation of laws and implementing regulations and submitted initiatives for their modifications and amendments. Thus, due to the permission to hold general meetings of companies with the physical presence of shareholders, SSH proposed to amend the Ordinance on the temporary partial restriction of movement of people and on the prohibition of gathering of people to prevent the spread of COVID-19 and prepared a draft amendment to Article 82 of the Act Determining the Intervention Measures to Contain the COVID-19 Epidemic and Mitigate its Consequences for Citizens and the Economy (with the aim of establishing an exception to the payment deadlines for liabilities of companies performing a public utility service), which was adopted when the law was amended. In October 2020, SSH also took the **initiative to adopt appropriate legislation that would enable the holding of electronic and virtual assemblies in crisis situations;** the text of the proposal was included in the Intervention Measures Act Determining the Intervention Measures to Mitigate the Consequences of the Second Wave of COVID-19 Epidemic (ZIUOPDVE).

7 MACROECONOMIC ENVIRONMENT AND DEVELOPMENTS IN THE MOST IMPORTANT PORTFOLIO SECTORS

7.1 Overview of selected macroeconomic data and of Slovenian capital market

	Autumn forecast (September 2021)			
	2020	2021	2022	2023
GDP, real growth, in%	-4.2	6.1	4.7	3.3
Registered unemployment rate in%	8.7	7.7	6.9	6.6
Inflation (annual average) in%	-0.1	1.4	2.0	1.9

Source: IMAD; Autumn forecast (September 2021)

The global economy fell by 3.2% in 2020 as a result of the COVID-19 pandemic. This is the first contraction in economic activity after several years of constant global GDP growth. The International Monetary Fund (IMF) expects economic activity to recover in 2021, and forecasts the growth level to reach 6.0%. In 2021 and 2022, the IMF expects global economic growth to stand at 4.9% and 3.5%, respectively. Economic growth fell in both the developed world (-4.6%) and in developing countries (-2.1%) in 2020, but a greater fall was recorded in the advanced economies. China stands out among the developing countries as, despite the corona crisis, it managed to record a positive economic growth (+ 2.3%) in 2020. Some other major emerging markets, on the other hand, recorded a decline in economic activity ranging between 7% and 8% (e.g., India). The level of the decline in economic activity around the world had to be attributed to various factors: restrictive measures taken by each country (partial closure of the economy); the structure of the economy (different sensitivity by industries to cope with the negative effects of the COVID-19 crisis); the state of the economy before the COVID-19 crisis (accumulated problems which have not been resolved, structural issues in individual economies, too great a weight on individual sectors in the structure of a national economy, etc.); the suitability of measures taken against the consequences of the COVID-19 crisis, to name a few.

Warnings were issued in 2019, which pointed to a slowdown in the economic activity, and signalled lower growth levels for the near future, when the infectious disease caused by SARS-CoV-2 virus broke out in China at the end of the year. The disease soon developed into an epidemic and then spread all over the world as a pandemic and significantly affected economic activity in all countries around the globe. Generally speaking,

action taken by states in response to COVID-19 was exceptional and unprecedented, both in terms of fiscal policy measures and monetary policy instruments. In 2020, the EU economy contracted after several consecutive years of growth which has been recorded since 2013. The fall in GDP in the EU amounted to 6.5% and to 6.3%, in the Euro area in 2020. The decline in economic activity recorded in Europe during the corona crisis was greater than in other two powerful regions of the world economy (US and Asia-Pacific region). Individual countries as well as institutions in the EU adopted various programmes with measures to fight the corona crisis. It should be highlighted how crucial it was for the fight against the negative consequences of the COVID-19 pandemic in Europe that the stimulus programmes to support the economy and citizens were implemented in a timely manner and on a sufficiently large scale. Clear differences between the EU countries were noticed particularly during the first wave of the pandemic as regards the size of rescue programmes to assist the economy and people (the programme value measured against the% of GDP). Some European countries did not meet the first or the second criterion, which was then reflected in a significantly larger fall in GDP in the second quarter of 2020 (Spain, Italy), as compared to countries that responded to the corona crisis in a timely manner and with large enough support packages. The fact that European economies entered the corona crisis unprepared (the industry structure, unresolved problems, etc.) is a partial explanation for the decline in economic activity in Europe in 2020, which is why certain activities suffered great damage at the time of the corona crisis (the automotive industry, tourism, and hospitality, etc.).

The European Commission prepared its own rescue packages and approved individual national recovery and resilience plans. However, the disbursement levels

of funds available from European programmes vary (as in Slovenia). Measures also include projects aiming at the transition towards green economy while some other programmes have determined a share of funds that must be earmarked for green projects. The measures adopted at the EU level include the Emergency Package worth of EUR 540 billion (aimed at workers, businesses and Member States, including the European instrument for temporary support to mitigate unemployment risks or commonly known as the SURE mechanism in the value of EUR 100 billion; EUR 200 billion from the EIB for funding needs and the ESM (European Stability Mechanism), which amounts to € 240 billion; € 750 billion from the European Recovery Fund, and € 1,074.3 billion from the EU budget for 2021-2027. In 2020 and 2021, the U.S. also provided a comprehensive support programme to the U.S. economy and population, of which President Trump's administration programmes totalled more than \$ 3,000 billion and President Biden's programmes amounted to about \$ 1.844 billion.

A similar strong response to the corona crisis was put in place by the central banks. The ECB did not lower its key interest rate, which was already 0% at the beginning of the corona crisis. The ECB introduced the PEPP (Pandemic Emergency Purchase Programme) in 2020 and later increased its value due to the aggravation of the corona crisis. The securities repurchase program (including securities from private and public sectors) amounted to EUR 1.850 billion. The ECB had committed itself that the securities repurchase program would last at least until the end of the corona crisis, and in any case not later than by March 2022. In addition, the overdue principals of securities, which had been purchased under the PEPP, would be reinvested at least until the end of 2023. During the pandemic and due to the aggravation of the corona crisis, the ECB also extended the TLTRO-III programme (Targeted Long Term Refinancing Operations (TLTRO): as part of the programme, the interest rate for banks was reduced, and amounted to -1%, and the programme's conditions were modified. The PELTRO program (Pandemic Emergency Longer Term Refinancing Operations) introduced a lower interest rate compared to the refinancing rate for liquidity purposes. Less stringent rules on the eligibility criteria for securities that the ECB deemed appropriate in its operations were adopted. By adopting less stringent capital adequacy rules for commercial banks, the ECB made it possible for commercial banks to be able to lend up to € 1.800 billion to ensure liquidity to households and businesses. In the fight against the crisis caused by the coronavirus disease, the ECB took additional measures to curb the negative impacts on the economy. It thus relaxed the prudential supervision policy pursued by central banks for the supervision of commercial banks in the

assessment of the quality of their loan portfolio; the interim policy thus provided more flexibility in identifying insolvent obligors (NPLs, non-performing loans). This measure applied to government guarantees and the moratoria of individual loans granted due to the coronavirus disease. Supervisory bodies will thus be able to be more flexible when classifying a commercial bank's loan portfolio, specifically, what falls into the NPL category and what does not. Fiscal and monetary policy measures taken to combat the negative effects of the corona crisis did mitigate the decline in economic activity in 2020, and a partial recovery in economic activity was recorded in the Q2 of 2021 after a sharp drop in GDP in the second quarter of 2020. It is crucial for the economic activity prospects that the upcoming wave of the pandemic (the delta version of COVID-19), which is expected in the autumn of 2021, is limited as much as possible and that the scenario of the autumn 2020 is prevented.

The response by the US Federal Reserve (Fed) illustrates the severity of the crisis and the threat posed to the economy by the COVID-19: at its extraordinary meetings in March 2020, the FED cut the benchmark rate by 50 and 100 basis points, and as a result, the key rate was again set to a range between zero percent and 0.25%. The last time the FED made a similar move enacted at one single meeting took place in 2008 in the face of the impact of the financial crisis. In its assistance to the American economy, the FED prepared a comprehensive programme worth ten of billions of dollars; the funds were earmarked for loans and for the purchase of securities. The FED adjusted its bond purchase programme to market conditions in 2020: in June 2020, the FED pledged to purchase at least \$80 billion of Treasury securities and \$40 billion of agency mortgage-backed securities (MBS) each month in order to shelter the economy. These asset purchases helped foster smooth market functioning and ensured accommodative financial conditions, thereby supporting the flow of credit to households and businesses. By reducing the key interest rate in 2020 and giving the commitment to keep interest rates low for a longer period of time (subject to inflation and the conditions on the labour market), the FED wanted to influence the long-term interest rates, as the reduction aimed to boost consumption in the economy and economic activity. The key interest rate and the amount of the monthly asset purchases remained at the same level in the first half of 2021 due to the support that the US economy needed to recover from the corona crisis.

The US economy saw a 3.4 percent drop in GDP in 2020, which is a relatively good result compared to the GDP trends in some other major advanced economies at the time of the corona crisis. It should be noted that in times of global prosperity, the US economy is gen-

erally growing faster than the economies of the euro area, while during the crisis, the US economy suffers a smaller drop in GDP than the euro area countries; this indicates that the European economies suffer from a number of structural problems.

According to the Fed's forecasts, the US economy is expected to grow by 7.0% in 2021, by 3.3% in 2022 and by 2.4% in 2023. The ECB, on the other hand, forecasts a 4.6% GDP growth for the euro area countries in 2021, 4.7% in 2022 and 2.1% in 2023.

The economic growth in the Republic of Slovenia stood at -4.2% in 2020, thus recording a slightly more favourable result than the EU as a whole or compared

to the entire euro area. However, the decline in the Slovenian economic activity remains to be similar as the decline in Europe, mainly because the Slovenian economy is highly attached to the economies of the European countries. It is therefore crucial for the Slovenian economy to continue to grow faster in the coming years (and fall less than other economies in Europe during crises/recessions), and to record higher growth levels in comparison to the average European growth, if Slovenia wants to decrease its lagging behind the EU average as far as the economic development is concerned.

In its Autumn Forecast, IMAD forecasts the GDP growth in the Republic of Slovenia to stand at 6.1% in 2021, 4.7% in 2022 and 3.3% in 2023.

Slovenian capital market

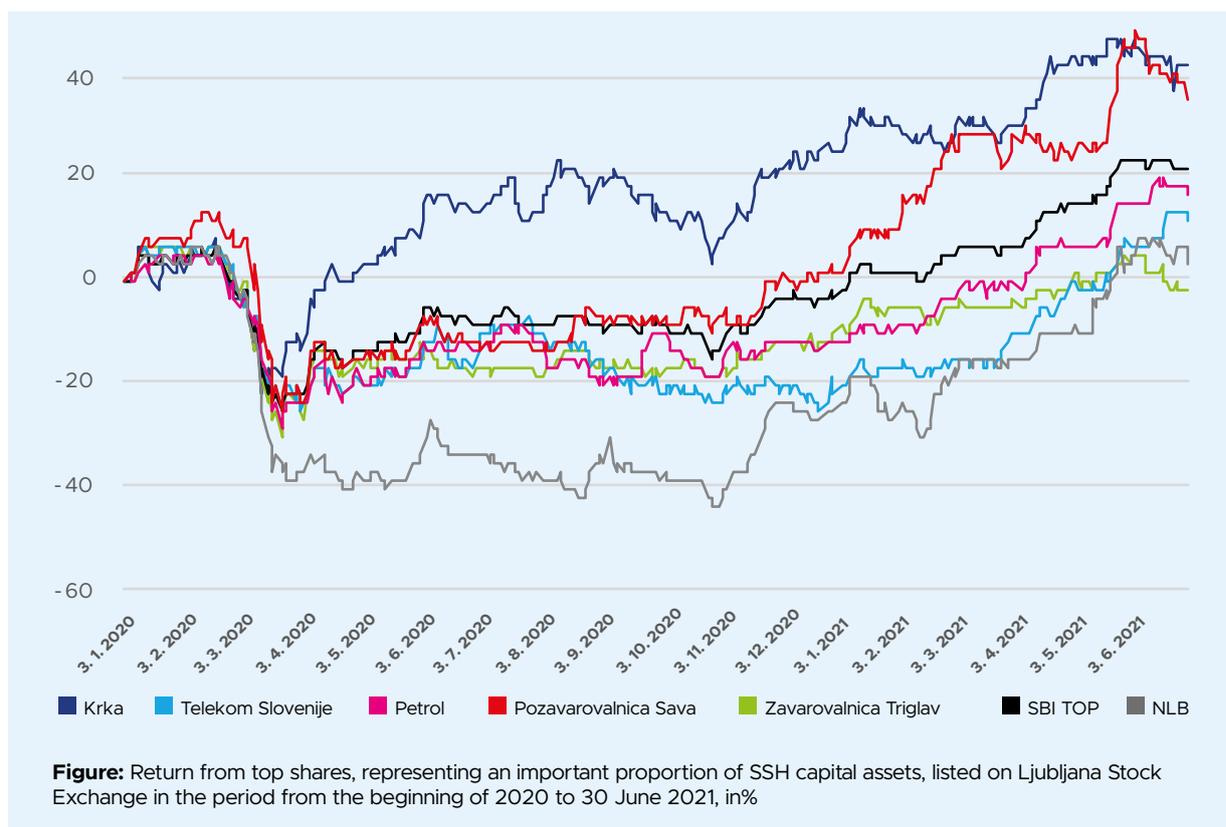
Share prices of securities trading on the Ljubljana Stock Exchange (LJSE) gained some value in the first weeks of 2020 only for their value to be lost fast due to a stock market crash triggered by the coronavirus crisis. SBITOP Index thus lost as much as 30.33% of its value in the period from 19 February to 23 March 2020. From its local bottom hit on 23 March 2020 (with the value of 694.74 points, SBI TOP stood at the value last recorded in 2016), the Slovenian stock market index rose by 23.97% by 30 June 2020, riding the winds of optimism also typical for foreign stock exchanges in that period of time. This was followed by a period of stagnation until October 2020, when the index rate lost about 6.5% of its value due to the escalation of the pandemic. By the end of the year, SBI TOP index again grew by almost 14% and ended the year of 2020 at the value of 900.37 points. Considering the corona crisis, SBITOP index thus awarded investors with relatively favourable returns in 2020 as its value decreased only by 2.78%. Until 30 June 2021, the movement of prices was favourable, and the index grew without any major intermediate falls in the price. SBITOP index gained another 24% of its value in the first six months of 2021.

The LJSE turnover in 2020 was slightly higher than in 2019: the total turnover amounted to EUR 400,94 million while the turnover, excluding block trades, stood at EUR 378.42 million (in 2019, the total turnover amounted to EUR 329,5 million, while the turnover without block trades stood at EUR 279.3 million).

Most of the turnover was generated by trading in shares (EUR 399.1 million); the turnover from bond trading, on the other hand, amounted only to EUR 1.8 million (EUR 25.1 million in 2019). As compared to 2019, the average daily number of trades did increase by 42.52% but this figure was still much lower than in 2016. Prime Market shares were the most trading shares as they generated as much as 93.53% of the total LJSE turnover in shares.

The most frequently traded share in 2020 was again the Krka share which generated EUR 176,0 million of LJSE turnover, excluding block trades, which represents 46% of the total turnover excluding block trades. According to the liquidity criterion, the second place went to the NLB share, generating EUR 46.9 million of turnover, which represents 12% of the share turnover. The Petrol share was the third most traded share: it generated EUR 44.4 million of turnover excluding block trades, which corresponds to almost 12% of the share turnover.

The overall market capitalisation stood at EUR 40.9 billion at the end of 2020 which is higher by 17% than in 2019. The overall share market capitalisation stood at EUR 6.9 billion in 2020. Seven new bonds were listed to trading in 2020 with the total issue value of EUR 4.4 billion, in addition to one commercial paper with the total value of EUR 25.0 million. There were 64 securities traded on the stock exchange at the end of 2020.



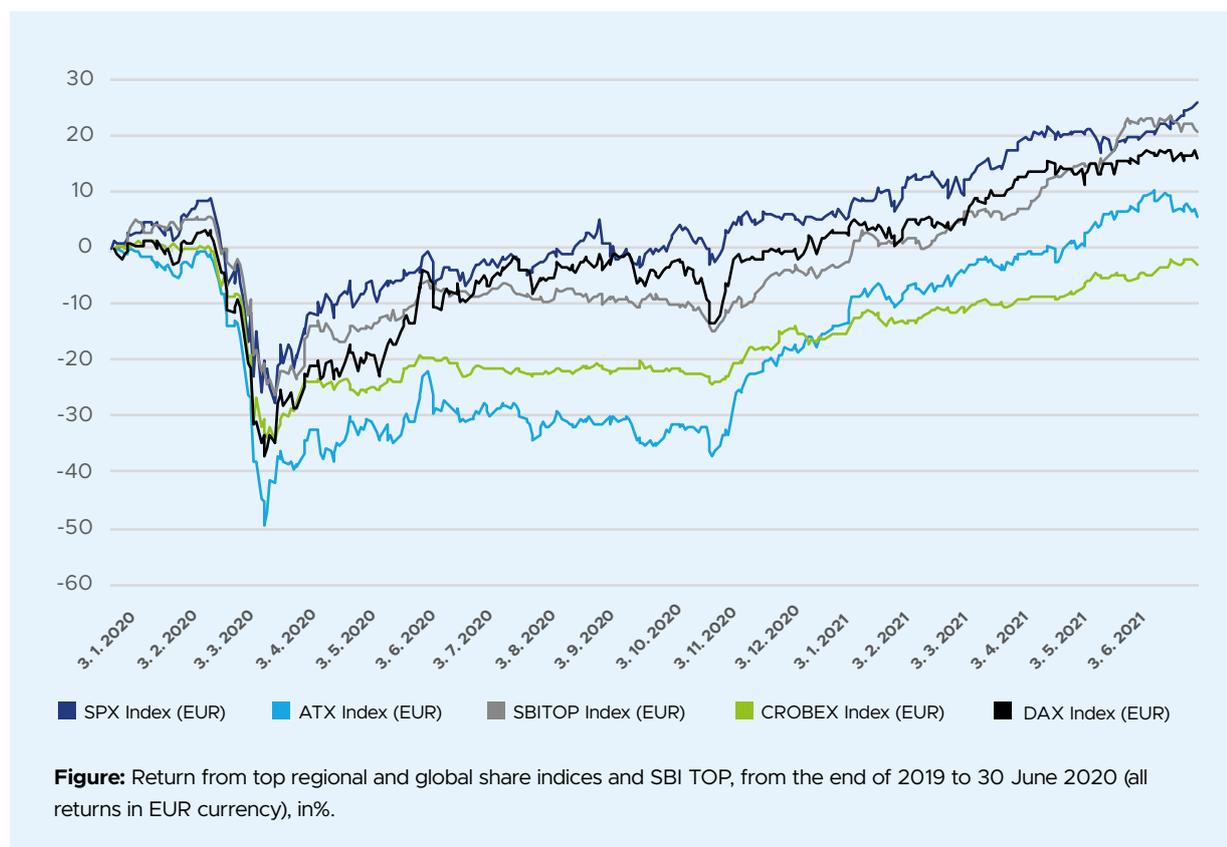
Global capital markets

The COVID-19 pandemic caused a major market turmoil on capital markets in 2020: for the first time since 2009, the VIX index (also known as the “Fear Index” which measures the supply and demand for options as well as a put/call ratio) peaked in March 2020. In March 2020, the investors’ fear thus reached the same levels as during the financial crisis of 2008. The impact of the COVID-19 pandemic was clearly visible in the oil industry: on 20 April 2020, the contract futures price for West Texas Intermediate (WTI) was traded in the negative territory, closing the day at -\$37,63 per barrel. Owing to the inability to take delivery of physical barrels of oil (there were no storage sites available in the market) and due to growing concerns over the future oil consumption at the time of the corona crisis (partial lockdown led to lower oil demand), the speculative owners of crude oil supply agreements were even willing to pay to a buyer of such contract to take physical possession of oil and to store it. Thus, on 20 April 2020, the price for WTI reached a negative value which marked an unprecedented event in the history of the capital market: a final owner of contract futures (the final acquirer of oil in accordance with the future contract) took possession of oil barrels for free and was even paid for it. The situation on the oil market improved slightly during the year, but the price for WTI was still lower at the end of 2020 as compared to the beginning of 2020. The global stock market (measured by the MSCI World index) managed to increase returns for investors by +14.06% (measured in US dollars) in 2020. A

positive growth in the global stock market continued in the first half of 2021; growth was also recorded in the oil market, which saw the price on 30 June 2021 being higher than the price of 1 January 2020, when COVID-19 was not yet present around the globe. Higher levels reached by stock markets and the oil market on 30 June 2021 as compared to 1 January 2020 point to a certain degree of optimism on the side of investors as far as the outcome of the corona crisis is concerned. Bond markets rewarded investors with positive returns in 2020: however, the market was affected by investors’ expectations and their assessments about how the outcome of the corona crisis would be like, what the size of rescue packages for economies would be and what moves would be taken by central banks in light of inflation expectations (inflation target) and how the monetary stimulus packages would be implemented (duration of these programs).

Figure: Return from top regional and global share indices and SBI TOP, from the end of 2019 to 30 June 2020 (all returns in EUR currency), in%.

All global indices discussed generated negative returns for investors in the period from the end of 2019 to 30 June 2020 (CROBEX index) as well as positive returns (other indices presented in the graph); the calculation of returns is made in EUR (conversion to EUR in case of S&P 500 and Crobex indices, in which case some shares are quoted in foreign currencies).



7.2 Overview of developments by portfolio sectors

Road transport: The COVID-19 pandemic had a major impact on road transport due to reduced migration (restrictions on national and regional borders' crossing) and limited economic activities and reduced international flows. Tourist activities and travel of people in this part of Europe almost completely stopped during the first and the second wave of the pandemic. The freight transport was less affected - it operated smoothly for most of the time, however, a decline was recorded in this sub sector due to a general decline in economic activity across Europe. As a result, the toll road operator DARS recorded a drop in toll revenues. After the first wave of the pandemic, the traffic in heavy-duty vehicles above 3.5 tonne gross mass came closer to a level achieved in the comparable period in 2019 relatively quickly, while the traffic in light commercial vehicles with gross vehicle weight of no more than 3.5 metric tons (tonnes) stagnated until the end of 2020. The motorways saw a 20% drop in light commercial vehicle traffic in 2020. Regardless, extensive renovation works took place in 2020 - 53 km of motorways were renovated, including the western pipe of the Golovec tunnel - as well as projects for the modernisation of the network of motorways and expressways. DARS entered the phase of large investment projects. At the end of August, the long-awaited construction of the second pipe of the Karavanke tunnel began.

In October 2020, DARS began the construction of an even larger project, the construction of the express way on the third development axis. The said construction project will take place in several phases, with the works being carried out both on the northern and the southern parts of the third development axis. The project will last for several years. At the same time, DARS continued a series of activities pursued in the field of planning and geographical positioning of motorways, expressways, smaller sections, junctions, extensions and connecting roads. Finally, it is worth mentioning that, in 2020, DARS published a tender for the selection of a bidder who would establish an electronic vignette system. The contractor was selected in the first half of 2021. DARS plans to introduce electronic vignettes for light commercial vehicles with a maximum permissible weight of up to 3.5 tonnes at the end of 2021. The period of classic vignettes which have been used since 2008 in the form of stickers will thus end and the period of digital toll collection will begin.

Railway transport: The year of 2020 saw a decline in freight and passenger rail transport, as a result of traffic obstacles due to works on the railway lines as well as because of the impacts of the COVID-19 pandemic, on account of which passenger traffic completely stopped during certain period of time. As regards freight transport, Slovene

železnice faced competition from many foreign operators who are already present in the Slovenian market as well as from those who are only just entering the market. The modernization of the railway infrastructure, which causes obstacles to traffic, is essential for the development of railway transport, which will become a backbone of the integrated transport system of the future. The modernization of the rolling stock is being carried out in parallel with the modernisation of the railway infrastructure and is set to continue (out of the contractual quantity of 52 passenger trains, Slovenske železnice already took over five trains in 2020; the modernization of the freight fleet will be accelerated by establishing a joint venture company with a strategic partner). A comprehensive digitization of transport and business processes represents an important challenge for the railway transport; Slovenske železnice is already digitalizing its operation processes by carrying out six digitalisation projects.

Maritime transport: Maritime transport in Slovenia runs through its only port in Koper which provides services for freight and passenger transport. The year 2020 was marked by the COVID-19 pandemic as a result of which no passenger ship arrived at the port of Koper. The pandemic also caused a decline in freight traffic, which fell by 14%, or to 19.5 million tonnes. Globally speaking, maritime transport shrunk by about 4%. The pandemic caused a double shock, both on the supply side and on the demand side. The closure of countries followed by their opening caused major problems in supply chains. Limited shipping capacities at the end of 2020 led to rising shipping prices and caused irregular arrivals of ships at ports and bottlenecks. The situation worsened in early 2021. The pandemic further accelerated the noticeable deglobalization trend and the transformation of supply chains which was seen in recent years. Companies focused much of their attention on risk management and on strengthening their resilience to unforeseen shocks. The mindset suggesting that in order to ensure smooth operation, it is necessary to ensure greater diversification in production resources, shorten or find new supply routes and increase local storage capacities and stocks, changed. However, the recent trend regarding changes in terminal ownership continued: shipping companies continued to enter into the ownership of port terminals and logistics companies by way of which their vertical integration in the entire transport chain increased. In 2021, and with the COVID-19 situation calming down, maritime traffic can be expected to grow again.

Air traffic: Air transport and related activities were hit the hardest by the COVID-19 pandemic. European airports offered more than 6,000 air connections in the pre-crisis year of 2019, which was not yet re-established due to the COVID-19 pandemic. According to

the EUROCONTROL's estimate, airlines, airports and air navigation service providers in Europe recorded total net losses of € 56.2 billion, 1.7 billion fewer passengers, 6.1 million fewer flights and 191,000 direct job losses in 2020. As a result, the sudden decline in passenger traffic in 2020 reduced the total revenues of European airports, specifically, by an estimated EUR 33.6 billion, which is a 69% decrease compared to 2019. In January 2021, EUROCONTROL announced that, according to the most optimistic estimate, air transport would reach the 2019 levels in 2024, while the most pessimistic scenario expects the pre-crisis levels to return only in 2029. This was reflected in the operations of Slovenia Control, which recorded falling revenues and high losses for the first time in the history of the company.

Postal transport: The trend of declining letter services continued in 2020. The COVID-19 pandemic accelerated changes in consumer habits with a preference given to online shopping. This affected the growth in package operations, which practically doubled in the last months of the year compared to the comparable period of the previous year. The decline in letter services was replaced by the introduction of e-commerce. A need for comprehensive logistics services was clearly noticed and this confirmed that Pošta Slovenija made the right decision when it acquired Intereuropa in order to become a provider of universal postal services, and thus positioned itself as a provider of comprehensive logistics and parcel services.

Tourism in Slovenia is an important economic activity with numerous multiplicative effects. In the past years, the industry had achieved very high growth rates and in 2019 accounted for 9.9% of Slovenia's GDP.

The tourism industry in the years 2020 and 2021 was greatly affected by the COVID-19 pandemic which caused one of the biggest crises in the industry. In accordance with the Decree of the Government of the Republic of Slovenia, tourist companies and companies engaged in the organization of games of chance closed all accommodation and gaming facilities from 16 March to 31 May 2020 and from 12 October 2020 to May 2021, with the exception of some facilities rendering health services. Compared to 2019, tourist arrivals in 2020 decreased by 50.8%, while the number of overnight stays fell by 41.6%. In addition, the guest structure changed: more than 60% of guests were now domestic guests.

The closure of accommodation facilities is expected to have a huge impact on revenues and business performance of tourism companies in 2020, which will consequently affect employment, liquidity of companies and their possibilities to carry out planned investments.

Measures, which were taken within the scope of intervention legislation to support the economy and to mitigate the negative consequences of the COVID-19 pandemic, were also available to tourism companies. The most important measure was the introduction of tourist vouchers to improve the economic situation in the field of tourism consumption. In 2020, the state distributed a total of EUR 345 million of tourist vouchers to the citizens of the Republic of Slovenia.

The analysts predict that tourism industry will gradually recover on a global level, based on the assumption that the pandemic is weathered well, the consumer confidence is restored, and travel restrictions are eased. It should be noted, however, that it will take several years for the recovery to take place, and according to analysts' estimate, the volume of tourist travel will reach the level of 2019 only in 2023 or 2024. New trends are emerging in the tourism industry, such as personalization, individualism, online payments, sustainability, and technology. The pandemic has also changed the behaviour and tourist's values.

Gambling is a regulated and controlled activity. An amendment to the Gambling Act (ZIS) has been expected for several years; among other matters, the expected amendment would enable private ownership of companies which organize special games of chance. The activity is regulated in a different manner in Loterijska Slovenija, as the said company organizes classic games of chance. The Lottery of Slovenia is classified as a strategic asset. A system of monopoly companies or a system of exclusive rights applies to the lottery business in the majority of the EU Member States: according to this system, exclusive rights are granted to state operators, private non-profit operators or to those operators who are directly controlled by a public authority. A major part of revenues is thus generated by a state-owned lottery.

The gaming industry was under severe pressures because of the negative effects of the COVID-19 pandemic in 2020 and in the first half of 2021; providers of gaming activities were forced to close their gaming and hotel facilities in accordance with applicable regulations. The outlook for the industry is uncertain, and the risks from the virus are still high, which means that the recovery will be gradual. Providers of special games of chance have to deal with adjustments imposed by new security requirements, in addition to the changing consumer habits and enhanced online gambling as well as increasing competition. Business operations are also significantly affected by regulatory bodies' decisions on tax burdens and their amount. The age structure of guests is another major challenge faced by casinos operators in the Republic of Slovenia: casinos must adjust their portfolio of gaming services

and the accompanying entertainment and catering services to attract younger guests. The competition between online gaming and betting providers is strong in the European gaming market, which is characterized by high annual business growth rates in individual European Union countries.

Slovenian **pharmaceutical** enterprises operate on the global market. According to analysts' forecasts, the global pharmaceutical market is to grow at an annual rate of 2.4% in the period from 2020 to 2024 and is expected to generate EUR 960.9 billion in value in 2024. The COVID-19 pandemic affected the operations of pharmaceutical companies in 2020, although, it should be noted that the pharmaceutical industry was one of rare sectors of economy to record growth in their operations. Pharmaceutical companies will pursue their goal of increasing sales and expanding their activities by means of organic growth, by launching new products and therapeutic services on the market, by entering new markets, by increasing contractual production capacities as well as by mergers and acquisitions. They are constantly striving to place new medicines on the market, in which case the greater complexity of medicines enables them to achieve higher sales margins. New medicines are manufactured in various forms and intensities. According to the analysts, the prospects for the pharmaceutical industry are positive as the majority of pharmaceutical companies approved the validity of their original business plans in 2020. It is hard to predict the impact of the COVID-19 pandemic on the pharmaceutical market in the years to follow but the analysts agree that the pandemic will also affect the global pharmaceutical market.

The **European telecommunications operators** were under strong pressures in 2019 and 2020 as a result of the European legislation which capped phone charges for intra-EU calls and short messages on 15 May 2019 and the maximum surcharge cap for data volumes started to apply in 2020. The Slovenian telecommunications market is characterised by an increasing competition, a saturated market, price sensitive users and consequently a narrow room for manoeuvre to retain existing and acquire new users. It is a developed market which is what renders the use of standard marketing approaches ineffective. Because of the COVID-19 pandemic, the business circumstances on the retail and wholesale market changed; a deadlock in making business during the pandemic and a limited volume of business concluded after the pandemic forced the operators to adjust their business activities and optimize their operations. These changed conditions may have an impact on the operators' financial condition and their liquidity and the implementation of the planned project may be put at risk.

The **steel market** in 2020 was severely affected by the circumstances associated with the COVID-19 pandemic and hit by the increased steel imports from the non-European countries. Only partial recovery in demand is expected for the advanced economies (by 7.8% in 2021) due to large scale job losses. The actual steel demand will be subject to the following factors: the development of the COVID-19 pandemic; the ability of economies to reach the suitable annual growth levels after the crisis caused by the corona virus disease is finished; the size of stimulus packages introduced by individual countries; the level of investment activity by private economic sectors, and by the movements in economic activities pursued by steel producers' key customers (construction industry, automotive industry, etc.). The Slovenian steel industry sells most of its products on the European markets. In terms of the production volume, the SIJ Group is a niche player and a small producer on the global scale which is why it is easier for the SIJ Group to adjust to market competition. Nevertheless, its operations are affected by the condition in the industry. It should be pointed out that market conditions in 2021 are significantly better than in 2020.

When describing developments in the **forging industry** (Unior), one must mention issues which the automotive industry, a very important Unior's customer, is faced with. These issues were present both at the European and the global level in the previous period and were exacerbated by the COVID-19 pandemic in 2020 when individual vehicle manufacturers closed their plants for several weeks and the sale of new vehicles fell drastically on various continents. According to the European Automobile Industry Association (ACEA), a total of 9.9 million new passenger cars were registered anew in the European Union in 2020. This is by 3.1 million or by 23.7% less registered cars compared to 2019, which marks the largest annual decline since this statistical data has been measured. The decline in sales was recorded by all members of the said Association. The largest car market in Germany recorded a slightly lower decline in sales than the average, in exact terms. The fall was 19.1 percent. On the other hand, all other large countries recorded significantly higher decline: a decline of 32.3% was recorded in Spain, a decline of 27.9% in Italy and a decline of 25.5% was reported by France.

Issues experienced by the automotive industry in the past periods and low sales figures with regard to new vehicles in 2020 point to negative outlook for the suppliers of the automotive industry, including Unior. Slovenian automotive industry provides for more than ten thousand jobs and takes up approximately 10% of the Slovenian GDP. Suppliers of the automotive industry must adjust their business models to new characteristics of the industry. These include vehicle electrification, the threat of introducing customs tariffs, price pressures

experienced by automotive plants, changing production locations between countries and continents, etc.). According to analysts' estimates, the recovery in the automotive industry will highly depend on the volume of the state aid, as this sector was entered the crisis caused by the COVID-19 pandemic burdened with numerous unresolved problems, and the increase in unemployment signals poor prospects for higher vehicle sales figures. Global and the most important players of this industry believe that the recovery of the automotive industry will last for at least two years.

Water utility companies render services of general economic interest on the basis of a concession agreements granted in the period from 2019 to 2026. It has to be pointed out that VGP Kranj, d.d., failed to obtain a concession agreement for this period of time, which is why its viability is put at risk.

The Slovenian **banks** entered the year of 2020 well prepared in terms of their capital adequacy and liquidity. The restrictions on the dividend pay-outs strengthened the banks' capital adequacy which was further enhanced by the issue of the subordinated debt instruments. According to the Bank of Slovenia the pre-tax profit of the Slovenian banking system is by one fifth lower than in 2019 which, however, is a relatively good result considering the continued tightened conditions due to the COVID-19 pandemic. The (sight) deposits of households and non-financial enterprises increased significantly in 2020, as a result of the reduced spending opportunities, state intervention measures in the form of financial support and a cautioned stance due to uncertain economic conditions. The Bank of Slovenia's macroprudential measures targeted at household lending resulted in an important decrease in the growth of consumer loans while the growth level in housing loans did not change significantly. The credit risk is gradually increasing, and it poses the most important risk to which banks will be exposed to in 2021. The households with income below the average income level will be the most exposed to hardships in case of a slower economic recovery, as they received the majority of new consumer loans prior to the adoption of the macroprudential measures. Likewise, the credit risk is increased in the service sector which was hit the most by the COVID-19 pandemic and the viability of which was mostly subject to the state intervention measures. As a result, after three consecutive years of a relaxed stance, additional impairments and provisions will again have to be formed in 2020.

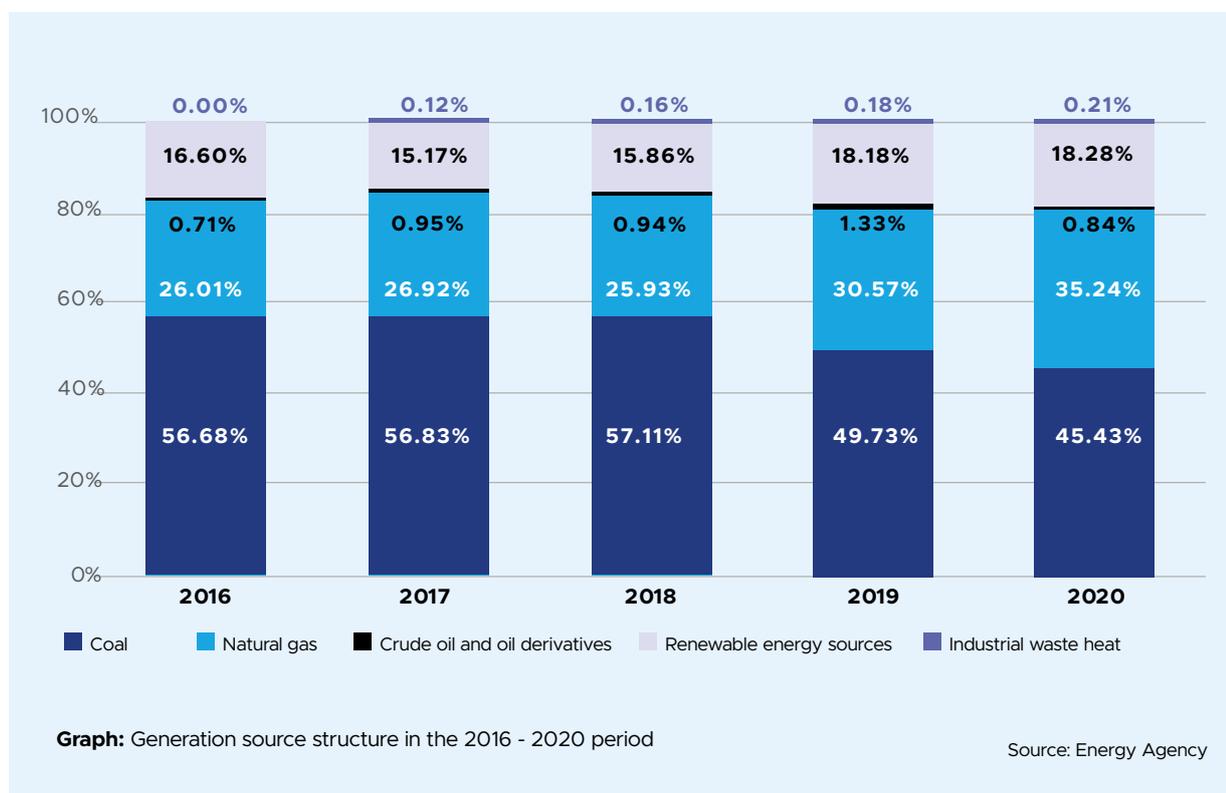
The decrease in economic activity and increased risks on the financial markets had a significant impact on the operations of Slovenian **insurance companies**. On average, poorer business results were recorded in 2020 compared to the preceding year, especially on account

of the decline in the growth of gross written premiums collected and lower rate of returns from their investment activities. The life insurance segment was particularly affected and recorded a decrease in income from gross written premiums collected as compared to the previous year. The non-life insurance segment, which represents approximately one half of all premium income, was hit even harder: its growth was very much reduced and amounted only to 1.7%. On one hand, the increased volatility in the financial markets and low returns reduced demand for insurance products linked to units of mutual funds, and led to low returns generated from the insurance investment portfolio, increased outflows from guaranteed products for policy-holders, on the other. This also required insurers to impair assets and form additional provisions. This is why, on the aggregate, Slovenian insurers closed the year reporting a fall in net profit, although the year of 2020 was seen as favourable in terms of loss events (in part of the non-life and health insurance segments). The solvency position of Slovenian insurance companies deteriorated slightly but remained at a fairly high level with SCR coverage ratio standing at 190%.

Energy products market

Total electricity consumption was equal to 13.746 GWH in 2020 (taking into account losses on transmission and distribution systems and the consumption by the Avče Pump-Storage Power Plant (PS Avče)) and was lower by 4.7% compared to 2019 as a result of the COVID-19 pandemic and the decline in economic activity. Not taking into account losses and consumption by the PS Avče, the total electricity consumption decreased by 6% compared to 2019 in Slovenia. Slovenia managed to achieve a 92.6 - per cent coverage of consumption by domestic production which was the highest level recorded in the last five years.

The generation source structure shows a notable reduction in the share of coal and an increase in the share of natural gas which can be attributed to the change of energy products used by Energetika Ljubljana and a slightly lower level of lignite consumption in TEŠ.



The Slovenia's commitment set in the EU 2020 climate and energy package envisaged a 25% target for the total share of renewable energy sources (RES) in final energy consumption. In 2019, the share of RES in final energy consumption in Slovenia was 22%, and the estimate for 2020 shows only a 1.5% lagging behind the target 25% share. The reason for such progress made in the last year must clearly be attributed to lower final energy consumption due to the COVID-19 pandemic. The future will have to see more efforts to be put in traffic decarbonisation.

The year of 2020 was characterised by huge price pressures felt by producers using coal as their primary energy product; these pressures are the result of a continuous increase in the prices of CO2 emission allowances; only in the period from January 2021 to July 2021, these prices increased by as much as 60%. According to the analysts, further increases in these prices are expected, the difference to the electricity selling price is foreseen to decrease. Emission allowances' prices indirectly determine the speed and the intensity of the process which intends to replace coal with natural gas used as a fuel in thermal power plants. Like the prices for other energy products, coal price dropped in 2020 (by 16% on average), as a result of lower demand (closures of thermal power plants) and because of China's coal import quotas. The primary source used in the Šoštanj Thermal Power Plant, i.e., lignite, is of domestic origin.

The average price for the base-load electricity recorded by the Energy Exchange in Slovenia fell by as much as 23% in 2020 as compared to 2019, and amounted to EUR 37.55/MWh, thus recording the lowest level since 2016. Electricity prices also dropped in other

countries across Europe: the highest fall in prices was recorded on the Italian GME market (NOARD), specifically, by 26%. The lowest price for the base-load electricity (EUR 30.47/MWh) was again recorded by the German energy exchange which saw a drop of 19.6% in average prices compared to 2019. Low prices recorded by the German energy exchange were, among other things, also the result of a record-high RES production which took up as much as a 55.8% share of total energy production in the first six months of 2020. The highest average day-ahead power price (EUR 39.00/MWh) in 2020, on the other hand, was recorded by the Hungarian energy exchange.

The natural gas price saw a downward trend in the first half of 2020 which then turned upward in the second half of the year. Compared to 2019, non-household gas price for typical consumers dropped by almost 13% in Slovenia in 2020, although it was still 6% higher than the average price in the EU and higher than prices recorded in the neighbouring countries. The price drop in the neighbouring countries moved in the range between 3% to 17%. Low gas prices are the result of sufficient gas supplies provided through pipelines, vast supply of liquefied natural gas (LNG) and high gas storage levels.

The COVID-19 pandemic also had an impact on oil prices. After the outbreak of the pandemic and when countries adopted restrictive measures to curb the spread of the virus, the oil price and the price for its derivatives plummeted. In 2020, oil prices ranged from 13.2 USD/barrel to 70.0 USD/barrel. The average price of crude oil in 2020 amounted to 41.8 USD/barrel which is by 35% lower than in 2019; the average price in the EUR currency was lower by 36%.

8 MANAGEMENT OF SSH AND RS CAPITAL ASSETS IN 2020

The most important activity pursued by SSH is the management of SSH and RS capital assets. The activity includes the acquisition and disposition of capital assets and the exercise of rights of a shareholder.

SSH acts proactively in implementing strategies adopted by the State for individual industries (for example, the tourism strategy). The overview of state assets under SSH's management is shown in the Table presented below.

8.1 Fundamental principles of asset management

One of the most important tasks carried out by SSH is the concentrated management of assets owned by SSH and the Republic of Slovenia but managed by SSH with the aim of ensuring a long-term maximisation of profitability as well as the value of these assets in order to achieve economic and developmental objectives and objectives in the public interest. These aims require from SSH to act in line with an efficient and transparent system of asset management in which responsibilities and accountability are clearly delineated, and to implement measures which limit and prevent corruption risks and other non-ethical and illegal actions and pressures while at the same time ensuring, that regulatory compliance, traceability and accountability of decision-making is enhanced.

When realising these aims and implementing the objectives referred to in ZSDH-1, SSH operates under the same conditions as other enterprises, sole traders and private operators in a respective market. SSH is prohibited to exploit its position not to cause any restrictions of competition or pose any limitations onto other enterprises, sole traders and private operators operating in the market.

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

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

8.2 Active management of RS and SSH assets

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

Key factors for effective management of capital assets which is shown in increased total return on equity from RS and SSH assets, include: the selection of independent, professional, responsible members

of supervisory bodies with strong ethical and business integrity; prudent monitoring and oversight over the operating performance of SOEs on the basis of goals and performance criteria determined in advance; the implementation of good corporate governance practice and timely and suitable action-taking in cases of deviations from expected results.



CRITERIA

CRITERIA FOR MEASURING PERFORMANCE OF SOES
strategic goals, economic and financial goals



MONITORING

MONITORING OF SOES' OPERATIONS:
quarterly or monthly* financial reports, periodic meetings with Supervisory Boards and/or Management Boards of SOEs, and business planning meetings



ANNUAL PLAN

AAMP - ANNUAL ASSET MANAGEMENT PLAN FOR SOES:
strategic and economic and financial goals for all significant companies and expectations SSH has from these companies



AGMs

ACTIVE PREPARATION FOR ANNUAL GENERAL MEETINGS OF SHAREHOLDERS AND EXERCISE OF ALL OTHER SHAREHOLDER'S RIGHTS:
shareholder rights, property rights



GOOD PRACTICE

IMPLEMENTATION OF GOOD CORPORATE GOVERNANCE PRACTICE:
Corporate Governance Code for SOEs, SSH Recommendations and Expectations



SUPERVISORY BOARD MEMBERS

SUPERVISORY BOARD MEMBERS:
the selection of suitable Supervisory Board members

** Monthly reporting for companies in 100% state ownership was introduced in 2018.*

8.3 ACTIVE PREPARATION FOR ANNUAL GENERAL MEETINGS AND EXERCISE OF ALL OTHER SHAREHOLDER'S RIGHTS

General Meetings of Shareholders are important corporate events for exercising the rights of shareholders.

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

This makes voting by SSH predictable, transparent and compliant with the legal documents on corporate governance.

In addition to carrying out other tasks, SSH exercised shareholder's rights on its own behalf and on behalf of the Republic of Slovenia in 2020, in accordance with ZSDH-1 and other key documents related to corporate governance. In particular, SSH:

- regularly monitored the operations of companies under its management and their implementation of the Annual Assets Management Plan 2020;
- during the state of the declared epidemic, SSH closely and constantly monitored current operations of portfolio companies and measures adopted for ensuring their liquidity;
- SSH defined in detail its goals in managing individual capital assets, specified measures and policies for their attainment, and determined what the expected cash flows from the state asset management activity would be. This task is performed on the basis of the understanding of the companies' operations and industries in which they operate and includes a critical consideration of the portfolio companies' development plans as stated in the Annual Assets Management Plan 2020, which was adopted with the consent granted by RS Government on 6 February 2020;
- took part at the General Meetings and voted in its own behalf and on behalf of the Republic of Slovenia as well as passed founder's resolutions in companies managed by SSH. The total of 115 General Meetings of Shareholders were held in 2020 and during which the founder's resolutions were adopted;
- provided for the exercise of other rights of a shareholder, and submitted requests for the convocation of General Meetings, applications for the extension of agenda, filled counter-proposals, lodged applications before court to appoint members of a supervisory body, lodged applications for special audit review, as well as compensation claims and carried out similar tasks in accordance with shareholder's corporate rights;
- ensured that suitable content-related and legal evaluations of individual activities and decisions taken in the capacity of asset manager where made;
- carried out all necessary activities for relevant and timely procedure regarding the accreditation, nomination and selection of candidates for members of Supervisory Boards;
- acquired and disposed of individual capital investments in accordance with the applicable legislation and other relevant legal documents;
- submitted its comments and proposals on the amendments to the legislation on corporate governance;
- continuously strived for raising the quality of corporate governance in the companies under SSH management, including its attempts expressed in its communication with companies to raise the compliance of their operations with the Corporate Governance Code for SOEs and with the SSH Recommendations and Expectations.

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

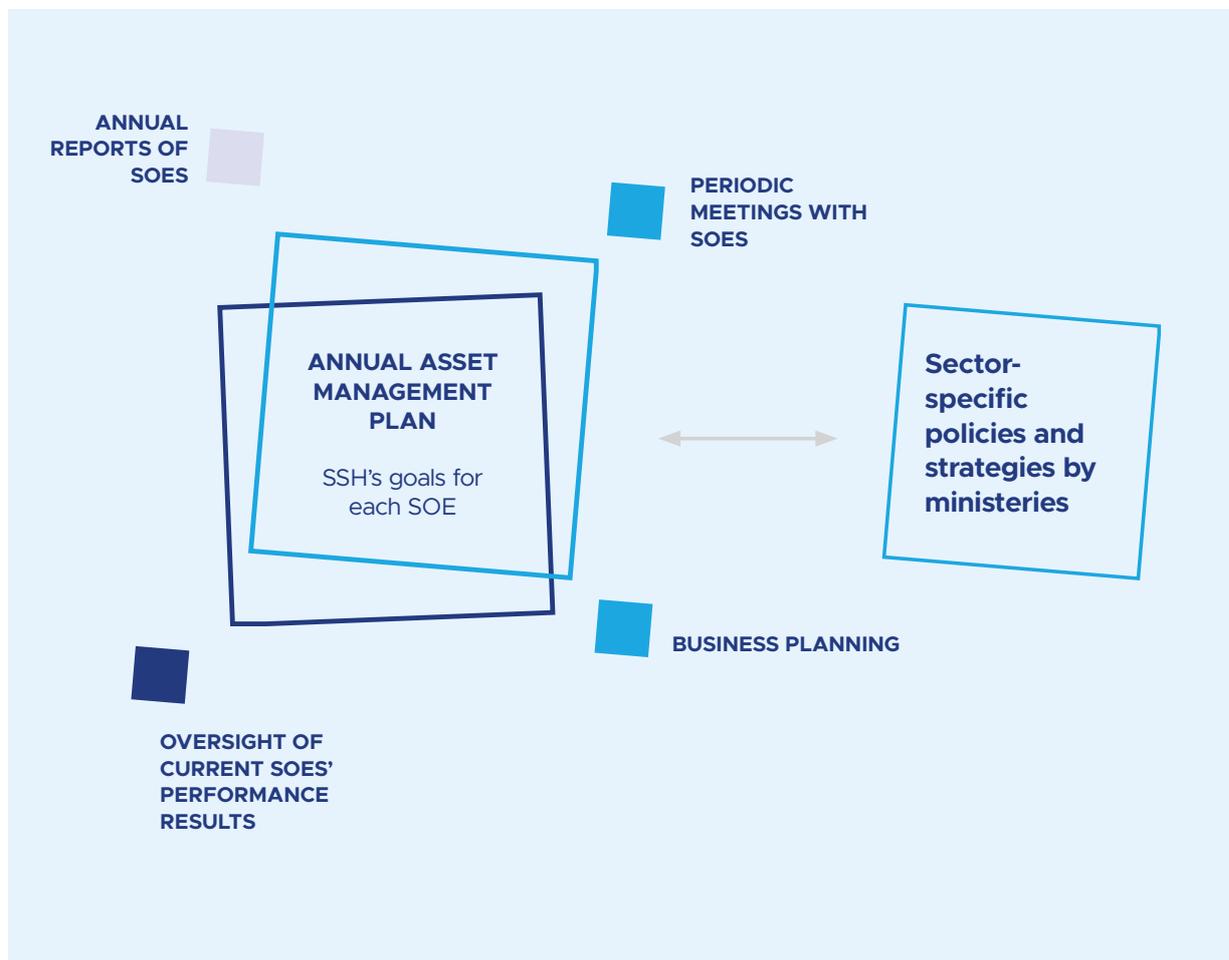
8.4 Monitoring operations of SOEs

As the manager of capital assets held by RS and SSH, SSH carries out regular periodic meetings with members of the management and supervisory bodies of SOEs, in accordance with provisions of applicable regulations. Topics discussed at such meetings mainly refer to operational results and business plans, to challenges in the market, strategic outlooks on the company's development, expectations by SSH in regard to key financial indicators and business goals (for example, ROE value and dividend amount), strategic goals and their realisation, aspects of potential optimisation of operations and restructuring measures, adherence to SSH expectations and recommendations and other important activities connected with the operation of an individual company. **The content and particularly the scope of information received at such meetings depends on the legal organisational form of an individual company and the equity holding of RS and SSH in such company.** The intensity of SSH's monitoring of the activities pursued by individual companies is, among other things, also dependent on the

circumstances surrounding the operation of each and every individual company (for example, if a company is carrying out important projects, or if conditions in which a company operates have dramatically changed, or if a company is in distress).

Both, the impacts of the COVID-19 epidemic to the SOEs' operations, their liquidity, business and investment plans as well as their activities related to risk management received special attention during periodic and other meetings in 2020. In addition, SOEs, which operate in the most hit industries and present strategic infrastructure, reported on the status regarding the viability of their operations as well as presented measures and potential issues on a weekly basis.

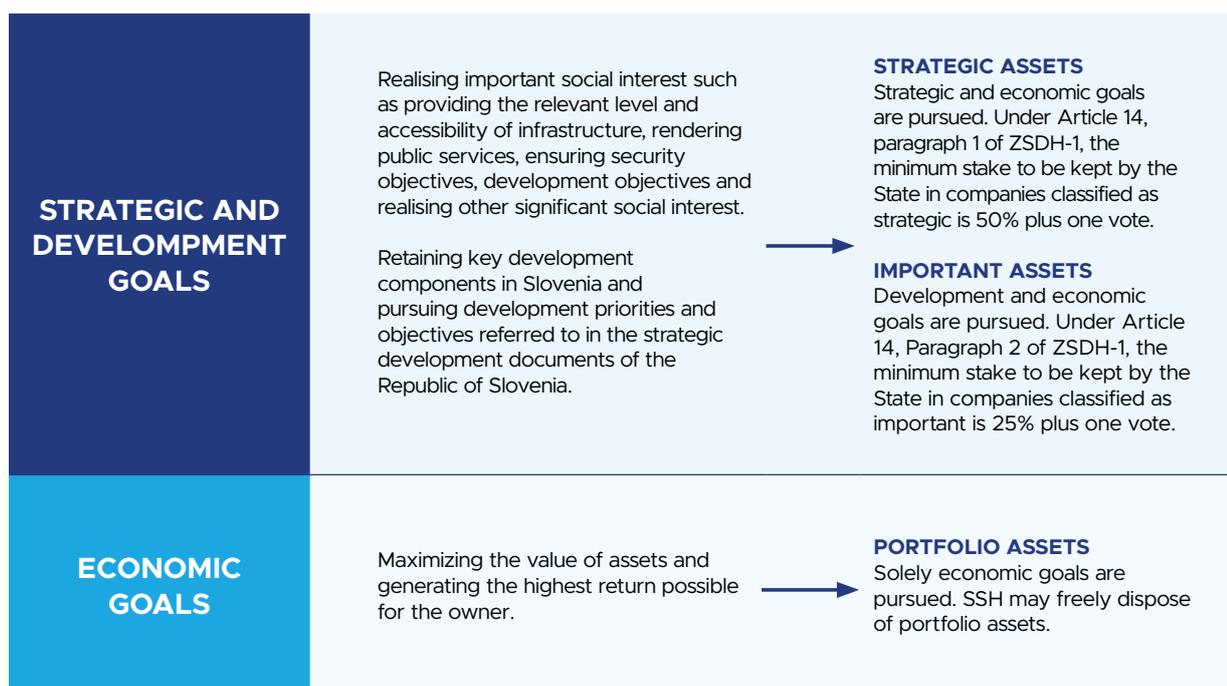
The process of SSH's monitoring over the operation of SOEs is presented below. The presentation of the process for developing the Annual Asset Management Plan is also described.



8.4.1 Fundamental goals for managing capital assets and their classification

When managing assets, goals differ according to the classification of assets held in a company into strategic, important or portfolio assets. All assets owned by SSH and RS are classified into one of three groups of assets with equal or similar characteristics, realising the same

or similar goals. They are deemed to be fundamental goals of asset management. These fundamental goals are presented in the figure below, together with the classification of assets.



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

When determining the direction, measures and actions to be taken by SSH in managing state capital assets and when defining in detail goals to be achieved, 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 asset has been classified into a certain fundamental group of assets;
- additional goals in asset management which are determined by the Asset Management Strategy;
- as regards SOEs, SSH has at its disposal “only” corporate and legal leverage arising from its capacity of a shareholder;
- when preparing Asset Management Annual Plan, SSH takes into consideration strategies and business plans produced by companies if companies have informed SSH of their own strategic and planning documents and these plans are compliant with SSH’s goals. In SOEs, which are organized as public limited companies, SSH

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

For individual asset, specific goals, which derive from criteria and indicators, are defined in every AAMP.

In order to efficiently monitor the progress and success of goals set for the portfolio companies, SSH uses suitable tools as well as data which are available at three levels, specifically:

- **past dynamics** – trends shown in the reported business results of an individual company and the movements in key performance indicators in an observed period;
- **benchmarking analyses** – the values of key performance indicators and the values of selected financial ratios of an individual company at a certain moment and in the past are compared to the values which have been achieved by previously determined comparable competitors, taking into account the differ-

ences in the business environment in which individual companies operate and which have an impact on their business results as well as other specific characteristics of the company and its competitors;

- **business plans** – results forecasted by an individual company are compared with values which have been determined by SSH on the basis of past analysis, benchmarks to competitors' results and assessments of trends in the business environment; the realization of plans is also analysed.

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

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

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

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

8.5 Risk management system in SOEs

Companies (i.e., portfolio companies), which are included in the portfolio of assets under SSH management, are exposed to risks of various types. SSH, acting in the capacity of an asset manager, monitors these risks and by means of the Corporate Governance Code for SOEs, SSH Recommendations and Expectations, by means of organising training sessions for members of supervisory bodies of SOEs, and by means of other measures, strives for suitable risk management in SOEs.

Risk management in SOEs is in the SSH interest as, in the capacity of the asset manager, SSH pursues the goal of attaining suitable financial and performance results. Risk management is one of important aspects for achieving proper performance results (ROE indicator, the amount of dividend pay-outs, for example). In fact, improperly treated risk management in SOEs might jeopardize goals set by SSH in the AAMP. Poorly managed risks are reflected in the business result of an individual company which affects the value of ROE attained by an individual company and the asset portfolio managed by SSH, and consequently, it affects the dividend income.

Risks in companies are regularly monitored by following current operations and developments in the markets. Companies report to SSH on their key risks and on their management within the scope of regular periodic meetings with members of the management and supervisory bodies.

Regular meetings and meetings with the Risk Committee are regularly held at the level of SSH at which risks within SSH and risks in SOEs are regularly discussed and followed. With the aim of ensuring better cooperation and better flow of information to monitor risk management in SSH and in SOEs, a standing working group was also appointed.

Due to the outbreak of the COVID-19 epidemic, SSH adopted special measures for monitoring and managing internal risks as well as risks in SOEs. It also established a suitable reporting system.

8.6 Main events in 2020 in regard to asset management

In October 2020, SSH submitted Annual Report - Management of Capital Assets of RS and SSH for 2019 to the Parliament.

Pursuant to Article 67 of ZSDH-1, which has imposed the task of monitoring business performance of SOEs, SSH prepared the Annual Report - Management of Capital Assets of RS and SSH for 2019. SSH took into consideration recommendations regarding the best practice in corporate governance suggested by the OECD Guidelines on Corporate Governance of State-Owned Enterprises. The Report, which presents in detail the system of capital asset management and provides presentations of all companies under management, in addition to results obtained at the level of the portfolio, was discussed by the Committee on Finance and Monetary Policy of the RS National Assembly and by the Commission for Economy, Trade, Tourism and Finance of the RS National Council.



International Fraud Awareness Week

At the signing ceremony in June 2020, SSH supported the common fight of 18 partners against corruption, fraud and financial crime. By signing the Cooperation Agreement, SSH publicly expressed its endorsement of the 2020 International Fraud Awareness Week initiative. Several events were organised from 16 November 2020 to 20 November 2020, there were conferences and round tables with the aim of raising awareness of the broader public on the issue that touches us all.



Project for strengthening the corporate governance in SSH and in companies under SSH management

SSH completed the project for strengthening the performance and governance of state-owned enterprises in the first quarter of 2020. The project was carried out in cooperation with EBRD, the European Commission's Directorate-General for Structural Reform Support (DG REFORM), and the consulting firm Deloitte Slovenia. The project, which was concluded with a two-day

workshop attended by members of management and supervisory bodies of companies from the SSH portfolio and representatives of ministries, gave to SSH the following important deliverables: a systematic review of corporate governance practices pursued by selected companies from the portfolio, a presentation of international benchmarking and guidelines for the best practices in corporate governance, and recommendations for further development of the system of SOE's corporate governance in Slovenia.

8.7 Main activities in 2020 in regard to asset management by individual companies

The pandemic of a new coronavirus disease which hit Slovenia and the world in 2020, had various impacts on the operations of companies from the portfolio managed by SSH. The companies which were hit the most by the crisis include enterprises from the tourism industry, manufacturing (automotive and iron industry) and transport industry. The least impact of the COVID-19 crisis was experienced by the pharmaceutical industry and telecommunications.

Regular asset management activities pursued in 2020 included special consideration dedicated to companies, which were severely hit by the effects of the COVID-19 pandemic, and to companies which deal with activities connected with the critical infrastructure of the Republic of Slovenia.

The remaining part of the Chapter presents the most important activities and events in 2020 by individual companies and industries.

ECONOMY AND TOURISM

• Slovenian Tourism Strategy

SSH obtained the necessary legal basis for implementing activities in tourism industry. On 6 February 2020, the Government of the Republic of Slovenia granted its consent to the Annual Asset Management Plan 2020 which includes the Plan for Consolidation, Governance and Restructuring of State-owned tourism Companies (hereinafter referred to as: "AAMP Tourism"). The document envisages many activities to be carried out in connection with tourism companies, including acquisitions and consolidations of equity stakes in companies and the establishment of the Slovenian Tourism Holding (hereinafter referred to as: "STH"). The planned activities are envisaged to be carried out in the period from three to four years. The planned activities have been postponed due to the epidemic, which was declared on 19 March 2020, and considering its negative impacts on the tourism industry, SSH assessed that, prior to making any potential acquisition of tourism companies, changed conditions of business in tourism industry needed to be re-examined and profoundly analysed and an assessment be made about a short-term and long-term impact of the epidemic on the tourism industry as such, and on individual state-owned tourism companies. In 2020, SSH pursued activities to obtain a positive decision by the Competition Protection Agency (CPA) in connection with the acquisition of 20.87% shareholding in Terme Olimia, d. d. (the process for its acquisition was carried out in 2019). At the end of 2020, CPA issued a positive decision. Acting on its basis, SSH acquired Terme Olimia shares from Nova KBM, d. d. and took over the remaining shares of the said company, in accordance with the Takeovers Act.

• Sava, d. d.

SSH is the shareholder and an important creditor of Sava. In 2020, two annexes to the Loan Reprogramming Agreement were concluded in 2020 by and between Sava and its creditors, by way of which the maturity of creditors' receivables due by Sava was prolonged. The final maturity date for receivables due by Sava to SSH is now set on 30 June 2021. In addition, SSH carried out activities envisaged under the Loan Reprogramming Agreement (the issue of consents, etc.) and negotiated other matters with creditors for which consensual creditors' decision had to be made in accordance with the Creditor Side Agreement - CSA).

The CSA was entered into by and between the creditors, also acting as the three largest shareholders of Sava. For the purpose of regulating relations between Sava, SSH and York in an integrated manner, an annex to CSA was concluded in 2020, by way of which CSA was transformed into a Shareholders' Agreement, which also regulates some other amendments.

• Sij, d. d. (Sij)

In 2019, the majority shareholder of Sij, i.e. Dilon, d.o.o., and RS/SSH concluded the Shareholders' Agreement which regulates the governance of the company, the coordination and consultation activities between the shareholders in regard to affairs which are important for both shareholders and other important topics connected with the corporate governance of Sij. In accordance with the said agreement, SSH was informed of a five-year strategy of the Sij Group in 2020. Special attention was dedicated to monitoring the operations of the Group, as Sij belongs to companies which have been severely hit by the consequences of the epidemic.

• Hit, d. d.

Hit submitted to the responsible ministries its proposal for a reduction in the gaming tax, on the basis of its assessment of the impacts of the COVID-19 epidemic. SSH examined their proposals and sent a letter to the responsible ministries, in which SSH supported the proposal by the Hit as the measure was viewed as having a substantial impact on the reduction of risks surrounding the ongoing operation of the company and its potential capital inadequacy.

TRANSPORT PILLAR

- **DARS, d. d.**

At the SSH's proposal, a special auditor was appointed by the DARS' General Meeting of 28 January 2020. The purpose of the said appointment was to verify the procedures and the conduct of the DARS' Supervisory Board in connection with the dismissal of the President and a Member of the Management Board in 2016. The findings of the special audit, which were presented at the General Meeting on 23 June 2020, showed that the Supervisory Board Members made their decisions on the basis of relevant information and that the suitable procedure was carried out, which is why, a potential litigation against the SB members was not deemed reasonable, or viewed as not being successful.

SSH made an extensive historical review of DARS' operations, focusing on its revenues and expenditures in the period from 2015 to 2019. SSH reached some conclusions, both in terms of operations and areas of its improvements as well as in terms of asset management activities.

- **Slovenske železnice, d. o. o**

The SSH Management Board, acting in the capacity of the founder and the sole shareholder of Slovenske železnice, gave its consent to the project of Strategic Partnership in Rail Freight Transport and Logistics, which would include the following parties: SŽ - Tovorni promet, d. o. o., and Fersped, d. o. o., on one hand, and EP Logistics international, a. s., on the other hand. The Strategic Partnership Agreement was concluded by and between Slovenske železnice and EP Logistic International, a.s. During the year, the said project was regularly monitored by SSH from the aspect of asset management. SSH plans to monitor procedures, which aim to establish a new joint venture company, as well as the impact of the said company's operation on the business results of Slovenske železnice Group.

- **Pošta Slovenije, d. o. o.**

In January 2020, the SSH Management Board gave its consent to the Strategic Development Programme of Pošta Slovenije Group from 2020 to 2025. In connection with the said Programme, SSH expressed its expectation for the programme to be supplemented when the audited data on the operation of Intereuropa were made available, and when it was known what their impact on the strategic development programme had been. For this purpose and owing to the impact of the COVID-19 epidemic and the resulting changes in key activities pursued by Pošta Slovenije Group, SSH granted its consent to the updated projections presented in the strategic development programme.

During 2020, SSH was informed of activities connected with the integration of Intereuropa with Pošta Slovenije Group as well as of its impact on individual performance indicators of Pošta Slovenije and Pošta Slovenije Group on a monthly basis.

The year of 2020 was a very dynamic for Pošta Slovenije in terms of proposals for amending the legislation, and saw a very active social dialogue being developed, all of which was monitored by SSH from the aspect of its asset management activities and within its authority.

- **Javno podjetje Kopraska pristaniška pilotaža, d. o. o.**

On the basis of the endorsed supplement to the Annual Asset Management Plan 2020, which envisaged the establishment of a new company for performing the commercial public service of maritime pilotage, SSH established Javno podjetje Kopraska pristaniška pilotaža, d. o. o. (KOPP) on 20 February 2020. The company, which performs its services exclusively on the territory of the Koper cargo port, started to perform its activities on 10 May 2020.

ENERGY SECTOR

As regards the Energy sector, SSH carried out many asset management activities connected with the adoption of the founder's resolution and with the submission of proposals for amendments to the sectoral legislation. SSH also actively participated in a dialogue held between the companies from the energy industry and the responsible ministries. Among other matters, SSH submitted key comments and proposals for supplementing the National Energy and Climate Plan (NECP), which were largely taken into account. NECP is a strategic document which has an impact on the development and operations of all companies with state capital assets operating in the energy sector. SSH monitored the preparation of a 10-year plan regarding the development of the electricity distribution network. The plan was prepared by electricity distribution and submitted to SODO which then drew up an integrated document and harmonised it with the sectoral ministry.

- **GEN Group**

SSH received the Development plan of GEN-I and the GEN Group for 2020-2024 and Outlook to 2030 on 15 April 2020. The key objectives of the said Development Plan were included in the AAMP 2021 as expectations towards the company. GEN submitted its application for preliminary procedure to extend the permit for the operation of the Krško Nuclear Power Plant (NEK) for 20 years (from 2023 to 2043) to the responsible authorities four years ago. During that period, the Slovenian Environment Agency (ARSO) had decided that the environmental impact assessment and the environmental permit would not need to be obtained for extending the operational licence, but such decision changed in line with the ruling of the Administrative Court of the Republic of Slovenia. ARSO thus issued a decision that the environmental impact assessment had to be carried out and the operational licence had to be obtained to extend the nuclear plant's 20-year operating licence. The application for the issue of the energy permit for NEK2 was filled to the Ministry of Infrastructure on 31 January 2020. SSH regularly monitored all the above mentioned activities. The Council of the Energy Agency adopted the Act on using guarantees of origin registry and the method of the forwarding data of electricity production on 21 December 2020.

- **Petrol, d. d.**

A special audit of over EUR 1 million worth of business transactions, which were concluded in the period from 1 January 2015 to 24 October 2019, was carried out in 2020, in accordance with the Petrol's General Meeting Resolution of 12 December 2019. The audit review included transactions in connection with long-term financial investments, transactions connected

with the disposal of long-term financial investments, transactions which involved some other types of investments, and transactions which referred to the sponsorship agreements. The special audit review was carried out by the audit firm BDO Revizija, d. o. o. SSH informed Petrol about the Report to Shareholders on Special Audit of Petrol's Transactions at the General Meeting held on 28 December 2020. By acting within its statutory powers and authority vested in it by the Petrol's Articles of Association, the Petrol's shareholders tasked the Petrol Management Board to (i) carry out further activities in connection with the Report's finding, (ii) draw up a report on activities performed, and (iii) submit the report to the General Meeting for its review at the next regular session, however, not later than by 30 April 2021.

- **Holding Slovenske elektrarne, d. o. o. (HSE)**

In accordance with AAMP 2020, SSH closely monitored the progress of activities pursued for the restructuring of Premogovnik Velenje, the rationalisation of operations in HSE Group, the financial debt reduction and the management of liquidity. SSH reviewed the Development Plan of HSE in August 2020 but refused to grant its consent due to changes in material assumptions which would influence future operations of HSE Group (projections for electricity prices and emission allowance prices). In 2020, acting in the capacity of its founder, SSH granted its consent to the HSE's proposal to dissolve two companies, i.e. TET NM and ELPROM, and to inject further capital in Šoštanj Thermal Power Plant (TEŠ) in the form of a transfer of financial receivables totalling EUR 149.6 million. SSH also agreed to the additional capital increase in PV which would take place as transfer of financial receivables totalling EUR 46.2 million. Prior to issuing its consent to capital increases in TEŠ and PV, SSH checked the liquidity of TEŠ and PV Group, acquainted itself with the position taken by the HSE's Supervisory Board and examined the estimate of the HSE's operations for 2020 and HSE Group's Business Plan for 2021. Capital increases were also in line with the test assignment carried out by a private investor in June 2019, which was prepared for HSE by KS Finance.

- **Electricity distribution companies:**

SSH prepared an appeal against audit disclosures in the Proposed Audit Report on the effectiveness of implementing corrective measures for regulating the performance of public utility services of the distribution system operator in the period from 25 November 2014 to 30 June 2019. SSH submitted its objection to the Court of Audit of the Republic of Slovenia on 30 June 2020. SSH also drew up a Report for the Ministry of Infrastructure, which was also a part of the Response Report to the Au-

dit Report of the Court of Audit of 3 November 2020. The said report was submitted to the Ministry of Infrastructure on 2 December 2020.

Pursuant to the Directive 2009/72/EC, according to AAMP 2020, and in line with the requirements by the Court of Audit (Audit Report of 3 November 2020), SSH actively monitored processes for the ownership, legal

and functional unbundling of networks from activities of electricity generation and electricity supply in 2020. As regards affiliates of electricity distribution companies, which engage in electricity trading, activities for the sale of E3, ECE and Energija plus were carried out in 2020. SSH was active in monitoring the processes for the sale of shareholdings and for the mergers of companies.

FINANCIAL SECTOR

- Completion of privatisation processes in banks and other processes for disposing capital investments and for their acquisition

Acting on behalf OF and for the account of RS, SSH successfully closed the sale of a 100-percent equity stake of Abanka, d. d. in 2020. In February 2020, the Republic of Slovenia received proceeds from the sale

in the amount of EUR 444.242 million and transferred its ownership of Abanka to Nova KBM. SSH also carried out other activities in connection with the sale of capital investments of lower value and activities in connection with the acquisition of capital investments. Activities pursued by SSH in connection with processes for the disposition of capital investments and their acquisition are described in the next chapter.

8.8 Disposition of capital investments in 2020 and their acquisitions

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

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

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

8.8.1 Activities in connection with the disposition of capital assets

SSH runs the processes for the disposition and acquisition of capital assets held by RS and SSH on the basis of the Annual Assets Management Plans for individual years, to which a consent is granted by the Government of the Republic of Slovenia.

On the basis of the Sale and Purchase Agreement, concluded by and between SSH and Nova KBM on 20 June 2019, the process for the sale of a 100% RS's shareholding in Abanka was completed in 2020. On 5 February 2020, the Republic of Slovenia received proceeds from the sale in the amount of EUR 444.242 million and transferred its ownership of Abanka to the buyer.

In addition to the above-mentioned activities, SSH pursued activities in connection with the sale of some other capital assets of lower value throughout 2020. SSH thus: (i) published invitations to submit tenders for the purchase of 49% shareholding held by RS in Meta Ingenium, družba tveganega kapitala, d. o. o. (hereinafter referred to as: "Meta Ingenium"); (ii) invited bidders to purchase a 0.09% shareholding held by RS in Regionalni center za razvoj, d. o. o. (hereinafter referred to as: "RCR"), (iii) and submitted two invitations for the purchase of shares of Cetis, grafične in dokumentacijske storitve, d. d., Celje (hereinafter referred to as: "Cetis"), which are owned by SSH and KAD, and which represent the total of 15.279% shareholding of

Cetis. On the basis of the above-mentioned public invitations to submit tenders, the process for the sale of shareholding in Meta Ingenium was completed by 31 December 2021, the process for the sale of shareholding in RCR closed in February 2021, whereas the process for the sale of Cetis shares closed without any transaction being made.

Acting on behalf of and for the account of RS, SSH required a cash compensation for 503 shares of Hram Holding, d. d., which were removed from the regulated securities market of Ljubljana Stock Exchange in November 2020, on the basis of the Hram Holding's General Meeting Resolution. RS received the proceeds of these shares' sale in January 2021. The year of 2020 also saw the execution of some of the preparatory activities for the sale of a 1.73-percentage shareholding of SSH in Intereuropa, d. d.

On 11 March 2020, SSH and KAD, and Casino Square, d. d., and Eurotas, d. d., concluded an Annex to the Agreement to regulate mutual relations which regulates the extension of agreements concluded in the past years and refers to the option of purchasing shares in Casino Portorož, d. d., owned by SSH and KAD, under a condition precedent, which is satisfied if the provisions of the Gambling Act are satisfied. The said agreement is valid up to 12 March 2027.

8.8.2 Activities in connection with the acquisition of capital investments

SSH established a new company for performing the service of general economic interest of maritime pilotage, i.e., KOPP d. o. o., on 20 February 2020. Acting as the sole provider of such service, KOPP started its business operation and the performance of its services on the territory of the Koper cargo port on 10 May 2020.

Acting in accordance with AAMP Tourism, SSH run the activities for the acquisition of selected companies from the tourism industry in the first half of 2020. Because of the outbreak of the COVID-19 epidemic and because business conditions in tourism sector changed, transactions were not carried out in 2020.

Acting on behalf of and for the account of RS, SSH concluded the Sale and Purchase Agreement with Nova KBM for the purchase of 147.309 shares of Terme Olimia in July 2019. The shares represent a 20.871% shareholding in the said company. The transaction was not completed in 2020 since the Slovenian Competition Protection Agency's decision to approve the concentration and which would thus confirm that the condition precedent in connection with the purchase of these shares was satisfied, was received only at the end of 2020. After the said

decision became final, RS paid the purchase price and received the Terme Olimia shares by way of which the transaction was completed. RS and its affiliates (within the meaning of the Takeover Act) exceeded the additional takeover threshold, which is why, SSH, acting on behalf of and for the account of RS, and in accordance with the takeover legislation, publicly published a takeover bid for the takeover of the remaining shares in April 2021. The bid was successfully closed in May 2021. These activities have been carried out in accordance with the Tourism Strategy and have been envisaged in AAMPs 2019 and 2020 and in the AAMP 2021 for Terme Olimia.

In accordance with the Resolution of the Government of RS of 11 June 2020, SSH kicked off activities for the paid transfer of Selection and Testing Centre Ptuj (Semenarna Ljubljana) to RS. The transfer process was not completed in 2020 and SSH will continue to pursue these activities in 2021.

In 2020, pursuant to the act regulating inheritance, RS received a small amount of shares of various companies and majority shareholdings in the following companies: Entry, d. o. o. (50%), Dekorus, d. o. o. (100%) and Velta plast, d. o. o. (100%).

8.9 Expectations in regard to ROE and dividend revenue

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

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

The Premises for Voting on General Meetings of Shareholders are adopted by SSH every year; these premises include the dividend policy which, by taking into account the balance between current dividends and future growth of company's operation, wishes to maximise the market value of an equity unit and thus the equity of company's owners.

From this aspect, the dividend policy is one of more important elements in corporate governance for SSH as a result of which SSH treats this topic with the necessary attention. SSH expects SOEs to take into account the following factors, when designing their dividend policy:

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

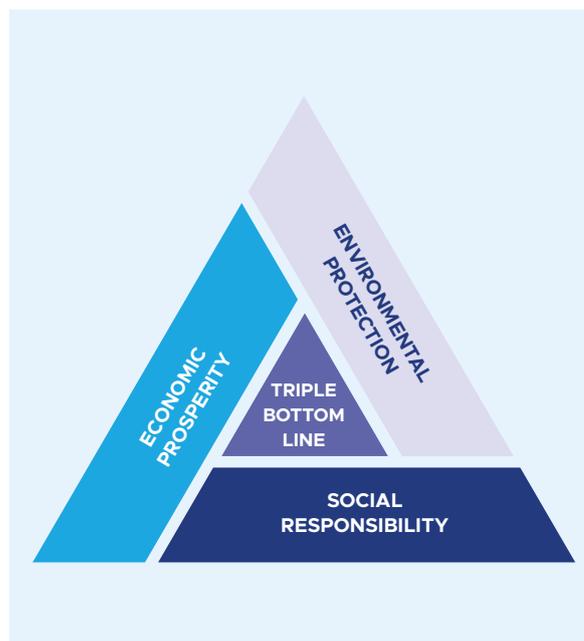
9 SUSTAINABLE BUSINESS OF SOES AND KEY CHALLENGES OF CORPORATE GOVERNANCE

SSH will consider it a success when SOEs will attain financial performance expected by their owner while simultaneously implementing all three aspects and goals of sustainable business.

SOEs are an important and a visible stakeholder in the Slovenian economy. This is why it is highly important that all aspects of sustainable business (environmental, social and corporate governance, or ESG) are considered in their strategic and development plans. Decisions taken at the level of the EU and by individual countries, regulatory trends and capital flows, which are no longer being investing in non-sustainable businesses but are being transferred to sustainable companies, encourage an increasingly larger number of companies to pursue responsible and integrated sustainability management. Management of all aspects of sustainable business is no longer a choice but a necessity: the fact is that a passive approach to this topic may put company's viability at risk. Companies must be aware of business opportunities, which are made available with the transition to sustainable business, particularly to a low-carbon economy. At the same time, companies must be cautious of risks, which are diverse and not yet visible in the markets.

Management and supervisory boards are responsible for a company's long-term resilience in a business environment in which climate change plays an important role. One of their key responsibilities is an oversight over and efficient management of climate risks and opportunities.

By adopting recommendations addressed to SOEs in July 2020, SSH encouraged SOEs to pursue economic, social and environmental transformation of their business strategies and models to ensure better competitiveness, decrease risk levels and provide for sustainable performance in the long term. SSH recommends to SOEs that their strategies and business models should contribute to value creation by enabling and encouraging sustainable development while also taking advantage of opportunities for creating sustainable value. SSH also recommends to SSH to develop new and innovative business models which will strengthen their competitiveness. When formulating and implementing a business strategy, an SOE should consider environmental risks which significantly affect their business environment in a short-term, medium term and long-term, and consider them within their risk management system.



With the aim of promoting sustainability, SSH adopted some other measures and instruments:

- at the end of 2019, SSH started monitoring data referred to in the additional criteria for measuring performance of SOEs and included a set of additional indicators measuring sustainable business;
- SSH issued a recommendation for the observance of human rights in business which has increased standards in this area of business;
- SSH improved the Governance Code, supplementing it with rules on non-financial reporting (reporting on sustainable business); these rules have upgraded the statutory requirements in this field;
- the topic on sustainability was highlighted on the agenda of periodic meetings held with companies;
- qualitative goals with regard to sustainability were set for some companies in the Annual Asset Management Plan 2021.

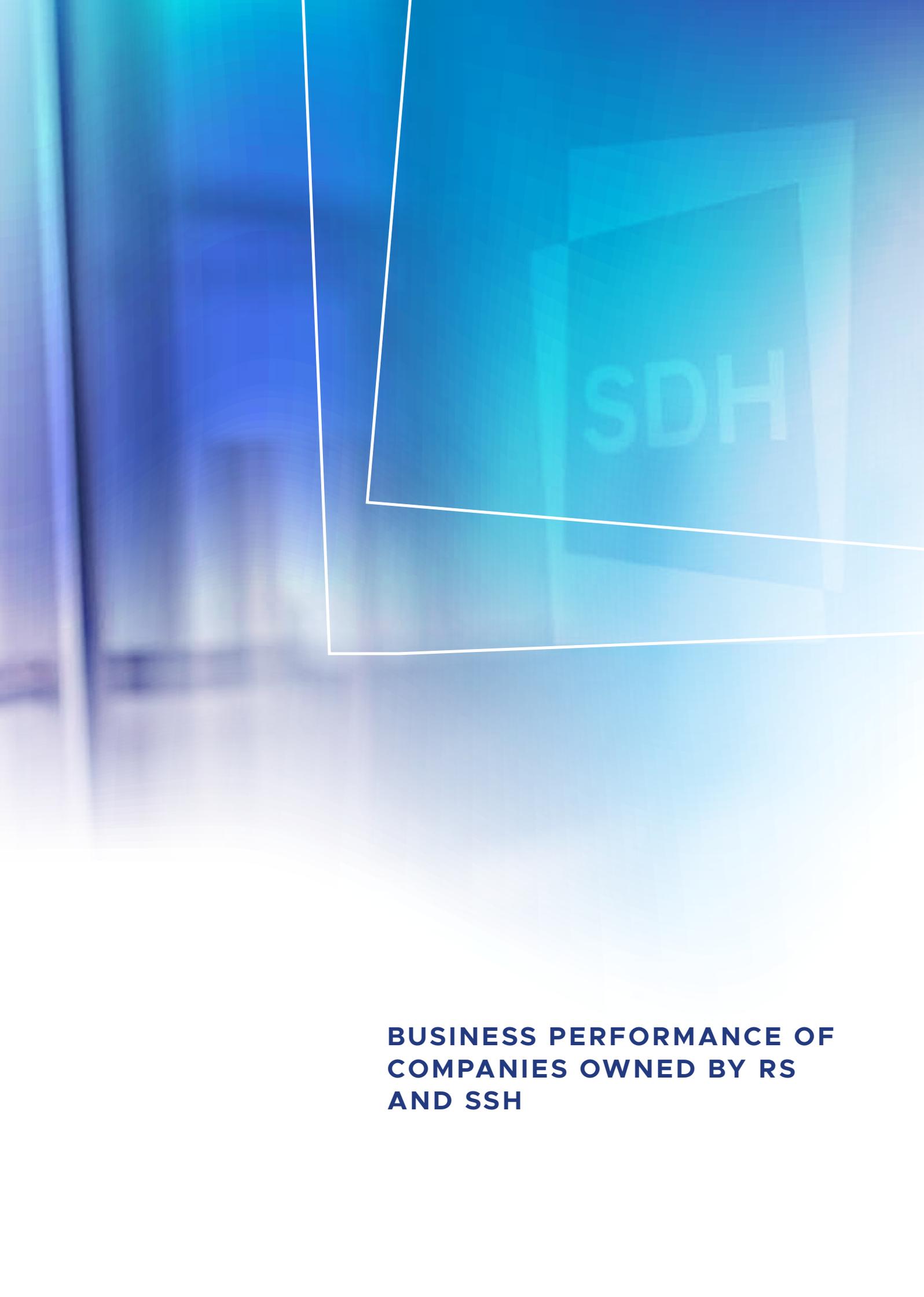
Key challenges and corporate governance priorities in sustainable business and the transition to low-carbon economy and society

Good corporate governance is the art of establishing efficient mechanisms which aim to achieve long-term value of enterprises, their financial efficiency and effectiveness, as well as other corporate goals. These goals can be achieved by understanding and considering and balancing the interest of and between all key stakeholders and ensuring that they are considered both at the corporate strategic level as well as at the operational level when important business decisions are made.

- Management and supervisory bodies are responsible for achieving long-term value of a company, reporting about it to the shareholders. It is their duty to ensure that sustainable operation, which today is viewed as “*conditio sine qua non*” as far as long-term business performance of a company is concerned, is considered as a strategic priority, and is integrated into all business processes and risk management and opportunities management systems of the organisation.
- A sufficient level of diversity must be established between the members of management and supervision bodies, in which a special emphasis has to be

placed on relevant competences, for the discussion to be effective and for quality decisions to be made.

- SOEs must identify the most efficient method to include all aspects of sustainability into their corporate governance system (in which regard, strategic commissions, nomination committees, audit committees, risk committees and other committees functioning within supervisory bodies play an important role).
- It is the duty of supervisory bodies to include criteria for measuring the performance of sustainable business in the remuneration system to reward management bodies, as well as to perform an assessment of a short-term, middle-term and long-term suitability of the sustainability management system.
- Management and supervisory bodies should ensure that a suitable incentive system is put in place to enhance long-term sustainable performance of companies in which they serve.
- It is the responsibility of management and supervisory bodies that important sustainability risks, opportunities and strategic decisions are consistently and transparently disclosed to all stakeholders, especially to investors and regulators. These disclosures are presented in semi-annual, quarterly, and annual reports (business reports, financial reports, investor conferences, etc.).



SDH

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

10 BUSINESS PERFORMANCE OF COMPANIES OWNED BY RS AND SSH

10.1 Portfolio of RS and SSH capital assets as of 31 December 2020

As of 31 December 2020, portfolio of capital assets under SSH's management included 69 active companies (as of 31 December 2019, there were 72 such companies). Of this number, RS held direct ownership stake in 46 companies, SSH owned stakes in 13 companies and both RS and SSH held direct ownership stake in 10 active companies. Pursuant to the entry into force of the Republic of Slovenia Budget for 2018 and 2019 Implementation Act ((ZIPRS1819-A), SSH held 16 smaller shareholdings owned by RS under its management at the end of 2020.

In addition, as of 31 December 2020, SSH carried out asset management activities for 26 non-active companies (in bankruptcy or in liquidation; there were 24 such companies in the SSH's portfolio as of 31 December 2019). Of these companies, RS held direct ownership stake in 16 companies, SSH in 8 such companies and both RS and SSH held direct ownership stake in 2 non-active companies.

Table: List of active companies in which RS's and SSH's equity interest exceeds 5% and for which the Annual Asset Management Plan is drawn up; as of 31 December 2020*

Pillar, capital asset	RS's shareholding (%)	SSH's shareholding (%)	Total (%)
TRANSPORT			
DARS, d. d.	100.00		100.00
KOPP, d. o. o.	100.00		100.00
KZPS, d. o. o.	100.00		100.00
LUKA KOPER, d. d.	51.00	11.13	62.13
POŠTA SLOVENIJE, d. o. o.,	100.00		100.00
SŽ, d. o. o.	100.00		100.00
ENERGY SECTOR			
EGS-RI, d. o. o.	100.00		100.00
ELEKTRO CELJE, d. d.	79.50		79.50
ELEKTRO GORENJSKA, d. d.	79.48	0.31	79.79
ELEKTRO LJUBLJANA, d. d.	79.50	0.30	79.80
ELEKTRO MARIBOR, d. d.	79.86		79.86
ELEKTRO PRIMORSKA, d. d.	79.68		79.68
GEN ENERGIJA, d. o. o.	100.00		100.00
GEOPLIN, d. o. o., Ljubljana	25.01		25.01
HSE, d. o. o.	100.00		100.00
INFRA, d. o. o.	100.00		100.00
NAFTA LENDAVALA, d. o. o.	100.00		100.00
PETROL, d. d., Ljubljana	10.82	12.68	23.50
PLINHOLD, d. o. o.	60.10	0.05	60.15
RŽV, d. o. o.	100.00		100.00

FINANCIAL SECTOR			
D. S. U., d. o. o.	100.00		100.00
DTK MURKA, družba tveganega kapitala, d. o. o.	49.00		49.00
NLB d. d.	25.00		25.00
Sava Re, d. d.	13.89	17.68	31.57
SID banka, d. d., Ljubljana	99.41		99.41
ZAVAROVALNICA TRIGLAV, d. d.**	34.48	28.09	62.57
TOURISM AND ECONOMY			
ADRIA, d. o. o.		11.74	11.74
A. L. P. PECA, d. o. o.	9.09		9.09
BODOČNOST MARIBOR, d. o. o.	77.52		77.52
CASINO BLEDE, d. d.		33.75	33.75
CASINO Portorož, d. d.		9.46	9.46
CETIS, d. d.		7.47	7.47
CINKARNA Celje, d. d.		11.50	11.50
CSS, d. o. o.	97.96		97.96
ELEKTROOPTIKA, d. d.	0.01	70.48	70.49
HIT, d. d., Nova Gorica		20.00	20.00
KOTO, d. o. o.	66.23		66.23
KRKA, d. d., Novo mesto	7.21	9.00	16.21
LOTERIJA SLOVENIJE, d. d.		15.00	15.00
POMGRAD – VGP, d. d.	25.01		25.01
PS ZA AVTO, d. o. o., Ljubljana		90.00	90.00
SAVA, d. d.		18.69	18.69
SIJ, d. d.	25.00		25.00
STUDENTENHEIM KOROTAN GMBH	100.00		100.00
TELEKOM SLOVENIJE, d. d.	62.54	4.25	66.80
TERME OLIMIA, d. d.		4.01	4.01
UNIOR, d. d.		39.43	39.43
URADNI LIST REPUBLIKE SLOVENIJE, d. o. o.	100.00		100.00
VARNOST SISTEMI, d. o. o.		9.74	9.74
VGP, d. d.	25.00		25.00
VGP DRAVA Ptuj, d. o. o.	25.00		25.00
VGP Novo mesto, d. d.	25.00		25.00

Note: *The lists does not include assets acquired by SSH pursuant to the Inheritance Act.

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

10.2 Value and structure of portfolio under management

Measured by book-value, the value of direct ownership stakes of RS and SSH amounted to EUR 9.9 billion at the end of 2020. Compared to the end of 2019, when

it amounted to EUR 10.3 billion, the value was lower by 4%. The decrease in the value of the portfolio is mostly attributed to the sale of RS's shareholding in Abanka.

Table: Top 10 assets held by RS and SSH by book value of equity as of 31 December 2020

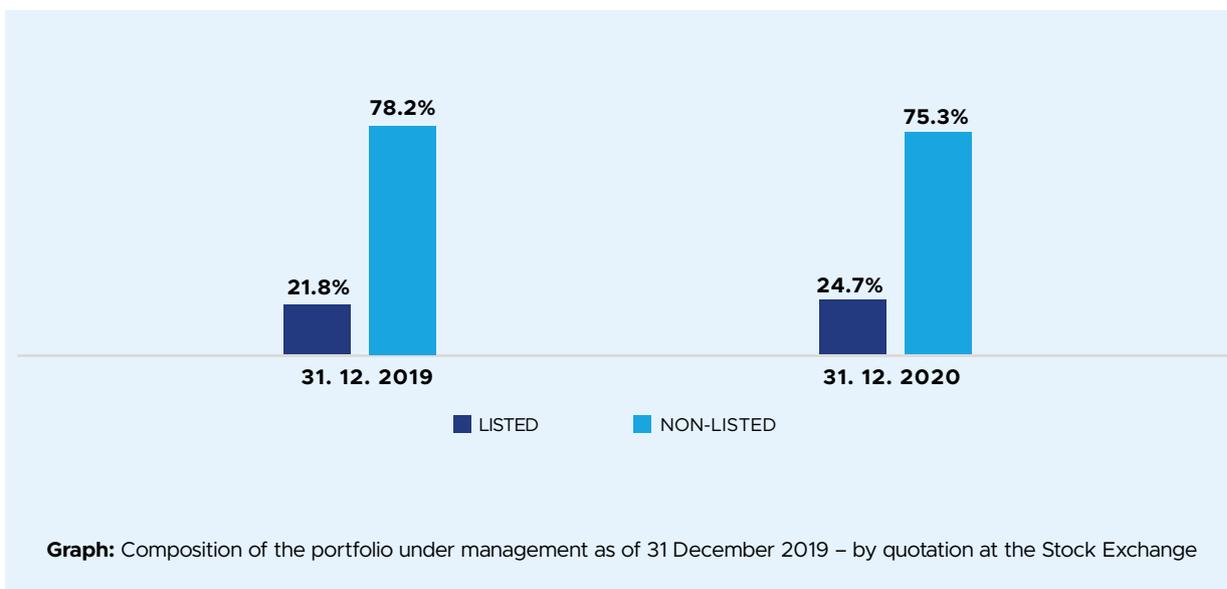
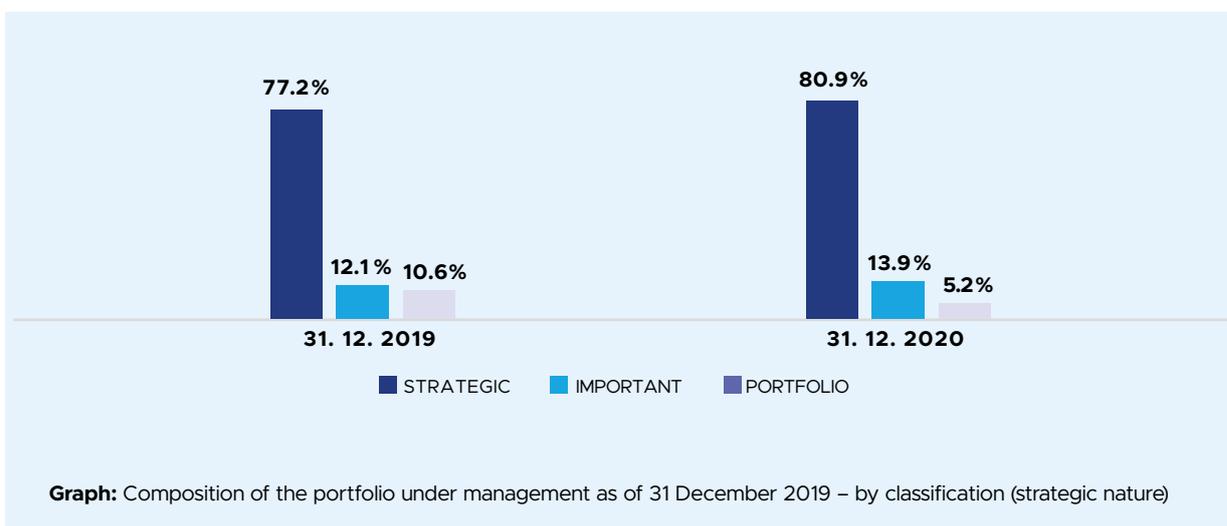
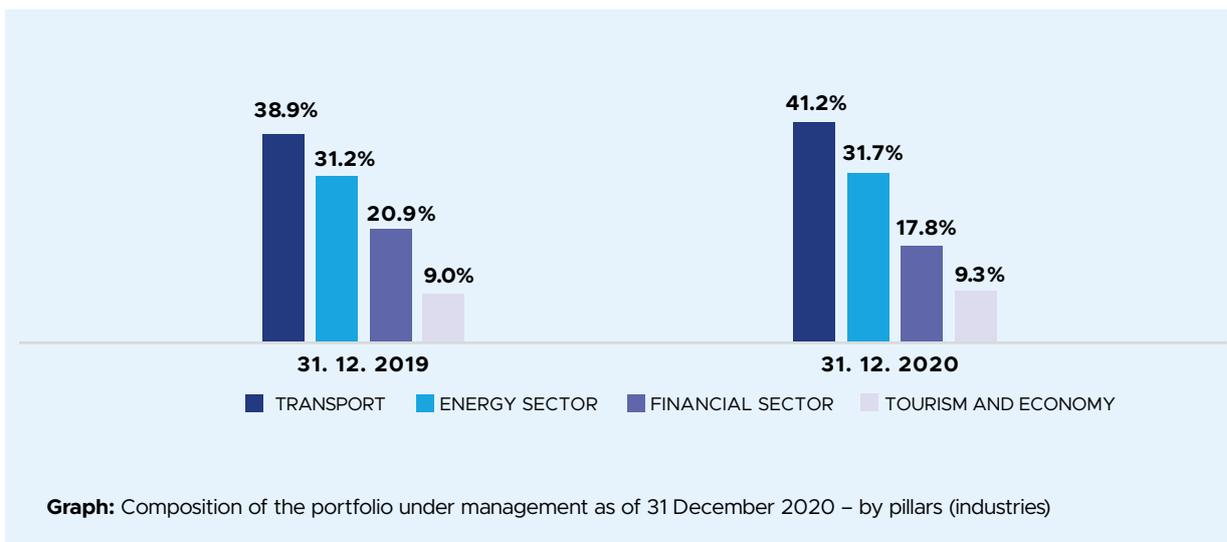
Company	Pillar	Classification	RS and SSH shareholding as of 31 December 2020	Book-value of RS and SSH shareholding, as of 31 December 2020 (in EUR)	Share in total portfolio
DARS, D. D.	TRANSPORT	STRATEGIC	100.00%	2,922,963,531	29.48%
GEN ENERGIJA, D. O. O.	ENERGY SECTOR	STRATEGIC	100.00%	912,480,438	9.20%
HSE, D. O. O.	ENERGY SECTOR	STRATEGIC	100.00%	900,395,852	9.08%
SLOVENSKE ŽELEZNICE, D. O. O.	TRANSPORT	STRATEGIC	100.00%	548,275,424	5.53%
ZAVAROVALNICA TRIGLAV, D. D.	FINANCIAL SECTOR	STRATEGIC	62.57%	544,482,788	5.49%
NLB, D. D.	FINANCIAL SECTOR	IMPORTANT	99.41%	530,760,000	5.35%
SID BANKA, D. D.	FINANCIAL SECTOR	STRATEGIC	25.00%	473,293,684	4.77%
TELEKOM SLOVENIJE, D. D.	ECONOMY	PORTFOLIO	66.79%	394,416,740	3.98%
POŠTA SLOVENIJE D. O. O.	TRANSPORT	STRATEGIC	100.00%	325,382,900	3.28%
KRKA, D. D.	ECONOMY	IMPORTANT	16.21%	283,972,229	2.86%
TOTAL TOP 10				7,836,423,586	79.03%
OTHER				2,079,908,672	20.97%
TOTAL PORTFOLIO				9,916,332,258	100.00%

The concentration of assets in the portfolio continues to be high – top 10 companies represented as much as 79% of the portfolio assets, while 20 largest portfolio companies equaled to 97% of the book-value of the entire portfolio. Just the largest portfolio company, DARS, took up as much as a 30% share of the total portfolio.

A great majority of assets under management operated in transport and energy sector, representing in total almost 73% of the value of the portfolio, which is a slightly higher figure than as of 31 December 2019. Due to the sale of banks, the proportion of the Financial pillar decreased in 2020, precisely by 3.1 percentage points, while a slight increase was recorded in other pillars of the portfolio. Assets from the Tourism and Economy pillar continued to take up the smallest share of the total portfolio.

The asset classification criterion shows that the portfolio was dominated by strategic assets whose proportion increased in 2020: at the end of the year, strategic assets took up 80.8% of the total portfolio. Important assets represented slightly less than a 14% share of the portfolio, while the least represented assets were assets classified as portfolio assets, whose share fell in 2020 due to the sale of Abanka.

The proportion of companies quoted at the stock Exchange slightly increased, precisely, from 17.6% to 19.4%. The share of non-quoted companies continued to predominate the portfolio, but it decreased from 82.4% to 80.6% in 2020.

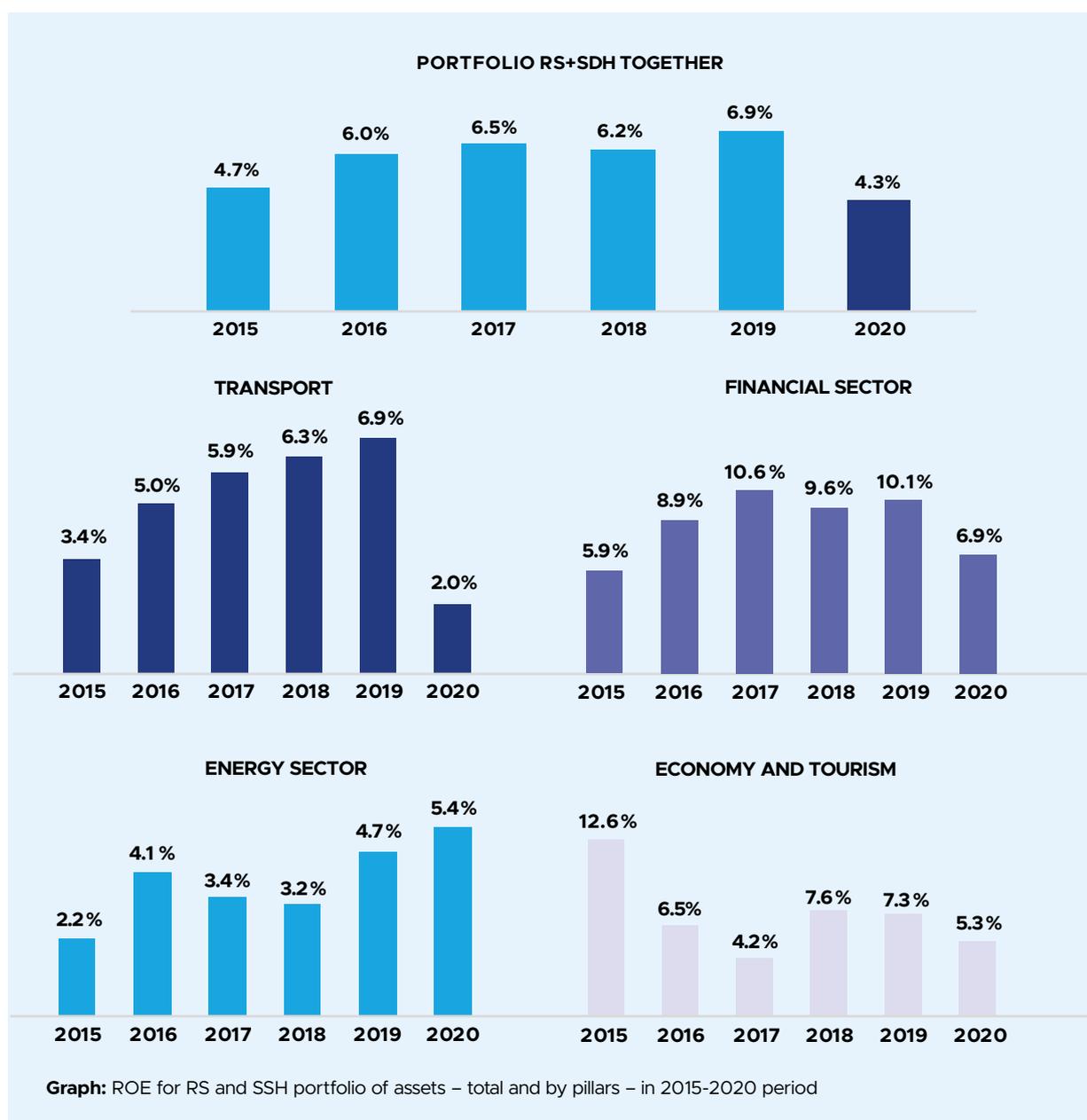


10.3 Business performance of portfolio companies

ROE of the portfolio under management amounted to 4.3% in 2020, which is by 2.6 percentage points lower than in 2019. A lower ROE value is the result of the impact the COVID-19 crisis had on business performance of portfolio companies. Although the coronavirus pandemic affected all sectors of the economy it had a different impact on the operation of individual companies. The companies from the SSH's portfolio which were hit the most by the crisis included enterprises from the tourism industry, manufacturing

and transport industry. Some other sectors were less severely affected so far, while the least impact of the COVID-19 crisis was experienced by the pharmaceutical industry and in telecommunications.

Larger companies which recorded growth in ROE in 2020 include GEN, NLB, Krka, Telekom and Plinhold, whereas all other large companies achieved lower ROE values. The current operational result of was favourable for HSE, but a one-off impact of the impaired assets held in TEŠ and PV made its final result negative.



¹ The estimate does not take into account firstly, the extraordinary write-offs in HSE formed in TEŠ and totalling EUR 243.5 million, and secondly, one-off positive effect in NLB on account of the takeover of Komercijalna banka Beograd totalling EUR 128.4 million. If these two extraordinary events were taken into account, ROE of the portfolio for 2020 would have amounted to 2.2%.

In relative terms, the 2020 performance results decreased the most in the **Transport pillar**. All companies from this pillar recorded poorer results as compared to 2019. Considering expectations, the drop in income was the highest in this pillar.

As a result of a good performance (when a pre-impairment result is taken into account) experienced by the two main companies of this pillar, i.e., GEN and HSE, the **Energy sector pillar** showed a slightly better business result in 2020 than in 2019: in 2020, ROE stood at 5.4%, whereas ROE of 4.7% was recorded in 2019. Impairments formed by HSE were required on account of lower electricity prices and a growth in prices for CO2 emission allowances. A similar situation was experienced in 2015, when extraordinary write-offs in connection with the investment in TEŠ were not taken into account in the calculation of ROE of the total portfolio.

Performance of the **Financial pillar** was satisfactory in 2020: ROE stood at 6.9%, and if one-off effects recorded by NLB were taken into account, ROE of the pillar would have amounted to 9.0%. The results of both insurance companies revealed that their performance was better in 2020: NLB's result thus decreased more than the result generated by both insurance companies, obviously, when one-off effects are not taken into account. After recording good performance values in 2019, SID banka achieved a low ROE value in 2020, which was again due to one-off impacts.

A severe blow to the tourism industry, gaming industry and some manufacturing activities caused by the COVID-19 crisis had a negative impact on results generated by the **Economy and Tourism pillar**. However, since the largest share of this pillar is taken up by Telekom and Krka, the results came out to be satisfactory: ROE of this pillar amounted to 5.3% in 2020. Similarly as previously, Krka's 2020 results stood out from all other companies in this pillar.

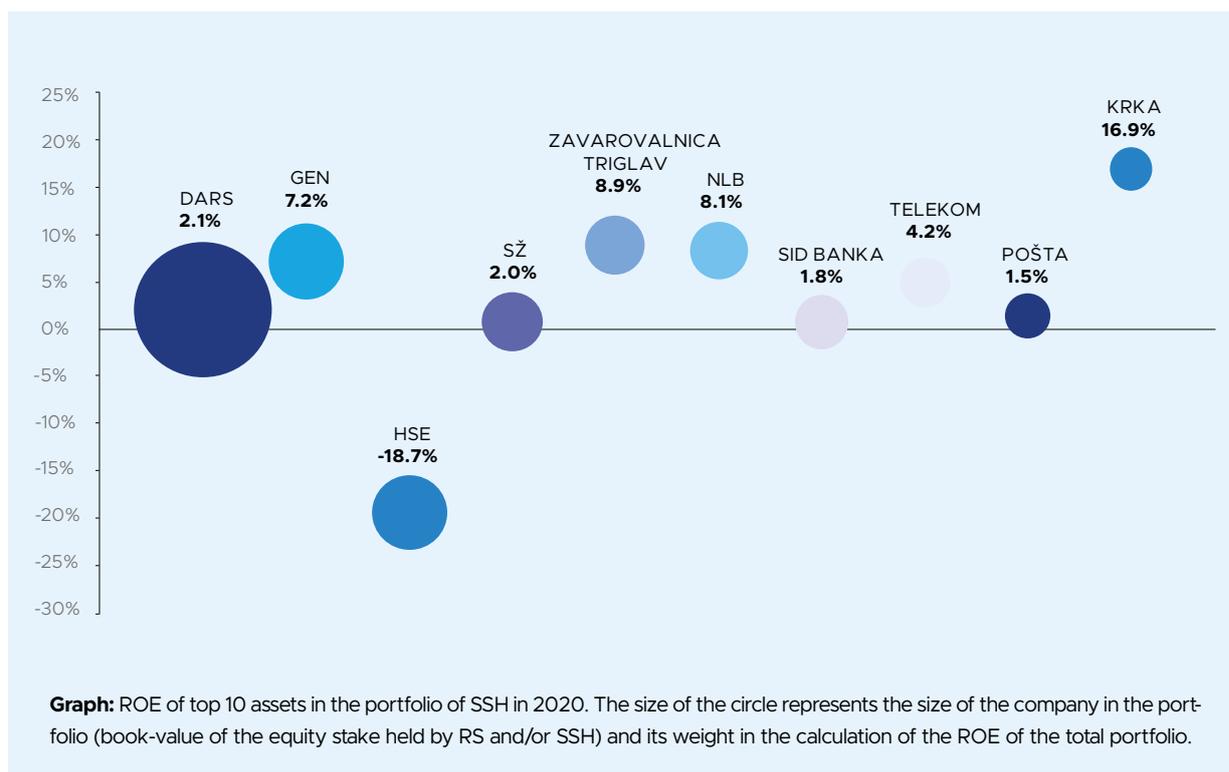


Table: ROE 2020 and dividends paid out for FY 2020 by 31 October 2020 by five top companies in an individual pillar of assets under management

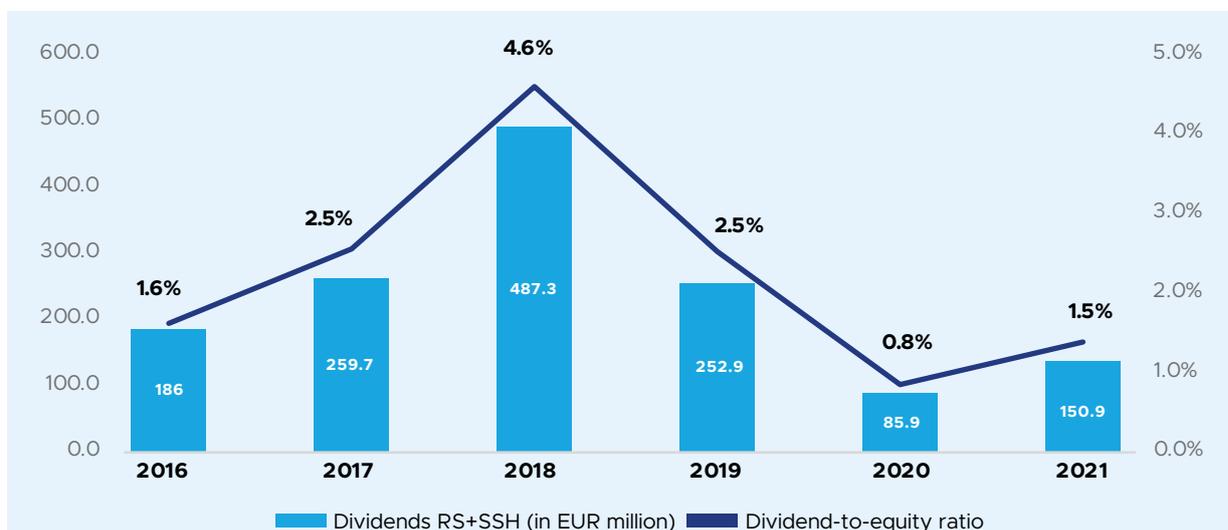
Pillar, Capital asset	Ownership stake RS+SSH	Book value of stake RS+SSH (EUR)	Share in total portfolio	ROE 2019	ROE 2020	Dividends for RS and SSH for FY 2020 (EUR)
TRANSPORT						
DARS, d. d.	100.00%	2,922,963,531	29.48%	4.79%	2.06%	
SLOVENSKE ŽELEZNICE, d. o. o.	100.00%	548,275,424	5.53%	7.81%	2.00%	
POŠTA SLOVENIJE, d. o. o.	100.00%	325,382,900	3.28%	23.50%	1.47%	1,500,000
LUKA KOPER, d. d.	62.13%	274,393,184	2.77%	9.95%	7.44%	9,915,557
KZPS, d. o. o.	100.00%	10,307,825	0.10%	19.66%	-82.16%	
TOTAL TOP 5 TRANSPORT		4,081,322,864	41.16%			11,415,557
ENERGY SECTOR						
GEN ENERGIJA, d. o. o.	100.00%	912,480,438	9.20%	5.78%	7.24%	13,000,000
HSE, d. o. o.	100.00%	900,395,852	9.08%	2.76%	-18.75%	
ELEKTRO LJUBLJANA, d. d.	79.80%	267,330,972	2.70%	4.29%	3.47%	2,499,887
ELEKTRO MARIBOR, d. d.	79.86%	241,071,424	2.43%	4.81%	3.58%	2,776,605
PETROL, d. d.	23.50%	194,240,864	1.96%	13.50%	8.83%	10,784,730
TOTAL TOP 5 ENERGY SECTOR		2,515,519,550	25.37%			29,061,223
FINANCIAL SECTOR						
ZAVAROVALNICA TRIGLAV, d. d.	62.57%	544,482,788	5.49%	10.90%	8.90%	24,184,416
NLB, d. d.	25.00%	530,760,000	5.35%	11.70%	8.11%	23,050,005
SID BANKA, d. d.	99.41%	473,293,684	4.77%	7.20%	1.82%	
SAVA RE, d. d.	31.57%	145,291,555	1.47%	13.80%	13.30%	4,620,871
D. S. U., d. o. o.	100.00%	67,353,785	0.68%	5.87%	4.84%	1,000,000
TOTAL TOP 5 FINANCIAL SECTOR		2,089,706,259	17.76%			52,855,292
ECONOMY AND TOURISM						
TELEKOM SLOVENIJE, d. d.	66.80%	394,416,740	3.98%	0.20%	4.20%	19,644,336
KRKA, d. d.	16.21%	283,972,229	2.86%	15.23%	16.90%	26,579,460
SIJ, d. d.	25.00%	95,320,631	0.96%	10.98%	-12.47%	1,494,417
UNIOR, d. d.	39.43%	64,206,505	0.65%	6.15%	-1.31%	
CINKARNA CELJE, d. d.	11.50%	20,018,833	0.20%	12.45%	11.01%	1,951,950
TOTAL TOP 5 ECONOMY AND TOURISM		859,915,986	8.65%			49,670,163
TOTAL TOP 5 ALL PILLARS		9,546,464,659	92.94%			143,002,234
TOTAL RS+SSH PORTFOLIO		9,916,332,258	100.00%			150,865,107

10.4 Dividends

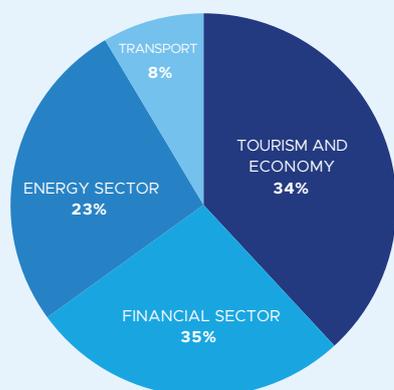
The total sum of dividends paid out in 2021 (for FY 2020) increased significantly compared to the preceding year and was higher than expected for the reported year. The lower amount of dividend income paid out in 2020 (for FY 2019) was the result of the COVID-19 pandemic, and tightened business conditions which affected the operations of some companies. The lower amount of dividend pay-outs was also the result of restrictions which regulatory institutions imposed on banks and insurance companies in connection with their distribution of profit in 2020. Regulators relaxed the conditions applicable to banks and insurance companies as regarded

dividend pay-outs in 2021. As a result, banks and insurance companies were able to distribute their profits.

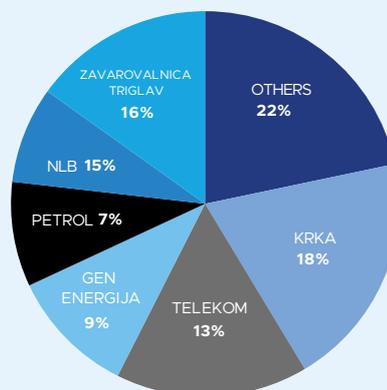
Companies from the Financial Pillar, closely followed by Economy and Tourism pillar, which recorded an almost equal proportion of dividend income from the total dividend income, were the largest dividend payers in 2020. Companies from the Energy sector are on the third place among the largest dividend payer, while the lowest share of dividend income out of the total generated in 2020 was taken up by companies from the Transport pillar.



Graph: Dividend pay-outs in EUR for assets owned by RS and SSH presented separately by years (for previous financial year)



Graph: The largest dividend payers from RS and SSH portfolio in 2021 (for FY 2020) - by individual pillars



Graph: The largest dividend payers from RS and SSH portfolio in 2021 (for FY 2020) - by individual companies

In terms of individual companies, the leading position among the top dividend payers is taken up by Krka, which is followed by Zavarovalnica Triglav and NLB. The six largest dividend payers paid 78% of all dividends.

10.5 Summary of criteria for measuring performance of SOEs and information on fulfilment of criteria in 2020

The table below presents an overview of companies which have satisfied two of the criteria for measuring SOEs' performance (ROE and EBITDA margin). These criteria were designed at the end of 2019 for FY 2020. As regards companies highlighted in blue, the given values refer to other

indicators as explained under the Notes below the Table. The table does not include SOEs for which Annual Asset Management Plan was not prepared (equity stake of minimum value, companies undergoing sale process, etc.).

Table 4: Attainment of goals on the basis of criteria set (ROE, EBITDA, margin) in the Annual Asset Management Plan 2020

Pillar, Capital asset	ROE 2020 (%)		EBITDA margin 2020 (in %)	
	Annual Asset Management Plan	Outcome	Annual Asset Management Plan	Outcome
TRANSPORT				
DRUŽBA ZA AVTOCESTE V REPUBLIKI SLOVENIJI (MOTORWAY COMPANY OF THE REPUBLIC OF SLOVENIA), d. d.	4.60	2.06	80.00	77.32
KONTROLA ZRAČNEGA PROMETA, d. o. o. (Slovenia Control)	2.92	-82.16	11.50	-58.95
LUKA KOPER, d. d.	10.00	7.44	30.00	28.06
POŠTA SLOVENIJE, d. o. o.	4.60	1.47	10.40	9.01
SLOVENSKE ŽELEZNICE, d. o. o.	5.10	2.00	14.40	11.79
ENERGY SECTOR				
ELEKTRO CELJE, d. d.	4.00	2.66	41.30	36.79
ELEKTRO GORENJSKA, d. d.	4.50	3.20	48.00	45.37
ELEKTRO LJUBLJANA, d. d.	4.10	3.47	44.30	41.88
ELEKTRO MARIBOR, d. d.	4.55	3.58	41.70	39.33
ELEKTRO PRIMORSKA, d. d.	4.15	3.68	42.73	39.30
GEN GROUP	6.00	7.24	4.91	6.59
GEOPLIN, d. o. o. Ljubljana	4.10	8.82	1.10	6.66
HSE GROUP	4.52	-18.75	9.58	10.03
PETROL GROUP	12.80	8.83	13.86	10.20
PLINHOLD GROUP	1.70	4.14	61.70	60.98
FINANCE				
D.S.U., d. o. o.	5.00	4.84	63.00	65.70
NLB, d. d.	11.00	8.11	57.00	58.30
POZAVAROVALNICA SAVA, d. d., LJUBLJANA	11.00	13.30	95.00	93.90
SID BANKA, d. d., LJUBLJANA	3.00	1.82	45.00	31.09
ZAVAROVALNICA TRIGLAV, d. d., LJUBLJANA	10.50	8.90	95.00	91.20
TOURISM AND ECONOMY				
ADRIA, d.o.o.	3.06	3.46	18.00	22.77
BODOČNOST MARIBOR, d. o. o.	5.90	9.56	6.40	6.65
CETIS GROUP	11.20	13.71	14.30	17.49
CINKARNA Celje, d. d.	8.50	11.01	16.50	18.76
CSS, d. o. o.	9.25	-12.67	6.28	-2.55
HIT GROUP	10.20	-20.00	16.10	6.83

KOTO, d. o. o.	1.68	3.07	10.59	11.19
KRKA GROUP	12.00	16.90	26.00	32.70
LOTERIJA SLOVENIJE, d. d.	18.50	24.34	5.90	7.74
POMGRAD - VGP, d. d.	2.65	0.32	7.50	15.09
SAVA GROUP	4.40	-8.90	21.00	7.96
SIJ GROUP	4.10	-12.47	8.90	5.37
STUDENTENHEIM KOROTAN GMBH	-6.50	-9.88	1.00	-24.69
TELEKOM SLOVENIJE GROUP	8.00	4.20	30.50	32.00
TERME OLIMIA GROUP	8.95	-4.34	26.66	18.09
UNIOR GROUP	7.90	-1.31	12.10	10.87
Uradni list Republike Slovenije, d. o. o.	3.00	1.24	12.00	10.37
VARNOST SISTEMI, d. o. o.	10.74	13.20	24.50	22.99
VGP, d. d.	4.07	-12.15	5.48	-0.41
VGP DRAVA PTUJ, d. o. o.	17.80	13.22	9.54	7.37
VGP NOVO MESTO, d. d.	7.00	7.06	14.16	17.15

Notes: If companies draw up consolidated financial statements, the indicators refer to the performance result of the Group, with the exception of data for electricity distribution companies (EDC) in which case indicators refer to a parent company. In case of Petrol, instead of EBITDA margin, gross margin is shown. In case of banks, instead of EBITDA margin, CIR (cost-to-income) ratio is given. In case of insurance companies instead of EBITDA margin, a combined ratio is presented.

11 METHODOLOGICAL, LEGAL AND OTHER NOTES

Legal basis

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

Operation performance data for SOEs

For companies, which draw up consolidated statements, data for the Group were taken into account., except in cases specifically indicated in Notes to Tables. The audited financial statements were observed when such reports were available at the time of drawing up this Report.

Comprehensive company presentations have been developed for top 20 companies using the criteria of the total book value of SSH and RS shareholdings as of 31 December 2020.

Short company presentations (available in Slovene version) have been developed for all companies, with the exception of the following:

- companies in bankruptcy or liquidation (a common list of all such companies is published on the SSH's web site);
- companies in which the equity stake of SSH or RS is lower than 1%;
- assets for which a Takeover Bid has been accepted or a Sale and Purchase Agreement has been concluded or any other written agreement has been entered into but it is not yet closed;
- capital assets which have been transferred under SSH's management on 26 December 2018 as a result of the Act Amending Implementation of the Republic of Slovenia's Budget (2018 and 2019) Act – ZIPRS1819-A (Official Gazette RS, No. 83/18 of 24 December 2018) and have been acquired solely through inheritance (the list is published on the SSH's web site);
- for other companies of less significant importance:
 - Savaprojekt, d. d., with RS ownership stake amounting to 3.47 % and which SSH strives to sell;
 - A. L. P. Peca, d. o. o. (micro company), with RS ownership stake amounting to 9.09%: SSH strives to sell its equity interest under management.

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

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

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

Other Notes

As a result of the entry into force of the Act Amending Implementation of the Republic of Slovenia's Budget (2018 and 2019) Act – ZIPRS1819-A (Official Gazette RS, No. 83/18 on 25 December 2018, SSH is now responsible for the management of assets acquired by the Republic of Slovenia pursuant to the law regulating inheritance.

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List of acronyms and glossary of terms

- 5G** – In telecommunications, 5G is the fifth-generation technology standard
- ACEA** – European Automobile Manufacturers Association
- AKOS** – Agency for Communication Networks and Services of the Republic of Slovenia
- ARSO** – Slovenian Environment Agency
- AVK** – Slovenian Competition Protection Agency
- ATX Index** – Austrian Traded Index; the most important index of the Wiener Börse
- GDP** – gross domestic product
- BoS** – Bank of Slovenia
- CIR** – the cost income ratio measuring operating costs as a percentage of operating income
- COVID-19** – a disease caused by SARS-CoV-2 virus
- CO₂** – Carbon dioxide
- CSA** – Creditor Side Agreement)
- CROBEX index** – Zagreb Stock Exchange Equity Index
- DAX index** – the leading German Stock Index (*Deutscher Aktienindex*)
- d. d. (PLC)** – public limited company
- DG Reform** – the European Commission Directorate-General for Structural Reform Support
- d. o. o. (Ltd.)** – Limited liability company
- D. S. U.** – Družba za svetovanje in upravljanje
- DARS** – Motorway Company of Republic of Slovenia
- DEM** – Dravske elektrarne Maribor, d. o. o.
- DTK** – venture capital companies
- BAMC** – Bad Asset Management Company
- EBRD** – European Bank for Reconstruction and Development
- ECB** – European Central Bank
- EP** – energy permit
- EDC** – electricity distribution company
- EE** – electricity
- EGF** – Pan- European Guarantee Fund European guarantee fund
- EIB** – European Investment Bank
- EPH** – a Prague-based Central European energy group (Czech: *Energetický a průmyslový holding, a. s.*)
- ERM** – enterprise risk management
- ERP** – Enterprise resource planning
- ESG** – environment, social and governance criteria
- ESM** – European Stability Mechanism
- ECESA** – Expert Committee for Economic and Social Affairs
- EU** – European Union
- EUR** – Euro currency
- FED** – American Central Bank (*Federal Reserve System*)
- FI** – Financial Instruments
- FIHO** – Fundacija za financiranje invalidskih in humanitarnih organizacij, or in English: the Foundation for Funding Disability and Humanitarian Organizations
- FOS** – Freedom of service
- FŠO** – Fundacija za financiranje športnih organizacij, or in English: the Foundation for Funding Sports Organisations of Slovenia
- GDR** – Global Depositary Receipts
- GJS** – service of general economic interest
- GWh** – Gigawatt hours
- HPP** – hydro power plant
- HESS** – Hidroelektrarne na spodnji Savi d. o. o. (Hydroelectric Power Plants on the Lower Sava River)
- HSE** – Holding Slovenske elektrarne
- IT** – Information technology
- ICT** – Information and communication technology
- IMF** – International Monetary Fund
- IPTV** – is the delivery of television content over Internet Protocol (IP) networks, Internet Protocol television

etc. – abbreviation for “et cetera”: “and other similar things”

et al. – abbreviation for “and others”

NEK – Krško Nuclear Power Plant

NEK2 – the second unit of Krško Nuclear Power Plant

SEE - Southeast Europe

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

Code – Corporate Governance Code for SOEs

Commission – Commission for handling alleged irregularities in SOEs

LLC – Limited liability company (*Limited liability company*)

LNG – Liquefied natural gas

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

MAIFI – the Momentary Average Interruption Frequency Index; the average number of momentary interruptions in electric power system

MEDT – Ministry of Economic Development and Technology.

mio – million

MOP – Ministry of the Environment and Spatial Planning.

billion – bn

M&R stations – metering and regulation stations

MSCI – the MSCI Indexes are a measurement of stock market performance in a particular area

SME – small and medium-sized enterprises

IFRS – International Financial Reporting Standards

MOI – Ministry of Infrastructure

MW – megawatt

MWh – megawatt hour

NEK – Krško Nuclear Power Plant

NECP – National Energy and Climate Plan

NGEU – Next Generation EU

NLB – Nova Ljubljanska banka, d. d.

NPL – non-performing loan

SB – Supervisory Board

SSH SB – Supervisory Board of Slovenian Sovereign Holding

OECD – Organisation for Economic Cooperation and Development

OPS – natural gas transmission system operator

RES – Renewable sources of energy

PCI - Project of Common Interest (the Hungary – Slovenia – Italy natural gas corridor (HUSIIT))

PELTRO – Pandemic emergency longer term refinancing operations

PEPP – Pandemic emergency purchase programme

PIS – Legal Information System of the Republic of Slovenia

Policy – Asset Management Policy of SSH

RO-RO terminal – roll-on/roll-off terminal

RS – Republic of Slovenia

RŽV – Žirovski vrh Mine

SAIDI - the System Average Interruption Duration Index; the average outage duration

SAIFI – System average interruption duration index

SARS-CoV-19 – corona virus which causes COVID-19 disease c

SCR – Solvency capital requirement

SSH– Slovenian Sovereign Holding

SBITOP - Slovenian Blue-Chip Index, a benchmark index, which tracks the performance of the most liquid shares on the Ljubljana Stock Exchange

SLOP2G – the first Slovenian green hydrogen infrastructure project

SOD – Slovenska odškodninska družba, d. d.

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

SPA – Sale and Purchase Agreement

S&P 500 – Standard and Poor's 500 is a stock market index tracking the performance of 500 large companies listed on stock exchanges

Strategy – State Assets Management Strategy

STH – Slovenian Tourism Holding

TEU – the twenty-foot equivalent unit, a unit of cargo capacity used to describe the capacity of container ships and container terminals

TEN-T corridor – the Trans-European Transport Network (TEN-T) is a planned network of roads, railways, airports and water infrastructure in the European Union

TE-TOL – the Ljubljana Power Station is a coal-fired heat and power station

TLTRO – Targeted long term refinancing operations

TLTRO-III – an updated Indicative calendar for the third series of targeted longer-term refinancing operations

TWh – TheraWatt hour, 3 energy

UL info tok – is a service which focuses on legislation and public procurement, enabling users to get tailor made notifications, monitor the development in this field and receive specific contents based on his/her interests.

IMAD – Institute of Macroeconomic Analysis and Development

USD – American dollar

VGP – water utility company

VIX index – the »Fear Index« measuring investors' fear and the volatility of options

ZBan-2 - Banking Act

ZBS – the Bank Association of Slovenia

USA – the United States of America

ZGD-1 – Companies Act

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

ZIPRS1819-A - Act Amending Implementation of the Republic of Slovenia's Budget (2018 and 2019) Act

ZIS – is the Gaming Act

ZIUOPDVE – Act Determining the Intervention Measures to Mitigate the Consequences of the Second Wave of COVID-19 Epidemic

ZPre-1 – Takeovers Act

ZPIZ – 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. 21/2010).

ZSDH-1 – Slovenian Sovereign Holding Act

ZSOS – Slovenian Compensation Fund Act

ZSOS-C – Act Amending the Slovenian Compensation Fund Act

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

ZTFI – Financial Instruments Market Act

ZZavar-1 – Insurance Act

ZIUOPOK – Act Determining the Intervention Measure of Deferred Payment of Borrowers' Liabilities

ZIUZEOP – Act Determining the Intervention Measures to Contain the COVID-19 Epidemic and Mitigate its Consequences for Citizens and the Economy

ZDLGPE – Act Providing Additional Liquidity to the Economy to Mitigate the Consequences of the COVID-19 Epidemic

ZDSŽ – Slovenian Railway Company Act

ZPSto-2 – Postal Services Act

Limitation of liability

The Annual Report - Management of Capital Assets of RS and SSH in 2020 (hereinafter referred to as; the »Document«) is produced in accordance with Article 67, Paragraph 1 of ZSDH-1. The Document is addressed to the National Assembly of the Republic of Slovenia, and in accordance with Article 67, Paragraph 1 of ZSDH-1, the Document is also published on the we site of SSH, enabling the Document to be accessed by the general public. The Document was developed in accordance with the principle of conscientiousness and fairness, by applying the necessary expertise and in accordance with the principle of professional diligence. The information on companies and Groups of companies used in the document were obtained from publicly accessible data bases and directly from companies. Any potential indicative value assessments are stated for informational purposes only and are not in any way binding neither they anticipate any action or decision on the part of SSH. The user of the Document agrees not to use the Document as a substitution for an independent and professional research, analysis or financial or expert assessment. Users of information from this Document are advised by SSH to verify the data with other suitable sources and to consult with an expert of a relevant discipline about any investment decision into a company referred to in the document or in regard to any other action. SSH has strived to ensure the accuracy and up-to-date status of data with all necessary prudence, however, it gives no assurances with regard to the completeness, accuracy, regularity, suitability, reliability of data or other assurances with regard to data or with regard to their use; data are such as they are and such as they are accessible. SSH, RS, companies with state capital assets and their employees shall not be held responsible by users for any damage or other consequences arising from this Document.

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SLOVENSKI DRŽAVNI HOLDING, d. d.

Annual Report - Management of Capital Assets of RS and SSH in 2020 SSH's Report to the National Assembly of RS (Abbreviated version)

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SLOVENSKI DRŽAVNI HOLDING, d. d.