



**ANNUAL REPORT - MANAGEMENT OF CAPITAL  
ASSETS OF THE REPUBLIC OF SLOVENIA AND  
SLOVENIAN SOVEREIGN HOLDING FOR 2014**



**SLOVENIAN SOVEREIGN HOLDING**



# ANNUAL REPORT - MANAGEMENT OF CAPITAL ASSETS OF THE REPUBLIC OF SLOVENIA AND SLOVENIAN SOVEREIGN HOLDING IN 2014

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



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## KEY HIGHLIGHTS FOR 2014

**€ 706,001,273**

is the book value of shareholdings pertaining to SSH capital assets as of 31 December 2014.

ROE of RS portfolio amounted to

**1.14 %**

in 2014.

The amount of dividends paid out to RS in 2015 (for the financial year of 2014) amounted to

**€ 130.8 million**

**€ 26,731,163**

proceeds from sale were received by SSH arising from all purchase and sale agreements concluded in 2014

(Aerodrom, d. d., Letrika, d. d., Salus, d. d.).

**Six**

companies from the list of

**15**

SOEs listed for sale were sold

by October 2015 (Elan, d. d., Fotona, d. d., Helios, d. d., and Aerodrom Ljubljana, d. d., Žito, d. d., Nova KBM Sale and Purchase Agreement was also signed).

**574**

candidates are

registered in the record of potential

candidates for members of Supervisory Boards of enterprises from the SSH or RS portfolio of companies.

**64**

active capital assets owned by RS in 2014.

**30**

active capital assets owned by SSH in 2014.

**€ 10,896,903,999**

is the book value of shareholdings pertaining to RS capital assets as of 31 December 2014.

**107** periodic meetings

with Supervisory Boards and/or Management Boards of companies from the RS and SSH portfolio were organised in 2014.

ROE of SSH portfolio amounted to

**11.1 %**

in 2014.

**20 %** of women were members of Supervisory Boards of SOEs in 2014.

The amount of dividends paid out to SSH in 2015 (for the financial year of 2014) amounted to

**€ 42.4 million.**

**11** free-of-charge monthly training sessions were organised for members of Supervisory Boards of SOEs by SSH in 2014.

**€ 118,799,023**

of proceeds from sale were received by RS arising from all purchase and sale agreements concluded in 2014 (Aerodrom, d. d., Telemach Rotovž, d. d.).

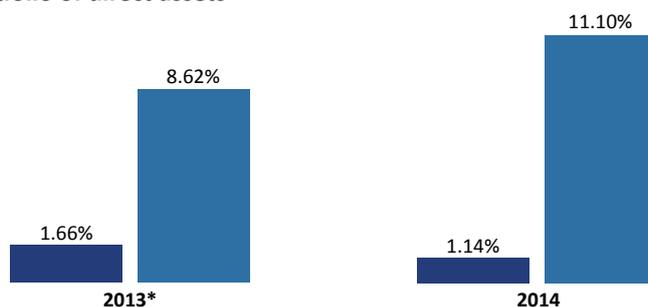
## KEY PERFORMANCE HIGHLIGHTS - ENTERPRISES DIRECTLY OWNED BY THE REPUBLIC OF SLOVENIA AND SLOVENIAN SOVEREIGN HOLDING

In regard to the performance of enterprises directly owned by the Republic of Slovenia and Slovenian Sovereign Holding, 2014 was a relatively successful year. The value of assets, measured by the sum of the book-value of shareholdings amounted to the sum of EUR 10.9 billion for the Republic of Slovenia, and EUR 706 million for SSH, respectively.

Data excluding companies in bankruptcy, liquidation or being wound-up	2014		2013	
	Directly owned by SSH	Directly owned by RS	Directly owned by SSH	Directly owned by RS
Assets (aggregated amounts)	13,287,430,573	47,701,359,767	14,317,331,576	47,277,868,408
Equity (aggregated amounts)	5,042,611,650	14,061,271,855	4,955,221,844	13,625,876,557
Net profit and loss, including banks	308,750,331	360,238,022	215,078,729	-2,101,053,995
Net profit and loss, excluding banks	308,750,331	474,029,022	330,763,729	322,515,000
<b>Total sum of book-value of shareholdings</b>	<b>706,001,273</b>	<b>10,896,903,999</b>	<b>658,734,782</b>	<b>10,589,017,397</b>

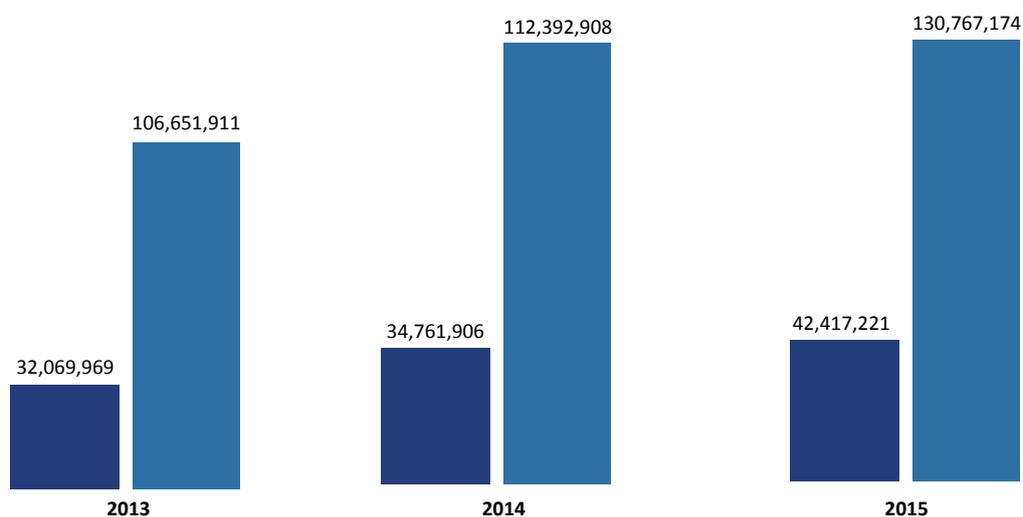
In 2014, return on equity (ROE) increased for both portfolios; ROE of the Republic of Slovenia's portfolio amounted to 1.14%, however, it has to be highlighted that in comparison to 2013, owing to the extraordinary situation in the banking sector, bank losses (EUR 2.4 billion), nationalised at the end of 2013, were excluded from the calculation of ROE for 2013. If, for the sake of year-on-year comparison, banks' performance would be excluded from ROE calculation for 2014 (net loss in the amount of EUR 113.8 million), ROE of the Republic of Slovenia's portfolio would amount to 3.35% in 2014. ROE of SSH's portfolio increased by 2.48 percentage points, rising to 11.1%.

- ROE of RS's portfolio of direct assets
- ROE of SSH's portfolio of direct assets



The growth trend in regard to dividends received for their equity interest by the Republic of Slovenia and SSH continued to increase. The amount of dividends paid out to the Republic of Slovenia in 2015 (for the financial year of 2014), increased by 16%, rising to EUR 130.8 million, while the amounts of dividends paid out to SSH increased by 22%, rising to EUR 42.4 million.

- SSH
- RS



	RS		SSH	
	2013	2014	2013	2014
Sum of shareholdings' book-value (EUR)	10,589,017,397	10,896,903,999	658,734,782	706,001,273
dividend amount (EUR)	112,392,908	130,767,174	34,761,906	42,417,221
<b>dividend pay-out ratio</b>	<b>1.06 %</b>	<b>1.20 %</b>	<b>5.28 %</b>	<b>6.01 %</b>

LETTER BY  
THE PRESIDENT OF  
THE MANAGEMENT  
BOARD



## Dear Sirs

The year of 2014 represented a turning point for the management of state capital assets since a new Sovereign Holding Act was adopted, enabling the transformation of Slovenian Compensation Company (SOD) into Slovenian Sovereign Holding, thus combining the management of state assets under one roof. At the end of 2012, SOD took over the management of all capital assets owned by the Republic of Slovenia, in October 2014, the agreement was signed with D.S.U., on the purchase of capital assets owned by D.S.U., while the process for the merger of PDP with SSH and the purchase of all capital assets owned by PDP is completed in the beginning of July 2015. One of the main objectives of the Slovenian Sovereign Holding Act, that is, the concentrated management of state-owned assets, was thus achieved: in the future, it will result in a decrease of management costs, increase of transparency and long-term increase in the profitability and value of these assets.

Such an extensive and diversified portfolio of capital assets held by SSH and RS imposes on SSH an extraordinary responsibility for the effectiveness of asset management. The long-term vision of SSH is generating value for the owner from capital assets.

For this purpose, the State Assets Management Strategy ("the Strategy") was adopted by the National Assembly and it is for SSH a fundamental document and it represents the basic tool for an active state ownership with which the State communicates its goals

regarding the management of SOEs to the state assets manager, to shareholders, the broader capital markets and the general public. On the basis of the adopted State Assets Management Strategy, the State Assets Management Annual Plan is being developed by SSH while the SOEs Performance Criteria have already been prepared and submitted to the Ministry of Finance. The key success factors for individual companies are determined in the Strategy and it is the duty of SSH to actively monitor and oversee the performance results of individual SOEs. This is implemented on the basis of quarterly financial reports, periodic meetings with Supervisory Boards and/or Management Boards of SOEs, and meetings focused on business planning are organised with the companies once a year. Thorough preparations are undertaken by SSH in regard to Annual General Meetings of Shareholders where all other shareholder's rights are being exercised.

Numerous measures have been undertaken for improving the culture of corporate governance at the level of companies and the most important documents which have been adopted include the renewed Corporate Governance Code. The objective of this Code is, by raising the quality of corporate governance in state-owned enterprises, to improve the long-term operation of these companies, for the benefit of all stakeholders. The Asset Management Policy was also adopted; the objective of this document is to provide for transparency, traceability and verifiability of decisions made by SSH. By adopting Rules on Supervisory Board Member Selection (Conditions, Criteria, Procedures and Evaluation for Determining Suitability and

Selecting Potential Candidates for Members of Supervisory Bodies of Companies with State's Capital Assets), the system of recruiting supervisory board members is being improved. This system is an important element for the success of state asset management.

By way of the entry into force of ZSDH-1, 2014 is an important milestone in regard to the operation and integrity compliance system. A transparent asset management system which provides a clear distinction of competences and responsibilities is required from SSH by way of all tasks and duties defined anew by the above mentioned Act and imposed on SSH. Measures have been established in SSH for the strengthening of integrity and responsibility and accountability and limiting risks regarding corruption, conflicts of interest and internal information abuse in management of assets, and a Chief Compliance Officer has been employed for this purpose.

The SOEs performance analysis for 2014 shows that, as regards operation of enterprises directly owned by RS and SSH, 2014 was a relatively successful year. The value of assets, measured by the sum of the book-value of shareholdings increased and amounted to the sum of EUR 10.9 billion for the Republic of Slovenia, and EUR 706 million for SSH, respectively, at the end of the year. In 2014, return on equity (ROE) also increased. ROE of the Republic of Slovenia's portfolio amounted to 1.14%, however, it has to be highlighted that in comparison to 2013, owing to the extraordinary situation in the banking sector, bank losses (EUR 2.4 billion), nationalised at the end of 2013, were excluded

from the calculation of ROE for 2013. If, for the sake of year-on-year comparison, banks' performance would be excluded from ROE calculation for 2014 (net loss in the amount of EUR 113.8 million), ROE of the Republic of Slovenia's portfolio would amount to 3.35% in 2014. ROE of SSH's portfolio increased by 2.48 percentage points, rising to 11.1%.

The growth trend of dividends received by the Republic of Slovenia and SSH for their equity interest continued to increase. The amount of dividends paid out to the Republic of Slovenia in 2015 (for the financial year of 2014), increased by 16 %, rising to EUR 130.8 million, while the amounts of dividends paid out to SSH increased by 22%, rising to EUR 42.4 million.

The Decision of the National Assembly of the Republic of Slovenia of 21 June 2013 gave clear guidelines to SSH in regard to the disposition of state assets which are consistently being followed and executed by the top management of SSH. By October 2015, the following sales of companies referred to in this Decisions were completed: Elan, d. d., Fotona, d. d., Helios, d. d., Aerodrom Ljubljana, d. d. and Žito, d. d. The Purchase and Sale Agreement for Nova KBM, d. d. was also signed.

By the adoption of ZSDH-1, by means of the State Assets Management Strategy and all activities which have been implemented, the system is being put in place when the State will act as the professional and responsible owner of state assets. It is the task of SSH to ensure professional supervision over companies under its management which is based on transparent

criteria, the standardised method of SOEs reporting and SOEs performance monitoring. SSH wishes to act as a private owner, setting suitable expectations to companies, and ambitious yet realistic objectives. The ultimate objective of state-owned companies being managed by SSH is effective, profitable, economical operation, creation of value, and in many cases, efficient management of duties of specific public interest.

The main challenge faced by SSH in the future is to improve the current profitability ratios of portfolio companies which means even more active and more efficient management of all assets and the need to restructure one part of assets. Since the portfolio includes a great share of strategic enterprises which are not pursuing only financial goals, professional supervisory boards composed of members characterised by personal integrity and business ethics will be an important element in asset management performance in the future. As regards the sale of SOEs, seeking to find in internationally comparable and competitive processes the most suitable owners who are willing to develop the companies into successful and competitive organisations in the long term continues to remain a challenge.



**Matej Pirc,**  
*President of the Management Board*

# VISION, MISSION, STRATEGIC POLICIES, OBJECTIVES AND VALUES

## Vision

Generating value for the owner from capital assets.

## Mission

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

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

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

## SSH Strategic Policies

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

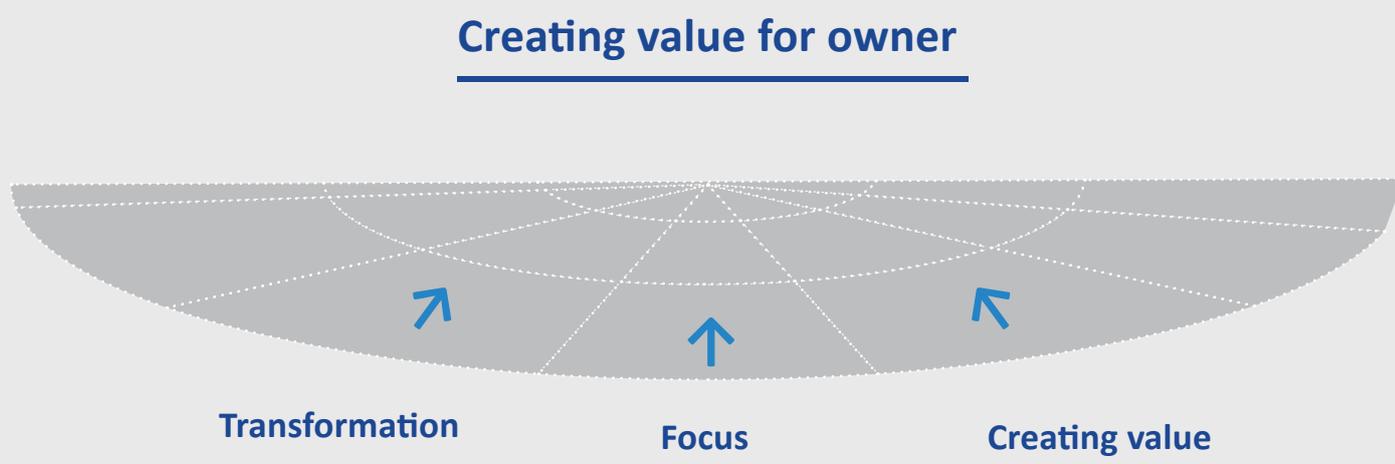


Figure 1: SSH Strategic Policies

### Transformation

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

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

### Focus

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

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

### Creating value

Creating value is the most important direction for achieving the SSH vision and the main principle in the operation of SSH. The main factors included in the said second direction comprise:

- Increasing the capital efficiency by an active and efficient management of enterprises and stakeholders in the environment in which the companies operate.
- Increasing the capital of SSH with the goal to increase the profitability of the entire portfolio.
- Implementing activities aiming at the development and improvement of the environment in which SSH operates with the goal of pursuing sustainable operation in social, economic and environmental aspects.

## SSH Objectives

The objectives pursued by SSH in state asset management are the increasing of the value of assets, the provision of the highest possible yield to the owners and the attainment of other potential strategic objectives regarding the assets which are defined as strategic by way of governance documents. For attaining its objectives, SSH will advocate the improvement of corporate governance in SOEs, it will follow the long-term interests of companies which may be exclusively economic, national and strategic goals, a combination of both goals while simultaneously oriented towards the sustainable development of companies; in addition, SSH will support the establishment of such ownership structure which will ensure efficient management, competitiveness and successful development in the long term.

A very important part of activities pursued by SSH is oriented towards establishing suitable expectations from SOEs, and a system for verifying whether expectations set have been achieved by these enterprises. The lowest expected level of corporate governance is the level envisaged by the law and the Corporate Governance Code for Companies with Capital Assets of the State. In accordance with the law, criteria for measuring the performance of SOEs will be adopted by SSH, and on this basis the meeting of expectations related to the performance of SOEs will be verified. Some individual expectations are being communicated to SOEs by means of SSH Recommendations and Expectations. Those enterprises whose shares are subject to sale are expected to provide full cooperation during the sale process, in accordance with the law.

The objective of SSH is also to finish the denationalisation proceedings and to provide for a reliable settlement of all statutory obligations due to beneficiaries.

## SSH Values

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

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



Figure 2: SSH Values



Photo: Miško Kranjec / archive Slovenske železnice d. o. o.

A vertical photograph on the left side of the page shows a scenic landscape. In the foreground, there is a river with white water rapids. The middle ground is filled with trees displaying vibrant autumn foliage in shades of yellow, orange, and red. In the background, a steep, rocky mountain slope rises under a blue sky with scattered white clouds.

# 1.

## TRANSFORMATION OF SLOVENIAN COMPENSATION COMPANY INTO SLOVENIAN SOVEREIGN HOLDING AND GRADUAL TRANSITION TO RENEWED STATE ASSETS MANAGEMENT SYSTEM

responsibility  
and due care

## 1.1. SSH - Company details



<b>Corporate name:</b>	Slovenian Sovereign Holding
<b>Registered office:</b>	Mala ulica 5, 1000 Ljubljana
<b>Telephone No.:</b>	++ 386(0)1/300 91 13
<b>Web site and e-mail:</b>	www.sdh.si; info@sdh.si
<b>Activity code:</b>	64.990
<b>VAT ID:</b>	SI46130373
<b>Registration No.:</b>	5727847
<b>Date of incorporation:</b>	19 February 1993
<b>Registered legal form:</b>	Public limited company registered before Ljubljana District Court, under the Reg. Entry No. 1/21883/00
<b>Share capital:</b>	EUR 60,166,917.04
<b>Number of employees:</b>	70
<b>*Company's Executive Officers:</b>	Matej Pirc, the President of Management Board, Matej Runjak, Member of the Management Board
<b>*Members of Supervisory Board:</b>	Damjan Belič, President, Dr Drago Ferfolja, Deputy, Lidia Glavina, Member, Duško Kos, Member, Barbara Smolnikar, MSc, Member
<b>*Members of Personnel Committee:</b>	Luka Gaberščik, President, Maja Fesel Kamenik, Deputy President, Jagoda Vitez, Member

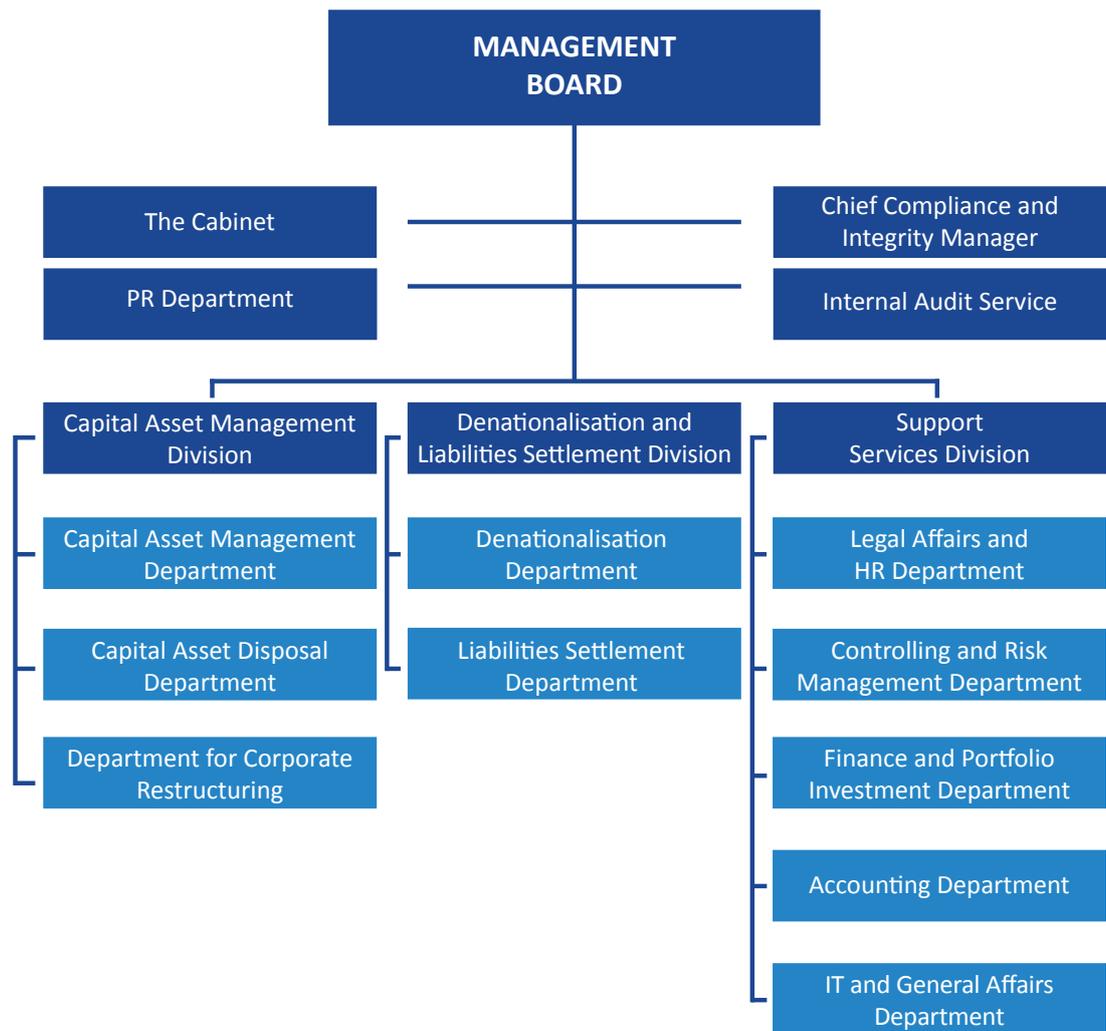
\*Current member composition of company's bodies.

\*\*President of the Management Board, Tomaž Kuntarič, MSc, held this position by 31 March 2014, while Mater Pirc, previously the Management Board Member, took up his position on 1 April 2014. The members of the Supervisory Board who held the office in 2014 were: Samo Lozej, President, Stane Seničar, Deputy President, Nives Cesar, Member, Roman Dobnikar, Member, Pavle Gorišek, Member, Miran Škof, Member, and Simona Razvornik Škofič, Member. Members of Personnel Committee holding office by 1 April 2015 were: Dr Andrej Baričič, President, Anton Travner, Deputy President, and Janušek Šefman, Member.

## 1.2

### ORGANISATIONAL STRUCTURE OF SLOVENIAN SOVEREIGN HOLDING

*Scheme 1: Organisational Structure of Slovenian Sovereign Holding*



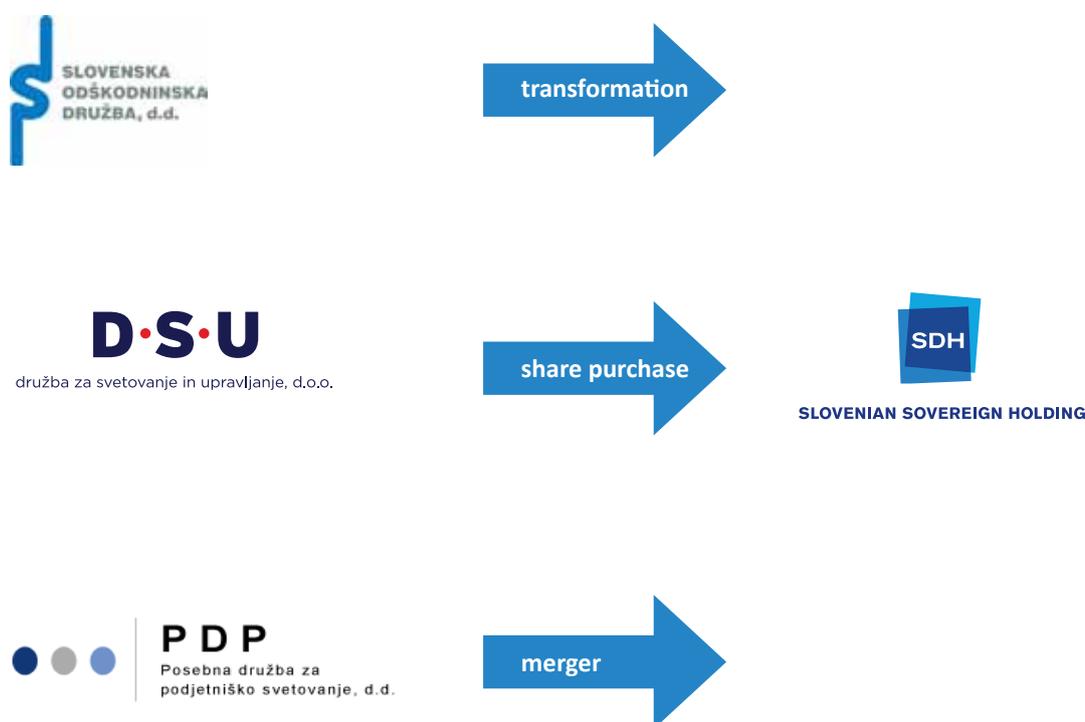
## 1.3

### TRANSFORMATION FROM SOD INTO SSH

The year of 2014 was an important year for the management of state assets since the idea of SSH as a new umbrella manager of state assets started to be materialised. The idea of such SSH goes back to 2012 when on 23 October 2012, the Slovenian Sovereign Holding Act was adopted by National Assembly of the Republic of Slovenia (hereinafter referred to as: "National Assembly") which entered into force on 28 December 2012 (Official Gazette RS, No. 105/2012; hereinafter referred to as: ZSDH). By way of ZSDH, the Capital Assets Management Agency of the Republic of Slovenia (hereinafter referred to as: "AUKN") which used to manage state assets by then was abolished and the management of state assets was temporarily taken over by SOD; according to the time schedule

envisaged in the law, such temporarily situation was supposed to last for two months, that is, until March 2013, when SOD should have been transformed into SSH. However, SSH has never been established as envisaged in ZSDH as the amended Slovenian Sovereign Holding Act was adopted by National Assembly on 28 March 2014 (Official Gazette RS, No. 25/2014; hereinafter referred to as: ZSDH 1) which entered into force on 26 April 2014. ZSDH was abrogated by way of ZSDH-1 and the 14-month temporarily situation was finished. By way of entry into force of ZSDH-1 on 26 April 2014, SOD was transformed into SSH. The company name SSH started to be used by SSH on 11 June 2014 when the Articles of Association of SSH was recorded in the Court Business Register, together with the registration of the change of the company name.

*Scheme 2: Management of state assets under one roof*



## 1.4

### TRANSITION TO THE NEW (RENEWED) SYSTEM OF STATE ASSETS MANAGEMENT

In terms of the content, the establishment of Slovenian Sovereign Holding and the new system of state assets management in accordance with ZSDH-1 is the improved version of previous assets management system which started to be established by incorporating AUKN and was temporarily continued at SOD and it is not a complete break from the old system.

It is not suggested that by the entry into force of ZSDH-1 and the transformation from SOD into SSH the ZSDH-1 started to apply in full by means of the mere entry into force of the act; on the contrary, the transition to the new (renewed) system of assets management had been gradual and was not yet completed at the end of 2014. Thus, in regard to many aspects, the situation in the field of state assets management in 2014 was still temporary and transitional.

## 1.5

### CONCENTRATED MANAGEMENT OF STATE ASSETS: ACQUISITION OF CAPITAL ASSETS OWNED BY D. S. U., D. O. O., AND MERGER OF PDP, D. D., WITH THE TRANSFER OF ASSETS TO SSH

On 24 October 2014, the Share Purchase Agreements were concluded by and between Slovenian Sovereign Holding and D.S.U., d.o.o.; in accordance with Article 81 of ZSDH-1, assets held in the following companies were acquired by SSH from DSU, d.o.o.:

- Cimos, d. d.
- Geoplin, d. o. o.
- Adria turistično podjetje, d. o. o.
- Varnost sistemi, d. o. o.
- KDD, d. d.
- Zavarovalnica Triglav, d. d.
- Banka Celje, d. d.
- GIO, d. o. o. – in liquidation,
- Dekorativna, d. o. o. – in liquidation,
- IPOZ Trbovlje, d. o. o. – in liquidation,
- Tovarna dušika Ruše, d. o. o. – in liquidation,
- ZLIT Združena lesna industrija Tržič, d. o. o. - in bankruptcy.

On 1 July 2015, in accordance with Article 82 of ZSDH-1, the merger of PDP, Posebna družba za podjetniško svetovanje, d. d., with SSH was registered in the Court Business Register of Ljubljana District Court, and the above mentioned company was deleted from the Court Business Register. On the basis of this merger, assets held in the following companies were transferred to Slovenian Sovereign Holding::

- Adria Airways, d. d.
- Adria Airways Tehnika, d. d.
- Aero, d. d.
- Elan, d. o. o.
- Elektrooptika, d. d.
- Paloma, d. d.
- Unior, d. d.
- Vegrad, d. d. – in bankruptcy
- Rimske terme, d. o. o. – in bankruptcy
- Novoles, d. d. – in bankruptcy

The purpose of the purchase of shares held by DSU, d.o.o. and the merger with PDP, d.d., thus, the transfer of all PDP shares to SSH, is the concentrated management of state assets, more transparent system of asset management, the reduction of the management costs and the increase in the profitability and the value of these assets in the long term, for the purpose of attaining the economic and developmental objectives and objectives related to the public interest.

## 1.6 ABOUT SLOVENIAN COMPENSATION COMPANY

### 1.6.1 The legal form and organisational structure of SOD

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In terms of the legal form, Slovenian Compensation Company was organised as a public limited company with a two-tier management system. The company had a three-member Management Board, a nine-member Supervisory Board and the General Meeting of Shareholdings whose duties and responsibilities were exercised by the Government of the Republic of Slovenia. The Audit Committee and the Risk Committee were organised as the SOD Supervisory Board's bodies while the Accreditation Committee was organised as the SOD Management Board's special consultation body.

### 1.6.2 Legal documents regarding assets management adopted by SOD

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Since the entry into force of ZSDH, several legal documents were issued by SOD by way of which the commitment on active, prudent, diligent and economic management of state assets was implemented. This documents especially include the Republic of Slovenia's Capital Asset Management Code of 15 May 2013 and the Recommendations of the Asset Management Company of the Republic of Slovenia's Direct and Indirect Capital Assets which applied in 2014 until the adoption of new legal documents regarding asset management which were adopted in December 2014. An important legal document the purpose of which was to provide for higher standards of corporate governance was the Rules on Supervisory Board Member Selection (Conditions, Criteria, Procedures and Evaluation for Determining Suitability and Selecting Potential Candidates for Members of Supervisory Bodies of Companies with State's Capital Assets). This document was used by the Accreditation Committee and later also by the Personnel Committee, until the adoption of the SSH Asset Management Policy.

## 1.7 ABOUT SLOVENIAN SOVEREIGN HOLDING

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

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Slovenian Sovereign Holding holds the status of public limited company with a two-tier management system. It has four bodies: the General Meeting, the Management Board, the Supervisory Board and the Expert Committee for Economic and Social Issues (hereinafter referred to as: ECES). The founder and sole shareholder of SSH is the Republic of Slovenia. 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 as proposed by the Government of the Republic of Slovenia. The SSH Management Board consists of three members. The President and two members are appointed by the SSH Supervisory Board. The Expert Committee for Economic and Social Affairs is a seven-member consultation body of the SSH's Management Board. Its members are appointed by the Slovenia's representative trade unions and confederations who are members of the Economic

and Social Council. Their appointment is approved by the SSH Management Board. There are two committees operating within the SSH Supervisory Board: Audit Committee and the Risk Committee. There are two consultation bodies operating within the SSH Management Board: specifically, under the explicit statutory provision and the provision stated in the Articles of Association, ECES which has the status of a SSH body, and the Personnel Committee.

*Scheme 3: The Company's bodies and their working and consultation bodies*



<sup>1</sup>In 2014, the five-member SSH Supervisory Board was not appointed and the duties of SSH Supervisory Board were exercised by the members of the Supervisory Board who were appointed as the members of the SOD Supervisory Board.

<sup>2</sup>In 2014, the three-member SSH Management Board was not appointed and the duties of SSH Management Board were exercised by the President and members of the Management Board who were appointed as the members of the SOD Management Board.

## 1.7.2

### Purpose of SSH establishment

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

## 1.7.3

### SSH duties related to state asset management

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

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

- participates at General Meetings where voting rights are exercised;
- provides for the exercise of other rights of a shareholder or member such as the convocation of General Meetings, extensions of agenda, lodges applications for a special audit review, an extraordinary audit review and files compensation claims and similar;

- provides for the legal protection of the rights of the shareholder or member and acts as the authorised person representing the shareholder or member in administrative procedures, judicial proceedings and other procedures;
- in terms of the content, provides for a suitable evaluation of individual AGM resolution proposals and for the observance of provisions of the statutory provisions and legal documents related to state asset management;
- develops a suitably designed and transparent procedure regarding the accreditation, nomination and selection of candidates for members of SOEs Supervisory Boards, and provides for their implementation;
- ensures that the remuneration systems regarding the Supervisory Board members of SOEs will satisfy the long-term interests of a company and attract and promote qualified experts to run for the membership in SOEs Supervisory Boards;
- in accordance with applicable regulations, establishes reporting systems which enable the legal protection of SSH and the Republic of Slovenia as a shareholder or member, and the evaluation of management systems applied for an individual company;
- concludes shareholders agreements or other agreements in which the rights and obligations by and between SSH, the Republic of Slovenia and third persons are defined in regard to the management or disposal of assets;
- promotes and within the scope of its rights, ensures good corporate governance systems in an individual SOE;
- acquires capital assets by incorporating and purchasing companies or increasing capital in companies;
- disposes of individual state assets within the scope and in a manner as stipulated by ZSDH 1 and legal documents regarding state assets management.

## 1.8

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

Slovenian Sovereign Holding manages a lot of assets (shares and equity holdings in companies).

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

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

Scheme 4: Presentation of the system of supervision in and over SSH



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

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

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

## 1.9

### SOD ACCREDITATION COMMITTEE AND SSH PERSONNEL COMMITTEE

The Accreditation Committee whose establishment was envisaged by ZSDH used to perform its duties by 25 April 2014, inclusive. This Committee used to be a consultation body to the SSH Management Board which, in accordance with ZSDH, the Corporate Governance Code and the Rules on Supervisory Board Member Selection (Conditions, Criteria, Procedures and Evaluation for Determining Suitability and Selecting Potential Candidates for Members of Supervisory Bodies of Companies with State's Capital Assets), provided expert opinions on the suitability of candidates for members of bodies of SOEs and SSH. According to the law, it should have five members. The conditions and criteria for accreditation and nomination of candidates were verified in the accreditation and nomination procedures.

The establishment of the Personnel Committee as a special consultation body of the SSH Management Board is laid down in ZSDH-1. The Personnel Committee was established by the SSH Management Board on 26 April 2014; in 2014, the duties of the Personnel Committee were (temporarily) performed by the members of the former Accreditation Committee, pursuant to ZSDH-1 and by applying mutatis mutandis consideration of the Rules mentioned in the preceding paragraph. The duty of the Personnel Committee is to carry out candidacy procedures, pursuant to the law and in accordance with the Asset Management Policy. The candidacy procedure is a collective term for actions carried out by the Personnel Committee for submitting to the SSH Management Board a suitable proposal of candidates for Supervisory Board Members of SOEs; it includes the recruitment procedure, the accreditation procedure and the nomination procedure.

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

#### RECRUITMENT PROCEDURE →

- It is about the definition of possible recruitment channels and methods and content of the application being submitted to the accreditation and nomination procedures.

#### ACCREDITATION PROCEDURE →

- It is verified whether candidates who have submitted their applications satisfy the fundamental conditions and criteria for the Supervisory Board Member without any reference to an individual company.
- The candidates who satisfy the fundamental conditions and criteria are accredited and registered in the accredited candidate's date base.

#### NOMINATION PROCEDURE

- It is verified whether potential candidates satisfy conditions and criteria for a member in a body in a specific individual company in regard to which this procedure has been initiated.
- If there are more candidates for a vacancy, the ranking and selection of candidates is also performed.

### 1.9.1

#### SOD Accreditation Committee and temporarily SSH Personnel Committee in 2014

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The Accreditation Committee, appointed on 22 May 2013, continued its work in 2014, and was composed of the following members: Dr Andrej Baričič (President), Anton Travner (Deputy President), Janušek Šefman (Member) and Gorazd Žmavc (Member) who resigned on 25 February 2014. On 25 April 2015, the Management Board of Slovenian Compensation Company adopted a resolution that the then three-member Accreditation Committee should continue the work as the temporary Personnel Committee until the appointment of the Personnel Committee in accordance with the provision of Article 48 of ZSDH-1.

In 2014, the Accreditation Committee and the temporarily Personnel Committee met on the total of 32 regular sessions and two extraordinary sessions on which the requests for nominations for Supervisory Boards of 19 companies were dealt with, together with three requests for the Management Board of a company. Thus, the total of 107 interviews were carried out in regard to nominations for 19 companies, and eight interviews for the nomination of Management Board members in three companies (CSS – IP, d. o. o., Škofja Loka, PDP, d. d., and PS za avto, d. o. o.).

The nominations for the following companies were carried out by the SOD Accreditation Committee and temporarily SSH Personnel Committee in 2014: D. S. U., d. o. o., RTH – Rudnik Trbovlje Hrastnik, d. o. o., DARS, d. d., KDD – Centralno klirinška depotna družba, d. d., Abanka Vipava, d. d., ČZP Večer, d. d., DRAVA Vodnogospodarsko podjetje, d. d., Casino Bled, d. d., Javno podjetje Uradni list, d. o. o., Goriške opekarne, d. d., Letrika, d. d., Šempeter pri Gorici, DTK Murka, družba tveganega kapitala, d. o. o., Prvi sklad, družba tveganega kapitala, d. o. o., Vodnogospodarsko podjetje, d. d., VGP Kranj, d. d., Pošta Slovenije, d. o. o., Casino Kobarid, d. d., Elektro Maribor, d. d., DRI, d. o. o., upravljanje investicij, družba za razvoj infrastrukture.

There are currently 574 candidates registered in the record of potential candidates for members of Supervisory Boards of enterprises owned by Slovenian Sovereign Holding and/or partial or full state ownership.

### 1.9.2

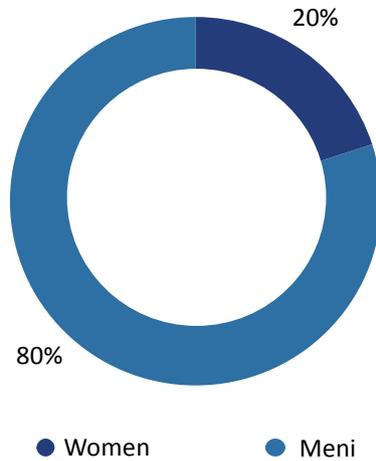
#### Composition of Supervisory Board Members by sex

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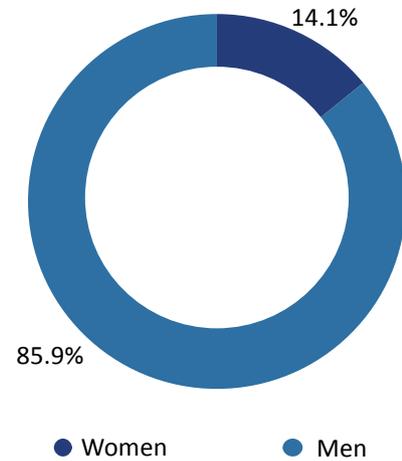
The composition of Supervisory Boards and Management Boards by sex is becoming increasingly more balanced, although male presence is still highly predominant. On 31 December 2014, the Supervisory Boards of companies in direct ownership of the Republic of Slovenia and SSH (excluding the companies in bankruptcy or liquidation) consisted of four fifths of men and one fifth of women and, in regard to the composition of management bodies of these companies, the relation was even more in favour of men as, on average, the management boards of companies were composed of 86% of men and 14% of women.

*Graphical presentation 1: The composition of Supervisory Boards and Management Boards of companies directly owned by the Republic of Slovenia and SSH by sex as of 31 December 2014 (excluding companies in bankruptcy and in liquidation)*

**Supervisory Boards**



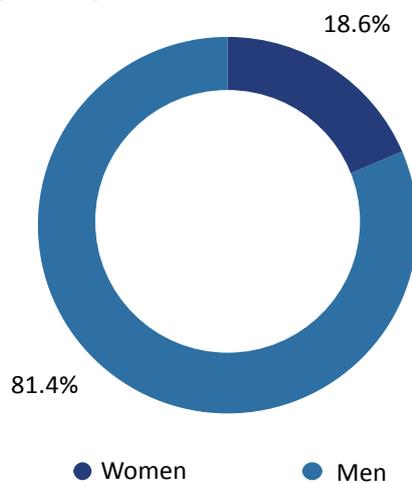
**Management Boards**



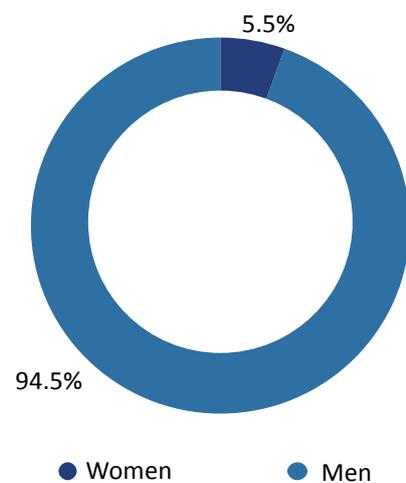
A more detailed review of Supervisory Board's composition by functions (President or Members) show that the relations between men and women described above have been maintained, only that the role of women is slightly more diminished in regard to management boards. As regards supervisory boards, on average, there is one female president per every four male presidents while there is only 5% of female presidents acting in management boards.

*Graphical presentation 2: The composition of presidents of supervisory boards and management boards of companies directly owned by the Republic of Slovenia and SSH by sex as of 31 December 2014 (excluding companies in bankruptcy and in liquidation)*

**Supervisory Boards**



**Management Boards**





Telekom Slovenije

Telekom Slovenije

Photo: archive Telekom Slovenije, d. d.



## 2.

### ACTIVITIES FOR IMPROVING CORPORATE GOVERNANCE IN SSH AND SOEs

independence

The main activities for raising the level of corporate governance in SOEs implemented in 2014 were:

- the adoption of the Corporate Governance Code for Companies with Capital Assets of the State;
- the adoption of the SSH Asset Management Policy;
- the adoption of SSH Recommendations and Expectations;
- some organisational changes implemented in SSH, particularly the establishment of the Controlling and Risk Management Department;
- the employment of the Chief Compliance Officer;
- regular monthly training sessions for SOEs.

## 2.1

### LEGAL DOCUMENTS REGARDING ASSET MANAGEMENT

Legal documents regarding asset management the adoption of which is stipulated by ZSDH-1 are: the State Assets Management Strategy, the Assets Management Annual Plan, the Asset Management Policy and the Corporate Governance Code for Companies with Capital Assets of the State. Only the last two documents of the four documents stated above were adopted in 2014. The statutory authority granted to SSH for the adoption of other recommendations and viewpoints was applied by SSH in 2014, and thus, the following document - SSH Recommendations and Expectations - was adopted in 2014.

#### 2.1.1

##### State Assets Management Strategy

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The State Capital Assets Management Strategy (hereinafter referred to as: the "Strategy") was not yet adopted in 2014. According to the law it is envisaged as a fundamental legal document regarding state assets management which is adopted by the National Assembly of the Republic of Slovenia. By way of the Strategy, the state ownership policy in SOEs is communicated to the asset management company (SSH), the Government, investors, citizens and all the interested public groups. The content of the Strategy refers to the definition and classification of state assets to individual types of assets (strategic, important and portfolio assets), the definition of development guidelines of the State as a shareholder in companies and the definition of individual strategic objectives pursued by the State with strategic assets.

#### 2.1.2

##### Asset Management Annual Plan

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The Asset Management Annual Plan (hereinafter referred to as: the "Annual Plan") was not yet adopted in 2014 as its adoption is subject to the adopted Strategy. As opposed to the Strategy in which general objectives and guidelines of the owner of state capital assets are communicated, detailed objectives of the asset management company (SSH) are defined in the Annual Plan in regard to the management of individual assets in an individual financial year which have to be moving within the scope of objectives set in the Strategy. The Annual Plan, as it is clear from its title, also includes an actual plan of action (definition of measures and guidelines) for achieving detailed goals. The forecasted cash flows generated from the state assets management are also determined in the Annual Plan.

### 2.1.3

#### Asset Management Policy

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

### 2.1.4

#### Corporate Governance Code for Companies with Capital Assets of the State

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

### 2.1.5

#### Other recommendations and viewpoints

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

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

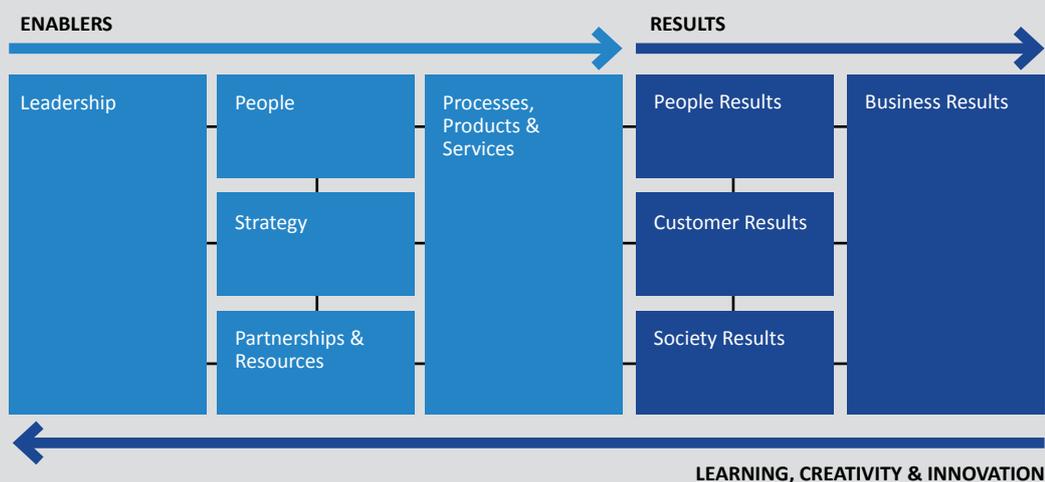
### 2.1.6

#### SOEs are encouraged by SSH to apply EFQM model by means of using the Recommendations.

The implementation of SSH recommendations and the satisfaction of SSH expectations contributes to the rising of the quality of corporate governance pursued by SOEs and performance results achieved by SOEs. The portfolio companies should apply this legal document following the same principle as when applying the Corporate Governance Code.

It is expected by SSH, that large SOEs are evaluated by themselves using the European model of excellence - EFQM. This is a tool which integrates various aspect of organizational management systems (these are: leadership, HRM, sustainable development, partnerships&resources, and others) and enables a review of current advantages and growth opportunities.

Figure 3: EFQM business excellence model



By way of the above mentioned recommendation, the aim of SSH is to achieve constant improvement of operation of organisations as a whole in the direction of greater effectiveness, efficiency, competitiveness and sustainable development and in the final phase, in the quality and excellency.

#### Summary of results of the analysis "Benefits of EFQM Model" carried out by the Metrology Institute of the Republic of Slovenia

The European excellence model - EFQM - is founded on a set of European values first expressed in the European Convention on Human Rights (1953) and in the European Social Charter (1996). The EFQM model, considering the history of its creation, has been derived from good business practices and needs which have come directly from organisations (public and private sector) and has been developed on their bases.

Every responsible leader who wishes for his/her organisation to pursue a successful business path, to develop in a sustainable manner, to improve performance results and to increase the company's recognition and competitiveness will set an objective mirror in front of the organisation. What does this mean? This means that the leader will have a look at the company from the inside and from the outside, to see what the organisation is really like: i.e., to see where the organisation performs well, what are its weaknesses and what are its areas for improvement. On the basis of so realised

self-evaluation, such leader will start writing a strategy, set goals, create organisational climate and introduce changes.

Such critical and at the same time responsible attitude towards organisations and all people employed in individual organisations has been demonstrated during the analysis regarding the benefits of the EFQM model carried out. With the majority of organisations which operate under the fundamental principles of business excellency and pursue regular self-evaluations, their operation is demonstrated in a relatively high level of satisfaction expressed by their employees and their partners. Likewise, the benefits of the EFQM model are not shown only in their assessments but they are also mirrored in performance results and their perception and the understanding of the model's key factors. All of the existing organisations believe in the benefits of the EFQM model and use key self-evaluation tools in their operations. They develop in regard to this aspect, they improve their business results, show three-year trends, and similar.

Recently, the bench market has been established in Slovenia in regard to organisations of business excellence, together with the exchange of cases of good practice and benchmarks while considering the sustainable growth and development. The entire analysis has demonstrated that the EFQM model is truly a beneficial model for organisations in the public and private sector and a real tool which assists organisations in identifying their advantages and areas of improvement. At the same time it is also the tool which may provide to supervisors and managers a more exact assessment of the situation in an individual organisation while at the same time showing them a path for improving performance results (the source of the analysis summary: Metrology Institute of the Republic of Slovenia, 2015).

## 2.2

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

In 2014, the Company continued with the organisation of several training sessions dedicated to the members of supervisory boards and representatives of companies dealing with corporate governance. As many as 11 monthly training sessions were organised which were attended by 50 participants, on the average.

One of the duties of Supervisory Boards is due diligence and thus related duty of constant training and education. It is only by means of expertise and knowledge that the requirements and duties of the supervisory board member's function and management board's function are carried out in a responsible manner and of sufficient standard. Regular monthly training sessions are also beneficial for executive bodies and other employees acting in the field of corporate governance with the purpose of improving their expertise, to exchange cases of good practice and to introduce and promote good practice in corporate governance of SOEs, with the aim of improving operation, profitability and efficiency in individual companies.

Lecturers at these training sessions were top experts coming from the sectors of economy, corporate governance and other areas of finance. The topics discussed related to risk management, risk assessment, internal control introduction, operational excellence, lean organisation, annual report, management of Group of companies, special and extraordinary audits, international operation and internationalisation of Slovenian companies, reporting on sustainable development and social responsibility of companies, audit reviews of information systems and the topics associated with ethics and personal integrity.

## 2.3

### SSH REGULATORY COMPLIANCE AND OPERATIONAL INTEGRITY

The year of 2014 was an important milestone in regard to regulatory compliance and operational integrity. On 26 April 2014, the amended Slovenian Sovereign Holding Act (Official Gazette RS, No. 25/2014; hereinafter referred to as: "ZSDH-1") was adopted which has substituted ZSDH of 2012 valid until then. The main purpose of the amended law was to achieve the separation of the function of the State as the owner of state assets from other functions of the state, thus preventing the conflict of interest, the distortion of competition in the markets and unequal treatment of enterprises.

The concentrated management of assets owned by SSH and the Republic of Slovenia but managed by SSH is also vital, providing for the main goal of establishing a stable ownership, the reduction of the management costs and the increase in the profitability and the value of these assets in the long term, for the purpose of attaining the economic and developmental objectives and objectives related to the public interest.

All of the above mentioned is also required from SSH by the transparent system of asset management with clear distinction of responsibilities and accountability, together with the implementation of measures which limit corruption risks and other non-ethical and illegal actions and pressures while enhancing the regulatory compliance, traceability and accountability of decision-making.

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

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

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

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

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

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

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

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

The above stated does not mean that communication between SSH and state authorities and other entities of the public law is prohibited. The potential communication between SSH and state authorities and other entities of the public law must be traceable and defined in SSH internal legal documents. The communication with state authorities or any other entity functioning under public law does not have the nature of a mandatory instruction and it is not binding on SSH's corporate bodies which, in spite of viewpoints potentially expressed by state authorities and other entities of public law, are fully responsible for their decisions in accordance with the law regulating companies, and in accordance with ZSDH-1.

#### The principle of transparency

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

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

#### The principle of economy

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



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

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

### 2.3.1 Chief Compliance Officer

In the beginning of 2015, the Chief Compliance Officer was employed at SSH. The enhancement of corporate governance integrity is one of the priorities of SSH which, by pursuing ethical principals and transparency of operations, wishes to become a role model for companies under its management. A strong integrity of SSH is important for implementing the SSH mission, particularly in regard to the management of capital assets and their disposition.

SSH also strives to achieve strong integrity by implementing statutory provisions and codes and rules of conduct which have been adopted by the Management Board with the aim to ensure the transparency

of operations in SSH which will be a role model for the corporate governance of companies. This efforts mainly include the commitment to operate in ethical manner, in accordance with the highest expectations and standards, everything with the aim to introduce good practices in corporate governance and to maximise assets managed by SSH.

Measures have been established in SSH for the strengthening of integrity and responsibility and accountability and limiting risks regarding corruption, conflicts of interest and abuse of proprietary information in management of assets. The Chief Compliance Officer has been assigned the task to establish the regulatory compliance and operation integrity system and he is responsible for the following:

1. the operation integrity plan and proposals for implementing the integrity plan and other measures aimed at the internal control activities for the identification of corruption risks and their prevention; the conflict of interests; illegal and non-public political influences and pressures together with pressures from various interest groups, exercised in regard to decision-making in SSH and other illegal and non-ethical conduct in SSH and in relation to companies in which SSH has the majority shareholding or controlling influence and external stakeholders;
2. the preparation of measures and implementation of measures for limiting risks related to the illegal insider trading and unauthorised disclosure of confidential and protected information;
3. the raising of awareness, training and consultancy services rendered to SSH Management Board, SSH Supervisory Board, internal Audit Department or the internal Auditor and employees in SSH in regard to the strengthening of integrity, regulatory compliance, elimination of corruption risks, conflicts of interest and other non-ethical and illegal actions;
4. providing consultancy services to supervisory bodies and internal audit departments and auditors in companies in which SSH has the majority shareholding or the controlling influence in regard to the strengthening of integrity, regulatory compliance, eliminating of corruption risks, conflicts of interest and other non-ethical and illegal actions;
5. the establishment and implementation of the SSH employee protection programme who submit, bona fide, an application on allegedly illegal or unethical action committed by their superiors;
6. regular cooperation with the responsible supervisory bodies from the field of operation integrity and corruption prevention, law enforcement authorities, access to public information and audit;
7. provision of other duties in accordance with the law and SSH legal documents.

### 2.3.2

#### Protection of data and internal information

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

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

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

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

- a person who holds the office of a member of its management or supervisory bodies;
- a person who is employed at SSH or another person who, in connection with his/her work at SSH, has access to confidential information referred to in Paragraph 1 of this Article;
- a family member of a person referred to in the first and second indent of this paragraph;
- a company which is a subsidiary of an entity referred to in the first, second and third indent of this paragraph;



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

### 2.3.3

#### Reporting about non-ethical or illegal conduct or pressure

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

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

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

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

### 2.3.4

#### Protection of persons reporting non-ethical or illegal conduct or pressure

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

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

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

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

### 2.3.5

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

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

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

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

### 2.3.6

#### Restrictions to business transactions with related persons

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

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

The conclusion of an individual business transaction with related persons is admissible on the basis of a decision taken by the SSH Supervisory Board which may grant a permission for concluding such transaction on the basis of a proposal with reasoned arguments prepared by the SSH Management Board when it is assessed that such transaction is significant for economic interest of SSH and that risks against conflict of interest, corruption and abuse of proprietary information has been suitably managed, and the SSH integrity has been provided for.

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

### 2.3.7

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

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

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

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

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

The Chief Compliance Officer keeps a gift record.

### 2.3.8

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

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

### 2.3.9

#### Ethical business practice

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OECD Guidelines which are being followed by SSH recommend to supervisory boards and management boards of companies to use high ethical standards which are in the long-term interest of an enterprise as they contribute to their credibility and trustworthiness in operations. SOEs may be subject to deviations

from high ethical standards, in particular due to potential interaction of business considerations with political and public policy ones and with other interest. Thus, a provision on the adoption and introduction of code of ethics has been installed into the Corporate Governance Code for Companies with Capital Assets of the State. Through the implementation of recommendations and expectation of the asset management company, SSH encourages SOEs to apply the EFQM model, developed by the European Foundation for Quality Management, in which (ethical) leadership is one of its important pillars.

**The Corporate Governance Code for Companies with Capital Assets of the State dedicates special attention to business ethics.**

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

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

### 2.3.10

#### Several instructions have been adopted by SSH in regard to enhancing ethical behaviour and integrity of all SSH employees

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

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

Finally, it has to be emphasized that ethical business practices ensure positive atmosphere among employees which is of key importance in greater engagement of employees, which in turn contributes positively to better performance of the company. This is why, given its responsibilities in regard to the voting of candidates for members of Supervisory Boards in SOEs, SSH will only vote for such candidates who, in addition to criteria laid down in the law governing companies, and in ZSDH-1, satisfy the criteria regarding personal integrity and business ethics.



MLB



# 3.

## CORPORATE GOVERNANCE OF SOEs IN 2014 AND ACTIVITIES FOR IMPROVING THEIR PERFORMANCE

transparency

The high standards in corporate governance is important from the aspect of the entire state and its economic efficiency, effectiveness and competitiveness as it reduces the risk of company failures. Slovenian Sovereign Holding has a central role in this regard as it must be actively involved in the development and implementation of standards and practices of good corporate governance, and implement good practice and generally be a positive role model.

The corporate governance system of quality pursued by companies also means that companies gain organised and functioning system of internal controls, internal audits and risk management which reduces any unlawful conduct in companies. Likewise, it improves the quality of decision-making and thus reduces risks while increasing trust in a company on the part of shareholders, employees and other stakeholders. It is also important for improving the working atmosphere and ethical behaviour of employees.

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

The State Assets Management Strategy is the fundamental and the most important document for the management of state assets upon which the entire concept of ZSDH-1 is founded. Without this document, the main objectives of the law, which are: the separation of the function of the State as the owner of state assets from other functions of the state, concentrated management, transparent asset management system and management of assets in accordance with the international guidelines of good practice, cannot be satisfied to the relevant extent. The State Assets Management Strategy gives SSH as the manager of state assets the relevant bases and responsibility for efficient and transparent corporate governance.

Within the scope of asset management, a very important duty of SSH is to appoint professional and experienced members of the Personnel Committee and supervisory bodies of SOEs which is why the Management Board of SSH must carry out all processes for the recruitment and appointment of candidates in a consistent, transparent and responsible manner, while ensuring that all regulated conditions are satisfied, as stipulated by ZSDH-1. The same applies to the Personnel Committee which, as the consultation body of the SSH Management Board, and in accordance with ZSDH-1, carries out procedures for the recruitment of candidates for Supervisory Board Members of SOEs.

The State Assets Management Strategy also provides SSH with the necessary basis for increasing the efficiency of SOEs and for developing the criteria for measuring the performance of SOEs which must be developed by SSH in regard to the type of asset not later than within one month, and the Government must endorse them not later than within two months after the adoption of this Strategy. The criteria for measuring the effectiveness of SOEs with strategic assets must take into account the strategic objectives and determine economic and financial objectives as stipulated by this Strategy. For the evaluation of performance of important assets and portfolio assets, the criteria may only be of a financial and an economic nature and must be such as to measure the social responsibility of the conduct pursued by SOEs. SSH monitors the operation of SOEs in accordance with the criteria and objectives referred to in this Strategy. The Slovenian Sovereign Holding verifies the companies' effectiveness in implementing objectives, controls their operations and reporting, and, in obtaining information, SSH may apply all legal methods.

## ACTIVE STATE OWNERSHIP



Figure 4: Key activities regarding corporate governance of state-owned enterprises

### 3.1

#### SSH DUTIES RELATED TO STATE ASSETS MANAGEMENT

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

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

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

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

- participates at General Meetings where voting rights are exercised;
- provides for the exercise of other rights of a shareholder or member such as the convocation

of General Meetings, extensions of agenda, lodges applications for a special audit review, an extraordinary audit review and files compensation claims and similar;

- provides for the legal protection of the rights of the shareholder or member and acts as the authorised person representing the shareholder or member in administrative procedures, judicial proceedings and other procedures;
- in terms of the content, provides for a suitable evaluation of individual AGM resolution proposals and for the observance of provisions of the statutory provisions and legal documents related to state asset management;
- develops a suitably designed and transparent procedure regarding the accreditation, nomination and selection of candidates for members of SOEs Supervisory Boards, and provides for their implementation;
- ensures that the remuneration systems regarding the Supervisory Board members of SOEs will satisfy the long-term interests of a company and attract and promote qualified experts to run for the membership in SOEs Supervisory Boards;
- in accordance with applicable regulations, establishes reporting systems which enable the legal protection of SSH and the Republic of Slovenia as a shareholder or member, and the evaluation of management systems applied for an individual company;
- concludes shareholders agreements or other agreements in which the rights and obligations by and between SSH, the Republic of Slovenia and third persons are defined in regard to the management or disposal of assets;
- promotes and within the scope of its rights, ensures good corporate governance systems in an individual SOE;
- acquires capital assets by incorporating and purchasing companies or increasing capital in companies;
- disposes of individual state assets within the scope and in a manner as stipulated by ZSDH-1 and legal documents regarding state assets management.

From 1 January 2014 until 31 December 2014, General Meetings of Shareholders were executed and the founder's resolutions were passed in 91 companies. In accordance with ZSDH-1, SSH exercised shareholder's rights on its behalf and on behalf of the Republic of Slovenia in regard to shares and shareholdings held in the above stated companies.

Slovenian Sovereign Holding actively participated in taking business decisions mentioned below in the following companies:

- Slovenske železnice, d. o. o. (regulation of financing of public service obligation, deleveraging of the company and loan rescheduling, restoration of damaged infrastructure after the natural disaster of glaze ice, verifying suspicions of irregularities in operations)
- HSE, d. o. o. (new Supervisory Board, new development plan for 2014-2018, supervision over the implementation of investment into Block 6 in TEŠ, Financial and Business Restructuring Plan for Velenje Mine Group, sale of a shareholding held in HESS);
- Pošta Slovenije, d. o. o. (preparation of the necessary business activities for attaining business plans set);
- DARS, d. d. (the arrangement of a suitable management of the company's debt and providing for further investment projects and motorway maintenance, the transfer of assets not pertaining to core business to other managers, siting, price policy proposal, the arrangement of the framework act on state guarantees);
- Nafta Lendava, d. o. o. (active cooperation in the seeking of a solution for Nafta Lendava Group, the appointment of a procurator);

- Javno podjetje Uradni list, d. o. o. (the complementing of the Supervisory Board with the aim of immediate action taking to achieve better performance results);
- CSS, d. o. o. (the replacement of the chief executive officers, active involvement in the review of business processes, active cooperation with banks in the preparation of loan rescheduling);
- other activities.

## 3.2

### AMENDMENTS TO ARTICLES OF ASSOCIATION

In 2014, SSH reviewed all articles of association of the most important portfolio companies. Amendments of articles of association of some banks were proposed (NLB, NKBM, Abanka Vipava) with the aim of defining responsibilities held by Supervisory Boards and Management Boards in regard to the write-off of bad loan. Owing to commitments given by the Republic of Slovenia to the European Commission, amendments to articles of association were adopted in regard to corporate governance (two thirds of Supervisory Board members must be independent).

Likewise, SSH modified the Articles of Associations of Pošta Slovenije, Uradni list, HSE, Gen energija and DARS. The purpose of these amendments and modifications was to update these legal documents and to regulate possibilities for cooperation of SSH's representatives in Supervisory Boards, to add restrictions regarding the sale and acquisition of assets without a consent being granted by the General Meeting of Shareholders and to give effect to modifications in regard to corporate governance.

## 3.3

### PERIODIC MEETINGS WITH SOEs AND GOALS

The efficient monitoring of operation of state-owned enterprises is one of the most important pillars of effective asset management. Slovenian Sovereign Holding monitors performance of SOEs through quarterly financial reports and quarterly meetings prepared on the basis of such reports which are organised with Supervisory Boards and/or Management Boards of SOEs; SSH's viewpoints and expectations in regard to performance of an individual company are presented at these meetings. The Slovenian Sovereign Holding verifies the companies' effectiveness in implementing objectives, controls their operations and reporting, and, in obtaining information, SSH may apply all legal methods.

The Management Boards of SOEs are responsible for business results and thus for the company's performance, while the Supervisory Boards are responsible for executing efficient supervision over the operations and the work carried out by the Management Board. Slovenian Sovereign Holding manages state assets as a responsible and informed owner, and, after every quarterly and/or interim reports issued, examines the performance of a company in the following manner:

- by reviewing the regular quarterly reports prepared by Supervisory Boards, and checking data on planning for the following three years,
- by organising regular interim interviews with members of Supervisory Boards – a more direct discussion on current issues is enabled by such meetings and measures to be taken for solving any potential issues can be determined much faster,
- by providing feedback to Supervisory Boards from SSH, possibly by submitting a written document with comments and recommendations and opinions regarding future operations and the attainment of the goals set,

- by organising ad hoc meetings in the event of unforeseen yet particularly important developments which may have an impact on the attainment of the goals which have been set and the value of a company,
- by taking action upon a serious lagging behind the approved business plans: SSH will require that the Supervisory and Management Boards provide immediately information with an explanation of reasons for the situation and with the measures that have already been adopted and those which are planned for improving the situation, obliging them to inform SSH regularly on the progress.

Regularly held meetings with companies are an important element of supervision in exercising the rights of a shareholder or a member. Questions raised at such meetings may refer to the assessment regarding financial movements, the provision of expectations by SSH in regard to ROE and dividend yields, reports on strategic issues regarding companies and handling of problematic issues. Meetings are conducted within the scope of legislation governing companies and other relevant applicable legislation.

In 2014, 107 periodic meetings with management boards and/or supervisory boards of companies were organised. At these meetings, SSH verified the companies' performance results, the attainment of the set plans, performed business performance assessment and carried out other activities which were important for companies. Slovenian Sovereign Holding actively participated in developing business plans for 2015.

The various objectives pursued by SSH in state asset management are: for example, the increasing of the value of assets, the provision of the highest possible yield to the owners and the attainment of other potential strategic objectives regarding the assets which are defined as strategic by way of asset management legal documents. The successfulness of the goals set are monitored by SSH on the basis of the following parameters:

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

The Slovenian Sovereign Holding manages SOEs in compliance with the Strategy and on the basis of clearly set operational goals proposed by Management Boards and adopted and endorsed by Supervisory Boards. Goals cover all key aspects which are important for the development and competitive position of enterprises, and in particular the following:

- growth of operations,
- cost efficiency,
- innovation and launching of new products or services on the market,
- internationalisation of operations,
- effectiveness of business model,
- efficiency of investing activities,

- return on assets,
- optimum structure of sources of financing,
- return on equity, and
- dividend yield.

Enterprises which are managed by SSH adopt the Strategic Business Plan at the level of the parent company and the Group and monitor the efficiency of its implementation at least at one-year intervals. The efficiency in attaining strategic goals is measured by companies with the KPI (key performance indicators) system. Slovenian Sovereign Holding has also recommended to the enterprises to implement the business excellency system as a tool for managing key business processes.

## 3.4

### TRANSPARENCY OF OPERATIONS, PERFORMANCE MONITORING AND REPORTING

#### Monitoring performance

For a successful monitoring of performance of companies under management, updated, exact and full information on past and planned business results is needed, together with a series of other factors which enable transparency, increase efficiency of the management (data on members of supervisory bodies, management boards, their terms of office, contact data of various service departments in these companies, financial calendars with information on General Meetings, publication of business results, ownership structure, and similar). For every company, measurable performance goals have been set by SSH, and by means of the financial statements submitted by enterprises and publicly published business reports on operations, in addition to periodic meetings held with supervisory bodies of individual companies, SSH will monitor and analyse the operation of SOEs.

The State is an important owner of enterprises in Slovenia. The portfolio of companies, in which the State holds its shares and shareholdings, comprises a significant number of Slovenian businesses which poses a great obligation onto the State for being an active and professional owner. In accordance with the OECD Guidelines on Corporate Governance of State-Owned Enterprises, all enterprises must be well managed, and in this regard, it is expected from them that they will manage their business with the diligence of a prudent businessman, following the principles of economy, productivity and economic viability. On the basis of Recommendations, the companies from the SSH's portfolio must periodically report on their operating results. The data submitted by the companies under management are studied and analysed by SSH and compared to business plans; in this manner, SSH will regularly monitor the SOEs' business results. Occasionally and when the need arises, SSH presents the processed business results to the companies and addresses questions to them on the reasons for the deviations of the results achieved from those that have been planned and expected. An important document for monitoring the performance results are the SSH Performance Criteria to which the consent was granted by the SSH Supervisory Board in September 2015, together with the consent of the Government of the Republic of Slovenia that still needs to be granted. This is a legal document of SSH as one of shareholders and the legal document of a representative of the state acting in the role of a shareholder in SOEs in which the criteria (rations) are defined by way of which the performance of SOEs will be monitored by SSH. In addition to measuring and assessing past performance results, the performance criteria are intended for, compared to the Strategy, a more detailed determination of expectations on the part of SSH towards SOEs in regard to future business results. The aim of performance criteria is not only to measure past performance results but, by means of determining realistic yet ambitious goals, establish the expectations of the state as the owner of assets and contribute to the increase in the business performance of SOEs. Slovenian Sovereign Holding will adopt individual corporate decisions in light of how SOEs will attain the goals set.

### Transparency of operations and reporting

The Chapter V of OECD Guidelines stipulates that SOEs should observe high standards of transparency in accordance with OECD Principles of Corporate Governance, which should also be advocated by SSH. The above mentioned guideline is put in practice with an instruction that SOEs, large ones and those listed on the regular market, should publish financial and non-financial data in accordance with internationally recognized standards of top quality. In the Preamble of the OECD Guidelines, it is explained that the guidelines primarily refer to SOEs under full state ownership due to the 100-per cent stake, majority or significant minority ownership.

In accordance with the Chapter V of OECD Guidelines, the manager of state assets must develop a consistent and aggregate reporting on state-enterprises and publish annually an aggregate report on SOEs. These reports are intended for the general public, the Government, the Parliament and the media. The reporting must be designed in such a manner as to enable a clear overview of the entire operation and development of state-owned enterprises. This obligation will be met by SSH by producing annual and quarterly asset management reports to be submitted to the Government and the National Assembly, in accordance with the provisions of Article 67 of ZSDH 1.

### The SSH web site - [www.sdh.si](http://www.sdh.si) - is the tool for implementing transparency in regard to various stakeholders and the general public

Slovenian Sovereign Holding dedicates special attention to the transparency of state assets management and in all other activities conducted by SSH. For this purpose, a modern, transparent and informational on-line presentation has been prepared. The areas in regard to asset management, sale processes and other company's activities are presented in an integrated manner. All reports from General Meetings of Shareholders held by portfolio companies are regularly published, all significant pieces of information in regard to sale processes managed by SSH are revealed, press releases are put out and the accreditation and nomination systems for candidates for SOEs' Supervisory Board members are presented. Slovenian Sovereign Holding regularly publishes announcements of training sessions for SOEs' Supervisory Board members and all other important notifications and legal documents which affect all SOEs. All annual and quarterly reports on asset management which are prepared by SSH in accordance with ZSDH 1 are available for the general public.



## 3.5

### STATE ASSETS MANAGEMENT STRATEGY

The Management Strategy is a fundamental document of the State which represents the basic tool for an active state ownership with which the state communicates its goals to the state assets manager, to shareholders, the broader capital market and the general public. The Strategy has set clear goals on the basis of which the effectiveness and expertise in managing state assets is being measured.

The following objectives in regard to asset management have been laid down in the Strategy: pursuing the strategic development targets referred to in individual sectoral strategies; increasing expertise and efficiency in asset management; providing for sound and prudent acquisition of capital assets; increasing effectiveness in disposing of assets; increasing return on equity; increasing the number of companies becoming listed on the regulated market; and building up a demographic reserve fund by the end of 2015.

In the Strategy, assets are defined and classified by individual types of assets (strategic, important, portfolio), the definition of development policies of the Republic of Slovenia in the role of a shareholder of companies is given and individual strategic objectives are defined which are pursued by the Republic of Slovenia with each asset classified as strategic asset.

In accordance with the law, Slovenian Sovereign Holding has prepared expert basis for the preparation of this Strategy.

On the basis of the adopted Strategy, SSH must also prepare the following documents:

- The criteria for measuring the effectiveness of SOEs (SSH monitors SOEs' business performance, verifies the effectiveness in attaining goals, verifies operational results and reports on operational results, see previous Chapter).
- The Asset Management Annual Plan (detailed goals pursued by SSH in the management of individual capital assets are defined together with measures and guidelines for achieving these goals. The forecast cash flows from the management of assets owned by SSH and the Republic of Slovenia are also determined in the Asset Management Annual Plan).

The document including the Strategy (Ordinance On State-Owned Capital Assets Management Strategy - OdsUKND) was adopted by the National Assembly on 13 July 2015.

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

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

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

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

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

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

The performance-related expectations in regard to individual companies are categorised as:

- return on equity (ROE – annual net income/average shareholders' equity during a financial year), or
- return on assets (ROA – annual net income/average total assets during a financial year), and
- EBITDA margin (EBITDA/total operating revenue; EBITDA represents net operating income (EBIT) + write-off - depreciation, amortization, revaluation operating expenses),
- operating expenses/net income (CIR – only for banks),
- non-performing loans (NLP)/ total loans (only for banks),
- combined ratio (CR – is the ratio between expenses and the sum of incurred losses and earned premium which is used for insurance companies, indicating how well the company is performing).

## 3.7

### CAPITAL INCREASES IN 2014

#### 3.7.1

##### Capital increases in companies owned by SSH

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In 2014, SSH did not take part in any capital increase of any company.

#### 3.7.2

##### Capital increases carried out by Company in the capacity of the founder

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###### **Abanka Vipava, d. d.**

On 21 October 2014, Abanka Vipava, d.d., was recapitalised by way of 100,000 additionally subscribed shares. The total number of subscribed shares following the capital increase amounts to 15,100,000 shares. All shares are voting right shares.

###### **Banka Celje, d. d.**

On 16 December 2014, the Republic of Slovenia carried out a capital increase of Banka Celje by subscribing 5,000,000 new shares in the total emission amount of EUR 190,000,000.00. The capital increase was recorded in the Court Business Register on 16 December 2014. Thus, the 100 per cent shareholding in Banka Celje was acquired by the Republic of Slovenia.



Photo: archive NKBM, d. d.

A vertical decorative banner on the left side of the page features a blue background with two Slovenian national flags (red, white, and green with a white triskelion) waving against a clear blue sky.

# 4.

## SALE OF CAPITAL ASSETS OWNED BY SSH AND/OR RS IN 2014

economy

## 4.1

### IN THE PROCESSES FOR THE SALE OF CAPITAL ASSETS, SLOVENIAN SOVEREIGN HOLDING MUST TAKE INTO ACCOUNT THE EU RULES ON STATE-AID

A general prohibition on aids granted by states is laid down in Article 107 of The Treaty on the Functioning of the European Union, with the exception of extraordinary cases. On the basis of the above mentioned fundamental rule, certain rules, guidelines and viewpoints in regard to the implementation of privatisation have been developed in the practice of the European Commission and the Court of Justice of the European Union so as not to entail the elements of illegal state-aid. On the general level, the Community practice is explained in the Commission Staff Working Paper - Guidance Paper on state aid-compliant financing, restructuring and privatisation of State-owned enterprises.

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

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

When the above stated conditions are met, it is assumed that the privatisation process does not entail state aid.

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

When, in spite of facts mentioned above, a state vendor decides to include in the privatisation process non-financial commitments which imply state aid or it is likely to entail state aid, in order to prevent any illegal action or subsequent cancellation of the transaction, such privatisation process, like any other state-aid, must be notified by the state vendor to the European Commission. Such notification must be as complete and detailed as possible. Since no state-aid is put into effect until the Commission has taken a decision authorising it (standstill obligation), the privatisation process cannot be initiated until such non-financial commitments are approved. According to the statistical data from the Commission, such process lasts for 18 months, on average.

## 4.2

### AFTER AUTHORISING THE LIST OF 15 COMPANIES LISTED FOR SALE, NUMEROUS PROMOTIONAL ACTIVITIES SUPPORTING SLOVENIAN PRIVATISATION AND REBUILDING CONFIDENCE IN INTERNATIONAL MARKET HAVE BEEN UNDERTAKEN BY SSH

For the purpose of international promotion, a brochure in English was issued by SSH: "Privatisation in Slovenia: Investment Opportunities" which was dedicated to well informed investors. The brochure presents Slovenia as a country of numerous investment opportunities and a presentation of Slovenia's macroeconomic position is given, together with the presentation of companies the sale of which has been approved by the National Assembly. Slovenian Sovereign Holding has also put up a web presentation of the privatisation. In cooperation with the Ministry of Foreign Affairs, Slovenian embassies and Office of the Prime Minister, Slovenian Sovereign Holding (SOD at that time) took part in numerous promotional events dedicated to Slovenian privatisation in international financial centres. Road-shows took place in Düsseldorf, Tokyo, Moscow, Istanbul, Oslo and London. An investor conference was also organised in Ljubljana. Slovenian Sovereign Holding was invited by the largest Slovenian brokerage firm, Alta Group, to organise together a privatisation investor conference which took place at the end of 2013; the conference was dedicated to the presentation of Slovenia and privatisation processes, and the opportunity was given to investors to hold one-on-one meetings with the representatives of the top management of 15 companies listed for sale and approved by the National Assembly of the Republic of Slovenia.

PRIVATIZATION  
IN SLOVENIA

INVESTMENT  
OPPORTUNITIES





The screenshot shows the website of Slovenian Sovereign Holding (SSH) with a focus on the 'Privatization' section. The page features a header with the SSH logo and navigation tabs for 'Home', 'Asset Management', 'Privatization', and 'About SSH'. Below the header is a banner image of hands working on a laptop. The main content area is titled 'Privatization' and includes a brief introduction in Slovenian. A table lists companies for sale with columns for company name, currency (EUR), and various financial metrics. A sidebar on the right contains links to various privatization-related documents and reports.

Company Name	EUR	USD	AMD	PLN	CHF	SEK	ISK	ISK	ISK
ALFA INVESTI TRINIA, D.O.									62.73
ALFA INVESTI D.O.	80.97	2.28							71.40
ALFA INVESTI D.O.									32.97
ALFA INVESTI D.O. - ZBORNA BRNA	60.67	6.42	2.28						64.25
ALFA INVESTI D.O. - ZBORNA	6.05	17.91							38.91
ALFA INVESTI D.O.									68.97
ALFA INVESTI D.O.									76.48
ALFA INVESTI D.O.									28.91
ALFA INVESTI D.O. - ZBORNA	6.04								10.48

The purpose of organising the investor conference was to hold active conversations between representatives of Slovenia and international financial public groups, and the conference the highest political decision-makers presented detailed information regarding the recent measures and planned measures pursued by the Government of the Republic of Slovenia in regard to privatisation. Strategic and financial investors (especially foreign investors) were the target audience of the event. Slovenian Sovereign Holding wishes for the privatisation process to be largely promoted among domestic and foreign institutional investors as it contributes to increasing the competition of potential investors in individual processes of sale of companies.

## 4.3

### HOW IS THE SALE OF ASSETS CONDUCTED?

The disposition of capital assets held in the ownership of SSH and the Republic of Slovenia, including the sale and swaps of capital assets, represents one of the main activities related to the management of capital assets performed by SSH.

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

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The fundamental objective pursued by SSH in the sales of shareholdings is the attainment of the highest proceeds from the sale. The sale of the most important shareholdings owned by the Republic of Slovenia, SSH, within the scope of statutory limitations, strives to 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.

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## 4.4

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

The Asset Management Policy, which was adopted in December 2014, is a legal document which presents principles, procedures and criteria which are applied by SSH in carrying out its duties and activities which are stipulated by ZSDH-1. The purpose of the Asset Management Policy is to provide for transparency and traceability of decision made by SSH. One of larger Chapters is dedicated to the processes for the disposition of assets and acquisition of new capital assets. The Asset Management Policy determines the methods of sale of capital assets, the communication on disposition of capital assets, the sale process in the case of the sale of majority shareholding and in the sale process in the case of the sale of minority shareholding, the management of the sale process ; it also includes provisions regarding financial institutions and other advisors in addition to other matters.

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

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

The main steps of individual phases of sale process for larger SOEs are presented below. The process is simplified in regard to a process which involves the sale of smaller SOEs.

PREPARATORY ACTIVITIES I →	PREPARATORY ACTIVITIES II →	SALE PROCESS I →	SALE PROCESS II
<ul style="list-style-type: none"> <li>• Consent granted by ssh bodies</li> <li>• Possibility of forming selling consortium</li> <li>• Appointment of sale team members</li> <li>• Agreement between vendors and management board of target company</li> <li>• Selection of financial and legal advisors</li> <li>• Selection of persons performing due diligence and obtaining the report</li> <li>• Selection of independent external certified company appraiser and performing company appraisal</li> </ul>	<ul style="list-style-type: none"> <li>• Non-disclosure agreement</li> <li>• Long list of potential investors</li> <li>• Review of investment opportunity - teaser</li> <li>• Company's information memorandum</li> <li>• Data room for investors and vendors</li> <li>• Presentation of management</li> <li>• Process letters</li> <li>• Draft sale and purchase agreement (SPA)</li> </ul>	<ul style="list-style-type: none"> <li>• Publication of invitation for submitting experssion of interest and submission of teaser to investors</li> <li>• Concluding NDA between a company, vendors and investors</li> <li>• Submission of information memornadum and process letter no.1 to investors</li> <li>• Receipt of non-binding bids (review + evaluation)</li> <li>• Selection of investors for 2nd phase of Sale process</li> <li>• Due diligence</li> <li>• Management presentations</li> </ul>	<ul style="list-style-type: none"> <li>• Submission of binding bids (review + evaluation)</li> <li>• Selection of investors for further negotiations</li> <li>• Negotiations regarding final terms and conditions of agreement</li> <li>• SPA harmonisation</li> <li>• Obtaining consents for concluding SPA</li> <li>• Fulfillment of suspensive conditions for closing the transaction (+ escrow agreement)</li> <li>• Closure of transaction and payment of purchase price, transfer of shares</li> </ul>

## 4.5

### ACTIVITIES RELATED TO THE SALE OF SOEs IN 2014

In 2014, SSH continued the activities pursued in regard to the sale of capital assets held in the ownership of the Republic of Slovenia and SSH, initiated in 2013 on the basis of the decision adopted by the National Assembly. In addition to these activities, SSH also managed other activities related to the sale of other capital assets held in the ownership of SSH and the Republic of Slovenia, for which the consent of the National Assembly of the Republic of Slovenia is not required.

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

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

No.	Company name	RS (%)	SSH (%)	KAD (%)	DSU (%)	PDP (%)	MZ (%)	Total (%)
1	Adria Airways Tehnika, d. d.	0	0	0	0	52.3	0	52.3
2	<b>Adria Airways, d. d.</b>	<b>69.9</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2.1</b>	<b>0</b>	<b>72.0</b>
3	Aero, d. d. – in bankruptcy*	0	0	0	0	1.4	0	1.4
4	<b>Aerodrom Ljubljana, d. d.**</b>	<b>50.7</b>	<b>6.8</b>	<b>7.4</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>64.9</b>
5	<b>Cinkarna Celje, d. d.</b>	<b>0</b>	<b>11.4</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>20</b>	<b>31.4</b>
6	Elan, d. o. o.	0	0	0	0	66.4	8.6	75.0
7	Fotona, d. d.**	0	0	0	0	70.5	0	70.5
8	Gospodarsko razstavišče, d. o. o.	0	0	29.5	1.2	0	0	30.7
9	<b>Helios, d. d.**</b>	<b>0</b>	<b>9.5</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>8.3</b>	<b>17.8</b>
10	<b>Nova KBM, d. d.*</b>	<b>100.0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>100.0</b>
11	Paloma, d. d.	0	0	0	0.04	71.0	0	71.0
12	<b>Telekom Slovenije, d. d.</b>	<b>62.5</b>	<b>4.3</b>	<b>5.6</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>72.4</b>
13	Terme Olimia Bazenj, d. d.***	0	0	49.7	0	0	0	49.7
14	<b>Unior, d. d.</b>	<b>0</b>	<b>2.3</b>	<b>5.6</b>	<b>0</b>	<b>37.1</b>	<b>0</b>	<b>45.0</b>
15	<b>Žito, d. d.</b>	<b>0</b>	<b>12.3</b>	<b>0</b>	<b>0.01</b>	<b>0</b>	<b>15.0</b>	<b>27.3</b>

Legend:

■ Companies in direct ownership of the Republic of Slovenia or SSH (Note: PDP and all its subsidiaries merged with SSH on 1 July 2015. By October 2015, Share Sale and Purchase Agreements were concluded for the following companies: NKBM, Žito and Elan, while the processes of the sale of Telekom Slovenije and Cinkarna Celje were closed without sale).

\* Ownership stakes have already been modified due to the implemented capital increases – the current ownership structure is being taken into account; in the beginning of April 2015, bankruptcy proceedings were initiated for Aero, d.d.

\*\* Sale was executed.

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

 Adria Airways d. d.	 Aero Celje d. d.	 Elan d. o. o.	 Fotona d. d.	 Letrika, d. d.
 Adria Airways tehnika d. d.	 Aerodrom Ljubljana, d. d.	 Cinkarna Celje d. d.	 Gospodarsko razstavišče d. d.	 NKBM D. D.
 Paloma d. d.	 Telekom Slovenije d. d.	 Terme Olimia Bazeni d. d.	 Unior d. d.	 Žito d. d.

As it is clear from Table 1, the list includes as follows: two companies in direct ownership of RS and SSH (Telekom Slovenije, d. d., and Aerodrom Ljubljana, d. d.), two companies owned by RS (Adria Airways, d. d., and NKBM, d. d.) and four companies co-owned by SSH (Cinkarna Celje, d. d., Helios, d. d., Unior, d. d., and Žito, d. d.). Of these assets, shares of the following companies were sold at the end of 2014: Aerodrom Ljubljana, d. d, and Helios, d. d. The list also includes seven capital assets which are not directly owned by the Republic of Slovenia and SSH. Of these companies, the shares of Fotona, d.d., held in the ownership of PDP, d.d., were sold in 2014.

In 2014, the activities pursued by SSH in relation to SOEs' sale processes were affected by the Decision of the Government of the Republic of Slovenia which imposed a requirement on SSH not to close any initiated sale process nor to initiate any new sale processes for the disposition of State owned capital assets prior to the appointment of the new Government. This decision resulted in temporary suspension of all sale processes. At the end of July 2014, the above mentioned decision was revoked but, as a result, some sale processes were delayed, and the credibility of the Republic of Slovenia was diminished among investors.

In cases where there is a large number of owners of companies, sale processes related to the disposition of capital assets held in co-ownership by the Republic of Slovenia and SSH are conducted on the basis of Agreements on Joint Sale of Shares and Letters of Intent concluded by and between SSH and other shareholders and lienors. In 2013, the Agreements on Joint Sale of Shares were concluded for the following companies: Aerodrom Ljubljana, d. d., Cinkarna Celje, d. d., Telekom Slovenije, d. d., and Žito, d. d.. It is envisaged by these agreements that signatory parties will jointly implement sale processes, in cooperation with relevant advisors. In 2014, advisors rendering financial advisory services and legal advisory services were selected in the sale processes related to the sale of shares in Cinkarna Celje, d. d., Žito, d. d., and Nova KBM, d. d.. At the end of 2014, these processes were not yet completed.

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

the individual company subject to the sale process (submission of data, enabling due diligence reviews, payment of some costs related to the procedure, communication activities, etc.), the vendors worked to conclude a special agreement on mutual relations in the sale process. In 2014, such contracts were concluded by and between SSH and Letrika, d. d., Nova KBM, d.d., Cinkarna, d. d., and Žito, d. d..

In 2014, in the Slovenian daily newspaper Finance and in the Financial Times published the announcements of invitation to submit an expression of interest for the potential sale of shareholdings in the following companies: Telekom Slovenije, d. d., Aerodrom Ljubljana, d. d., NKBM, d. d, Cinkarna Celje, d. d., and Žito, d. d.. For all above mentioned companies, and in cooperation with the above mentioned companies and the selected advisors, the documentation related to the sale of respective shares was produced: for each sale process, the teaser and the Information Memorandum were received by investors who had demonstrated their interest in the sale and concluded the Non-Disclosure Agreement (NDA). In 2014, SSH obtained Financial and Legal Due Diligence Report for Telekom Slovenije, d. d., Aerodrom Ljubljana, d. d., NKBM, d. d, Cinkarna Celje, d. d., and Žito, d. d.,

*Table 2: Review of significant information in relation to the progress of processes of sale conducted in 2014 in relation to capital assets owned by SSH and/or RS which the consent by the National Assembly had been granted in June 2013 for their sale.*

Asset	 Telekom Slovenije	 Nova KBM	 Žito Okus po dobrem	 CINKARNA	 Aerodrom Ljubljana
SSH ownership stake (%)	4.3	0.0	12.3	11.4	6.8
RS ownership stake (%)	62.5	100.0	0.0	0.0	50.7
ownership stake subject to sale (%)	75.6	100.0	51.6	72.9	75.5
Agreement on Joint Sale of Shares	yes	no	yes	yes	yes
Financial advisor:	Citigroup Global Markets Limited	Lazard Frères SAS	Erste Group Bank AG and P & S Capital	Daiwa Corporate Advisory GmbH	KPMG
Legal advisor:	White & Case and Ulčar & Partners	White & Case and Ulčar & Partners	Jadek & Pensa	Šelih & Partners	OP Schönherr
public announcement of invitation for submitting expressions of interest for the purchase of shares	April 2014	May 2014	September 2014	October 2014	March 2014
deadline for submitting non-binding bids	June 2014	July 2014	October 2014	November 2014	May 2014
Phase of the process of sale at the end of 2014	2nd phase of the process of sale – collecting binding bids	2nd phase of the process of sale – collecting binding bids	2nd phase of the process of sale – collecting binding bids	2nd phase of the process of sale – collecting binding bids	transaction closed; purchase price paid in October 2014 and shares transferred to the buyer

and in some cases, other types of due diligence reports were produced (Environmental, Technical Due Diligence Reports, etc.). Prior to the conclusion of the Purchase and Sale Agreements, SSH also obtained the appraisals of the company value produced by independent certified appraiser of company value.

In 2014, the Purchase and Sale Agreements on the sale of shares in Salus, d.d., and Letrika, d.d. were also concluded and realised. The two companies were held in indirect ownership of SSH and for the disposition of these capital assets, Slovenian Sovereign Holding was not required to obtain the consent granted by the National Assembly of the Republic of Slovenia. More detailed information in connection with the realisation of sales of capital assets owned by SSH and RS are presented in the continuation of the document.

## 4.6

### SALES OF CAPITAL ASSETS OWNED BY SSH AND/OR RS REALISED IN 2014

In 2014, SSH concluded contracts on the purchase and sale of the capital assets held by SSH in the following companies: Salus, d. d., Letrika, d. d., and Aerodrom Ljubljana, d. d.. The total contractual value of the sale of shares in the above mentioned companies amounted to EUR 26.7 million payable to SSH. In the same period, the contracts on the purchase and sale of the shares held in the ownership of SSH in the following companies were implemented: Helios, d. d. (the agreement for the sale of shares held in Helios, d. d. was concluded in 2013), Aerodrom Ljubljana, d. d., Letrika, d. d.. and Salus, d. d.. The total amount of proceeds from the above mentioned sales of shares received by SSH in 2014 amounted to EUR 40.5 million. After the receipt of the proceeds from sale, SSH transferred all shares of the mentioned companies held in its ownership to the buyers of shares.

In the reported period, SSH signed two contracts on the sale of shares held in the ownership of the Republic of Slovenia in respect of the following two companies: Aerodrom Ljubljana, d. d., and Telemach Rotovž, d. d.. For the Republic of Slovenia, the total contractual value of the sale of shares in the above mentioned companies amounted to EUR 118.8 million.

Table 3: Concluded Agreements on Purchase and Sale of Shares in the ownership of SSH and/or RS in 2014

Assets held in	Buyer	Date of signing the agreement	SSH ownership stake (%)	Proceeds from sale attributed to SSH (EUR)	RS ownership stake (%)	Proceeds from sale attributed to RS (EUR)
 Aerodrom Ljubljana	Fraport AG Frankfurt Airport Services Worldwide	5. 9. 2014	6.8	15,990,657	50.7	118,797,923
 Letrika Driving innovation	Mahle Holding Austria GmbH	20. 6. 2014	7.1	7,639,536	/	0
 SALUS	Salus, d. d.	25. 3. 2014	9.5	3,100,970	/	0
Telemach Rotovž, d. d.	Telemach, d. o. o.	27. 11. 2014	/	0	0.0	1,100
<b>Total</b>				<b>26,731,163</b>		<b>118,799,023</b>

\* Until October 2015, SSH also concluded SPAs for NKBM, Žito and Elan.

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"Privatisation in Slovenia was open, fair, transparent, fast and very professional." Gertrud Rantzen,  
President of Management Board of Slovenian-German Chamber of Commerce  
Večer, 23 January 2015, page 3

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In connection with the Contract on Regulation of Mutual Relations in regard to Casino Portorož, d.d., which was concluded in 2012 by and between SOD, KAD, Casino Riviere, d.d. and Eurotas, d.d., and included an option for the sale of shares held in Casino Portorož, d.d., the court settlement was concluded in the first half of 2014 on the basis of which SSH and KAD were recognised as having an unconditional right for the monies which had already been received in 2013. These monies were obtained by SSH and KAD by cashing in the bank guarantee in accordance with the Contract on Regulation of Mutual Relations: they represented the compensation for the loss of proceeds and the reduction in the majority shareholding in the company. On the basis of the court settlement concluded, in case of modifications to the Gambling Act, in the next three years, SSH and KAD will sell the shares in Casino Portorož, d.d., to two companies, Casino Riviera, d.d., and Eurotras, d.d., under conditions stated in the court settlement mentioned.

As of 31 December 2014, SSH also held the agreement which had been concluded for the sale of shares of Casino Bled but was not yet realised. The Purchase and Sale Agreement was concluded by and between SSH, together with KAD, and the respective buyer in 2011, but the issue of the consent for the acquisition of ordinary shares required in accordance with the Gambling Act was refused to the buyer by the Ministry of Finance for several times. Considering the above stated, SSH is still the holder of these shares.



Photo: Aleš Damjanovič / Elektro Maribor, d. d.



Photo: archive HSE, d. o. o.



# 5.

## CORPORATE RESTRUCTURING



The corporate restructuring process is adapted to the situation in an individual company. In some companies the restructuring of only one individual area of operations is needed while for others, a more integrated approach is needed for the majority of areas of operation, including the turnaround of operation. Regardless, there are some general common guidelines which are typical for restructuring process which mainly includes the preparation of the recovery plan which includes the identification of root causes of problems and measures for their restoration, stabilisation of crisis situation and verification of viable parts of operations and the verification of the suitability of the business model. The communication with all stakeholders and the setting of clear strategic guidelines are extremely important. By means of taking the necessary measures inside the company, especially, by controlling costs, inventories and daily liquidity, obviously also making suitable replacements of key top managers, and by taking actions outside the company, i.e., by pursuing financial restructuring and by restructuring suppliers' agreements, efforts are made to stabilise the operation of the company and to reach a turnaround.

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The objectives of corporate restructuring is to help a company become profitable in the long-term and make it capable of achieving other strategic goals, while also taking into account the maximisation of value for owners.

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In 2014, SSH conducted restructuring activities within the scope of regular management of individual capital assets and a new Department for Corporate Restructuring was established on 1 January 2015.

#### **Nafta Lendava Group (activities were initiated in 2014)**

On 9 September 2014, after efforts had failed to restore the company, the bankruptcy proceedings for the subsidiary Nafta Petrochem d. o. o. , (hereinafter referred to as: "NP"), were initiated, Nafta Lendava, d.o.o., which is in 100 per cent ownership of RS, also become insolvent. Nafta Lendava is a holding company which actually does not generate any revenues of its own, but it has stakes in various companies, such as Nafta varovanje in požarna varnost, d. o. o. (hereinafter referred to as: "NVPV") and EKO – Nafta, d. o. o., and is a partner holding a 50 per cent shareholding in Geoenergo, d. o. o. (50 % shareholding belongs to Petrol, d. d.). Geoenergo holds the concession for the exploitation of natural gas, oil and natural-gas condensate in the exploitation area of the Mura depression. In case of a bankruptcy, the shareholding of Nafta Lendava in Geoenergo would be transferred to the bankruptcy estate, like all other assets. Owing to the insolvency of Nafta Lendava which was mainly due to guarantees granted to subsidiaries, with the aim of increasing the intensity

and proficiency of restructuring activities, from among SSH employees, SSH appointed a procurator to Nafta Lendava and thus acceded to the restructuring of Nafta Lendava Group. The activities started with the restructuring of Nafta Lendava which included active coordination and negotiations for concluding Stand-Still Agreements with creditor banks and negotiations for obtaining suitable financial funds provided by a new financial creditor to finance Nafta Lendava until the forecasted financial inflows arising from the natural gas extraction be due. The agreements with banks and new financial creditor were successfully closed at the end of the first half year of 2015. Simultaneously with the restructuring of Nafta Lendava, the restructuring of subsidiaries NVPV and EKO - Nafta also took place. By means of the above mentioned measures, Slovenian Sovereign Holding had ensured conditions for the successful recovery of the entire Nafta Lendava Group.

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

HSE Group has been facing particularly challenging conditions ever since 2012 as market conditions are not favourable due to long-lasting low levels of electricity prices which are forecasted to remain low.

On the basis of critical assessment of forecasted results from electricity trading it is clear that additional marketing activities will not be sufficient for ensuring a suitable financial position of HSE given the risks to which the Group is exposed to which is why certain simultaneous and uncompromising measures were needed in regard to their own costs of electrical power generation and in relation to costs related to trading.

The Business and Financial Restructuring Model of HSE Group, which started to be implemented at an intensive pace in 2014, is based on reducing the average cost of electricity generated in HSE Group and on cessation/selling off of activities which do not belong to HSE Group's core business, that is, mining and generation and trading in electricity. In regard to decreasing the average cost of generating electricity, the main emphasis is placed on reducing and managing costs of electricity from thermal power plants for which high variable costs (due to input costs connected with lignite) are needed, and, compared to hydro power plants, a significantly higher cost of generating electricity is typical; in regard to thermal power plants, the emphasis of the business and financial restructuring programme is placed on managing fixed costs in the coal mine division of HSE Group. For the purpose of managing liquidity and solvency of the Group and individual companies within HSE Group, in addition to reducing the average cost of generating electricity, additional measures must be implemented in regard to cost cutting, particularly by reducing and managing expenditure for investment activities.

#### **RTH, d. o. o.**

The production of coal took place until May 2013 and after this period, the company was supposed to reduce the number of employees and initiate closing activities in the pit, the ecological rehabilitation of the area and HR and social programme were to be implemented. By adopting ZUJF, the funds allocated for financing the closing of the mine and the rehabilitation of the area to remove the consequences of mining had decreased significantly (instead of EUR 66 million planned, only EUR 22 million were to be received by the company). The applicable mine closure programme failed to be implemented and in March 2014 there was not enough funds to pay for the salaries of employees which is why they went on strike. The company declared insolvency. At the creditor's proposal, the compulsory settlement proceedings were initiated against the company. From among SSH employees, a procurator was appointed by SSH and active measures were undertaken to prepare company restoration programme and negotiations with creditors were entered into. The company's business and restructuring programme was developed, the mine closure programme was adapted to the forecasted cash flows which plans the closure of the pit to be implemented by the end of 2015 and which envisages the further restoration of the area and the implementation of the social and HR programme by the end of 2018. The funds for the implementation of all activities in line with the amended mine closure programme were provided for by the Republic of Slovenia, under condition that the RTH's assets be sold (own participation). After lengthy

negotiations with financial creditors, the agreement on liabilities restructuring was concluded with financial creditors on 24 October 2014, and the grounds for the company's insolvency were thus eliminated. As a result of the above mentioned restructuring activities, conditions were met for successful implementation of the entire mine closure programme. Considering the given economic environment, the sale of significant share of company's assets will be quite challenging in the light of further activities related to the implementation of the restructuring plan.

#### **CSS-IP, d. o. o.**

The core business of CSS-IP, d.o.o. is the production of turned in stamped metal products, while other activities will be developed by the company given the development opportunities and by complementing other activities. The company has become an entity for employing people with disabilities after being excluded from sheltered workshops of CSS Institute. The company continues to maintain the status of a company employing people with disabilities as there are more than 44% of people with disabilities being employed at the company.

The company was in trouble which is why a chief executive officer was replaced. A new manager prepared the programme for business, financial and organisational restructuring which is successfully being implemented. Thus, after several years of incurring losses, the company generated minimum profit in 2015.



Photo: archive Zavarovalnica Triglav, d. d.



# 6.

## MACROECONOMIC CONDITIONS IN SLOVENIA AND ABROAD IN 2014 AND FORECASTS FOR 2015, 2016 AND 2017



## 6.1

### MACROECONOMIC CONDITIONS IN SLOVENIA IN 2014

After a deep decline of gross domestic product and an increase in lagging behind the EU average of development, Slovenia had gradually corrected the piled-up macroeconomic imbalances. Due to the accumulated structural weaknesses, the sharp slowdown of economic activity was more pronounced in Slovenia than in EU average. From the beginning of the crisis, the per capita gross domestic product (GDP), measured in purchasing power standards (PPS), decreased from 89% of the EU average to 82% of the EU average which is equal to the relative development of Slovenia recorded in 2002.

In 2014, by amounting to 2.6%, the gross domestic product reached the highest growth being measured from the beginning of the economic crisis in Slovenia in 2008. The growth is a result of improved conditions in the international environment, stabilisation of financial markets, the improved competitiveness of Slovenian economy and the start of the recovery of the banking system. The key factors resulting in economic growth were exports and Government investment activities, particularly investment in public infrastructure. In 2014, export was mainly increased by the strengthened foreign demand and improved cost competitiveness of exporters, while the contribution of household consumption and the Government spending was still modest. Since 2014, the added value generated by the majority of activities was increased on year-on-year basis. The growth is particularly striking in processing activities, it had turned upward in construction industry after a long period of downturn, and it was strengthened in the majority of all other activities.

The public debt of Slovenia increased significantly in 2014, and amounted to 81% of GDP. The 2014 budget deficit was 4.9% of GDP which increased interest expense to 3.3% of GDP. Owing to the striking decline in the requisite rates of return from state bonds, there was a possibility that the interest expense would decrease in 2015.

In comparison to the average of European area, Slovenia showed high surplus of savings over investments which was the result of still expressed reticence in regard to investing activities and a relatively high share of savings. The gap between savings and investing activities continued to increase and amounted to 5.4% of GDP in 2014. The investment activities as the share of GDP had been decreasing in Euro area since 2011 while savings had been stagnating; the gap between savings and investment activities was significantly lower than in Slovenia and it amounted to approximately 2%.

Companies continued to maintain the position of net creditors to other sectors in current transactions entered into at the end of 2012. Households continued to be careful and maintained high level of savings and modest consumption thus turning downward the growing trend of net positive position at the end of 2014. This is consistent with the growing indicators regarding consumer sentiment and confidence and a slightly higher final household consumption. Due to capital increases in banks at the end of 2013 and in 2014, the net negative position of the state significantly increased only on transitional basis, while the net positive position of the financial sector was simultaneously increased.

The Slovenia's total net foreign financial liabilities amounted to 40% of GDP. The banking sector continued with external deleveraging and decreased long-term liabilities due to ECB while also continuing the deleveraging process in regard to other foreign banks. This process was slower than in previous years since the dependency from this source had already been significantly decreased. On the other hand, since the onset of the economic crisis the corporate external borrowing had been increasing which was mainly a reflection of a still limited access to domestic banking sources

of funding and hence, the growth of external borrowing. Larger Slovenian corporations were financed by issuing commercial papers and bonds by foreign investors. In 2014, the growth of such borrowing was dramatic due to significant easing of the costs for such funding. The 2014 external borrowing was significantly increased by the State due to the issue of Government bonds. Foreign equity still remained at a relatively low level of 8% of GDP and it is an unused opportunity for companies in obtaining an important source of funding and in reducing high financial leverage.

## 6.2

### SLOVENIA'S RATINGS BY LARGEST AGENCIES

The improvement of economic conditions and the increase in confidence, resulted in the improved outlooks for Slovenia by the largest rating agencies in 2014 and in the beginning of 2015. Moody's increased Slovenia's rating from the speculative grade of Ba1 to the investment grade of Baa3, while S&P and Fitch upgraded the outlook from negative to stable. The main reason for this improvement was the stabilisation of the banking system with significant recapitalisation of the largest banks and the establishment of the Bad Assets Management Company (BAMC). In spite of that, the rating agencies warned of challenges having remained in the banking sector mainly due to further process of deleveraging in the real sector and potential worsening of NLPs. The rating agencies considered the stabilisation of public debt as a positive factor, together with further measures for fiscal consolidation.

Agency	Rating	Outlook	Last modified on
Standard and Poor's	A-	positive	19. 6. 2015
Moody's	Baa3	stable	23. 1. 2015
Fitch Ratings	BBB+	stable	2. 5. 2014

*Source: Ministry of Finance of the Republic of Slovenia*

## 6.3

### SLOVENIAN REGULATED MARKET – LJUBLJANA STOCK EXCHANGE

In the first nine months of 2014, Slovenia Blue Chip Index - SBITOP, recorded a noticeable growth trend which, however, did not last until the end of the year. The interest for trading in shares was strengthened when the sale of the first company from the list of state assets held for sale was completed. In the beginning of October, SBITOP reached the highest value of 839,4 index point which means 28 per cent growth as compared to the end of 2013.

The positive growth levelled out in Q4 of 2014 due to geo-political conflicts in the East of Europe and continuing problems with Greece. Key stock exchange indices of developed markets reached mixed returns in 2014. In the second half of the year, the domestic market was marked by early parliamentary elections which, among other issues, triggered renewed speculations about the continuation of the privatisation process. Although SBITOP lost 55,3 index points in Q4 of 2014, it closed the year with a high annual return of 19.6 per cent. The initiation of the ECB's quantitative

easing in the Q1 of 2015 triggered growth mainly on West-European stock markets while the domestic stock exchange remained at levels recorded at the beginning of the year. The main reason for the halted growth of LJSE trading was found in speculations regarding the continuation of the privatisation process.

In 2014, the total turnover at LJSE was higher by 75.2 % as compared to the previous year and was lower by 29% year-on-year in Q1 of 2015. The growth in the past year was due to greater turnover with shares of the prime market and standard market which were subject to sale processes. The share turnover doubled in 2014 and represented 88.6% of the total LJSE turnover. The share market capitalisation of LJSE amounted to EUR 6,214 million and reached 20.1-per cent year-on-year growth. The majority of the sold companies was still listed but the turnover generated with their trading was minimal. If all of sold companies delisted at the end of last year, share market capitalisation would amount to EUR 5,560 million, or by only 7.4% more than in the previous year.

The bond market capitalisation of LJSE amounted to EUR 17,520 million at the end of 2015, or, 25.5% more than in the previous year. The liquidity of the Slovenian bond market was similarly poor as the share market and it was concentrated on trading with only some bonds. The most traded bond

	2009	2010	2011	2012	2013	2014	June 2015
<b>Shares</b>							
market capitalisation (EUR billion)	8.5	7.0	4.9	4.9	5.2	6.2	5.9
as % of GDP	23.4	19.4	13.2	13.6	14.3	16.5	–
annual growth (in %)	–	-16.9	-30.7	0.8	5.3	20.1	-5.7
turnover (in million EUR)	719.8	360.8	394.5	302.9	299.4	608.1	179.0
as % of GDP	2.0	1.0	1.1	0.8	0.8	1.6	–
annual growth (in %)	–	-49.9	9.3	-23.2	-1.1	103.1	-70.6
movement of SBI TOP Index	983	850	590	636	656	784	734
annual growth (in %)	15.0	-13.5	-30.7	7.8	3.2	19.6	-100.0
<b>Bonds</b>							
market capitalisation (EUR billion)	10.7	13.1	14.4	12.7	13.9	17.5	17.2
as % of GDP	29.7	36.2	39.0	35.2	38.5	47.0	–
annual growth (in %)	–	22.0	9.7	-11.9	9.7	26.0	-1.9
turnover (in million EUR)	156.3	108.9	59.6	55.4	86.1	69.0	16.3
as % of GDP	0.4	0.3	0.2	0.2	0.2	0.2	–
annual growth (in %)	–	-30.3	-45.3	-7.0	55.4	-19.8	-76.4

Source: Ljubljana Stock Exchange, Statistical Office of the Republic of Slovenia, own calculations

contributed to 41.6 % of the total LJSE bond turnover. The volume of bond trades decreased by 20%, representing 10.1% of total turnover, while the turnover with short-term debt financial instruments (mainly commercial papers) doubled, rising to EUR 9.2 million, although it represented only 1.3% of total turnover. In 2014, Republic of Slovenia issued five bonds with the nominal value of EUR 1 billion or more, in the total value of EUR 5.5 billion, of which there were two foreign bond issues reaching the total nominal value of USD 3.5 billion. For the purpose of bank recapitalisation, the issue of RS59 bond and RS62 bond was increased in the total amount of EUR 230.8 million.

In spite of a slightly livelier developments on the Ljubljana Stock Exchange, risks connected with the domestic capital market remained. The increase in turnover in the past year was a reflection of a short-term benefit of the privatisation process which had an intensive start in 2014. Owing to sales of individual companies, the share of foreigners in market capitalisation increased by approximately 10 percentage points, rising to 25.4 %.

The American stock exchange indices NASDAQ and S&P reached 13.4- and 11.4- per cent returns, respectively. The representative index of the Western Europe, DJ EuroStoxx, reached only 1.9-per cent return, while a drop by 12.3% was recorded by the East-European Index (MSCIEE).

## 6.4

### INTERNATIONAL MACROECONOMIC CONDITIONS IN 2014

The economic growth of the Euro area was positive in 2014 mainly due to increased household spending and export growth but the investment spending remained modest. In spite of that, the economic growth of 0.9% was weak, particularly in regard to the five most important trading partners of Slovenia, with a positive exception of Germany. In the beginning of 2015, the economic sentiment and confidence indicators were above long-term average which reinforced the European Commission's outlook of spring 2015 which forecasted strengthening of the economic growth both in the Euro area and in the most important trading partners of Slovenia. The important factors for more favourable economic outlook are the stabilisation of situation in the financial markets, the reduction of oil prices and the improvement of relative competitiveness along with a weak Euro.

The forecasted improvement of economic conditions will positively affect the economic growth in Slovenia. In spite of this, the economic activity in EU is still very volatile, there is a certain degree of uncertainty regarding the effects of economic policies in progress (ECB's quantitative easing, the establishment of the European Fund for Strategic Investments, the capital markets unity).

There are still geopolitical tensions present in the international arena which are connected with the Ukrainian conflict. The risk is expressed directly by means of Slovenian exports to Russia, and indirectly by means of reduced exports of the most important Slovenian trading partners. The risk of renewed tightening of the country risk was repeatedly increased due to unstable political post-election developments in Greece, although the risk level of the impact to other Member States is now lower. This is reflected in an easier and cheaper access to international financial markets.

Lower raw material prices have a favourable impact on the economic activity, particularly the decline in the prices of energy products has a positive impact on decreasing operating costs and increasing the purchasing power of households. Weak domestic demand and the internal relative price adjustment process which is expressed in the reduction in labour cost per unit of product have an impact on deflation movements in Slovenia. Both in the Euro area and in Slovenia, the credit volume to non-financial corporations continued to decrease in 2014 and in the beginning of 2015, but at a slower pace. With the decline in the credit volume provided by banks, the economic growth is supported by internal corporate funding and by the issue of debt securities.

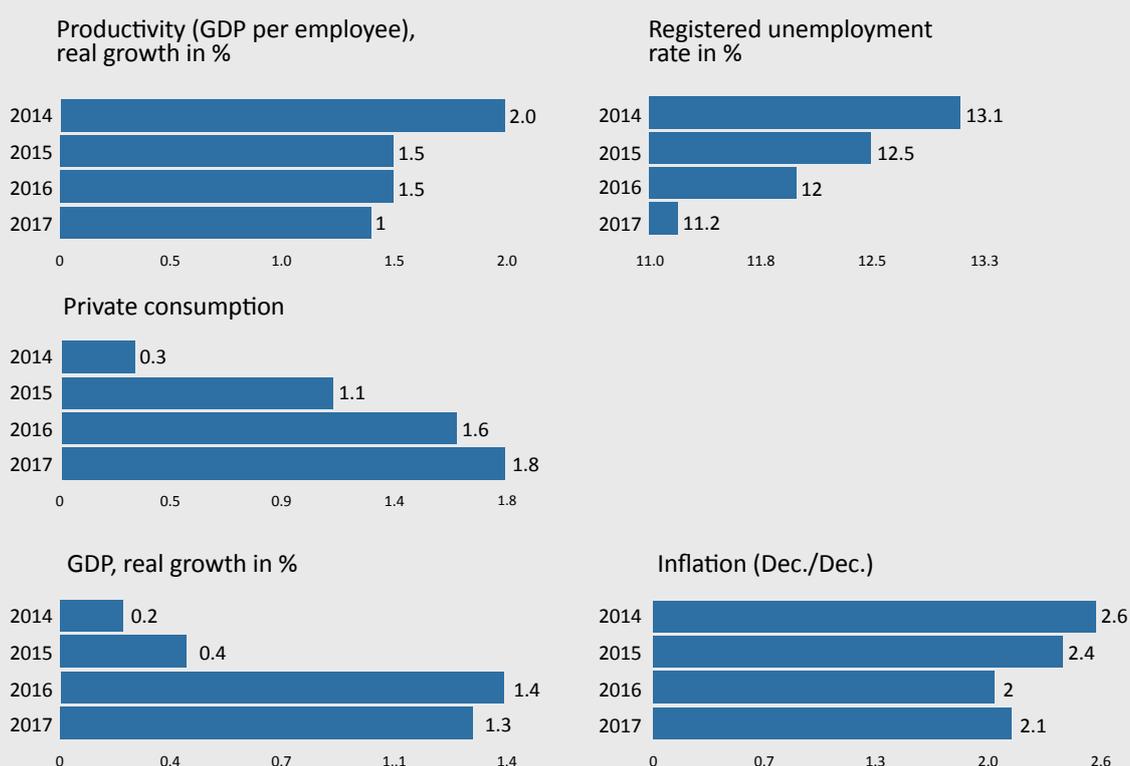
## 6.5

### FORECASTS REGARDING SLOVENIA'S MACROECONOMIC INDICATORS FOR 2015, 2016 AND 2017

Gross domestic product is expected to increase by 2.4% in 2015, mainly due to high growth of exports and investment activity. The growth of export will remain high (5.6%) which, with the accelerated recovery of the most important trading partners, will be a result of improved competitiveness. The increase in investment (4.8%) in 2015 will remain the same as in 2014. Public investment connected with the drawing of the EU funds will increase in 2015 but slightly less than in 2014; private investment in machinery and equipment will also be enhanced. With higher production capacity utilisation, the financing of investment will be enabled by better performance results, particularly in case of the exporting part of the economy, and further deleveraging will open the possibilities to corporations for borrowings from highly liquid banking sector. Further increase in employment, the decline in unemployment and higher disposable income will enhance the consumer sentiment and confidence. Private consumption will thus be increased by 1.1%. With the increased investment financed from public funds, expenditure with which Government spending is measured will decrease in 2015 since the fiscal consolidation will continue by pursuing measures similar to those of the previous year. The Government spending will thus decrease (−0.4 %) for the fifth consecutive year.

In the period between 2016 and 2017, the economic growth will move at 2% since slowdown of the growth of investment financed by EU funds is expected with the transition to the new financial perspective. Positive impulses from the international environment are expected in the coming years, together with further progress in correcting macroeconomic imbalances in the Euro area and in Slovenia.

Given the growth of economic activity forecasted for the 2015-2017 period, the increase in employment will continue and gradual decrease in the number or registered unemployed people is forecasted. The rate of employment is expected to continue to increase in 2015 (by 0.8%). The number of unemployed persons will decrease to 114.3 thousand, on average, in 2015, which will be approximately 6 thousand less unemployed persons than in 2014. In the 2016 - 2017 period, similar movements will be maintained in the labour market which will be increasingly marked by demographic changes, in addition to the increased economic activity.



## 6.6

### OVERVIEW OF SLOVENIA'S MACROECONOMIC INDICATORS IN 2014, AND FORECASTS FOR 2015, 2016 AND 2017

	2014	2015	2016	2017
<b>GROSS DOMESTIC PRODUCT</b>				
GDP annual growth in %	2.6	2.4	2.0	2.1
GDP, current prices (in EUR million)	37,246	38,558	39,474	40,701
<b>EMPLOYMENT, EARNINGS AND PRODUCTIVITY</b>				
employment, national account statistics, growth in %	0.7	0.8	0.6	0.7
No. of registered unemployed, annual average, in '000	120.1	114.3	110.4	102.7
Registered unemployment rate (in %)	13.1	12.5	12.0	11.2
ILO registered unemployment rate (in %)	9.7	9.2	8.6	7.9
Gross wage per employee, real growth (in %)	0.9	1.1	0.8	0.9
– private sector activities	1.2	1.5	0.8	1.2
– public sector activities	0,7	0,8	0,8	0,5
Labour productivity, real growth (in %)	2.0	1.5	1.5	1.4
<b>EXTERNAL TRADE</b>				
Exports of goods and services, real growth (in %)	6.3	5.6	6.2	5.0
export of goods	7.2	6.3	6.7	5.2
export of services	2.5	2.6	4.2	4.2
Imports of goods and services, real growth (in %)	4.1	5.2	4.7	5.2
imports of goods	3.8	5.4	4.8	5.3
imports of services	5.6	4.1	4.3	4.4

### BALANCE OF PAYMENTS STATISTICS

Current Account BALANCE (in EUR m)	2,187	2,266	2,366	2,549
– as of % of GDP	5.9	5.9	6.0	6.3
external balance of goods and services (in EUR million)	3,038	3,687	4,015	4,055
– as of % of GDP	8.2	9.6	10.2	10.0

### DOMESTIC DEMAND

domestic consumption, real growth in %	0.8	1.8	0.5	1.9
of which:				
private consumption	0.3	1.1	1.6	1.8
Government consumption	-0.5	-0.4	-0.4	-0.2
Gross fixed capital formation	4.8	4.8	-2.0	4.0
changes in inventories, contribution to GDP growth, in percentage points	-0.2	0.2	0.1	0.0

### EXHCANGE RATES AND PRICES

USD/EUR exchange rate	1.329	1.137	1.135	1.135
real effective rate – CPI deflator	-0.3	-3.0	-0.5	0.0
inflation (Dec/Dec)	0.2	0.4	1.4	1.3
inflation (annual average)above 5 years	0.2	-0.2	1.0	1.4
oil price (Brent crude, USD/barrel)	98.9	60.0	69.0	73.0

*Texts, tables and graphs – Sources: Bank of Slovenia, IMAD, Ljubljana Stock Exchange*



Photo: archive Luka Koper, d. d.

An aerial photograph showing a coastal area with a large parking lot, a river, and some industrial or commercial buildings. The water is blue, and the land is a mix of green and grey.

# 7.

## BUSINESS PERFORMANCE OF COMPANIES OWNED BY RS AND SHS



## 7.1

### PORTFOLIO OF CAPITAL ASSETS OWNED BY RS AND SSH

As of 31 December 2014, SSH managed 42 capital assets (of this number, 30 were active and 12 were inactive, i.e., companies in bankruptcy or liquidation), and 78 capital assets directly owned by the Republic of Slovenia (66 active and 12 non-active).

*Table 4: Portfolio of capital assets directly owned by the Republic of Slovenia and Slovenian Sovereign Holding, as of 31 December 2014*

Industry/Capital asset	RS share- holding (in %)	SSH share- holding (in %)	Total %
<b>BANKING</b>			
ABANKA, D. D.	100.00	–	100.00
BANKA CELJE, D. D.	100.00	–	100.00
GORENJSKA BANKA, D. D.	0.05	–	0.05
NKBM, D. D.	100.00	–	100.00
NLB, D. D.	100.00	–	100.00
SID – SLOVENSKA IZVOZNA IN RAZVOJNA BANKA, D. D.	99.41	–	99.41
<b>VENTURE CAPITAL COMPANIES</b>			
DTK MURKA, DRUŽBA TVEGANEGA KAPITALA, D. O. O.	49.00	–	49.00
META INGENIUM, DRUŽBA TVEGANEGA KAPITALA, D. O. O.	49.00	–	49.00
PRVI SKLAD, DRUŽBA TVEGANEGA KAPITALA, D. O. O.	48.90	–	48.90
STH VENTURES, D. O. O.	49.00	–	49.00
<b>ENERGY SECTOR</b>			
EKOEN, D. O. O.	49.07	–	49.07
ELEKTRO CELJE, D. D.	79.50	–	79.50
ELEKTRO GORENJSKA, D. D.	79.42	0.31	79.73
ELEKTRO LJUBLJANA D. D.	79.50	0.30	79.80
ELEKTRO MARIBOR, D. D.	79.50	–	79.50
ELEKTRO PRIMORSKA, D. D.	79.50	–	79.50
ELEKTROGOSPODARSTVO SLOVENIJE – RAZVOJ IN INŽENIRING, D. O. O.	100.00	–	100.00
ENERGETIKA ČRNOMELJ, D. O. O.	49.30	–	49.30
GEN ENERGIJA, D. O. O.	100.00	–	100.00
GEOPLIN, D. O. O.	39.57	0.05	39.62
HOLDING SLOVENSKE ELEKTRARNE, D.O.O. O.	100.00	–	100.00
PETROL, D. D.	–	19.75	19.75
TOPLLOTNA OSKRBA, D. O. O., LOČE	49.17	–	49.17

<b>FINANCIAL HOLDING COMPANIES</b>			
D. S. U., D. O. O., LJUBLJANA	100.00	–	100.00
KAPITALSKA DRUŽBA, D. D.	100.00	–	100.00
KDD D. D., LJUBLJANA	–	9.62	9.62
NFD HOLDING, D.D.	0.0003	–	0.00
PDP, D. D.	–	33.96	33.96
SAVA, D. D.	0.03	11.06	11.09
<b>SERVICE OF GENERAL ECONOMIC INTEREST (SGEI)</b>			
DOM UPOKOJENCEV IDRIJA, D. O. O.	18.91	–	18.91
JAVNO PODJETJE URADNI LIST REPUBLIKE SLOVENIJE, D. O. O.	100.00	–	100.00
VODNOGOSPODARSKO PODJETJE DRAVA, D. D., PTUJ	25.00	–	25.00
VODNOGOSPODARSKO PODJETJE MURA, D. D.	25.01	–	25.01
VODNOGOSPODARSKO PODJETJE NOVO MESTO, D. D.	25.00	–	25.00
VODNOGOSPODARSKO PODJETJE, D. D., KRANJ	25.00	–	25.00
<b>GAMING INDUSTRY</b>			
CASINO BLED, D. D., BLED	–	43.00	43.00
CASINO PORTOROŽ, D. D., PORTOROŽ	–	9.46	9.46
HIT, D. D.	–	20.00	20.00
LOTERIJA SLOVENIJE, D. D., LJUBLJANA	–	15.00	15.00
<b>COMPANIES EMPLOYING DISABLED PEOPLE</b>			
BODOČNOST MARIBOR, D. O. O.	75.83	–	75.83
CSS-IP, D. O. O.	96.65	–	96.65
<b>POSTAL SERVICES, TELECOMMUNICATIONS</b>			
POŠTA SLOVENIJE, D. O. O.	100.00	–	100.00
TELEKOM SLOVENIJE, D. D.	62.54	4.25	66.79
TELEMACH ROTOVŽ, D. D.	1.10	–	1.10
TELEMACH TABOR, ŠIROKOPASOVNE KOMUNIKACIJE, D. D.	0.03	–	0.03
<b>FOOD AND BEVERAGES</b>			
PERUTNINA, D.D., PTUJ	0.00003	–	0.00
POMURSKE MLEKARNE, D. D., M. SOBOTA	0.00004	3.34	3.34
ŽITO, D. D.	–	12.26	12.26
<b>MANUFACTURING</b>			
CIMOS, D. D.	–	6.90	6.90
CINKARNA CELJE, D. D., CELJE	–	11.41	11.41
GORIŠKE OPEKARNE, D. D., RENČE	–	12.32	12.32
INKOS, D. O. O., KRMELJ	2.54	–	2.54
KRKA, D. D.	0.01	16.20	16.21

NAFTA LENDAVALA, D. O. O.	100.00	–	100.00
PALOMA, D. D.	0.01	–	0.01
PEKO, D. D.	61.16	–	61.16
SIJ – SLOVENSKA INDUSTRIJA JEKLA, D. D.	25.00	–	25.00
SNEŽNIK, D. D.	70.04	–	70.04
UNIOR, D. D.	–	2.31	2.31
<b>TRAFFIC, TRANSPORT AND INFRASTRUCTURE</b>			
ADRIA AIRWAYS, D.D.	69.87	–	69.87
DRI UPRAVLJANJE INVESTICIJ, DRUŽBA ZA RAZVOJ INFRASTRUKTURE, D. O. O.	100.00	–	100.00
DRUŽBA ZA AVTOCESTE V REPUBLIKI SLOVENIJI (MOTORWAY COMPANY OF THE REPUBLIC OF SLOVENIA), D. D., CELJE	100.00	–	100.00
INFRA, IZVAJANJE INVESTICIJSKE DEJAVNOSTI, D. O. O.	100.00	–	100.00
INTEREUROPA, D. D.	–	1.73	1.73
KONTROLA ZRAČNEGA PROMETA (SLOVENIA CONTROL, LIMITED), D. O. O.	100.00	–	100.00
LUKA KOPER, D. D.	51.00	11.13	62.13
SLOVENSKE ŽELEZNICE, D. O. O.	100.00	–	100.00
<b>COMPANIES TO BE TRANSFERRED TO SRRF</b>			
RRA REGIONALNA RAZVOJNA AGENCIJA CELJE, D. O. O.	5.10	–	5.10
<b>GENERAL ECONOMIC SECTOR</b>			
A-COSMOS, D. D.	0.81	–	0.81
CETIS, D. D.	–	7.47	7.47
ČZP VEČER, D. D, MARIBOR	0.00001	10.00	10.00
ELEKTROOPTIKA, D. D.	0.00004	–	0.00
INTERTRADE ITA, D. D., LJUBLJANA	–	7.69	7.69
MURKA, TRGOVINA IN STORITVE, D. D.	0.17	–	0.17
PS ZA AVTO, D. O. O., LJUBLJANA	–	90.00	90.00
VARNOST SISTEMI, D. O. O.	–	9.74	9.74
<b>TOURISM</b>			
ADRIA, TURISTIČNO PODJETJE D. O. O., ANKARAN	–	12,24	12,24
DRUŽBA ZA SPODBUJANJE RAZVOJA TNP, D. D.	51,04	–	51,04
POČITNIŠKA SKUPNOST KRŠKO, D. O. O.	1,46	–	1,46
STUDENTENHEIM KOROTAN GMBH	100,00	–	100,00
TERME OLIMIA, D. D.	–	4,79	4,79
<b>INSURANCE</b>			
POZAVAROVALNICA SAVA, D. D.	–	25.00	25.00
ZAVAROVALNICA TRIGLAV, D. D.**	34.47	28.09	62.56

companies in bankruptcy, liquidation or being wound-up	RS share- holding (in %)	SSH share- holding (in %)	Skupaj %
ABC TRGOVINA, D. D., LJUBLJANA - IN BANKRUPTCY	–	2.37	2.37
CASINO LJUBLJANA, D. D. - IN BANKRUPTCY	–	3.29	3.29
CASINO MARIBOR, D. D. – IN BANKRUPTCY	–	43.40	43.40
DEKORATIVNA, D. O. O. – IN LIQUIDATION	–	100.00	100.00
GIO, D. O. O, LJUBLJANA – IN LIQUIDATION	–	71.27	71.27
GLIN IPP, D. O. O. - IN BANKRUPTCY	16.06	–	16.06
GRADBINEC KRANJ, D. D. - IN BANKRUPTCY	–	2.68	2.68
IPOZ TRBOVLJE, D. O. O. - IN LIQUIDATION	–	1.20	1.20
KLI LOGATEC, D. D. - IN LIQUIDATION	–	0.59	0.59
MAKSIMA HOLDING, D. D. – IN BANKRUPTCY	0.01	–	0.01
MAKSIMA INVEST, D. D. – IN BANKRUPTCY	0.01	–	0.01
MURA, D. D. – IN BANKRUPTCY	–	12.23	12.23
PODJETJE ZA UREJANJE HUDOURNIKOV, D. D. – IN BANKRUPTCY	40.00	–	40.00
RIMSKE TERME, D. O. O. - IN BANKRUPTCY	3.83	–	3.83
RTH GROUP	100.00	–	100.00
RUDNIK KANIŽARICA V ZAPIRANJU, D. O. O., ČRNOMELJ – IN LIQUIDATION	100.00	–	100.00
RUDNIK SENOVO V ZAPIRANJU, D. O. O. - IN LIQUIDATION	100.00	–	100.00
RUDNIK ZAGORJE V ZAPIRANJU, D. O. O. - IN LIQUIDATION	100.00	–	100.00
RUDNIK ŽIVEGA SREBRA IDRIJA V ZAPIRANJU, D. O. O. - IN LIQUIDATION	100.00	–	100.00
RŽV, JAVNO PODJETJE ZA ZAPIRANJE RUDNIKA URANA, D. O. O.	100.00	–	100.00
SVEA, D. D. – IN BANKRUPTCY	–	15.57	15.57
TAM MARIBOR, D. D. – IN BANKRUPTCY	10.85	–	10.85
UNIVERZALE, D. D., DOMŽALE – IN BANKRUPTCY	–	8.53	8.53
ZLIT ZDRUŽENA LESNA INDUSTRIJA TRŽIČ, D. O. O. - IN BANKRUPTCY	–	100.00	100.00



Photo: archive Elektro Primorska, d. d.

Table 5: Five largest assets by book value of equity as of 31 December 2014

SSH's Capital asset	Industry	SSH ownership stake as of 31 December 2014 (%)	Book value of shareholdings as of 31 December 2014 (EUR)	Share in total portfolio (in %)
KRKA, D. D.	Manufacturing	16.20	219,007,638	31.0
ZAVAROVALNICA TRIGLAV, D. D.**	Insurance business	28.09	193,298,743	27.4
PETROL, D. D.	Energy industry	19.75	99,393,332	14.1
POZAVAROVALNICA SAVA, D. D.	Insurance business	25.00	67,882,156	9.6
LUKA KOPER, D. D.	Traffic, transport and infrastructure	11.13	31,867,813	4.5
<b>TOTAL</b>			<b>611,449,682</b>	<b>86.6</b>
<b>RS's Capital asset</b>	<b>Industry</b>	<b>RS ownership stake as of 31 December 2014 (%)</b>	<b>Book value of shareholdings as of 31 December 2014 (EUR)</b>	<b>Share in total portfolio (in %)</b>
DARS, D. D., CELJE	Traffic, transport and infrastructure	100.00	2,531,278,378	23.2
HSE, D. O. O.	Energy industry	100.00	1,471,547,419	13.5
NLB, D. D.	Banking sector	100.00	1,369,295,000	12.6
GEN ENERGIJA, D. O. O.	Energy industry	100.00	675,709,564	6.2
NKBM, D. D.	Banking sector	100.00	616,357,000	5.7
<b>TOTAL</b>			<b>6,664,187,361</b>	<b>61.2</b>

## 7.2

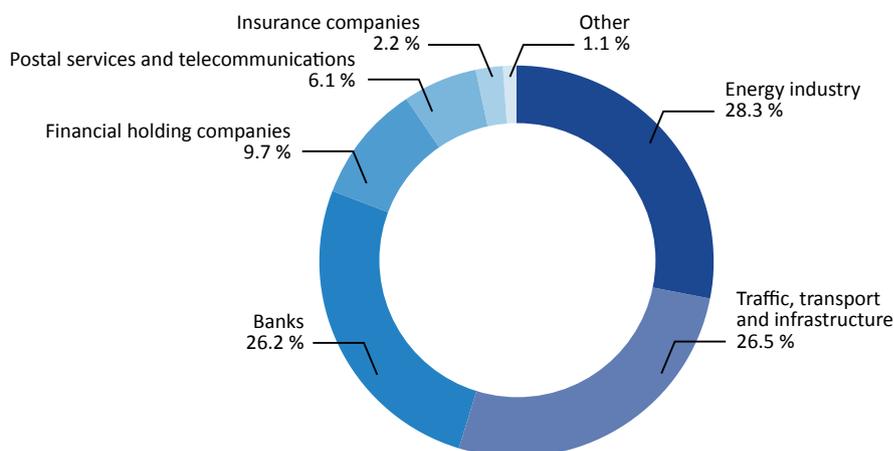
### OPERATIONS OF COMPANIES IN DIRECT OWNERSHIP OF THE REPUBLIC OF SLOVENIA

Like in 2013, state assets of the Republic of Slovenia (in the form of direct equity holdings in companies) slightly increased in 2014. At the end of 2014, the book value of equity stakes of the Republic of Slovenia amounted to the sum of EUR 10.9 billion and increased by EUR 308 million as compared to 2013. The total assets and equity of companies in which the Republic of Slovenia holds its shareholding increased by a similar per cent while net profit and loss generated by these companies in the previous year increased noticeably. The total net profit generated by companies increased from EUR 323 million in 2013 to EUR 474 million in 2014.

*Table 6: Summary of aggregated financial data of companies in direct ownership of the Republic of Slovenia*

<b>Companies directly owned by RS (excl. companies in bankruptcy, liquidation or being wound-up)</b>	<b>2014</b>	<b>2013</b>
Assets (aggregated amounts)	47,701,359,767	47,277,868,408
Equity (aggregated amounts)	14,061,271,855	13,625,876,557
Net profit and loss, including banks	360,238,022	-2,101,053,995
Net profit and loss, excluding banks	474,029,022	322,515,000
<b>Total sum of book-value of shareholdings</b>	<b>10,896,903,999</b>	<b>10,589,017,397</b>

*Graphical presentation 4: The share of individual sectors in the portfolio of the Republic of Slovenia (measured at the book value as of 31 December 2014)*



The assets of the Republic of Slovenia in the form of equity stakes in corporations is still very concentrated and no significant change was recorded in this regard in comparison to 2013. The stakes in the three largest sectors represent more than four fifths of the value of the entire portfolio.

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

*Table 7: Overview of aggregated financial data of companies in direct ownership of the Republic of Slovenia, by sector in FY 2014 (in EUR)*

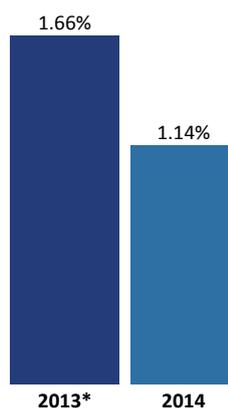
Sectors (excl. companies in bankruptcy, liquidation or being wound-up)	Assets	Equity	Net profit and loss	Qualifying Participation of RS
Energy industry	5,691,485,033	3,473,030,641	43,626,518	3,080,151,088
Traffic, transport and infrastructure	6,736,045,164	3,026,749,889	118,242,947	2,883,473,072
Banking	25,666,341,000	3,047,987,000	-113,791,000	2,858,977,723
Financial holding companies	1,662,108,140	1,035,182,066	32,464,677	1,056,408,066
Postal services and telecommunications	1,655,684,005	947,472,555	9,588,488	662,804,405
Insurance companies	3,275,428,004	688,140,772	85,682,468	237,202,124
Manufacturing	2,668,235,396	1,717,725,302	188,184,555	93,023,913
Public service companies	45,079,270	27,087,176	954,269	9,613,127
Venture capital companies	18,576,927	17,830,070	-1,682,752	8,727,027
Tourism	10,238,926	8,562,712	-1,714,524	4,885,209
Companies employing disabled people	4,332,128	1,937,644	-181,874	1,510,402
Companies to be transferred to SRRF	3,868,182	1,869,489	-989,017	95,344
General economic sector	23,515,135	6,673,644	-575,273	32,482
Food and beverages	240,422,457	61,022,895	428,540	17
<b>TOTAL</b>	<b>47,701,359,767</b>	<b>14,061,271,855</b>	<b>360,238,022</b>	<b>10,896,903,999</b>

A slightly more detailed insight into the performance of companies from individual sector is presented in the following table. Similarly as in 2013, the most profitable companies of 2014 came from insurance industry and manufacturing (measured by the return on equity), and the worst results were again recorded by companies from tourism, by venture capital companies and companies employing disabled people. Following recapitalisations, a significantly improved result was recorded by banks in regard to which the total negative result of the sector is mainly the result of high loss in Abanka Group (EUR –188 million).

Table 8: Summary of financial ratios of companies in RS's direct ownership, by sector in FY 2014 (in EUR):

Sectors (excl. companies in bankruptcy, liquidation or being wound-up)	EBIT margin	Financial leverage	Net debt to EBITDA	ROE
Insurance companies	n.a.	4.8	n.a.	13.4 %
Manufacturing	14.9 %	1.6	0.5	11.1 %
Traffic, transport and infrastructure	15.8 %	2.2	6.8	4.0 %
Public service companies	3.1 %	1.7	-0.9	3.4 %
Financial holding companies	-1.3 %	1.6	6.6	3.3 %
Energy industry	2.4 %	1.6	2.5	1.3 %
Postal services and telecommunications	2.0 %	1.7	1.6	1.0 %
Food and beverages	4.0 %	3.9	3.9	0.5 %
Banking	n.a.	8.4	n.a.	-4.0 %
General economic sector	0.0 %	3.5	15.4	-8.0 %
Companies employing disabled people	-2.1 %	2.2	7.5	-8.3 %
Venture capital companies	n.a.	1	n.a.	-11.3 %
Tourism	-24.4 %	1.2	6.3	-18.2 %
Companies to be transferred to SRRF	36.5 %	2.1	0.4	-41.8 %

Graphical presentation 5: ROE of the portfolio of assets in direct ownership of the Republic of Slovenia in 2013 and 2014

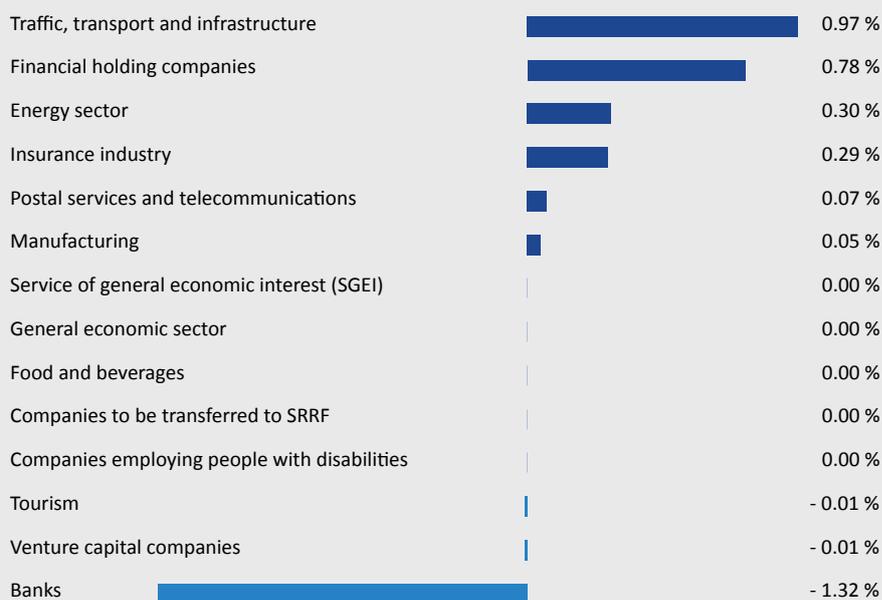


The RS' portfolio increased; the calculation includes shareholdings held by the Republic of Slovenia in individual companies (book-values of shareholding in equity). ROE of the Republic of Slovenia's portfolio amounted to 1.14 %, but when compared to 2013, the note has to be taken that owing to the extraordinary situation in the banking sector, bank losses (EUR 2.4 billion), which were nationalised at the end of 2013, were excluded from the calculation of ROE for 2013. If, for the sake of year-on-year comparison, banks' performance would be excluded from ROE calculation for 2014 (net loss in the amount of EUR 113.8 million), ROE of the Republic of Slovenia's portfolio would amount to 3.35 % in 2014.

\*Bank losses were not included in ROE for 2013 (EUR 2.4 billion) which were nationalised at the end of 2013. If, for the sake of year-on-year comparison, banks' performance would be excluded from ROE calculation for 2014 (net loss in the amount of EUR 113.8 million), ROE of the Republic of Slovenia's portfolio would amount to 3.35 % in 2014.

Owing of high equity stake held in the Republic of Slovenia in the sector of traffic, transport and infrastructure (with DARS standing apart), this sector contributed the most (almost one full percentage point) to the generated ROE of the portfolio which amounted to 1.14%. This sector is followed by financial holding companies (especially due to very good performance results generated by Kapitalska družba, d.d.) and companies from energy industry (Gen energija, d.o.o.). On the other hand, ROE of RS's portfolio was most negatively affected by banking sector, precisely, an extremely poor result of Abanka Group.

*Graphical presentation 6: Individual industry contribution to the RS Portfolio's ROE in 2014*



## 7.3

### Operations of companies in direct ownership of Slovenian Sovereign Holding

The book value of equity stakes in direct ownership of SSH increased and exceeded the sum of EUR 700 million at the end of the year. The total net profit or loss of companies slightly decreased (by EUR 22 million, falling to EUR 309 million).

Table 9: Overview of key aggregated balance sheet data for companies with direct SSH shareholding

Companies directly owned by RS (excl. companies in bankruptcy, liquidation or being wound-up)	2014	2013
Assets (aggregated amounts)	13,287,430,573	14,317,331,576
Equity (aggregated amounts)	5,042,611,650	4,955,221,844
Net profit and loss, including banks	308,750,331	215,078,729
Net profit and loss, excluding banks	308,750,331	330,763,729
Total sum of book-value of shareholdings	706,001,273	658,734,782

The SSH's portfolio is relatively concentrated, similar as the RS's portfolio. The three largest sectors, measured by the sum of the book-value of shareholdings, i.e., insurance business, manufacturing and energy industry, - if put together, represent more than 85% of the entire SSH's portfolio.

Graphical presentation 7: The share of individual sectors in the portfolio of SSH (measured at the book value as of 31 December 2014)

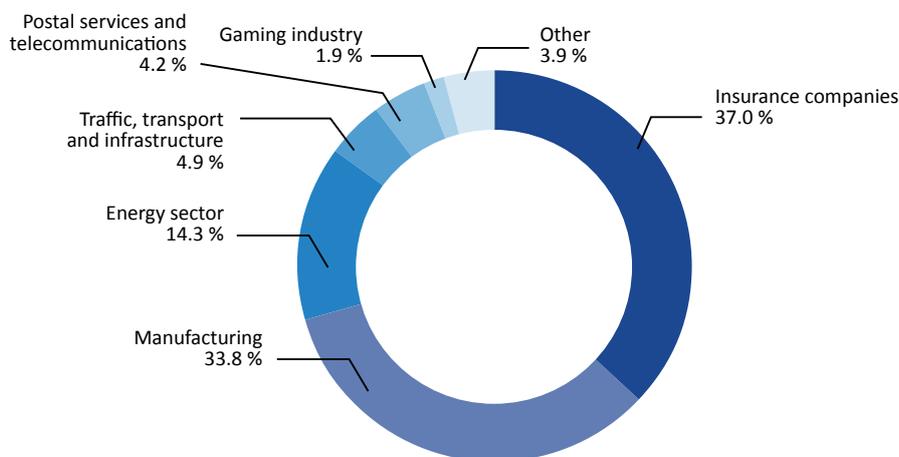


Table 10: Overview of aggregated financial data of companies in direct ownership of SSH, by sector in FY 2014 (in EUR)

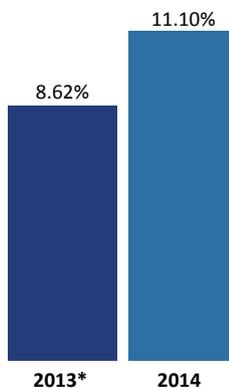
Sectors (excl. companies in bankruptcy, liquidation or being wound-up)	Assets	Equity	Net profit and loss	Qualifying Participation of SSH
insurance business	4,729,802,939	959,669,396	116,220,618	261,180,899
Manufacturing	2,692,053,404	1,466,975,231	130,259,278	238,712,529
Energy industry	2,783,150,805	1,231,131,467	84,782,087	100,835,365
Traffic, transport and infrastructure	747,831,552	433,961,570	29,421,600	34,421,951
Postal services and telecommunications	1,343,421,000	693,901,000	1,594,000	29,490,793
Gaming industry	272,507,007	75,150,208	-8,987,357	13,656,433
Food and beverages	135,019,977	73,729,321	-2,382,270	8,783,001
General economic sector	73,071,162	52,260,556	253,651	8,049,715
Financial holding companies	412,267,704	8,030,193	-43,199,603	7,133,734
Tourism	98,305,023	47,802,708	788,327	3,736,854
<b>TOTAL</b>	<b>13,287,430,573</b>	<b>5,042,611,650</b>	<b>308,750,331</b>	<b>706,001,273</b>

Similarly as in 2013, the most profitable sectors were the three largest ones, i.e., insurance business, manufacturing and energy industry, mainly due to very good performance results generated by Pozarovalnica Sava Group, Zavarovalnica Triglav Group, Krka Group and Petrol Group. On the other hand, a deep negative ROE for the sector of financial holding companies (Sava Group) and gaming industry (HIT Group) stands out.

Table 11 Summary of financial performance of companies in SSH's direct ownership, by sector in FY 2014 (in EUR):

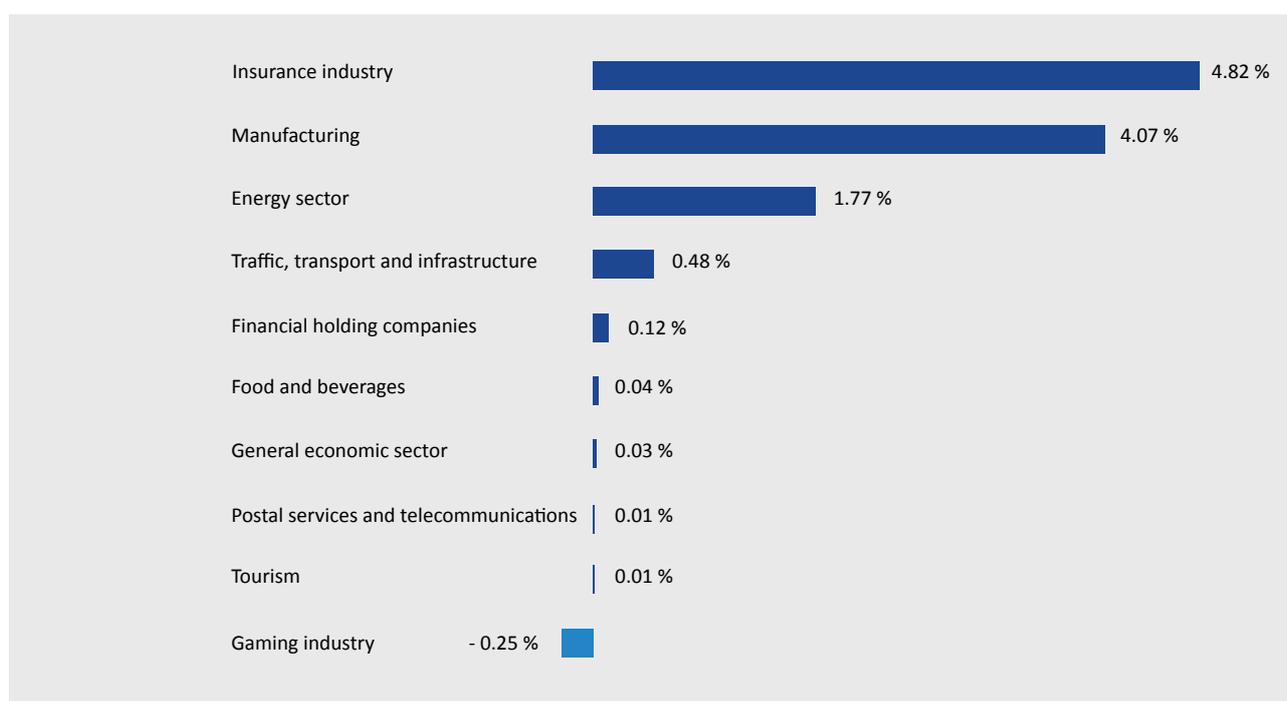
Sectors (excl. companies in bankruptcy, liquidation or being wound-up)	EBIT margin	Financial leverage	Net debt to EBITDA	ROE
insurance business	NA	4.9	NA	13.0%
Manufacturing	13.7%	1.8	1.2	8.8%
Energy industry	2.3%	2.3	3.1	7.0%
Traffic, transport and infrastructure	12.4%	1.7	2.8	6.9%
Tourism	8.0%	2.1	4.5	1.7%
General economic sector	0.2%	1.4	-3.3	0.5%
Postal services and telecommunications	1.5%	1.9	2.0	0.2%
Food and beverages	1.1%	1.8	2.0	-3.1%
Gaming industry	-4.6%	3.6	3.4	-11.4%
Financial holding companies	2.2%	NA	NA	-157.5%

Graphical presentation 8: ROE of SSH portfolio in 2013 and in 2014



Taking into account the participation in individual companies (book values of shareholding), the growth of SSH's portfolio was again recorded in 2014. ROE of SSH's portfolio increased by 2.48 percentage points, rising to 11.10 %. In addition to the above mentioned companies (Krka, Petrol and HIT), the growth of ROE of the portfolio was mostly contributed to by good performance results generated in Zavarovalnica Triglav and Pozavarovalnica Sava.

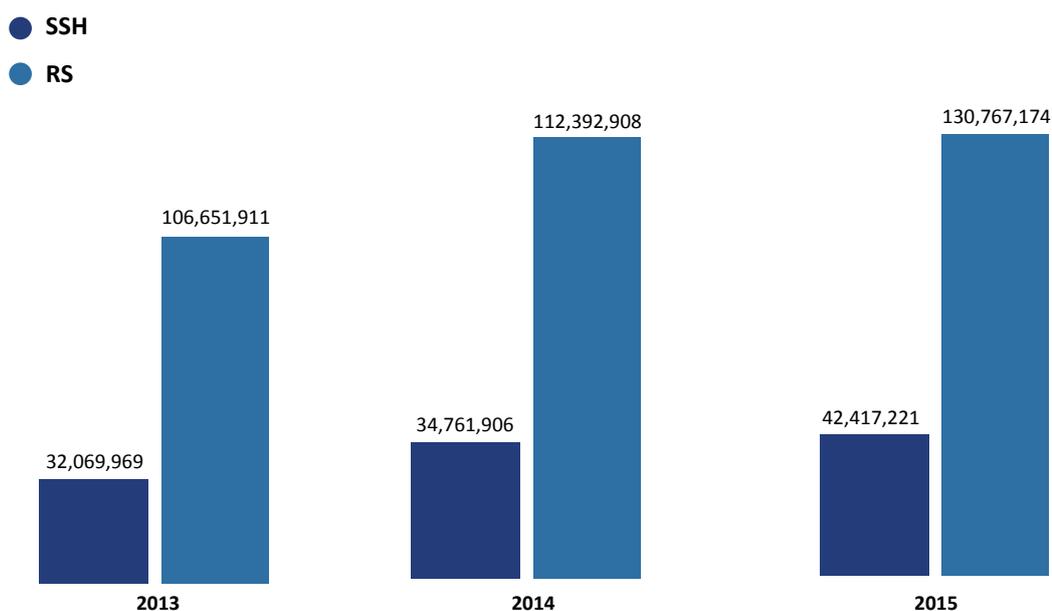
Graphical presentation 9: Individual industry contribution to the RS Portfolio's ROE in 2014



## 7.4 Dividends

The growth trend in dividend pay-outs received by the Republic of Slovenia and SSH for their equity participation continued in 2015 (dividends paid out for FY 2014). The amount of dividends paid out to the Republic of Slovenia increased by 16 %, rising to EUR 130.8 million, while the amounts of dividends paid out to SSH increased by 22 %, rising to EUR 42.4 million.

*Graphical presentation 10: The amount of dividends paid out to RS and SSH between 2013 and 2015 (for the financial year of 2012 to 2014) – in EUR*



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

*Table 12: ROE of the portfolio of assets in direct ownership of the Republic of Slovenia and SSH in 2013 and 2014*

	RS		SSH	
	2013	2014	2013	2014
Sum of shareholdings' book-value (EUR)	10,589,017,397	10,896,903,999	658,734,782	706,001,273
dividend amount (EUR)	112,392,908	130,767,174	34,761,906	42,417,221
dividend pay-out ratio	1.06%	1.20 %	5.28 %	6.01 %

In both cases, as regards the Republic of Slovenia and SSH, the major part of the total amount of dividends received is generated by a small number of companies. More than 50% of all dividends to RS were paid out by two companies (Telekom Slovenije and DARS), and the three largest companies contributed to 70% of the dividend pay-out. In the case of SSH, the concentration is slightly higher – dividend pay-out of the two largest companies amounted to 69% of dividends paid, and the three largest companies (in regard to amounts paid) contributed to more than 80% of all dividends.

*Graphical presentation 11: The shares of companies in the sum of dividends received by SSH and the Republic of Slovenia in 2015 (for FY 2014)*

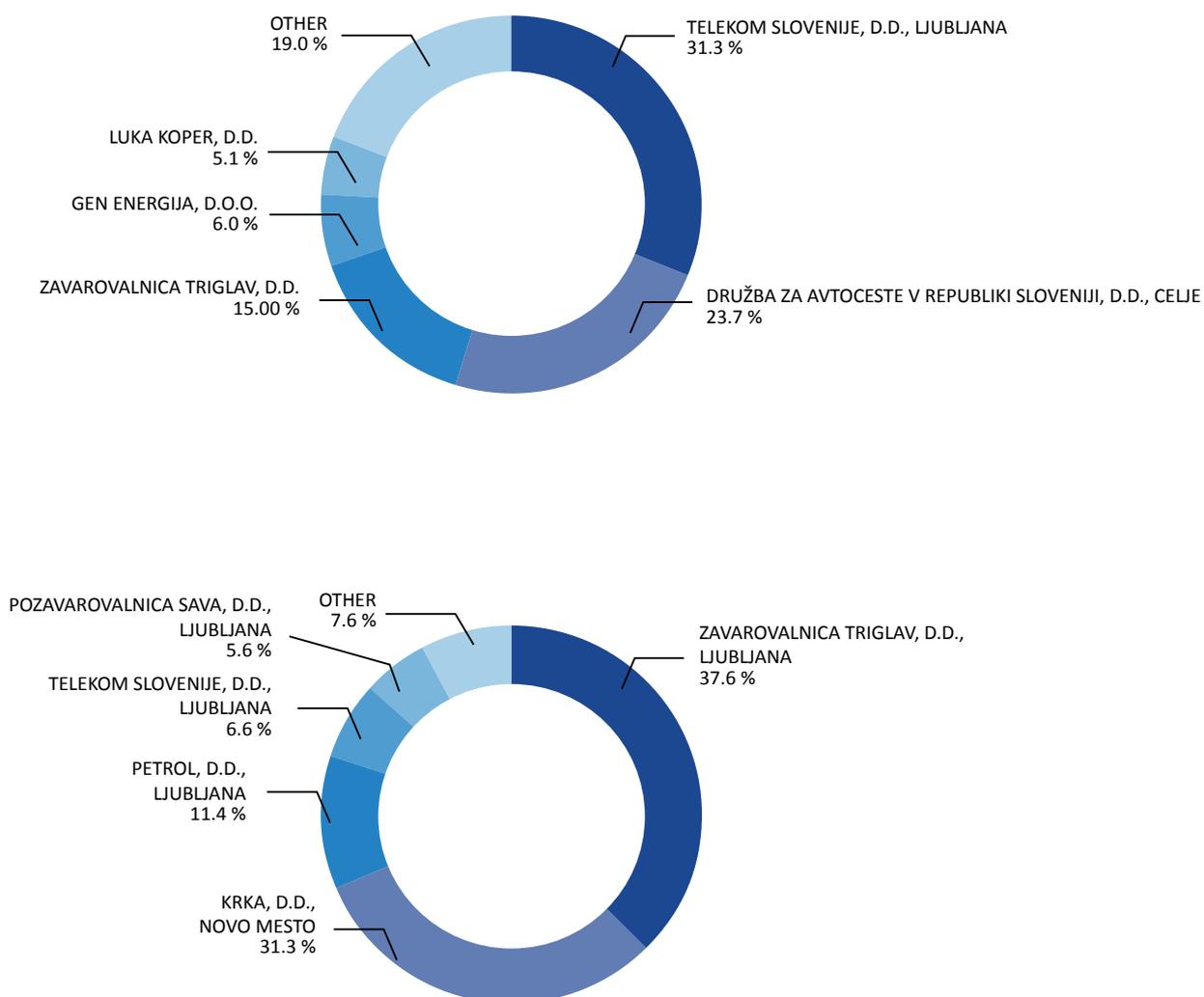


Table 13: REPUBLIC OF SLOVENIA: The portfolio of direct capital assets and selected items from financial statements for FY 2014 (in EUR)

Capital asset	RS's shareholding	Total assets	Equity	Net sales revenue	Operating profit or loss	Net profit and loss for the period
A-COSMOS, D. D.	0.81	16,488,922	3,701,971	31,940,034	608,779	18,249
ADRIA AIRWAYS, D.D.	69.87	46,948,663	9,884,726	143,360,609	2,986,807	921,122
BODOČNOST MARIBOR, D. O. O.	75.83	2,867,058	1,740,300	2,138,748	71,859	36,128
CSS-IP, D. O. O.	96.65	1,465,070	197,344	1,900,405	-177,951	-218,002
ČZP VEČER, D. D, MARIBOR	0.00001	4,165,538	1,561,558	11,968,625	-533,316	-496,501
D. S. U., D. O. O., LJUBLJANA	100.00	127,532,140	58,491,066	10,424,652	2,945,768	5,968,677
DOM UPOKOJENCEV IDRIJA, D. O. O.	18.91	15,732,362	8,192,396	4,901,061	66,492	-86,863
DRI UPRAVLJANJE INVESTICIJ, DRUŽBA ZA RAZVOJ INFRASTRUKTURE, D. O. O.	100.00	22,547,873	19,236,532	16,885,039	941,759	877,032
DRUŽBA ZA AVTOCESTE V REPUBLIKI SLOVENIJI (MOTORWAY COMPANY OF THE REPUBLIC OF SLOVENIA), D. D., CELJE	100.00	5,556,644,000	2,531,278,378	354,455,753	138,448,626	70,354,171
DRUŽBA ZA SPODBUJANJE RAZVOJA TNP, D.D.	51.04	774,874	625,161	121,696	-149,635	-1,515,715
DTK MURKA, DRUŽBA TVEGANEGA KAPITALA, D. O. O.	49.00	2,795,466	2,795,466	0	-150,000	-27,135
EKOEN, D. O. O.	49.07	1,342,084	819,564	182,331	-22,774	-23,700
ELEKTRO CELJE, D. D.*	79.50	285,713,412	196,839,551	140,389,018	12,374,232	10,733,939
ELEKTRO GORENJSKA, D. D.*	79.42	218,571,628	139,847,973	83,901,175	7,373,174	5,477,406
ELEKTRO LJUBLJANA, D. D.*	79.50	525,372,287	285,796,355	561,075,470	9,790,354	4,997,833
ELEKTRO MARIBOR, D. D.*	79.50	358,929,747	253,508,924	157,037,660	13,373,404	11,492,681
ELEKTRO PRIMORSKA, D. D.*	79.50	210,742,587	145,156,912	92,558,815	5,296,658	4,079,402

ELEKTROGOSPODARSTVO SLOVENIJE – RAZVOJ IN INŽENIRING, D. O. O.	100.00	1,750,965	831,345	106,160	-46,058	-43,821
ELEKTROOPTIKA, D.D.	0.00004	0	-58,000	0	-23,000	-26,000
ENERGETIKA ČRNOMELJ, D. O. O.	49.30	1,324,000	516,000	278,000	-18,000	-36,000
GEN ENERGIJA, D. O. O.*	100.00	873,037,400	675,709,564	728,427,191	31,567,205	29,082,002
GEOPLIN, D. O. O.*	39.57	485,162,249	302,229,762	377,865,991	14,338,840	13,581,260
HOLDING SLOVENSKE ELEKTRARNE, D.O.O.*	100.00	2,728,888,082	1,471,547,419	1,258,391,110	-8,113,035	-35,690,435
INFRA, IZVAJANJE INVESTICIJSKE DEJAVNOSTI, D. O. O.	100.00	8,866,091	10,015	1,746,081	142,004	0
INKOS, D. O. O., KRMELJ	2.54	3,079,874	-670,235	6,890,588	181,674	63,571
JAVNO PODJETJE URADNI LIST REPUBLIKE SLOVENIJE, D. O. O.	100.00	4,728,319	4,453,149	2,123,971	-23,900	-9,762
KAPITALSKA DRUŽBA, D. D.*	100.00	1,249,082,000	997,917,000	35,297,000	-3,179,000	73,460,000
KONTROLA ZRAČNEGA PROMETA (SLOVENIA CONTROL, LIMITED), D. O. O.	100.00	40,555,190	15,045,394	33,983,726	3,362,608	2,448,463
KRKA, D. D.*	0.01	1,795,745,000	1,351,899,000	1,191,614,000	276,953,000	166,161,000
LUKA KOPER, D. D.*	51.00	452,585,552	286,323,570	163,595,376	33,381,026	29,092,600
META INGENIUM, DRUŽBA TVEGANEGA KAPITALA, D. O. O.	49.00	3,278,287	3,176,912	0	-180,175	-180,165
MURKA, TRGOVINA IN STORITVE, D. D.	0.17	2,860,675	1,468,115	2,578	-46,325	-71,021
NAFTA LENDAVALA, D. O. O.*	100.00	8,754,478	391,467	10,555,513	-518,759	-4,450,129
NFD HOLDING, D. D.*	0.0003	n.a.	n.a.	n.a.	n.a.	n.a.
PALOMA, D. D.*	0.01	44,365,772	9,830,523	87,226,059	3,542,475	2,635,216
PEKO, D. D.*	61.16	19,339,248	2,682,540	26,273,070	-719,284	-1,578,875

PERUTNINA, D. D., PTUJ*	0.00003	220,875,178	58,150,543	256,938,397	14,291,970	5,831,302
POČITNIŠKA SKUPNOST KRŠKO, D. D. O.	1.46	4,774,456	3,421,376	864,522	-19,512	2,814
POMURSKE MLEKARNE, D. D., M. SOBOTA	0.00004	19,547,279	2,872,352	37,519,049	-2,048,622	-5,402,762
POŠTA SLOVENIJE, D. O. O.	100.00	284,323,731	228,641,879	214,695,026	7,525,118	7,092,861
PRVI SKLAD, DRUŽBA TVEGANEGA KAPITALA, D. O. O.	48.90	10,344,821	9,707,023	0	-460,131	-1,459,260
RRA REGIONALNA RAZVOJNA AGENCIJA CELJE, D. O. O.	5.10	3,868,182	1,869,489	247,046	170,801	-989,017
SAVA, D. D.*	0.03	285,494,000	-21,226,000	62,997,000	-1,229,000	-46,964,000
SIJ – SLOVENSKA INDUSTRIJA JEKLA, D. D.*	25.00	789,260,826	348,135,458	707,857,833	39,542,975	24,903,910
SLOVENSKE ŽELEZNICE, D. O. O.*	100.00	607,897,795	164,971,274	462,834,432	24,165,302	14,549,559
SNEŽNIK, D. D.*	70.04	7,690,198	5,456,549	9,395,492	450,391	449,862
STH VENTURES, D. O. O.	49.00	2,158,353	2,150,669	0	-159,375	-16,192
STUDENTENHEIM KOROTAN GMBH	100.00	4,689,596	4,516,175	537,704	-202,007	-201,623
TELEKOM SLOVENIJE, D. D.*	62.54	1,343,421,000	693,901,000	756,454,000	11,412,000	1,594,000
TELEMACH ROTOVŽ, D. D.	1.10	19,542,494	17,697,356	9,085,672	530,056	654,317
TELEMACH TABOR, ŠIROKOPASOVNE KOMUNIKACIJE, D. D.	0.03	8,396,780	7,232,320	5,759,682	330,094	247,310
TOPLOTNA OSKRBA, D. O. O., LOČE	49.17	650,592	227,272	47,346	-24,967	-24,049
VODNOGOSPODARSKO PODJETJE DRAVA, D. D., PTUJ	25.00	8,765,176	3,884,929	19,541,497	858,214	745,633
VODNOGOSPODARSKO PODJETJE MURA, D. D.	25.01	5,021,078	3,878,183	2,826,905	57,539	82,584
VODNOGOSPODARSKO PODJETJE NOVO MESTO, D. D.	25.00	6,772,929	3,684,948	2,650,905	212,685	192,001
VODNOGOSPODARSKO PODJETJE, D. D., KRANJ*	25.00	4,059,406	2,993,571	5,509,930	13,017	30,676

Capital asset (banks)	RS's shareholding	Total assets	Equity	Net Interest income	Net fees and commissions	Net profit and loss for the period
ABANKA, D. D.*	100.00	2,602,426,000	300,382,000	55,928,000	29,049,000	-188,075,000
BANKA CELJE, D. D.*	100.00	1,713,066,000	202,383,000	38,984,000	14,943,000	-21,060,000
GORENJSKA BANKA, D. D.*	0.05	1,440,967,000	186,904,000	34,340,000	10,402,000	2,603,000
NLB, D. D.*	100.00	11,909,489,000	1,369,295,000	330,006,000	139,629,000	65,068,000
NKBM, D. D.*	100.00	4,369,010,000	616,357,000	110,726,000	55,959,000	23,281,000
SID – SLOVENSKA IZVOZNA IN RAZVOJNA BANKA, D. D.*	99.41	3,631,383,000	372,666,000	43,716,000	2,825,000	4,392,000
Capital asset (insurance companies)	RS's shareholding	Total assets	Equity	Net premium income	Income from financial assets	Net profit and loss for the period
ZAVAROVALNICA TRIGLAV, D. D.**	34.47	3,275,428,004	688,140,772	819,864,481	236,378,245	85,682,468

\* Group data.

\*\* Shareholding owned by ZPIZ.

Table 14: SLOVENIAN SOVEREIGN HOLDING The portfolio of direct capital assets and selected items from financial statements for FY 2014 (in EUR)

Capital asset	SSH's shareholding	Total assets	Equity	Net sales revenue	Operating profit or loss	Net profit and loss for the period
ELEKTRO GORENJSKA, D. D.*	0.31	218,571,628	139,847,973	83,901,175	7,373,174	5,477,406
ELEKTRO LJUBLJANA, D. D.*	0.30	525,372,287	285,796,355	561,075,470	9,790,354	4,997,833
GEOPLIN, D. O. O.*	0.05	485,162,249	302,229,762	377,865,991	14,338,840	13,581,260
PETROL, D. D.*	19.75	1,554,044,641	503,257,377	4,014,302,791	87,198,568	60,725,588
KDD D. D., LJUBLJANA	9.62	13,144,704	11,508,193	7,638,255	1,739,618	1,676,397
PDP, D. D.	33.96	113,629,000	17,748,000	87,227,000	3,019,000	2,088,000
SAVA, D. D.*	11.06	285,494,000	-21,226,000	62,997,000	-1,229,000	-46,964,000
CASINO BLED, D. D., BLED	43.00	1,650,282	-166,394	2,126,027	-176,792	-274,810
CASINO PORTOROŽ, D. D., PORTOROŽ	9.46	21,498,281	1,915,997	15,696,583	950,217	190,057
HIT, D. D.*	20.00	213,340,993	49,301,785	155,714,129	-18,835,281	-12,559,661
LOTERIJA SLOVENIJE, D. D., LJUBLJANA	15.00	36,017,451	24,098,820	92,927,613	5,556,068	3,657,057
TELEKOM SLOVENIJE, D. D.*	4.25	1,343,421,000	693,901,000	756,454,000	11,412,000	1,594,000
POMURSKE MLEKARNE, D. D., M. SOBOTA	3.34	19,547,279	2,872,352	37,519,049	-2,048,622	-5,402,762
ŽITO, D. D.*	12.26	115,472,698	70,856,969	113,746,626	3,691,267	3,020,492
CIMOS, D. D.*	6.90	347,513,819	-169,259,096	367,182,998	-22,638,704	-53,299,583
CINKARNA CELJE, D. D., CELJE	11.41	182,947,471	140,115,231	160,670,852	16,241,861	13,932,441
GORIŠKE OPEKARNE, D. D., RENČE	12.32	12,566,980	3,858,734	6,183,509	-224,874	-588,022
KRKA, D. D.*	16.20	1,795,745,000	1,351,899,000	1,191,614,000	276,953,000	166,161,000
UNIOR, D. D.*	2.31	353,280,134	140,361,362	205,253,261	12,909,387	4,053,442
INTEREUROPA, D. D.*	1.73	295,246,000	147,638,000	140,769,000	5,052,000	329,000
LUKA KOPER, D. D.*	11.13	452,585,552	286,323,570	163,595,376	33,381,026	29,092,600
CETIS, D. D.*	7.47	44,253,466	27,943,024	39,190,678	1,271,821	180,362

ČZP VEČER, D. D, MARIBOR	10.00	4,165,538	1,561,558	11,968,625	-533,316	-496,501
INTERTRADE ITA, D. D., LJUBLJANA	7.69	17,622,501	17,575,522	222,527	-198,800	208,463
PS ZA AVTO, D. O. O., LJUBLJANA	90.00	6,696,386	4,921,607	197,713	-350,133	423,808
VARNOST SISTEMI, D. O. O.	9.74	333,271	258,845	307,270	-78,008	-62,481
ADRIA, TURISTIČNO PODJETJE D. O. O., ANKARAN	12.24	24,971,165	19,424,213	4,276,414	295,218	175,368
TERME OLIMIA, D. D.*	4.79	73,333,858	28,378,495	22,201,445	2,061,462	612,959
<b>Capital asset (insurance companies)</b>	<b>SSH's shareholding</b>	<b>Total assets</b>	<b>Equity</b>	<b>Net premium income</b>	<b>Income from financial assets</b>	<b>Net profit and loss for the period</b>
POZAVAROVALNICA, D. D.*	25.00	1,454,374,935	271,528,624	437,572,337	55,271,374	30,538,150
ZAVAROVALNICA TRIGLAV, D. D.*	28.09	3,275,428,004	688,140,772	819,864,481	236,378,245	85,682,468

\* Group data.



Photo: archive Elektro Celje d. d.



# 8.

## METHODOLOGICAL AND 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

Operation performance data for SOEs refer to Groups. At the time of developing this Report, almost all audited consolidated data regarding companies in the RS and SSH portfolios were available to SSH, with the exception of two smaller companies in which RS holds a negligent shareholding.

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 2014. Short company presentations have been developed for all other companies except for companies in bankruptcy, liquidation or being wounded-up (only a list has been produced) and for companies in which the SSH and RS shareholdings are smaller than 1%. The presentation is not made for assets held by PDP, d.d, which were merged with SSH on 1 July 2015.

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

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

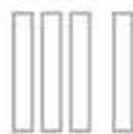
## Sources:

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- Financial and Annual Reports of companies held in ownership of RS and SSH
- Bloomberg Information System
- Ljubljana Stock Exchange. [www.ljse.si](http://www.ljse.si). 2015
- Ordinance On State-Owned Capital Assets Management Strategy (OdSUKND) was adopted by the National Assembly on 13 July 2015.
- OECD, Accountability and Transparency: a Guide for State Ownership, 2010.
- OECD, Guidelines on Corporate Governance of State-Owned Enterprises, 2005
- Slovenian Sovereign Holding, 2014 SSH Recommendations and Expectations
- Slovenian Sovereign Holding, 2014 Corporate Governance Code for Companies with Capital Assets of the State
- Slovenian Sovereign Holding, 2014 SSH Asset Management Policy
- Slovenian Sovereign Holding, SSH Premises for Voting on General Meetings of Shareholders in 2014
- Slovenian Sovereign Holding, 2014 Rules on Supervisory Board Member Selection (Conditions, Criteria, Procedures and Evaluation for Determining Suitability and Selecting Potential Candidates for Members of Supervisory Bodies of Companies with State's Capital Assets)
- The Institute of Macroeconomic Analysis and Development, 2015, [www.umar.gov.si](http://www.umar.gov.si)
- Metrology Institute of the Republic of Slovenia, 2015 Benefits of EFQM Model in Slovenia
- Metrology Institute of the Republic of Slovenia, <http://www.mirs.gov.si/>
- Directors' Association of Slovenia, Managers' Association of Slovenia, Ljubljana Stock Exchange, 2009 Corporate Governance Code for Joint Stock Companies

## Accounting Standards SAS and IFRS

Slovenian Accounting Standards (SAS) must be used by all organisations in the Republic of Slovenia but by those which use International Financial Reporting Standards (IFRS). IFRS are directly used by Slovenian corporations which are obliged to follow these standards in accordance with ZGD-1; i.e., enterprises with securities listed on one of regulated markets in EU Member States and which are bound to consolidate. Enterprises may voluntarily opt for the use of IFRS by passing a respective AGM Resolution. These enterprises must also use SAS from SAS19 to SAS 29 and SAS 8.30. Other accounting standards are only used as an assistance in understanding IFRS. Enterprises which use SAS must disclose this information in the Annual Report

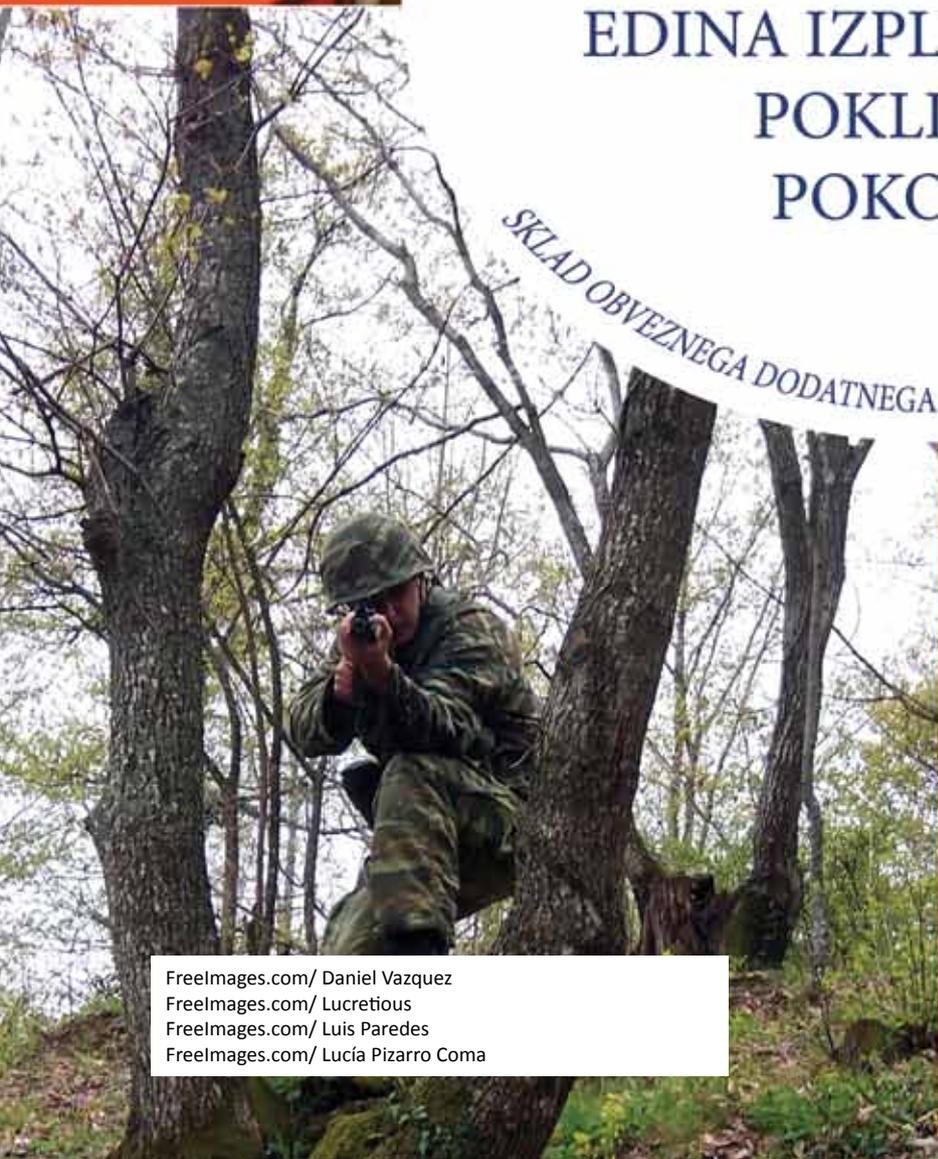
IFRS are mainly focused on rules regarding external corporate reporting and are envisaged for large enterprises. Some standards are particularly complex and for many areas more detailed disclosures are needed as compared to SAS. As mentioned above, enterprises in Slovenia may voluntarily opt for the use of IFRS as a basis for developing Accounting Statement. Slovenian Accounting Standards which have been valid since 2006 are harmonised with IFRS in many aspects, thus enabling better comparisons between financial statements of individual enterprises.



KAPITALSKA DRUŽBA

EDINA IZPLAČEVALKA  
POKLICNIH  
POKOJNIN

SKLAD OBVEZNEGA DODATNEGA POKOJNINSKEGA ZAVAROVANJA



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## Abbreviations

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



**Annual Report - Management of Capital Assets of RS and SSH in 2014 – Abbreviated version in English  
SSH Report to the National Assembly of RS**

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Due to the Report's extensive nature, the abbreviated version of the Annual Report - Management of Capital Assets of the Republic of Slovenia and Slovenian Sovereign Holding for 2014 has been translated, excluding thus the original Chapter 6.7 - Review of Individual Portfolio Sectors, and Chapter 7- Highlights of 20 Largest Companies in 2014, and Chapter 9 - Company Details for 20 Largest SOEs, and Chapter 10 - Company Details of Other Companies with Direct Ownership Stake by the Republic of Slovenia and Slovenian Sovereign Holding. In spite of the fact that the English version is abbreviated it includes all the most significant highlights and information from the original Annual Report in Slovenian.

**Legal disclaimer:** The original text of this document is written in Slovenian; in case of any doubt or misunderstanding, the Slovenian text shall therefore prevail.

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**Limits of liability**

The Annual Report was produced by SSH in accordance with Article 67 of ZSDH-1, imposing on SSH the task of monitoring the effectiveness of SOEs' operation. The document has also been created in accordance with recommendations regarding good practice drawn in OECD Guidelines for Corporate Governance of State-Owned Enterprises, which in Item V imposes on the company managing state assets to develop a consistent and aggregate reporting on state-enterprises and publish annually an aggregate report on SOEs. The 2014 Annual Report refers to management of capital assets of the Republic of Slovenia, SOD and SSH as SOD was transformed to SSH on 26 April 2014 with SSH acting as SOD's legal successor. The 2014 Annual Report was developed in accordance with the principle of conscientiousness and fairness by applying the necessary expertise and in accordance with the principle of professional due diligence. The information on companies and Groups of companies used in the document were obtained from publicly accessible data bases and directly from companies (the right to information obtained is recognised to all other shareholders and an individual company is obliged to provide such pieces of information in a suitable manner). The information does not represent any inside information within the meaning of Article 373 of Financial Instruments Market Act. Any potential indicative value assessments are stated for informational purposes only and do not in any way bind SSH by way of any actions or decisions. The document does not represent a recommendation or a piece of advice for personal investment decisions or any other conduct and it is not an offer not an invitation to submit offers for the purchase of shares or shareholdings in direct or indirect ownership of the state. Users of information from this Report are advised by SSH to verify the data with other suitable sources and to consult with an expert of a relevant discipline about any investment decision into a company referred to in the document or in regard to any other action. Slovenian Sovereign Holding warns that information presented in the 2014 Annual Report is of informational nature and data error, linguistic and other errors might have occurred in the document which is why SSH is not held responsible in relation to users for consequences of any actions which might be based on the content of this document. Slovenian Sovereign Holding has put an effort into ensuring the correctness of the data provided. Any public publication, reproduction, sale, modification or transformation of the content is prohibited without the written consent being given by SSH.



