

The logo for SDH, consisting of the letters 'SDH' in white on a blue square background. The background of the entire page features abstract, textured blue and white bands that create a sense of depth and movement, with some bands appearing to recede into the distance.

ANNUAL REPORT  
Management of Capital Assets of RS and SSH  
for 2018

SSH Report to the National Assembly of RS

# Annual Report

## Management of Capital Assets of RS and SSH for 2018

SSH Report to the National Assembly of RS

---

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

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

Ljubljana, October 2019

# TABLE OF CONTENTS

<b>INTRODUCTION .....</b>	<b>7</b>
1 KEY HIGHLIGHTS FOR 2018 ON MANAGEMENT OF CAPITAL ASSETS OWNED BY RS AND SSH .....	9
1.1 Key highlights for 2018 on management of capital assets owned by RS and SSH .....	10
2 LETTER BY MANAGEMENT BOARD .....	11
<b>ON MANAGEMENT OF CAPITAL ASSETS HELD BY RS AND SSH .....</b>	<b>15</b>
3 PRESENTATION OF SLOVENIAN SOVEREIGN HOLDING .....	16
3.1 SSH Vision, mission, and values .....	18
3.2 The legal form and organisational structure of SSH .....	19
3.3 Purpose of SSH's ESTABLISHMENT .....	20
3.4. Internal organisation of SSH .....	20
3.5 SSH Strategic policies and goals .....	21
3.5.1 Goals .....	22
4 COMPLIANCE, INTEGRITY AND INTERNAL AUDIT .....	27
4.1 Compliance function and main activities in 2018 .....	27
4.2 Integrity Plan and work carried out by Chief Compliance Officer .....	27
4.3 Additional mechanisms for the supervision and handling of irregularities in SOEs .....	29
4.4 Personal data protection .....	29
4.5 Internal Audit .....	30
5 SUPERVISORY BOARDS OF SOEs AND CANDIDACY PROCEDURES .....	35
5.1 About SSH's Nomination Committee .....	36
5.2 Work performed by Nomination Committee in 2018 .....	37
5.3 Training programmes for SB members of SOEs: knowledge for professional and responsible work .....	37
5.4 Diversity and profiles of candidates and SB members and MB members of SOEs by gender .....	38
5.4.1 Basic analysis of candidates from SSH Nomination Committee's Portal .....	39
5.4.2 The composition of Supervisory and Management Boards of companies owned by the Republic of Slovenia by gender .....	39
6 LEGAL FRAMEWORK FOR MANAGING CAPITAL ASSETS OF RS AND SSH AND AMENDMENTS OF ASSET MANAGEMENT RELATED DOCUMENTS IN 2018 .....	43
6.1 The framework of functioning for SOEs .....	43
6.2 The corporate governance system of SOEs –legal bases and documents on asset management with their amendments in 2018 .....	44
6.2.1 State Assets Management Strategy .....	46
6.2.2 Asset Management Annual Plan .....	46
6.2.3 Criteria for Measuring Performance of SOEs .....	46
6.2.4 SSH Asset Management Policy .....	47
6.2.5 Corporate Governance Code for SOEs .....	47
6.2.6 Other recommendations and viewpoints .....	48

7	MACROECONOMIC ENVIRONMENT AND DEVELOPMENTS IN THE MOST IMPORTANT SECTORS FROM PORTFOLIO .....	51
7.1	Overview of selected macroeconomic data and of Slovenian capital market.....	51
7.2	Overview of developments by portfolio sectors .....	54
7.3	Management of SSH and RS capital assets in 2018 .....	59
7.3.1	Fundamental principles of asset management.....	59
7.3.2	Active management of RS and SSH capital assets.....	60
7.3.3	Active Preparation for Annual General Meetings and exercise of all other shareholder's rights .....	61
7.3.3.1	SSH Premises for Voting on General Meetings of Shareholders in 2018.....	62
7.3.4	Monitoring operations of SOEs .....	63
7.3.4.1	Fundamental goals for managing capital assets and their classification .....	64
7.3.4.2	Strategic and financial objectives of companies rendering public service of general economic interest.....	66
7.3.5	Risk management in SOEs .....	66
7.3.6	Main events in 2018 in regard to asset management .....	67
7.3.7	Main activities in 2018 in regard to asset management by individual companies ..	68
7.3.8	Dokapitalizacije družb s strani RS in SDH v letu 2018.....	70
7.3.9	Expectations in regard to ROE and dividend revenue .....	71
7.3.10	Strategic focus and key success factors for corporate governance in the future ..	71
8	ACQUISITION AND DISPOSITION OF CAPITAL ASSETS IN 2018.....	75
8.1	Activities in connection with the disposition of capital assets .....	76
8.2	Activities in connection with the acquisition of capital assets .....	77
	<b>BUSINESS PERFORMANCE OF COMPANIES OWNED BY RS AND SHS .....</b>	<b>79</b>
9	BUSINESS PERFORMANCE OF COMPANIES OWNED BY RS AND SHS.....	80
9.1	Portfolio of RS and SSH capital assets as at 31 December 2018.....	80
9.2	Value and structure of portfolio under management .....	84
9.3	Business performance of portfolio companies .....	86
9.4	Dividends .....	89
9.5	Summary of criteria for measuring performance of SOEs and satisfaction of such criteria in 2019.....	91
10	METHODOLOGICAL, LEGAL AND OTHER NOTES.....	95



# INTRODUCTION





# KEY HIGHLIGHTS FOR 2018 ON MANAGEMENT OF CAPITAL ASSETS OWNED BY RS AND SSH



Expected ROE of total RS and SSH portfolio for 2018, as stated in Annual Asset Management Plan

6.1%



**In 2018, ROE of RS and SSH portfolio amounted to**

**6.2%**



The targeted sum of dividends paid out from RS and SSH portfolio in 2019 (for FY 2018), as stated in Annual Asset Management Plan

€ 242.6 million



**The total sum of dividends paid out from RS and SSH portfolio in 2019 (for FY 2018)**

€ **250.4** million



**Revenue from the sale of RS's and SSH's capital assets in 2018**

€ **670.5** million



**Total of book-value of assets owned by RS and SSH as at 31 December 2018**

€ **10.1** billion





# 1.1 Key highlights for 2018 on management of capital assets owned by RS and SSH

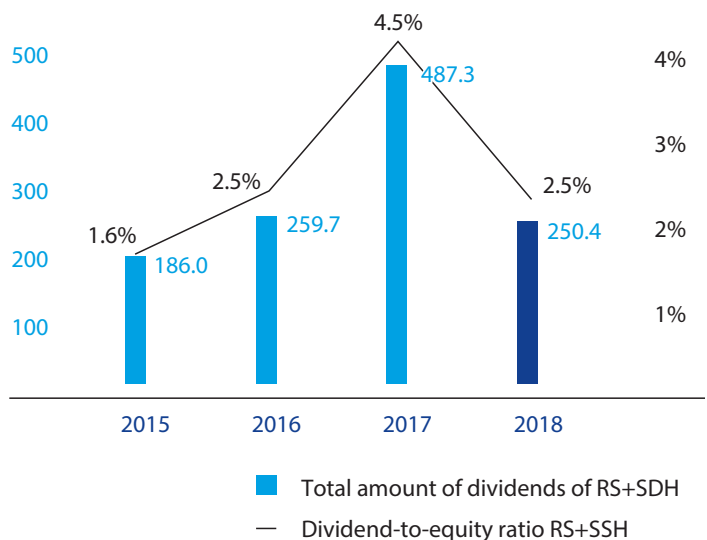
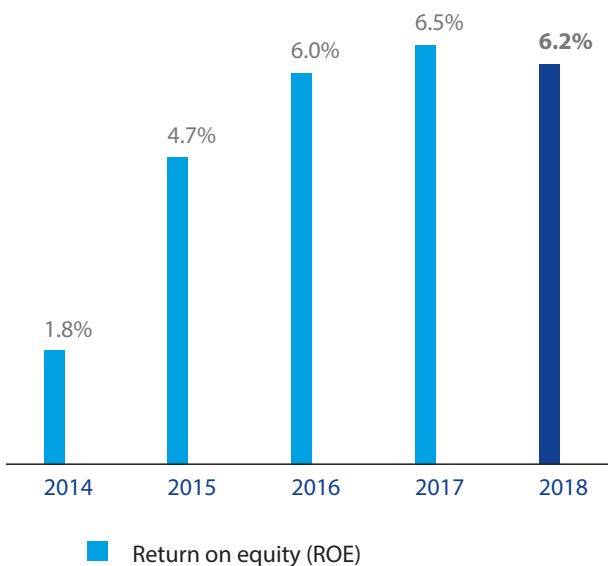
As at 31 December 2018, SSH managed **74 active** and **23 inactive capital assets** (companies in bankruptcy proceedings or in liquidation). The book-value of capital assets under management amounted to **EUR 10.1 billion**, which is EUR 0.8 billion lower than at the end of 2017. The decrease in the value of the portfolio is attributed to the sale of 65% shareholding held by RS in NLB, closed in November. After this sale, **the concentration of assets** in the portfolio increased further more - the 10 largest assets represented as much as 79% of the portfolio while the 20 largest assets represented more than 96% of the book-value of the entire portfolio. Strategic assets represent more than three quarters of the portfolio's book-value.

In 2018, ROE of the portfolio under management amounted to **6.2%** which is by 0.3 percentage points less than in 2017, yet by 0.1 percentage point higher than planned. The performance of the majority of companies was in accordance with the plan or even better, however, the sale of equity stake of RS in Nova Ljubljanska banka d.d. had a negative impact on ROE of the portfolio. In addition to the above stated, the loss in HSE Group significantly contributed to the fall in ROE while the largest companies from the Financial Sector, Luka Koper and Kontrola zračnega

prometa Slovenije, Krka, Cinkarna, Unior and some other companies recorded good business results and growth of their ROE, similarly to 2017.

The amount of dividends paid out to the Republic of Slovenia and SSH in 2019 (for the financial year of 2018) amounted to **EUR 250.4 million** which represent 2.5% dividends-to-equity ratio. The dividends received exceeded the dividends planned in the Annual Asset Management Plan and were, as expected, significantly lower than dividends paid out for FY 2017 which were characterised by high dividend amounts paid out by NLB, d. d. and Telekom Slovenije, d. d.

The sale of the equity stake of RS in NLB had an impact on the lower dividend revenue; otherwise, the majority of the most important companies increased their dividend pay-outs for FY 2018 (banks, both insurance companies, Krka, Petrol, electricity distribution companies, Gen energija, etc.). Owing to the sale of equity stakes in banks in 2019, additional and significant decrease in dividend revenue is expected for the future, since the proportion of dividends paid out by Abanka and NLB represented almost one half of all dividends received by RS and SSH in FY 2018.



# LETTER BY MANAGEMENT BOARD

# 2

In order to realise the SSH's vision, which is generating value from capital assets for the owner, SSH pursues goals defined in the State Assets Management Strategy and other goals set in SSH's corporate documents.

Its comprehensive and diversified portfolio of companies, which includes a significant portion of the Slovenian economy, comprises various sectors, specifically: energy industry, manufacturing, insurance businesses, banks, traffic, transport and infrastructure, tourism and general economic sector. This imposes on us a great responsibility for their successful governance. The centralisation of state-assets management, as established by ZSDH-1, shows a good track record presenting measurable results for the owner and, on the aggregate level, the operation of companies with capital assets held by RS and SSH has improved significantly in the recent years. The progress made in governance is acknowledged by the European Commission and the OECD. Such governance system should be supported in the future and long-term financing conditions for the central asset management institution should be determined since SSH is going to transfer the great part of its assets into the ownership of the Republic of Slovenia at the end of 2020.

With a favourable economic environment, good asset management results continued to be recorded in 2018.

**At the level of the portfolio, recording a 6.5% ROE, 2017 was the most successful year since the introduction of the centralised system of asset management, and in 2018, in spite of a significantly modified portfolio's structure (the sale of 65% equity stake in NLB), 6.2% ROE was achieved; this is higher than the goal set in Annual Asset Management Plan (AAMP) which was set at 6.1%.**

SSH supports long-term development of portfolio companies and encourages successfulness and efficiency of their operations. By means of its decisions made at General Meetings of Shareholders of companies, SSH pursues a responsible approach to Dividend Policy in terms of advocating a suitable balance between dividend yield and development needs of companies. **Companies managed by SSH made a decision to pay out dividends for FY 2018 (paid out in 2019) in the amount of EUR 250.4 million to be received by RS<sup>1</sup> and SSH. This amount exceeds the sum planned in AAMP which stands at EUR 242.6 million.** Dividend pay-outs for FY 2018 are comparable to those received in 2017 as the comparison should exclude some high pay-outs received in 2017 as a consequence of one-off and extraordinary events (such as, for example, the dividend payout by NLB in the amount of EUR 270.6 million and additional dividends paid out by Telekom Slovenije, d. d.).

**The target value of return on equity ratio and the dividend revenue, as two main economic and financial criteria for measuring SSH's performance, will reflect changes in the structure of asset portfolio under management in the future.**

Successfully closed sales process of banks (NLB, d. d., and Abanka, d. d.) will have a negative impact on the future target value of ROE and on the dividend

<sup>1</sup> Including dividends received by ZPIZ from the ownership of shares held in Zavarovalnica Triglav.

revenue received by the RS's budget since both banks together, NLB and Abanka, comprised almost one fifth of the total value of the RS's portfolio and their performance results significantly influenced the calculation of ratios of the entire portfolio. In recent years, both banks paid out above average high amount in dividends and achieved high ROE. The structure of the portfolio will significantly change with the above mentioned sales for the benefit of assets defined as strategic and which already hold the greatest portion of the SSH's portfolio (75.9%). The priority objective of strategic assets is the attainment of strategic goals of the Republic of Slovenia which is why these companies will not be able to compensate for the decline in ROE and lower dividend revenue to be received as a consequence of closed sales. It is worth pointing out that in case of some of the largest strategic assets, SSH has almost no influence on their revenues, (Dars, electricity distribution companies, partially Pošta Slovenije, etc.) since their revenue is determined by regulations adopted by RS and the impact of SSH on their operating results is limited mainly to the supervision over their costs of operation. Considering the changing structure of the portfolio under SSH's management, in the future, the assessment of the performance of asset management will have to take into account other criteria which will include the specific features of operation in an individual industry and the activity of companies, such as for example, service of general economic interest.

### **Sales processes in 2018 marked by the sale of NLB shares and preparatory activities for the sale of Abanka**

In 2018, the majority of activities carried out by SSH in connection with the sale of capital assets included the sale of 65-percentage stake of RS in Nova Ljubljanska banka d. d. (NLB) which was closed with an IPO in November 2018. In June 2019, SSH successfully closed the sale of 10-percent equity stake minus 1 share of NLB, by way of an accelerated bookbuild. Following the completion of the privatisation process, the Republic of Slovenia remains the largest individual

shareholder of NLB, holding a 25-percentage ownership stake and one share.

In 2018, SSH intensively pursued activities for the sale of a 100-percentage ownership stake of RS in Abanka, d. d. (Abanka), on the basis of which the Sale and Purchase Agreement was concluded with Nova KBM, d. d. in June 2019.

### **SSH's endeavours for sustainability and enhancement of operational integrity**

One of more important priorities followed by SSH in the future will focus on the increased endeavours for companies under SSH management to consider the sustainable development when preparing their business strategies and business plans and models. SSH intends to additionally improve cases of good practice in corporate governance, especially in the Corporate Governance Code and in Recommendations which are expected to be observed and gradually realised by companies under SSH management.

In 2018, all measures were being implemented as regards integrity, responsibility and accountability and limitation of risks with regard to corruption, conflicts of interest and the abuse of proprietary information in the management of state assets. Based on its experience and risks identified, SSH supplemented its compliance and business integrity system and in 2019, modernised its Business Integrity Plan. Permanent and additional measures as stated in the Integrity Plan for managing corruption risks and for preventing illegal and unethical actions were carried out regularly.

**In the future, the focus of SSH will be placed on the constructive cooperation with all stakeholders, on providing support for transformation of companies, and on measures for further improving cost efficiency of operations which will assist companies in attaining goals set, whilst striving to further improve their practices of corporate governance with various measures.**

SSH is highly active in implementing its most important mission, i.e., the professional and economic management of capital assets owned by the Republic of Slovenia and SSH. The goals in respect of asset management include efficient implementation of processes of sale in accordance with the Asset Management Strategy, with the endorsed Annual Asset Management Plan, in addition to the realisation of financial, strategic and other goals in connection with the capital asset management which have been set for each individual asset.

Numerous companies in SSH's portfolio face great changes and challenges. The implementation of tourism strategy, the sectors of energy, traffic and transport and the infrastructure pose the greatest challenges. SSH will cooperate with companies in a constructive manner and will support all changes

pursued by them which (also) by means of measures aimed at lean organisation will lead to business models for sustainable and successful performance in the long term, to raising the corporate governance culture, to maintaining the competitiveness of companies and to the realisation of goals set.

Companies with state capital assets continually create excellent digital transformation and innovation projects whose aim is to provide for more advanced, sustainable and efficient services or products. Such projects support the generation of long-term value which is an important objective for managing state capital assets. We at SSH are proud to present only a few of these successful projects which have been submitted to us by the companies with state capital assets. They are presented as the common thread of this Annual Report.

Andrej Božič,  
Member of Management Board



Gabrijel Škof,  
President of Management Board



Boštjan Koler,  
Member of Management Board







# ON MANAGEMENT OF CAPITAL ASSETS HELD BY RS AND SSH



# 3 PRESENTATION OF SLOVENIAN SOVEREIGN HOLDING

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

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

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

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

## Company details - significant data



SLOVENIAN SOVEREIGN HOLDING, d. d.

Corporate name:	Slovenski državni holding, d. d.
Registered office:	Ljubljana
Business address:	Mala ulica 5, 1000 Ljubljana
Telephone No.:	++386 1 300 91 13
Web site and e-mail:	www.sdh.si, info@sdh.si
Activity code:	64.990
VAT ID:	SI46130373
Registration No.:	5727847
Date of legal entity's establishment	19 February 1993
Date of SSH's incorporation:	26 April 2014
Date of company transformation from SOD into SSH:	11 June 2014
Registered legal form:	Public limited company registered before Ljubljana District Court, under the Reg. Entry No. 1/21883/00
Share capital:	EUR 260,166,917.04
No. of employees as at 31 December 2018:	66
Membership in other organisations:	Directors' Association of Slovenia, Association of Employers of Slovenia

<b>Management Board:</b>	<p>Gabrijel Škof, President of the Management Board (from 1 October 2019)  Boštjan Koler (from 1 December 2018)  ***Andrej Božič (from 21 January 2019 to 1 December 2019).</p> <p><u>In 2018 and 2019, SSH MB also included the following members:</u>  Lidia Glavina, President, (until 31 March 2019)  Nada Drobne Popovič, MSc. (until 11 June 2018)  Dr. Andrej Bertoncej (from 3 May until 13 September 2018)  Vanessa Grmek (from 21 September to 30 November 2018)  Igor Kržan, President of Management Board (from 1 April 2019 to 30 September 2019)</p>
<b>Members of Supervisory Board:</b>	<p>Karmen Dietner, President (Member from 19 December 2018 to 31 March 2019; President from 1 April 2019)  Duško Kos, Deputy President  *Damjan Belič,  Janez Vipotnik (from 14 December 2017)  Igor Kržan (Member (from 24 April 2017 to 22 January 2019; President from 23 January until 31 March 2019; from 1 April 2019 until 30 September 2019, his position in SB was suspended)</p> <p><u>In 2018, the Supervisory Board also included the following member:</u>  **Dr. Andrej Bertoncej (from 20 June 2017 until 13 September 2018)</p>
<b>Members of the SB's Audit Committee:</b>	<p>Duško Kos, President  Damjan Belič;  Darinka Virant, External Member</p>
<b>Members of SB's Risk Committee:</b>	<p>Janez Vipotnik, President (Member from 3 May 2018 until 31 March 2019; President from 1 April 2019)  Karmen Dietner (President, from 23 January until 31 March 2019 Member from 1 April 2019)  Darinka Virant, External Member  **Dr. Andrej Bertoncej, President (from 12 July 2017 until 3 May 2018)  Igor Kržan (Member from 12 July 2017; President from 3 May 2018 until 23 January 2019)</p>
<b>Members of Nomination Committee:</b>	<p>Samo Roš, President (from 1 April 2019),  Urška Podpečan, Deputy President (from 1 April 2019)  Brigita Vončina</p> <p><u>In 2018 and 2019, NC also included the following members:</u>  Luka Gaberščik, President, (until 31 March 2019),  Jagoda Vitez, Deputy President (until 31 March 2019)</p>
<b>Members of ECESA:</b>	<p>Lidia Jerkič, President  Zdenko Lorber, Deputy President  Miroslav Garb, MSc. Branimir Štrukelj, Franc Zupanc, Nevija Pečar and Jakob Počivavšek</p>
<b>Contact for Annual Report:</b>	pr@sdh.si

\* He held the function as the SB President until 22 January 2019; from 23 January 2019, he holds the position of a Member)

\*\* His membership in Supervisory Board was suspended from 3 May 2018 until 13 September 2018, and at that date, he resigned from both functions.

\*\*\*On 18 September 2019, SB appointed Boris Medica as the SSH's Management Board Member, assuming his term of office on 1 December 2019.



## 3.1 SSH Vision, mission, and values

### Vision

Generating value from capital assets for the owner.

### Mission:

Since RS and SSH are important owners of capital assets held in economic entities in Slovenia, therefore, the main duty of SSH is a responsible, professional and active management of these assets. Among other matters, active governance means focusing on creating value for owners, that is, the Republic of Slovenia and SSH. The ultimate objective of state-owned companies being managed by SSH is effective, profitable, economical operation, creation of value, and in many cases, efficient management of individual assignments in public interest.

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

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

### Our values

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



## 3.2 The legal form and organisational structure of SSH

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

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

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



### 3.3 Purpose of SSH's ESTABLISHMENT

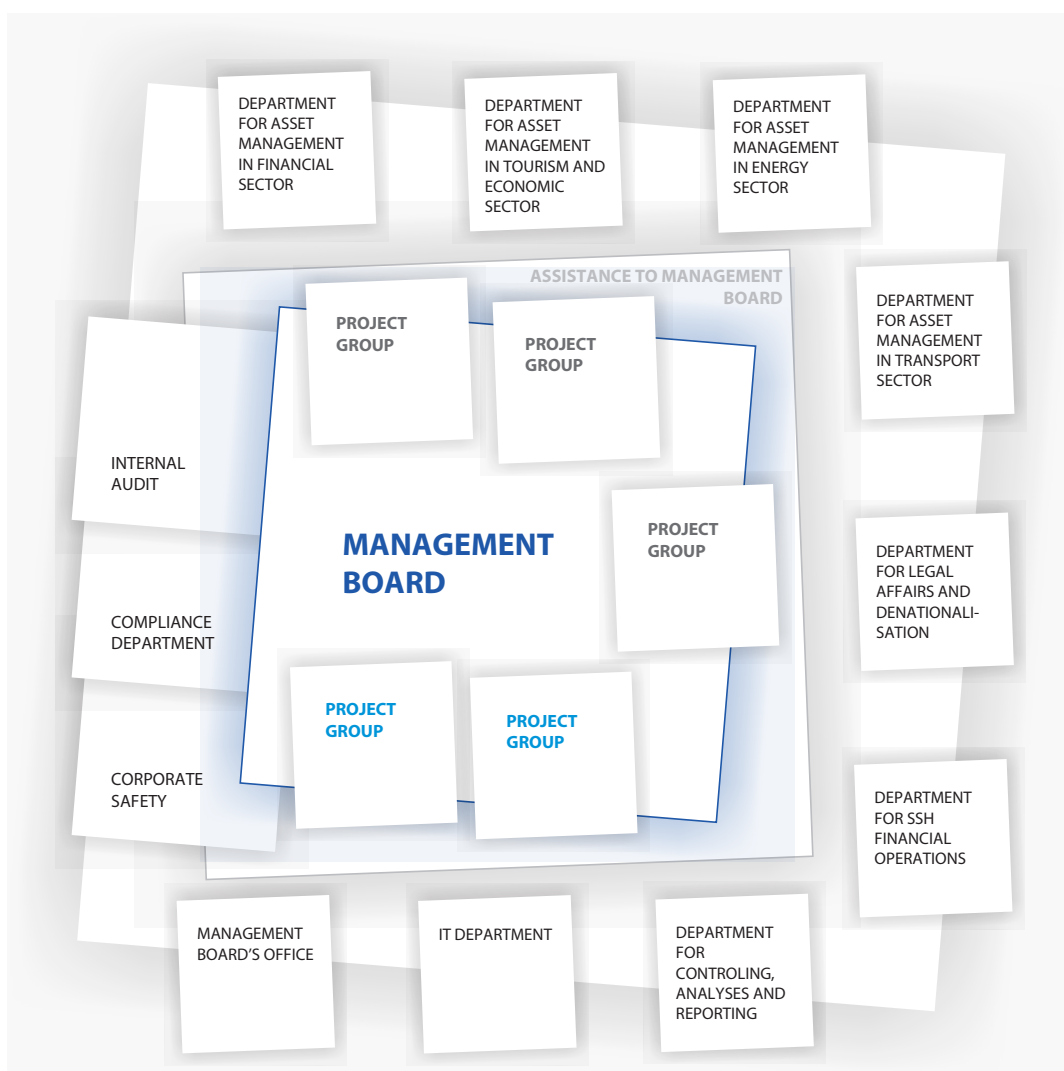
The Slovenian Sovereign Holding was established with the purpose of providing a concerted, transparent, professional management of the State's capital assets separated from the daily politics.

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

### 3.4. Internal organisation of SSH

The major part of the envisaged organisational changes were implemented in the first half of 2018. Some internal corporate documents were thus modified, some organisational units were abolished and new were established and some jobs were internally relocated. The internal organisation system

is now more transparent, authority and responsibility of employees pertaining to individual jobs are now clearly defined, including a defined system for the delegation of tasks and their verification as well as a reporting system. The foundations for the matrix organisation and project work have thus been laid



down. The organisational units (hereinafter referred to as "OU") are divided into departments by functions and into special business functions. Considering the needs of basic business processes, SSH has four departments for managing capital assets which are divided by industry, while the remaining departments pursue supporting activities, including controlling, analytical activities and reporting, legal affairs and denationalisation, SSH's financial management, IT department and general affairs (Office of the Management Board).

Special business functions established in SSH include, firstly, Compliance Department with one employee, a Chief Compliance Officer, and secondly, Internal Audit with two employees. The business function for Corporate Safety has been envisaged but it has not been implemented yet.

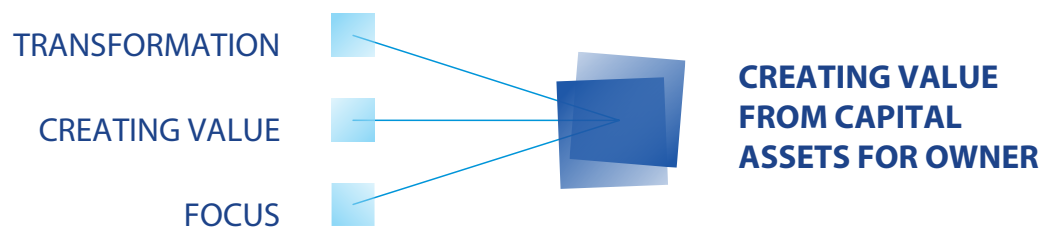
The optimisation of the following subject matters, i.e. the payment system, the employee promotion and career development system will continue in 2019.

### 3.5 SSH Strategic policies and goals

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

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

Figure: SSH Strategic Policies



#### Transformation

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

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

standards and applying the best practices in the management of enterprises and implementing constant activities for increasing the culture of corporate governance in SSH and companies managed by SSH.

#### Focus

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

- the stabilisation of the capital assets portfolio following the waves of restructuring and

- disposition of capital assets by aligning the management structures, risk management planning and risk management in regard to the industries which have been focused on in the portfolio;
- increasing and taking the advantage of synergies within the capital assets portfolio and with the assistance of the environment in which SSH operates.

### Creating value

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

## 3.5.1 Goals

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

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

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

- efficient, diligent, transparent and responsible management of capital assets, in accordance with the provisions of ZSDH-1 and other legal documents;
- attaining strategic and development, economic and financial as well as other goals of companies as defined in the Asset Management Strategy, in every Annual Asset Management Plan and ultimately the goals which are set for SSH by the RS Government on an annual basis (strategic and development goals and economic and financial goals are presented in more detail in Chapter 7);
- continuous improvement of operations in portfolio companies;
- increasing their value of capital and their return on equity in the long term.

direction include:

- increasing the equity value of companies under management in the long term;
- increasing return on equity in the long term by an active and efficient management of enterprises and cooperation with stakeholders in the environment in which the companies operate;
- implementing activities aiming at the development and improvement of the environment in which SSH operates with the goal of pursuing sustainable operation in social, economic and environmental aspects.

**The implementation of strategic and development objectives of companies** is mainly provided with the following measures:

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

SSH ensures that **ROE of the portfolio companies is increased** in the long-term by pursuing the following measures:

- setting ambitious yet realistic values for the targeted strategic, economic and financial performance indicators, supervising performance results (AMAP) and implementing key governance activities at the enterprise level;
- benchmarking of the top SOEs with comparable international enterprises;
- pursuing a suitable dividend policy considering

the company's position, performance, investment activities planned and development;

- appointing members of Supervisory Board by applying objective criteria applicable for all members of Supervisory Boards of SOEs, thus providing for a good quality and heterogeneous composition of Supervisory Boards;
- checking on key risks while companies are expected to prepare measures for their monitoring and for their mitigation;
- sustainable operation and innovation activities are included in a company's strategy;
- constant improvements in corporate governance practice;
- ensuring corporate integrity and achieving the highest ethical standards in companies' operation;
- having a fruitful dialogue and providing for active engagement of all key SSH's stakeholders in the process of asset management.

**Other goals pursued by SSH as economic entity are:**

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

# Digital transformation and innovation projects of the selected portfolio companies

## Telekom Slovenije, d. d.



### **NEO smart life platform: simple management of TV and web content and home devices in the Slovenian language**

The word we live in encourages the humankind to set new and new milestones. Telekom Slovenije set a new milestone for managing and searching TV and other content on 12 December 2018. It is the first company in the world to enable its users to manage TV content or content in video and from other screens as well as from other smart home devices through voice control in the Slovenian language;



NEO smart life platform combines the best home and entertainment solutions: easy- to-search TV content, live content or content in video and video applications, seven-day catch-up and complete customisation to the user's needs and desires. NEO also enables its users to simply manage smart devices, go web shopping via the TV-screen and it will soon enable them to play more and more popular games without a console.

NEO is the result of the development and knowledge of Telekom Slovenije's experts and is tailored to the needs of Slovenian users to the greatest extent possible. The ownership of its development enables Telekom Slovenije to be flexible in the future, developing new services tailored to the users' needs. In this manner, Telekom Slovenije makes the life of its users simpler, it offers numerous opportunities and provides for safety, the basis of trust.

Telekom Slovenije has received a few prestigious local and international awards for innovation in regard to NEO smart life platform, both during its development phase and after its launching.

## Cyber Security Operation Centre

**Fast response to events and their resolution at various levels, crisis management and suitable reporting are only few activities which are carefully planned by Telekom Slovenia within its scope to ensure cyber security.**

*Its experiences from the existing Network and Service - Operational Centre have been passed on to the newly established Cyber Security*

*Operation Centre. Telekom Slovenije introduced the state-of-the-art tools for detecting and preventing cyber threats and developed competences of its employees in order to provide cyber security at all levels. The Cyber Security Operation Centre has installed all key elements which are necessary for ensuring efficient operations: i.e., tested and functional processes, top technology, experienced staff and reliable sources of cyber security information. A suitable service support plays an important role in the process with which Telekom Slovenije ensures proper incidence management in accordance with the agreement on the level of a service.*

*The Telekom Slovenije's Cyber Security Operation Centre renders several services: it ensures fast and efficient response to cyber threats; it limits potential disruptions, minimising damage in case of a cyberattack; it collects and protects evidence; it increases resilience and reduces cyber security-related risks; it captures and stores events; it provides audit trails, regular information of important events and proposes measures for their management; it provides compliance, for example with the Information Safety Act, GDPR, ISO-standards, etc.*

*In 2014, for its information security management systems, Telekom Slovenije received the ISO 27001 standard which was expanded in 2018 to include cyber security and the control of the network and services. This is a standard granted to those enterprises which satisfy the highest requirements associated with information security. As the first company in Slovenia, Telekom Slovenije received the ISO 22301 standard for business continuity management systems in 2016.*





# Digital transformation and innovation projects of the selected portfolio companies

## *Petrol, d. d., Ljubljana*

**PETROL**

Energija za življenje

***In Petrol, attention is placed on digitalisation, mobility and smart solutions***

*Petrol is a leading Slovenian energy company, fully aware of the importance to use and develop digital solutions and innovative business models.*

*As regards digital energy solutions, Petrol developed its TANGO platform with the end user in mind; this is a technical and information system and one of the key software tools for business intelligence (BI) and artificial intelligence (AI). It contains the best practices from the fields of district heating systems, water supply systems, public lighting, industry, energy management of facilities. This software product was presented at the European Utility Week in Vienna and attracted great attention.*

*Petrol introduced the mBills application, a digital wallet, enables simple and fast paying of bills with a smart phone, therefore following the trends in digitalisation of financial services.*

*Petrol is committed to improving the quality of life and develops solutions for e-mobility and mobile services; for this purpose, Petrol integrates with domestic and foreign partners and has been granted EU funds for this endeavour. In 2018, Petrol launched the OneCharge mobile application which enables the use of charging stations for e-vehicles via a mobile phone and offers various means of payment.*

*Due to Petrol's growth and high complexity of its operations, its business and information system currently is currently being renewed (SAP and Salesforce) Petrol was awarded the silver SAP Quality Award in the Central and Eastern Europe region in the Business Transformation Category.*

*Digitalisation and smart solutions are on the march in the world, new business models are being developed and the value chain is being changed nowadays. Petrol takes an active part in this trend.*



# COMPLIANCE, INTEGRITY AND INTERNAL AUDIT

## 4.1 Compliance function and main activities in 2018

SSH is the only company in RS whose foundations for setting up the compliance and corporate integrity system are laid down by a special act (ZSDH-1). The statutory provisions are improved in SSH's corporate documents with a detailed definition of processes and measures. SSH has in place the Integrity Plan which also includes all potential corruption risks and possible illegal and unethical actions. With the aim to manage and minimize the above mentioned risks, the Integrity Plan includes permanent and one-off measures, together with persons responsible for their implementation. The person in charge of the Integrity Plan is the Chief Compliance Officer whose tasks and duties are defined in detail in the applicable legislation and in the SSH's corporate documents. Members of the Supervisory Board and of the Management Board as well as all employees in SSH also play an active role in the implementation

of measures.

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

In addition to regular implementation of permanent and one-off measures stated in the Integrity Plan, the personal data protection received special attention in 2018. Recommendations and requirements defined in the General Data Protection Regulation were examined in detail and included in the SSH's corporate documents and are observed in the work processes.

## 4.2 Integrity Plan and work carried out by Chief Compliance Officer

Measures for enhancing corporate integrity and responsibilities and for minimising corruption-associated risks, conflict of interest and abuse of proprietary information in managing state assets, having been installed in the internal compliance and corporate integrity system, were implemented in a smooth manner in 2018. On the basis of prior discussion with employees, the Management Board and the Supervisory Board, the Annual Report on implemented measures from the Integrity Plan for a one-year period was sent to the Commission for the Prevention of Corruption.

Throughout the year, permanent and additional measures as stated in the Integrity Plan for managing

corruption risks and for preventing illegal and unethical actions were carried out regularly. Newly detected risks received special attention - they were examined in detail and additional measures were defined in individual cases.

Training sessions were organised for employees in SSH and for representatives of Management and Supervisory Boards of companies with state capital assets, focusing on compliance and corporate integrity and on the enforcement of anti-corruption principles. In this manner individual goals from the Programme for Integrity and Transparency 2017-2019 drawn up by the Government of the Republic of Slovenia were achieved.

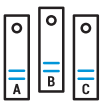
In 2018, the Chief Compliance Officer carried out all tasks from the Integrity Plan, among which the following had to be emphasized:

- monitoring and implementation of the integrity plan;
- the amendments to the internal legal documents and processes relating to the compliance and corporate integrity system;
- the preparation of the internal legal documents and business processes relating to the personal data protection;
- the preparation of reports for external institutions in accordance with the stipulated time periods and the content for reporting;
- recording and keeping a register of gifts received;
- recording and keeping a register of unofficial contacts on the part of employees, SSH's bodies and SSH's consultation bodies with state authorities and other subjects of public law;
- handling of suspicions of irregularities in SSH;
- active participation in the handling of suspicions on alleged irregularities in companies with state capital assets in the capacity of an active member of a specialised internal Committee;
- carrying out the function of the President of the SSH's Ethics Committee;
- participation in the development of a comprehensive risk management system in SSH;
- raising awareness, training and rendering consultation services to all liable parties and organisation of training sessions in regard to the enhancement of corporate integrity and compliance of operations in accordance with regulations and codes of conduct;
- regular cooperation with the responsible supervisory bodies from the field of corporate integrity and corruption prevention and other national investigation institutions;
- regular quarterly reporting to the SSH Supervisory Board on work carried out by the Chief Compliance Officer.

## SSH's main integrity tools



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



Corporate documents, register of gifts and traceability of communication with state bodies



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



Cooperation with supervisory bodies and investigative institutions



Committee for handling irregularities in portfolio companies

## 4.3 Additional mechanisms for the supervision and handling of irregularities in SOEs

Within the scope of the system established for addressing suspicions of irregularities, which also includes the protection of whistle blowers, the Chief Compliance Officer received 63 such reports. In accordance with internal processes, reports were categorised into the following categories:

- alleged irregularities by employees, members of bodies and working bodies of SSH;
- alleged irregularities by companies with state capital assets;
- violations whose handling falls under the responsibility of other bodies or institutions (the referral of such reports for their handling);
- inappropriate conduct under Article 57 of ZSDH-1;
- expression of opinion by persons reporting non-ethical or illegal conduct;
- other issues not classified as reports.

Thirty reports referred to suspicions of irregularities in the functioning of companies with RS and SSH capital assets that are managed by SSH, while twenty-six of such reports provided the reporting persons' opinion or the reports failed to include any suspicion on alleged irregularity.

The Chief Compliance Officer personally handled reports linked to the functioning of SSH. All reports

on alleged irregularities in companies with State's capital assets were dealt with by a special three-member Committee in cooperation with a relevant asset manager. On the basis of additional information and on the basis of answers clarifying the content of reports, the opinion of the Committee was formulated and, when needed, suitable measures were formed and implemented in accordance with its decisions.

SSH strives for efficient, fair and competition-based operation of SOEs with zero tolerance in regard to irregularities and unlawful actions. The Committee directed and monitored the work carried out by an asset manager overseeing an individual capital assets in which a suspicion regarding irregularities has occurred. The responsible asset manager was obliged to obtain and verify all facts in connection with a report. After obtaining all pieces of information, the Committee adopted the relevant measures for eliminating the irregularities in cases when suspicions from reports on irregularities were substantiated, or terminated procedures in case when suspicions failed to be justified. The Committee reported to the SSH Management Board on the work carried out and its quarterly reports were dealt with at the sessions of the Supervisory Board's Audit Committee.

## 4.4 Personal data protection

In 2018, SSH amended the internal legal documents relating to personal data protection and harmonised them with the General Data Protection Regulation (GDPR). Following the entry into force of the said Regulation's provisions, a detailed inspection of all personal data bases was carried out and internal processes were improved accordingly. A training

session was organised for all SSH's employees and key information was published on the method of enforcing individual's rights on the SSH's website.

In 2018, SSH dealt with no complaint in regard to the breaches of privacy, neither was any incidence involving personal data protection recorded.



## 4.5 Internal Audit

The SSH's internal audit functions as an independent department. The basis for its functioning is the Internal Audit Charter which has been approved by the SSH Management Board and SSH Supervisory Board. The Internal Audit Service is bound to adhere to the hierarchy of rules of professional conduct in internal auditing. The Internal Audit is responsible for carrying out permanent and comprehensive supervision over the legality, accuracy and currency of SSH's operations, and first and foremost, it is tasked with verifying the existence and functioning of internal controls installed in business processes falling under the responsibility of the managers at all organisational levels of SSH. The main task of the Internal Audit is to provide to the Management Board and to the Supervisory Board/Audit Committee of the SSH Supervisory Board impartial assurances regarding the efficiency of risk management rated with an assessment whether key risks are suitably managed and whether internal control system functions in an efficient manner.

The year of 2018 was marked by an important decision made by SSH's management and supervisory bodies in connection with the implementation of audit reviews of operations of SOEs. For this purpose, fundamental legal documents were prepared and adopted (for example, the Protocol on enforcing the right for reviewing operations in individual companies managed by SSH), in which the rights and duties of reviewers of operations in the above mentioned companies are defined and explained. The formal legal foundations were set for carrying out detailed audit reviews in companies owned by the State. The SSH's Internal Audit is involved in the above mentioned activities within the scope of additional activities planned as an assistance to asset managers in their review of certain transactions or processes when such internal audit review may additionally contribute to better governance and supervision of an individual company under management. Thus, an important step forward was made in the management of state capital assets.

# Digital transformation and innovation projects of the selected portfolio companies

## ELECTRICITY DISTRIBUTION

### **System for single access to measurement data (SEDMp)**

A key requirement for developing the electricity market and for rendering advanced services is the provision of a simple, safe, efficient and single access to measurement and other data of users of the electricity distribution grid.

By having implemented the SEDMp Project, all measurement centres of Slovenian electricity distribution companies have been integrated to form a single information system. Persons authorised to collect measurement data now access the single information system from a single access point in order to enter their data in the central data base and they access a single exit point to analyse data and to make reports at a user's request.

### *Elektro Maribor, d. d.*

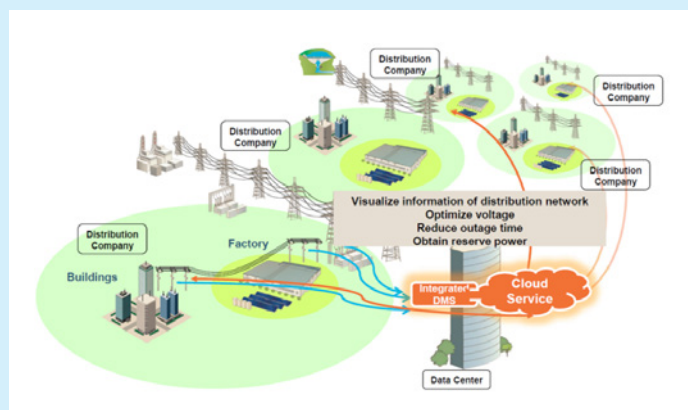


ELEKTRO MARIBOR

### **Advanced electricity management systems (NEDO-AMDS)**

Elektro Maribor participates in a Slovenian-Japanese NEDO Project. The NEDO Project introduces new approaches for the installation of equipment in the grid, develops new functionalities and integrates systems that used to be separate. Functioning in a realistic network, it introduces, tests and analyses approaches and technologies to improve the recognizability and controllability of the electricity distribution system.

The goals of the NEDO project are as follows: to improve the reliability of operation of 20 kV grid, to reduce the time required for detecting the location of failures and to improve the indicator measuring the quality of supply, to increase the maximum possible power connection of small power plants installed at the RTP Breg network without strengthening or extending the grid, to reduce the costs for integrating small power plants into the grid, to reduce losses by optimal voltage regulation and to reduce peak power by means of voltage regulation.



### **Flexible consumption**

The project was implemented in the territory of RTP Breg in cooperation with ELES and the Japanese Agency, the New Energy and Industrial technology Development Organization (NEDO). A key role in the capacity of the Project's Partner was played by Elektro Maribor, together with other companies and organizations.

Between 1 December 2017 and 30 November 2018, during the pilot project, the critical peak pricing (CPP) was tested

(Elektro Maribor), as well as the consumption flexibility for balancing the system (ELES). There were 12% of measurement points participating in the project. Within the scope of the project, the electricity consumers' response was discussed, i.e. their active inclusion in the flexible consumption programme and in the advanced systems which dealt with the improved method of charging for electricity. The consumers' behaviour was analysed in regard to various actions taken with regard to consumption flexibility in different seasons and the potential of these actions. As regards consumers, considering their suitable conduct, consumers' participation in the project enabled them to have a more efficient supervision over their electricity consumption whilst having been ensured the same level of comfort and being charged lower electricity costs. During the project, 50 one-hour activations of critical peak pricing (CPP) were carried out, together with 21 activations to balance the system, for the total duration of 32 hours. In cases of CPP activations, the system load reduced up to 34% (306kW), depending on the season. It was determined that the potential for flexible consumption is higher in winter time but lower in other seasons. Devices which are most frequently a subject of the consumption flexibility programme include washing machines, domestic water heaters, electric stoves and heat pumps. The use of advanced technologies proved to be successful; likewise, consumers were satisfied and the majority of them expressed their willingness to participate in similar projects in the future.

### **Distribution Academy**

The Distribution Academy of Elektro Maribor is a strategic project which integrates employees, experts in the field of electricity distribution systems, consumers and institutions with the aim to transfer and expand knowledge, competences and skills by and between employees, in the local environment and in the society as a whole.

### **Advanced measurement systems (NMS)**

The project aiming at the development of an advanced measurement system which represents an important contribution on the path towards digital transformation is of significant importance for consumers and the broader social environment. The project is co-financed by the European Union from the Cohesion Fund and by the Republic of Slovenia.

The grid users will be able to benefit from the following improvements:

- monthly charging for electricity by actual consumption and/or power generation;
- new and advanced pricing systems and innovative calculation methods tailored to the supply and demand situation in the market and to the situation in the grid;
- the possibility to use advanced services rendered by operators on the market which are based on the usage of data from the advanced measurement systems aimed at reducing the electricity consumption and electricity costs;
- faster switch from one supplier to another as a result of daily measurements being available for a distribution operator or for its contractor;
- an access to measurement data through a single access entry point for a short past period;
- a possibility to access measurement data in real time.

Within the scope of education and training phase of the project discussing the subject of smart grid, two [videos](#) have been produced for electricity consumers, presenting smart meters.

The advanced measurement systems are a fundamental building block for advanced grids. At the end of 2018, more than 76% measurements points were included in the remote measurement system in the territory serviced by Elektro Maribor. Not later than by 2024, all measurement points will be included in the advanced measurement system.

### **Use of measurement data from smart meters for analysis**

In case of inappropriate grid integration, the quality of electricity may become an issue owing to a high increase of power connections to the grid by dispersed small power plants.

By introducing a summary data base with measurement data from an advanced measurement system, Elektro Maribor achieved the sufficient accuracy in calculating the status and capacity of its network; such accuracy is needed for the procedure to obtain an electricity system consent for which dispersed small power plants must apply in order to connect to the electricity distribution network. The data base enables an annual review of the voltage profile and of the maximum peak load of the low-voltage side of a transformer; this is important for further planning of the network development. ■

# Digital transformation and innovation projects of the selected portfolio companies

## *Nova Ljubljanska banka, d. d.*



### **Focus on digitalisation**

*The Group has recognised the importance of the digital transformation and continues to strive in a strategic manner to provide the digitalisation of its sales channel and of its internal operations, for instance, the work environment, and to automate its processes. A significant impact on revenue and costs is expected. The digitalisation is expected to expand the set of the Group's financial products and its sales channels and to improve its cross-selling which is one of the main highlights of the Group in terms of its growth. As regards costs, digitalisation should ensure better customer relations and better process efficiency while generating additional savings in labour costs. As a result of reduced number of personal contacts with clients in certain transactions, it may also lead to further rationalisation in the branch network in the future.*

*Since successful digitalisation requires a competitive information infrastructure and capacities, the Group will continue to substantially invest in this field, in accordance with priorities set.*

### **Some examples of digitalisation in NLB**

#### **Klikpro**

*Further digitalisation has brought additional advantages for Klikpro mobile application enabling a user to log-in by means of face recognition, and a 24/7 support for the video call and chat functionalities. A 56.7-percent increase in Klikpro users in 2018 as compared to the same period of the preceding year (17,627 users at the end of 2018) shows that the platform is accessible by approximately one half of corporate clients.*

#### **Express loan and express overdraft**

*NLB is the first bank in Slovenia which has introduced the 24/7 express loan and the express overdraft services for the amount of EUR 15,000; the approval procedure is completed in few minutes.*

#### **NLB Pay**

*The NLB Pay mobile wallet enables NLB's clients contactless, simple, fast and safe payment transactions with NLB MasterCard and NLB Maestro business cards at all contactless POS terminals in Slovenia and abroad. The instalment payment is also enabled.*

#### **Other**

*Dozens of projects are being implemented in the NLB bank. One of this projects aims at introducing end-to-end process ownership and process maturity. After the analysis is made, the project and its 2nd phase will be implemented applying the lean optimisation method. Two processes have been improved, the goal is to improve all of the processes.*





# Digital transformation and innovation projects of the selected portfolio companies

## Elektro Celje, d. d.

### **Elektro Celje participates in H2020 FLEX4GRID, a research project**

Between September 2017 and January 2019, Elektro Celje, d. d., participated in a pilot project handled within the scope of an international research project H2020 **Flex4Grid** with the aim to optimize the electricity consumption with the use of dynamic pricing. The said project valued at slightly below EUR 3.2 million was almost fully funded by the European Commission. As many as 781 households took part in the project. The project focused on the development of an open technological system for managing measurement data and for providing services to manage the flexibility of users of the electricity grid. Flexibility assets' management tools are needed by grid operators to guarantee cost-effective and stable electricity grids. The flexibility of participating users was measured using a statistical diagram with historical measurements and by benchmarking it with a relevant control group of comparable users. For their own flexible consumption, Elektro Celje rewarded the participating users with an incentive; they were among the first electricity consumers in Europe to take advantage of the statutory possibility to use a pilot critical peak pricing (CPP). Using its own methodology, the Energy Agency of Slovenia recognised the project as a pilot project within a novel smart grid architecture and included it in the implementing incentive scheme.

The average assessed flexibility determined during the entire period of implementing the project (50 hours CPP, 42 critical events) was assessed at 55W per pilot user. The size of a potential flexibility was higher during winter and lower during summer. The average flexibility in relation to the total consumption amounted to 6.85%.



**Elektro Celje, d.d.**



Figure: Project's logo



# SUPERVISORY BOARDS OF SOEs AND CANDIDACY PROCEDURES

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

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



In addition to statutory terms and conditions, Members of Supervisory Boards must also have the necessary knowledge and skills, such as competence, business credibility, financial and strategic knowledge, knowledge of the basics of business administration; moreover, members must be strong team players, understand the business culture and committed to observe the principles of business ethics. Additionally, the Members of Supervisory Boards must have the necessary business experience and business maturity for assessing global business trends and opportunities, benefits and risks which a company is exposed to, they must fully understand business cycles and a company's business model, its strategic directions and business policies and be capable of an independent judgement for the benefit of the company. The Members of Supervisory Boards

must make decisions on selection of board members in companies and direct and evaluate the work carried out by executives (Management Boards).

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

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

Scheme: Targeted expert profiles for supervisory boards

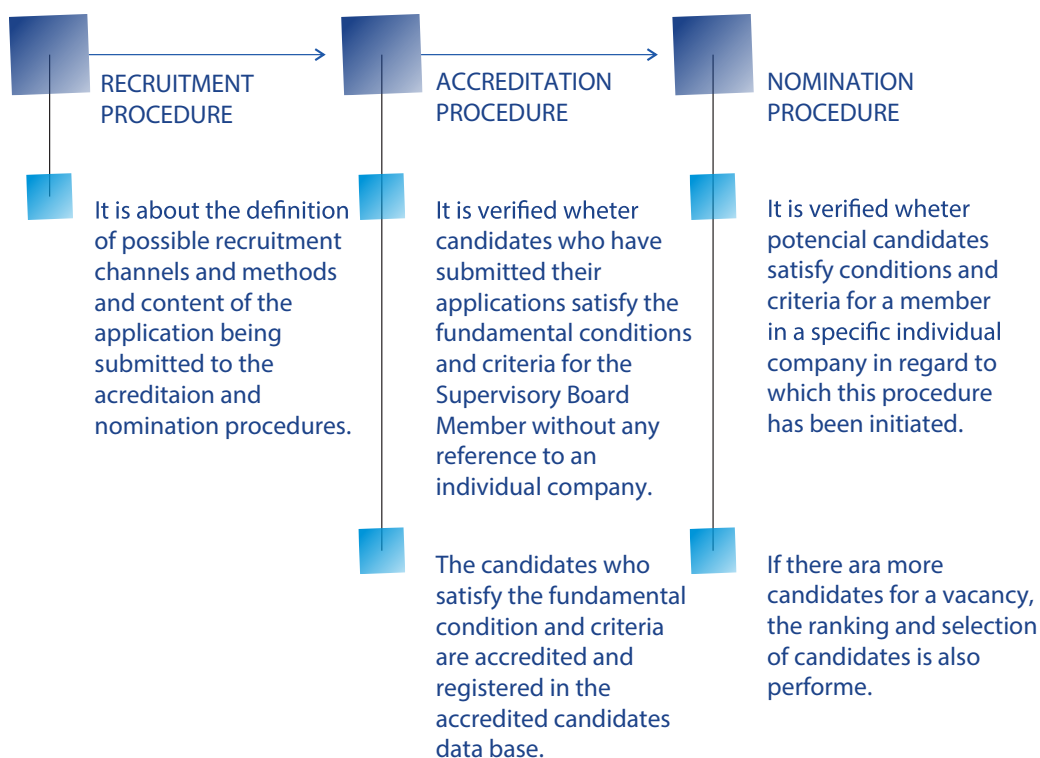


## 5.1 About SSH's Nomination Committee

The establishment of the Nomination Committee as a special consultation body of the SSH Management Board is laid down in ZSDH-1. The duty of the Nomination Committee is to carry out candidacy procedures, pursuant to the law and in accordance with the Asset Management Policy. The candidacy procedure is a collective term for actions carried

out by the Nomination Committee for submitting to the SSH Management Board a suitable proposal of candidates for Supervisory Board Members of SOEs; it includes the recruitment procedure, the accreditation procedure and the nomination procedure.

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



## 5.2 Work performed by Nomination Committee in 2018

The Nomination Committee is composed of three members who are appointed by the SSH Management Board for the 4-year tenure after having been selected from experts in corporate governance, HR management and experts in the functioning of bodies of supervision. In 2018, the SSH Nomination Committee was composed of the following members:

- Luka Gaberščik, President,
- Jagoda Vitez, Member, Deputy President, and
- Brigita Vončina, Member

In 2017, the said Committee met at 25 regular sessions and carried out 2 correspondence sessions. The Nomination Committee complied with 28 orders for carrying out nomination procedures for candidates of supervisory boards (and in some cases for candidates of the management) with regard to 18 companies.

These are as follows: Hit, d. d., Loterija Slovenije, d. d., Elektro Maribor, d. d., Abanka, d. d., Casino Bled, d. d., Casino Portorož, d. d., GEN energija, d. o. o., VGP Kranj, d. d., Plinovodi, d. o. o., Pošta Slovenije, d. o. o., Geoplin, d. o. o., KOTO, d. o. o., Adria Ankaran, d. o. o., KZPS, d. o. o., DSU, d. o. o., Uradni list RS, d. o. o., Kapitalska družba, d. d., Pomgrad, d. d.

The activities of the SSH's Nomination Committee are supported with a digitalised, user-friendly and on-line accessible business solution which provides an efficient overview of all user data and information registered: portal kadrovske komisije SDH is found at the following web site address: <https://kk.sdh.si/>. The Portal brings numerous advantages for users, enabling an interactive update of data and organisation of data when necessary.

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

In 2018, SSH organised nine training sessions for management and supervisory bodies of companies in partial or majority ownership of RS and SSH. Topics discussed included the following areas: a sustainable and comprehensive report, Group's corporate governance (corporate governance, accounting information and consolidation), how to increase profitability, internal audit function of a Group of companies, presentation of anti-corruption guidelines by the Transparency International for SOEs and the management of conflicts of interest, internal controls - how good supervision is established, a consolidated annual report and the transition to International Financial reporting Standards, traps in financial statements and how the SB Members could avoid them, the cooperation with auditors and innovation with regard to annual reports.

In 2017, the RS Government adopted a programme of measures to enhance integrity and transparency for the period from 2017 to 2019. One of the measures foresees supplementary training for members of supervisory boards of SOEs with regard to integrity and transparency. SSH supports this programme by organising training sessions.

In 2018, in addition to the annual conference for its strategic stakeholders, SSH organised another important event, entitled "Cyber Security – Anticipating Threats and Risk Management", in cooperation with the Government Office for the Protection of Classified Information.

Photo: SSH Lecturers and participants of the conference held in Brdo pri Kranju, September 2018



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

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

SSH enforces its recommendations at the level of portfolio companies by means of provisions of the Corporate Governance Code for SOEs. Among other matters, the said Code recommends to SOEs to adopt the Diversity Policy which is carried out in connection with the membership of management or supervisory bodies in regard to gender, age and professional profile. The goal of the Diversity Policy is to achieve better efficiency of a Supervisory Board and the Management as a whole.

The responsibility of SSH is to ensure that the composition of supervisory boards is heterogeneous and to provide for a good quality supervision over the work carried out by supervisory boards of SOEs. In accordance with Article 21 of ZSDH-1, at General Meetings of companies, SSH must vote so as to appoint experts in finance, corporate governance, operations of an individual company, together with other experts necessary for the efficient supervision over an individual company in regard to its core business, business volume and other characteristics of the company.

The remainder of the text presents a basic analysis of potential candidates registered at the Portal of the Nomination Committee, and the analysis on the members of supervisory and management bodies of SOEs by gender as at 31 December 2018.

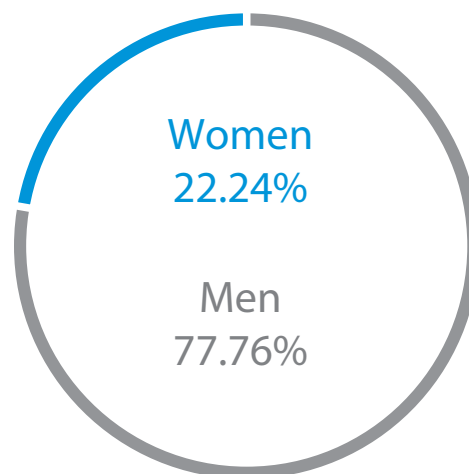
## 5.4.1 Basic analysis of candidates from SSH Nomination Committee's Portal

At the SSH Nomination Committee's Portal, registering candidates for members of supervisory bodies of companies managed by SSH, which has been operational since 6 March 2017, there were 301 accredited candidates registered on 31 December 2018. The total number of all candidates registered in the register of all potential candidates for members of supervisory boards stands at 1316 individuals.

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

The age structure of registered individuals (regardless of gender), who have expressed their interest for the candidacy in the membership of supervisory boards of enterprises managed by SSH, shows that the average age of candidates moves between 41 to 50, (as many as 40%), followed by the age group of 51 to 60, while the first category, i.e. up to 30 years of age, is the less represented category.

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



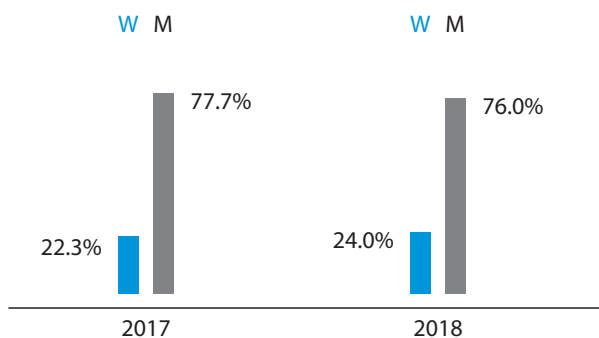
## 5.4.2 The composition of Supervisory and Management Boards of companies owned by the Republic of Slovenia by gender

In 2018, the composition of Supervisory and Management Boards by gender was, similarly to 2017, still imbalanced but the trend is improving, as compared to previous years. Men continue to prevail in Supervisory and Management Boards, although in 2018, the diversity of the boards' composition in terms of gender turned in favour of women. At 31 December 2018, there were 76% of men and 24% of women sitting in Supervisory Boards of companies owned by RS and SSH (companies in bankruptcy and liquidation are excluded), but the inequality in gender presence was slightly greater in the case of Management Boards – among their members

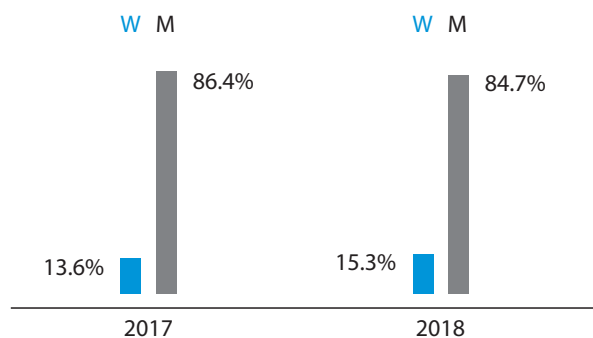
(including presidents) there were 84.7% of men and only a very solid 13.6% of women. Despite of the imbalance between men and women in supervisory and management bodies, the care for their heterogeneous composition, which includes the consideration of the provisions of the Corporate Governance Code for SOEs and the promotion of the diversity policy in companies under management, has resulted in an increase in the number of women present in Supervisory Boards; the figure has increased, specifically, from 19.5% in 2016 to 24% in 2018, and in Management Boards, from 9.7% in 2016 to 15.3% in 2018.

Graph: Changes in the composition of Supervisory and Management Boards of companies directly owned by the Republic of Slovenia and SSH by gender as at 31 December 2017 and as at 31 December 2018 (excluding companies in bankruptcy and in liquidation)

### Supervisory Boards



### Management Boards

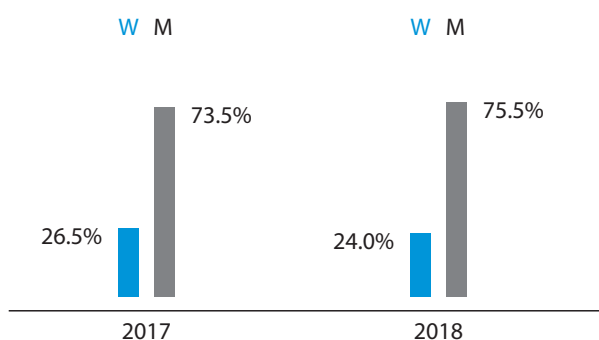


A similar disproportion regarding the gender presence was noticed in presidency functions held in management and supervisory bodies. The Supervisory Boards of companies directly owned by the Republic of Slovenia and SSH were presided over by men in 75.5% of cases (as compared to the situation at the end of 2017, the ratio turned in favour of men, i.e. from 73.5% to 75.5%), while Management Boards had as many as 90.9% of male presidents (the ratio turned in favour of female presidents, i.e., from 8.3% in 2017 to 9.1% in 2018).

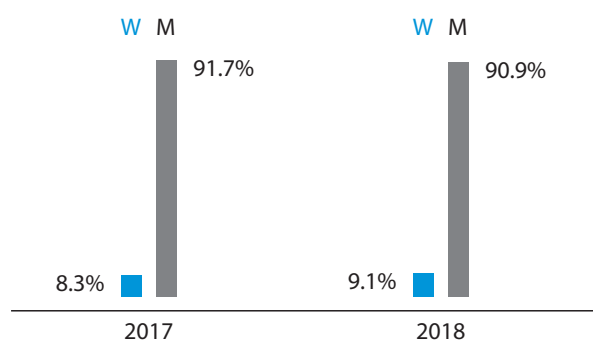
In 2018, as compared to the end of 2017, the relation in the gender presence in Supervisory and Management Boards of companies turned in favour of women. While in 2017, there were 22.3% of women present in the membership of Supervisory Boards, at the end of 2018, the proportion of women increased to 24.0%, and from 13.6% to 15.3% in the case of Management Boards. As regards the remaining categories, the proportion of female presidents in Management Boards increased, while the proportion of women presiding over Supervisory Boards, as compared to the proportion of men, decreased from 16.5% in 2017 to 24.5% in 2018.

Graph: Changes in the composition of presidents of supervisory boards and management boards of companies directly owned by the Republic of Slovenia and SSH by gender as at 31 December 2017 and as at 31 December 2018 (excluding companies in bankruptcy and in liquidation)

### Supervisory Boards



### Management Boards



# Digital transformation and innovation projects of the selected portfolio companies

## Elektro Gorenjska d. d.



### **Development of a comprehensive and advanced innovation system at the level of the Elektro Gorenjska Group**

*The aim of the strategic project "Development of a comprehensive and advanced innovation system at the level of the Elektro Gorenjska Group" is to introduce a modern and innovative company and the group of companies that understands the needs of final users and will be able to make the best use of new trends and business opportunities.*

*The project will establish a more attractive and dynamic system to promote and reward innovation within the existing organisational culture. During the project, the Innovation Centre will be established at the level of the Elektro Gorenjska Group in order to steer the development of innovations along all of the four elements of the innovation pyramid: collecting ideas, strategic prioritizing, testing and implementation.*

*For this purpose, the project will define processes and draw up instructions on how to efficiently make a progress at an individual level of innovation development and how to regularly implement suitable innovative ideas in the fastest way possible and with the lowest costs needed.*

*The concept of the project is based on five key categories and will define an innovation system of the Elektro Gorenjska Group; these categories include as follows: the mass innovation system, expert innovation, innovative cooperation with clients, innovative cooperation with business partners and cooperation with the startup ecosystem.*



Photo: Samo Paušer, ICES

### **Development of tools for the digitalisation of the field work in the Elektro Gorenjska Group**

*The aim of the project "Development of tools for digitalisation of the field work" is to improve the efficiency of tasks implemented by a distribution system operator by means of suitable tools for teams and employees carrying out their tasks in the field. A solution had to be developed which will enable a comprehensive preparation for tasks and coordination of tasks, supervision over tasks and task assignments for employees working in the field (employees working in local inspectorates and employees working on measuring and steering devices), in addition to relieving them of the burden of carrying out administration tasks connected with entering the data obtained in the field. An improved solution is planned to be developed in the next phase for the remaining field employees carrying out the service of general economic interest or rendering additional marketing services offered by the Elektro Gorenjska Group.*



The solution comprises two tools: the first one for managing task assignments of employees in the field and the second one for managing fieldwork. The tool for managing task assignments of employees to carry out work in the field, entitled Task Manager (TM), has been developed by the Group's engineers working in maintenance and measurement systems and IT developers, while the second tool for managing field work has been upgraded to its current functionalities with the assistance of an external partner. Both tools are an important step towards the digitalization of operations in the Elektro Gorenjska Group.



Photo: Electricity Storage Facility in Suha Nejc Petrovič, Elektro Gorenjska

### **European project STORY - installation of Li-Ion electricity storage facility in low-voltage grids with highly dispersed small power plants**

Electricity storage is a challenge dealt with by engineers from the very start of the development of the electricity energy system. The development of electric vehicles and the computer industry has contributed to the development of electricity storage facilities at such a level that they can be installed and operate in the distribution grid.

Elektro Gorenjska, d. d., participates as a partner in the European Project entitled STORY (Added value of STORage in distribution sYstems) ensuring the demonstration environment for the instalment of the Li-Ion electricity storage facility. The experience to be obtained will be important for making a decision on the instalment of a storage facility and to determine its benefits for distribution grids in the future. Considering the definition of the project and in light of the needs of the distribution grid, the electricity storage facility provides for the following functionalities: peak load shifting, reactive power compensation, harmonic compensation, ensuring tertiary reserves and simulation of island mode operation. The storage facility, installed by means of the STORY Project, is the first storage facility installed with such technology in the Slovenian distribution grid.



# LEGAL FRAMEWORK FOR MANAGING CAPITAL ASSETS OF RS AND SSH AND AMENDMENTS OF ASSET MANAGEMENT RELATED DOCUMENTS IN 2018

The main activities for raising the level of corporate governance in SOEs which were implemented in 2018 were:

- the adoption of the Annual Assets Management Plan for capital assets held by RS and SSH, and the adoption of amendments to the Criteria for

- Measuring Performance of SOEs;
- regular monthly training sessions for SOEs;
  - the adoption of the revised SSH Recommendations and Expectations,;
  - the adoption of the revised Asset Management Policy of SSH.

## 6.1 The framework of functioning for SOEs

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

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

## 6.2 The corporate governance system of SOEs –legal bases and documents on asset management with their amendments in 2018

---

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

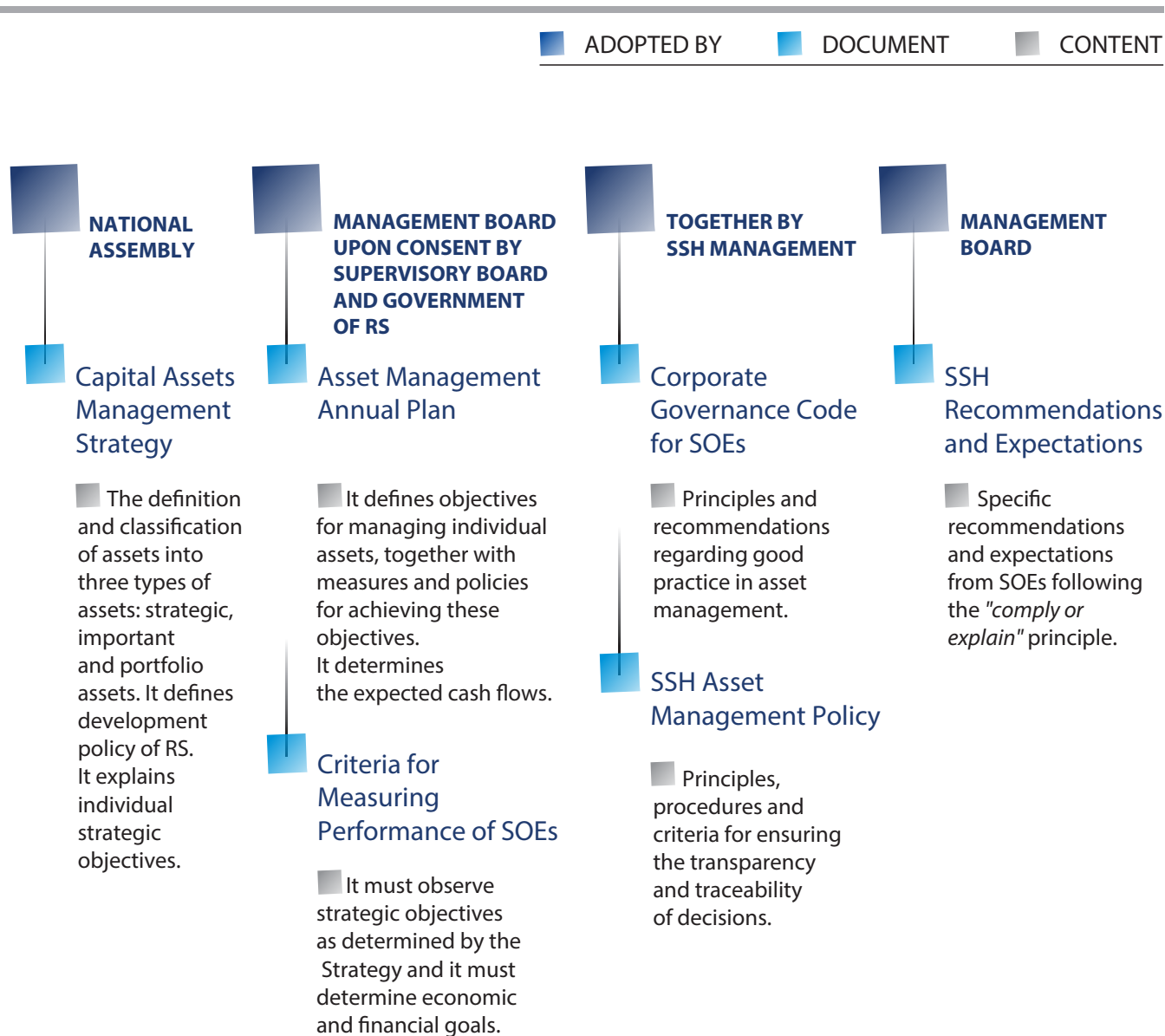
---

The systemic nature of corporate governance pursued by SSH is shown in adopted documents which represent the foundation of corporate governance and are the main condition for ensuring transparency in corporate governance. These documents are: the State Assets Management Strategy, the Annual Asset Management Plan (AAMP); Criteria for Measuring Effectiveness of SOEs, Corporate Governance Code for SOEs, SSH Recommendations and Expectations, SSH Asset Management Policy and SSH Premises for Voting at General Meetings. In 2018, by means of assuming an active asset management approach,

SSH provided for the enforcement of good practice in corporate governance in order to attain the asset management goals set.

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

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



## 6.2.1 State Assets Management Strategy

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

development guidelines of the State as a shareholder in companies and the definition of individual strategic objectives pursued by the State with strategic assets. In the Asset Management Strategy, the Parliament has given a special emphasis to the following pursuits: raising the corporate governance culture, increasing effectiveness in disposition of assets, carrying out sound and prudent acquisition of capital assets, increasing return on equity and giving consideration to listing companies on the regulated market. The said Asset Management Strategy remained unchanged in 2018. In principle, the said document is not implemented directly and it forms the basis and the guidelines for the preparation of the Assets Management Annual Plan.

## 6.2.2 Asset Management Annual Plan

On the basis of the Asset Management Strategy adopted in 2015, every year, the Government grants its consent to every Asset Management Annual Plan prepared by SSH. The Annual Asset Management Plan defines detailed objectives of the asset management company (SSH) in regard to the management of individual assets in an individual financial year which have to be moving within the scope of objectives set out in the Asset Management Strategy. It also includes a specific plan (a definition of measures and policies) for attaining the asset management goals, while it also determines the expected cash flows

generated from the management of state capital assets.

The Annual Asset Management Plan 2019 was adopted on 10 January 2019, when it was granted a consent by the Government of the Republic of Slovenia while the Annual Assets Management Plan 2018 was adopted in December 2017. In 2018, the Annual Asset Management Plan for Nova Ljubljanska banka, d. d., and for Slovenske železnice d. o. o. were supplemented.

## 6.2.3 Criteria for Measuring Performance of SOEs

Pursuant to Article 17 of ZSDH-1, the revised Criteria for Measuring Performance of SOEs were adopted by SSH (hereinafter referred to as: the "Criteria for Measuring Performance"), to which a consent was granted by the Government of the Republic of Slovenia on 10 January 2019. The Criteria for Measuring Performance are a shareholder's document and they define the indicators by way of which ambitious yet

realistic expectations from SOEs are set by SSH in regard to future performance and business results; they are applied at the end of the year with the aim of assessing the results of companies' performance. These indicators are divided into financial and non-financial indicators; they are determined individually for each company or a Group of companies, taking into account their specific characteristics. The Criteria

for Measuring Performance determine only the type of relevant indicators for individual companies or Groups of companies, while the quantification of

these indicators in the sense of specific expectations by SSH from SOEs is adopted in each Annual Asset Management Plan.

## 6.2.4 SSH Asset Management Policy

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

In accordance with Article 31 of ZSDH-1, on 4 July 2018 the SSH Management Board adopted the revised SSH

Asset Management Policy, with the consent granted by SSH Supervisory Board. Key modifications made in 2018 included the following: SSH's transparent operation was added to the goals pursued by SSH, the Expert Committee for Economic and Social Affairs was additionally included together with its tasks; a reference to the SSH Code of Ethics was added, the data on a buyer of shares and the opinion by the Officer for the Prevention of Money Laundering and the Financing of Terrorism was added to the proposal for the sale of assets, and as regards the acquisition of receivables, a provision was added, stipulating that SSH may acquire receivables only on its own behalf and for its own account; and in case when receivables are to be acquired in order to implement the Strategy, only when funds are provided in order not to hamper the liquidity of SSH.

In 2019, the SSH Annual Assets Management Policy was modified; the amendments were mostly of an editorial nature.

## 6.2.5 Corporate Governance Code for SOEs

The Corporate Governance Code for Companies with Capital Assets of the State (hereinafter referred to as: the "Code") was adopted by SSH on 19 December 2014. This Code was first slightly revised in March 2016 and in May 2017 it was revised for the second time. The Code contains principles and recommendations for good practice in corporate governance of SOEs. The Code is addressed to SOEs. It should also be applied by subsidiaries in a Group of which a state-owned enterprise is a parent company. By analogy, the Code is used by SSH for its operation. Some principles are general and refer to all SOEs, while some

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

### Preparatory activities for revising the Corporate Governance Code for SOEs

Considering the findings from the analysis on the observance of the Code and the Recommendations, draft modifications to the Code were drawn up, mainly

with regard to the Diversity Policy, Communication with Companies, Policy on Succession Planning, Operational Compliance and Corporate Integrity and with regard to the criteria for the remuneration of SB's Members. A revised Corporate Governance Code for SOEs is expected to be adopted in 2019.

## 6.2.6 Other recommendations and viewpoints

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); labour cost optimisation; achieving the quality and excellence in operations; and the area which refers to the General Meeting of Shareholders.

In March 2018, the SSH Management Board adopted the revised SSH Recommendations and Expectations, in accordance with Article 32 of ZSDH-1. The main amendments and modifications have been made in the Chapter on a three-year planning and in regard to the periodic reporting on operations by companies, by Groups and by subsidiaries in the Group. The recommendations with regard to the procurement of goods and services, and sponsorships and donations was broadened and divided into three sections: firstly, General, secondly, Procurement of Goods and Services, and thirdly, Sponsorships and Donations. Now, recommendations are written in a clearer manner. Some detailed recommendations regarding the labour cost optimisation were deleted. Another modification refers to the self-assessment period under the EFQM excellence model which has now been extended from one to two preceding business years. In addition, SSH also recommends companies to examine SSH Premises for Voting at General Meeting in an individual year prior to preparing the material for the General Meeting.

# Digital transformation and innovation projects of the selected portfolio companies

## HSE Group, d. o. o.



Holding Slovenske elektrarne d.o.o.

### **Production optimisation in HSE Group**

*Aiming at better efficiency of its operations, the HSE Group strives to exploit the synergies of a wide spectrum of its production capacities. Operational and cost characteristics of individual production units differ one from the other, making it possible to achieve a more cost effective generation of electricity by providing a suitable combination of production schedules. It should also be taken into account that electricity prices change in the market over time which makes economic dispatch of production units more important, whilst considering their technical criteria. The main aim of the project to optimize the production by means of digitalisation, is not solely the optimisation in technical and economic terms but to provide a suitable support for key electricity production processes. Thus, the aim of the project is to provide proper information systems for supporting the key process in production planning and production marketing as well as in dispatching; all aspects of productions must be taken into account in this regard - i.e., the electricity production and the provision of systemic services and the planing of overhauls of production facilities. After all, when the project is implemented, it will generate high added value to operations by providing support for decision-making process in the production; considering increasing dynamics in the electricity markets and the needs of the electricity system ,decisions must be swift and correct.*

### **Condition based maintenance**

*The maintenance of production infrastructure is a task demanding substantial resources both in terms of personnel and finances. Considering the increasing pressure for rationalisation to be applied in all processes, including the maintenance process, given the fact that unexpected failures of production units may incur high additional costs, it makes sense to invest available funds in a targeted manner when most necessary in order to maintain the maximum possible availability of production. This aim may be achieved by means of digitalisation, i.e., by introducing complex IT solutions which will enable the predicative maintenance to be introduced on the basis of measurement of production infrastructure and assessments of trends which enables the detection of potential errors in the electric and mechanical and construction equipment prior to their occurrence. The goal of digitalisation is thus to have a transparent and efficient and targeted maintenance of all facilities of the HSE Group, to provide the integration of all maintenance strategies and its concepts and to exchange cases of good practice among the Group's member companies.*

### **Advanced condition based monitoring system**

*In Dravske elektrarne Maribor, d. o. o., the upgrading of the ZVAPS system was completed. The system, which collects, assesses, analyses, presents and stores process data, is based on the OPC technology, i.e. Object Linking and Embedding for Process Control, with the aim of centrally collecting and processing data from the process and technical systems of hydro power plants and their accompanying data bases. Approximately 10,000 data on process measurements are submitted to the said system's data base from the process and technical systems of eight hydro power plants of Dravske elektrarne, representing a high potential for modelling hydro power plants and for their condition based maintenance. In order to seize this potential, the system had to be upgraded to be based on diagnostics and maintenance applications in contemporary mathematical environment in order to use artificial neural networks (ANN) and OPC technology which are often applied for data-driven and condition based maintenance of power*





plants around the world. This innovation emphasises practical use of hydro power plant models designed on ANN and intended for condition based maintenance and monitoring of hydro power plants.

### **Technical solution for continuous monitoring of ecologically acceptable water flow at Kneža small hydro power plant**

The Kneža small hydro power plant was constructed by Soške elektrarne Nova Gorica (SENG) in 2018. The operation of small hydro power plants runs in compliance with requirements acquired right to use water as stated in a valid permit for the use of water. The applicable Waters Act and implementing regulations which refer to the mandatory assurance in regard to ecologically acceptable water flow in the river-bed downstream from the capture of the water for the needs of electricity generation stipulate that the continuous monitoring of the required flow must be ensured by an operator of a small hydro power plant.



A team of engineers from SENG set a goal to find a solution to satisfy the requirements of the Kneža small hydro power plants. Additionally, such a solution may be used for other similar facilities in order to ensure suitable ecological condition of the water course in other hydro power plants.

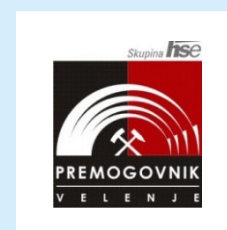
One part of the ecological flow at the Kneža small hydro power plant is ensured through the fish passage while the remaining part goes directly from the grit chamber through the openings in the wall. The stream flow control is carried out by means of a measurement device located in the stilling basin and properly stabilised and hydraulically calibrated. By means of a radar probe, the ecological flow is continually measured and recorded and in no case should it decrease below the required value. The measurement results are stored and are always available for inspection by relevant institutions. An innovative approach was therefore developed by SENG to ensure and measure the ecologically acceptable flow at Kneža small hydro power plant which improves the utilisation of renewable water potential and contributes to the reduction of greenhouse emissions, alongside the environmentally-friendly operation of the hydro power plant. This particular case shows that at the annual level, better utilisation of hydro potential may result in 60MWh of green energy without CO<sub>2</sub> emissions. The same volume of energy produced by a thermal power plant would burden the atmosphere with 66 tones of CO<sub>2</sub>.

### **Innovations for the future of the coal industry**

The work of miners carried out a few hundred meters below the ground is little known to the general public as compared to other industries since the coal mining activity does not compete in the market of products as a result of its specific characteristics. Regardless, new innovative process solutions developed by miners have proved that they have a lot of knowledge and the desire to progress.

Applying their own engineering knowledge and based on long-lasting experience in underground coal extraction using the Velenje mining method, in Premogovnik Velenje (Velenje Coal Mine) a section for mining the thick coal seams using the longwall mining method was constructed, referred to as the hydraulic shields support. This is a unique structure at a global scale for which the Velenje Coal Mine was awarded with the silver accolade for the best innovation in the SAŠA region in 2018.

The underground transportation is one of more important processes for coal mining in the Velenje Coal Mine; it is organised with classic mine rail transport and with hanging rail transport. The emphasis is placed on a timely, reliable and safe transportation of miners, equipment and material. With the optimisation of the entire work process, in spite of the reduced number of employees and with prolonged transportation roadways, by a 9.2% higher turnover was generated in 2018 as compared to the preceding year. This innovation was awarded with the bronze accolade for the best innovation in the SAŠA region in 2019.



# MACROECONOMIC ENVIRONMENT AND DEVELOPMENTS IN THE MOST IMPORTANT SECTORS FROM PORTFOLIO

## 7.1 Overview of selected macroeconomic data and of Slovenian capital market

	2018	Autumn forecast (September 2019)		
		2019	2020	2021
GDP, real growth in %	4.1	2.8	3.0	2.7
Registered unemployment rate in %	8.2	7.7	7.2	6.9
Inflation (annual average) in %	1.7	1.8	2.0	2.3

Source: IMAD; Autumn forecast (September 2019)

Global economy grew by 3.6% in 2018, and a growth of 3.2% and of 3.5% is expected for 2019 and 2020, respectively, according to the analysts of the International Monetary Fund (IMF). The growth was recorded in the countries of the developed world as well as in the developing countries, albeit the latter experienced a higher GDP growth. In December 2018, the European Central Bank ended its Quantitative Easing programme (the purchase of government bonds) and announced that the reinvesting of cash from maturing bonds would continue in the future after the first interest rate hike. The European Central Bank decided to stop the Quantitative Easing programme due to inflation nearing its target; with its gradual measures the ECB remained inclined to enabling low interest rates which should continue to further support the economic growth. In 2018, the Central Bank of the United States (the FED) continued raising key interest rate which in December 2018 stood at 2.50% (the upper limit of the interval). In 2018, the FED hiked the key interest rate four times, each time by 0.25-percentage point.

The European economy grew in 2018 for the sixth year in a row; the movement of growth does not depend solely on domestic consumption but on the movement of the global economic growth, too.

The growth of GDP in the European Union member countries stood at 2.0% while it amounted to 1.9% in the countries of the Euro area. As regards the review of the manufacturing sector in 2018, the challenges of the automotive industry have to be pointed out: in regard to the European automobile manufacturers these were also linked to emission measurement standards. The movement of trade in goods which significantly contributes to the growth of world economies was connected with trade disputes arising between the most important countries of the world in which regard customs tariffs were a frequent choice of the opposing parties. The US economy recorded a 2.9% growth in GDP in 2018, which was slightly higher than in the EU. FED projected the US economy to grow by 2.1% in 2019 and by 2.0% in 2020, while ECB estimates showed that the GDP growth for the Member States of the Euro area would stand at 1.1% in 2019 and at 1.2% in 2020. The economic growth in the Republic of Slovenia stood at 4.1% in 2018, and thus, since 2016, Slovenia has again been narrowing its development gap with the EUR average, whereby social inclusion of the population remains relatively high. The economic growth in the Republic of Slovenia in 2018 was slightly lower than the economic growth in 2017; according to IMAD's forecast, with the easing of economic activity in the

international environment, economic growth in the Republic of Slovenia will gradually slow down and, as forecasted by IMAD, the importance of domestic consumption would increase, while exports would contribute less to GDP growth.

### Slovenian capital market

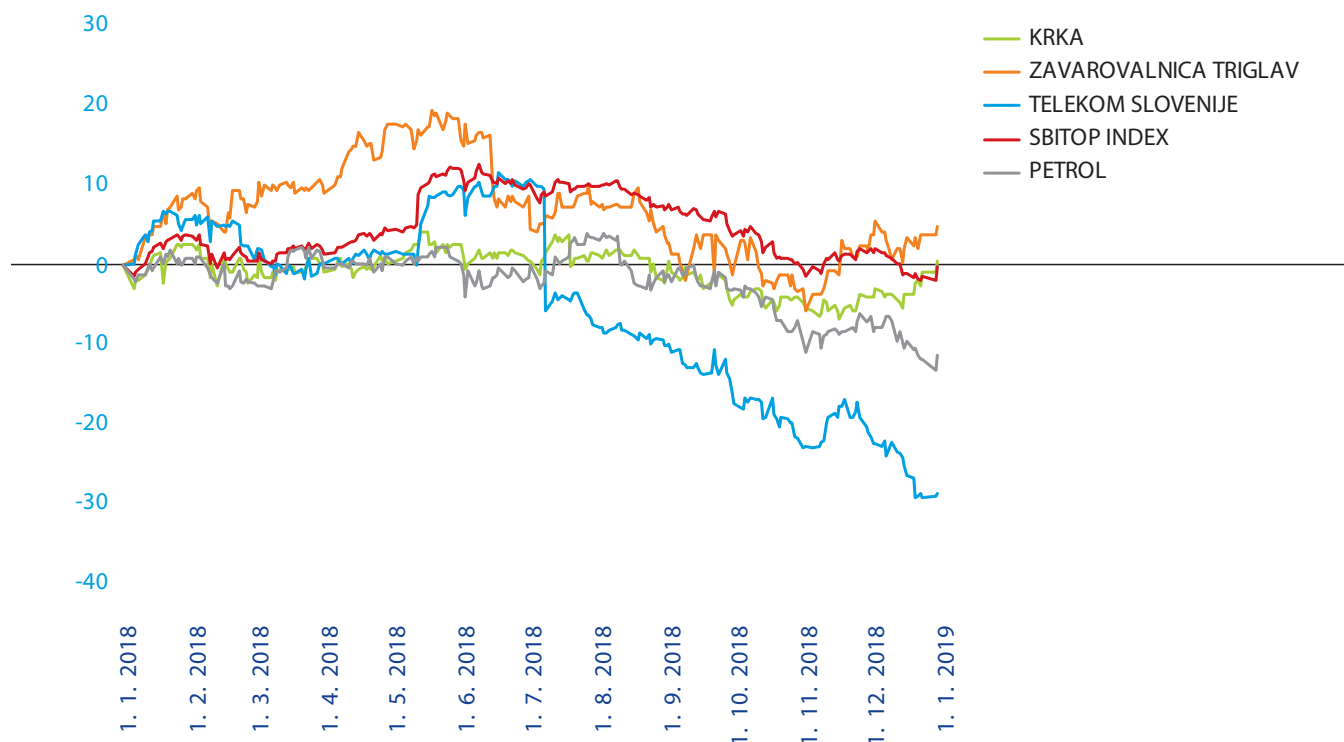
In the first half of 2018, SBI TOP, the Slovenian stock market index, grew but in the second half of the year, it lost in value, and closed 2018 at 805.06 points, which is 0.18% less than the closing value of SBITOP in 2017. SBITOP hit the highest value in 2018 at 907.58 points (the value as at 6. June), thus exceeding the value of 900 points for the first time in eight years. The management of the Ljubljana Stock Exchange assessed this achievement of SBITOP index as indicating positive trends on the Slovenian capital market. The lowest point recorded by SBITOP in 2018 was on 20 December at 790.91 points. More important moves taking place in 2018 include the listing of NLB shares on and the delisting of Gorenje shares from the Ljubljana Stock Exchange. After an initial public offering, NLB shares were listed on 14

November 2018, and by the end of the year, EUR 8.38 million worth of deals were closed. The extraordinary revision of SBITOP index in December resulted in the inclusion of the shares of NLB bank in the calculation of the said index. The listing of NLB shares on the Ljubljana Stock Exchange is the first new issue in more than a decade.

The highest turnover was generated by trading in Krka shares (EUR 86.4 million), in the shares of Cinkarna Celje (EUR 56.47 million), Zavarovalnica Triglav (EUR 43.24 million) and Petrol (EUR 40.64 million). In 2018, shares generated EUR 327.69 million worth of transactions, and, as regards trading volume, they were followed by bonds, totalling EUR 9.63 million in turnover.

At the Ljubljana Stock Exchange in 2018, 16 issuers listed a total of 36 bond issues and two issuers listed a total of 2 commercial papers. There were 12 treasury bills listed on the Ljubljana Stock Exchange in 2018, however, without any turnover generated. Neither was any turnover generated by two commercial papers in 2018.

Figure: Return from top shares listed on Ljubljana Stock Exchange in 2018, representing an important proportion of SSH capital assets.



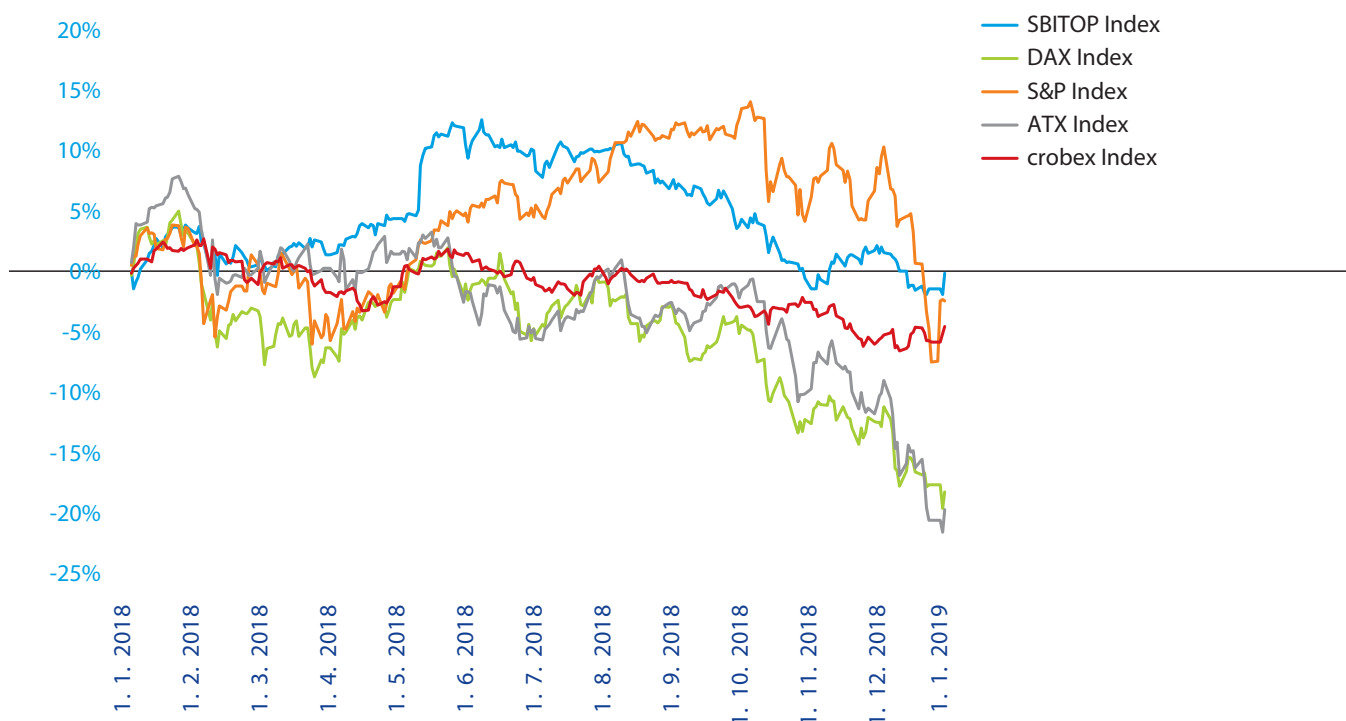
Source: Bloomberg

## Global capital markets

In 2018, the majority of more significant asset classes generated negative returns for investors with some of the asset classes recording worse returns than in the crisis year of 2008. The year of 2018 will be recorded as a year that generated the worst annual returns to investors in equity investments on the global markets and the highest increase in the value of the

VIX index (the CBOE Volatility Index, or also known as the "Fear Index) since 2008. The returns generated by the majority of asset classes in 2018 failed to cover the inflation, and the returns of American S&P 500 index in December 2018 was the worst since the 1930s. The year of 2018 was a completely different year for investors than 2017 which was a year of good returns and low volatility.

Figure: Return from top regional and global share indices and SBI TOP in 2018 (all returns in EUR currency).



Source: Bloomberg

All global indices discussed generated negative returns for investors in 2018; the calculation of returns is made in EUR.

## 7.2. Overview of developments by portfolio sectors

Economic growth in the world and in Slovenia continued to rise in 2018, giving a positive impact on the development of companies and to economic indicators. The real growth in gross domestic product (GDP) in 2018 amounted to 4.1% to which external demand, fixed capital formation and final consumption had a positive impact.

Macroeconomic conditions in Slovenia and in the EU countries, which are the most important trade partners of Slovenia, and an increased volume of international trade was reflected in the increased volume of traffic and transportation services in 2018; in 2018, the 5-percentage growth recorded in goods transport on motorways and express roads was the most highlighted.

As regards **rail transportation**, the competitive environment in Slovenia and in other countries in the region is becoming increasingly demanding as new private railway operators are coming on the market with modern means of transport and faster market flexibility resulting in an increased competition in new and existing commercial dealings. In comparison to 2017, when the above-average transports were performed due to one-off positive movements, the volume of goods carried fell by 2.4%, while the number of passengers carried stagnated. Both freight and passenger railway transport faced numerous infrastructural limitations in 2018, which had a negative impact on the availability of the infrastructure and to efficient functioning and operation of railway operators. The accelerated investment activities with regard to railway infrastructure in the last years have pursued a goal of improving competitiveness, particularly in passenger transport.

In 2018, activities continued for the implementation of the National Motorway Construction Programme in the Republic of Slovenia which was adopted in 2004. The last part of the motorway section between Podlehnik and Gruškovje was put into service in 2018 prior to the expiry of the contractual delivery date and for a lower price as compared to its investment value. A lot of activities were carried out for establishing the electronic toll system for vehicles with the maximum permissible weight exceeding 3.5 tonne. The DarsGO electronic toll system, which was

successfully implemented on 1 April 2018, enables drivers of heavy-duty vehicles tolling without stopping or reducing speed, tolling without any toll stations which has an impact on the traffic flow, on lowered exhaust gas emissions and noise reduction.

In Slovenia, **marine traffic** is carried out through the only port located in Koper, predominantly in the form of freight transport with a small portion being dedicated to passenger transport. The Port of Koper is the youngest port in the North Adriatic Region but an extremely dynamic one; it is a market leader in strategic cargo groups otherwise characterised by fierce competition. In 2018, the maritime throughput amounted to 24 million tons of goods which is 3% higher than in 2017, hitting a record annual throughput in the history of the said Port. The cruise terminal at the Port of Koper recorded 101,415 passengers in 2018, representing a 41-percent growth as compared to 2017. By putting in practice its development policies, the Port of Koper is strengthening its competitive advantages.

**Traffic in Slovenian airspace** followed favourable economic conditions and the growth trend in the European airspace. The number of flights performed in air traffic in the Republic of Slovenia in 2018 stood at 439,286, of which 423,154 were IFR (Instrument flight rules) flights, which represents a 9.7 per cent increase as compared to 2017; it is significantly higher than 3.9-percentage growth in air traffic in Europe (EU-28). The growth in traffic is also reflected in the growth of the number of service units. The overflight phase in the Slovenian air space recorded a 9 per cent growth in the number of service units as compared to 2017, while the terminal phase recorded a 6.9 per cent growth. Active participation in the international arena has continued, both within the scope of the Functional Airspace Bloc – FAB Central Europe (FABCE) as well as at the level of international organisations and industry stakeholders (Eurocontrol, ICAO, CANSO, BLUE MED, etc.).

Slovenia is placed among European countries with a higher level of access to the **postal network** – in 2018, the postal network comprised 503 contact points of various forms of organisation. In 2018, an average post office covered 42 km<sup>2</sup> and 1637 households. Pošta Slovenije follows high delivery

standards stipulated in the General Instrument on Quality of Rendering Universal Postal Services. In addition to Pošta Slovenije, 19 companies rendering postal services were registered in 2018 on the Slovenian postal services market. Regardless, Pošta Slovenije maintained its leading position in the activity of rendering postal services in 2018. The universal postal service as the most important section of its operation dropped by 1.8%, mainly due to the substitution of postal services with other communication methods (e-commerce). The upward trend has been recorded in the category of parcel and logistics services, which increased by 9.5% in 2017 as compared to the preceding year. A moderate growth in operating revenues is expected particularly on account of parcel and logistics services.

**Tourism** in Slovenia is an important economic activity with numerous multiplicative effects and high potential for growth and development. In Slovenia, the proportion of tourism exports in the total exports of services and the share of total effects of tourism in total GDP is significantly higher compared to European and global averages; and as regards employment in the tourism industry, the number of employees is high.

In 2018, above average growth was recorded, with results hitting record values for the fifth year in a row. The final annual statistical data by the Statistical Office of the Republic of Slovenia (SURS) for 2018 indicate that 2018 will be another extraordinary year for tourism in Slovenia. There were more than 5.9 million tourist arrivals registered in tourist accommodation facilities last year with 15.6 million overnight stays, that is 8% more arrivals and 10% more overnight stays than in 2017. Of this number, a solid 11 million of overnight stays (71% of the total number) and 4.4 (75% of total arrivals) million of arrivals was attributed to foreign tourists, that is 15% more overnight stays and 11% more arrivals than in 2017. Domestic tourists accounted for 4.5 million of overnight stays and 1.5 million of arrivals, with the figures being more or less the same as in 2017. The highest number of tourist overnight stays recorded in 2018 was registered by municipalities in the mountains (28.6% of all overnight stays); they were followed by municipalities in which spas are located. The highest growth in the number of overnight stays was recorded in Ljubljana. The contribution of the tourism industry to GDP amounts to 12.3%.

Some more important industry-specific/strategic risks in tourism include outdated infrastructure and the lack of new investments (a revival of investment activities has been recorded only recently), the lack of suitable personnel and too-low added value. The outlook for tourism is favourable, representing a potential for the development of Slovenian tourism companies.

In 2018, the **gaming sector**, on the other hand, recorded fewer visits than in the past years. After two years of growth, the primary market for the gaming sector along the western national border contracted again by 1% in 2018 and reached one of the lowest levels in the past twenty years. As a matter of fact, casino visits are affected by tourist visibility of a destination, of a location where a casino is situated (the greater the number of population in the vicinity of a casino, the better the operation of a casino), by the integrity of an offer and an income per inhabitant on the market. In 2018, gross income generated by gaming halls of HIT, the main operator, decreased by 8.9% and due to good operation of Casino Venezia, Italy, HIT's market share decreased. Similarly, casinos in neighbouring countries (Austria, Italy) recorded fewer visits and lower gross turnover in 2018. The only gaming hall recording a noticeable growth in turnover, albeit fewer visits, was the gaming hall in Venice, Casino Venezia. The growth in on-line gaming was noticed both in Italy and in Austria which is affected by the decreasing number of slot machines outside gaming halls and stricter regulations and higher tax burdens.

Slovenian **pharmaceutical** enterprises operate on the global market. They recorded an increase in sales revenues, in addition to the increase in sales volume. Competition in this sector is harsh which is why investments in the development of markets and new products, together with the timely registration of new products is essential for this industry. The pharmaceutical industry is a fast developing industry with the biopharmaceutical sector recording the fastest development trends (biological medicinal products and biosimilars). The main players in the sector in Slovenia are Krka and Lek who are also an important employer in Slovenia. Growth levels are expected to differ according to individual regions as they depend both on their geopolitical stability and macroeconomic conditions on an individual market as well as on protectionist economic policies pursued. According to the outlook, the global pharmaceutical

market is forecasted to grow significantly, with the markets of Brazil, China, India, Indonesia, Mexico, Russia and Turkey becoming increasingly more important. According to the data by the Economist, the global consumption per capita for health care is expected to increase in the future. The outlook regarding the growth of the market for medicines differs from country to country (between 3% and 7%). The lowest growth is expected to be recorded in the market of Western Europe (by 1%) while the highest growth is expected in the market of the Russian Federation (by 7%). The growth is expected to be higher in the Asia-Pacific market.

The **telecommunication** industry is characterised by its highly competitive nature while simultaneously accelerated consolidation is noticed on the markets, both inside individual countries and between countries which additionally intensifies competition. Users require high quality service at low prices, markets are becoming increasingly saturated, giving less and less room for acquiring new users. In the future, further decline in revenues from basic telecommunication services is expected for the Slovenian telecommunication market, a developed and saturated market. Investments in the extension and upgrading of technologies, an accelerated digitalisation and further process optimisation are needed in order to adapt to users in a dynamic manner. According to data by Analysys Mason, a consulting and research specialist in telecoms, the revenue from telecommunication services in Central and Eastern Europe are expected to increase by 2023 as a result of positive economic conditions in the years to come. As regards individual services, the highest growth is expected to be achieved in the following two services: the mobile internet of things which is currently a relatively small market according to the number of connections and revenue volume but will increase significantly, and in the mobile data transmission which remains the key area with growth potential; these two are followed by fixed broadband access and IPTV and business services. Revenues will decrease the most from classical mobile services (calls and text messages) and from fixed-line services. A similar trend in the movement of individual types of telecommunication services in the period is also expected for Slovenia.

The Slovenian **steel industry** realises the majority of its sales in the European markets; recently, the European steel industry has seen its competitive

position in the global steel market deteriorate, in spite of its potential and significant efforts for innovation and modernisation. In 2018, the US imposed tariffs on steel and aluminium. The Slovenian steel industry is a niche player, not having too significant a role on the global market, which makes it easier to adapt to its competition in the market. In 2018, steel consumption in the EU grew by 2.1%, and by 1.9% at the global level, while as regards steel demand, it grew by 2.2% in the EU, and by 3.9% worldwide. According to the estimates by the World Steel Association, the steel demand is expected to increase substantially, and new types of steel are being developed. More than 3500 types of steel are currently used. The movement of global economy has a strong impact on the steel industry, its developments is strongly affected by new trends in steel demand and by the occurrence of global protectionism.

After eight years of increasing production volumes, the global **automotive industry** contracted by 1.2% in 2018: 95.4 million of vehicles were manufactured. In spite of a 4.2 per cent decline in vehicle production, China kept its position of the largest vehicle manufacturer in the world with 27.8 million units produced. Europe maintained second place among the continents: recording a 1.3 per cent decline in vehicle production, 21.3 million of units were manufactured and its share in the global automotive industry amounted to 22.3%. The largest drop was recorded in Germany where German car makers faced challenges with the shift to the new measurement protocol, i.e. the Worldwide Light-Duty Vehicles Test Procedure (WLTP), imposing a much stricter test regime measuring CO<sub>2</sub> emissions and fuel consumption.

On the other hand, automobile production on the American continent rose again after three years of falling and accounted for 20.7 million manufactured vehicles which is 0.4% higher than in 2017. Vehicle sales in the EU were marked by high growth until the August of 2018: 6.1% more cars were sold in the first eight months than in the same period of the previous year. With the entry into force of the new WLTP rules, the number of cars sold began to visibly decline and the number was dropping until the end of the year. Regardless, the number of personal cars sold in the EU increased by 0.1% in 2018, reaching 15.2 million in revenue, representing an increase in sales for the fifth consecutive year. Vehicle sales on the global market

have been gaining a new momentum in 2019, mostly on account of emerging markets, particularly Russia. New trends in vehicle electrification, autonomous driving and new ideas in the area of mobility may drive the shift in the market share from the West to the East in the future.

All **banks** in Slovenia generated profit in 2018 which at the level of the banking system amounted to EUR 532 million before taxes, which is 20% higher than in 2017. Both net interest income and non-interest income were higher. The growth in interest income is the result of the growth in loans, while interest expenses remain low as a result of favourable structure of financing. Last year, the banks decreased their operating costs, in addition to releasing impairments and provisions for the second year in a row. Non-performing exposures (NPEs) in all segments of the credit portfolio were reduced by banks in 2018. The NPE ratio at the level of the banking system was lowered to 4.0%, i.e. to EUR 1.7 million. The NPE ratio in non-financial corporations declined to 8.4% but their NPEs account for two-thirds of the banking system's total NPE stock. In our assessment, the volume of NPEs continues to present an important risk. Slowing growth in the balance sheet total amounted to 2.2% in 2018. The Slovenian banking system's balance sheet total increased by EUR 831 million throughout the last year, rising to EUR 38.8 billion, but it still lags behind the record hit in 2008 (EUR 47.9 billion). The growth in balance sheet total in 2018 was slightly lower than in 2017.

The share of insurance premiums in GDP amounting to 5.1% has kept the **insurance business** as one of the more important industries. The value of the total insurance premium in Slovenia increased by 7.4%, or by EUR 161.8 million, recording the highest growth since 2008. Both insurance classes recorded growth, with the life insurance market recording higher growth. Average per capita spending on non-life and life insurance was EUR 1.133 in Slovenia in 2018, the highest figure to date.

Thirteen (13) insurance companies, 2 reinsurance companies, 3 pension companies and 2 other companies registered in Slovenia operated on the Slovenian insurance market in 2018. In addition to the aforementioned companies, 8 branches of foreign insurance companies and 777 insurance companies registered abroad may also provide insurance services directly. The insurance industry

employed 6303 employees in Slovenia at the end of 2018; women accounted for 58.6% of all employees. Zavarovalnica Triglav has remained the largest insurance entity among the insurance groups in Slovenia, recording EUR 633 million of premiums collected, 4.7% more than in the preceding year; it is followed by Zavarovalnica Sava with EUR 392 million of premiums collected, by 7.8% more than in 2017, and Vzajemna Mutual Health Insurance company (growth by 6.9%) and Adriatic Slovenija (fall by 1.2%) with EUR 304 million and EUR 303 million of written premiums, respectively. As regards reinsurance companies, Pozavarovalnica Sava has remained the largest reinsurer with EUR 152 million of premiums collected; it is followed by Pozavarovalnica Triglav Re with EUR 131 million of premiums collected. The operation of insurance companies in 2018 shows the continued growth in this industry. The annual growth rate of gross premium written amounted to 7.4%. The total premium written amounted to EUR 2,341 million. The total claims ratio amounted to 67.5% in 2018; the insurance density jumped to EUR 1,133 and insurance penetration to 5.1%.

The **energy products market** in 2018 was marked by significant growth in the prices for all main energy products in the first half of the year, whereas a drop in prices was recorded in the second half of the year, primarily in the price for crude oil which fell below USD 40 per barrel (WTI). Oil prices rose in the first half and in the autumn of 2018 mainly on account of the growth in global demand, the withdrawal of the US from the Iran Nuclear Agreement and lower production in Venezuela. It, however, plummeted in the Q4 as a result of a worse outlook for economic growth and darkening demand forecasts at the global level.

Similarly to oil prices, gas prices recorded a rising trend in the first half of 2018 and a price correction in the last quarter, although less sizeable than in oil prices.

After falling prices in Q1 of 2018, the coal price started rising mainly on account of the growing imports in China and India (for satisfying the needs in the generation of electricity) and as a result of the growth in oil prices, affecting the growth in transportation costs. CIF ARA spot price amounted to EUR 75/tonne in Q2 or by 8% more than in the same period of 2017. Rising coal prices, in connection with rising EUA prices, improved the competitive



advantage of gas over coal.

The CO<sub>2</sub> coupon prices (EUA) jumped from approximately EUR 5/tonne at the end of 2017 to approximately 16 EUR/tonne by May 2018 and subsequently to as much as EUR 25/tonne. The anticipation of regulatory changes in the EU ETS (Market Stability Reserve Mechanism), entering into force in January 2019, is the main driver for the rising prices.

The rising trend in energy products prices recorded in 2018 was also seen in the rising forward prices for electricity; considering the bottom level the prices hit in the beginning of 2016, they gained by approximately EUR 20/MWh by the middle of 2018. The electricity market prices for long-term and short-term products in an individual wholesale market are influenced by the disposable electricity production by various sources of electricity generation, electricity consumption, regulatory impacts and the availability of cross-border transfer capacities on an individual market, in addition to the primary energy products prices. The ever increasing share of renewables in the structure of production has an additional and highly significant influence on electricity prices.

In 2018, the average prices for peak energy at the Energy Exchange in Slovenia amounted to EU 56.88/MWh, representing a 0.7 per cent increase as compared to the preceding year. As compared to 2017, the prices of peak energy, similarly to the prices of base-load, increased on all markets observed with the exception of the Hungarian Energy Exchange, the highest increase was recorded at the German EEX (27%) and Austrian EXAA (30.3%). In comparison to 2017, the average day-ahead power price for peak energy decreased on the Hungarian market, i.e. by 3.8%. On the other hand, the gap between the average prices for peak energy on the Slovenian and on the Hungarian market further decreased in 2018; in 2017 it amounted to EUR 3.12/MWh while in 2018, with a lower price at BSP, the Slovenian Energy Exchange, it amounted to EUR 0.48/MWh. The prices at the Italian energy exchange achieved the highest values among the markets observed, whereas the lowest prices, recording an increased gap between the two prices, were realised at the Austrian and the German energy exchanges. The main reason for the increase in prices on the Slovenian and Hungarian market was poor hydrology in the countries of the Balkans and in Romania and consequently a low

electricity production in hydro power plants in the second half of 2018. At the same time, a greater increase in the prices for emission coupons was recorded in the second half of 2018, contributing to the growth of production costs of the electricity producers and, in turn, to the growth in electricity prices at the energy exchanges in the EU.

**Water utility companies:** Water management in Slovenia is organised in the following manner: on the basis of required criteria, the Ministry of the Environment and Spatial Planning grants a concession to entities which satisfy these requirements. The call to apply for a concession in implementing mandatory national services of general economic interest in regard to water management for the period from 2019 to 2026 was published in the autumn of 2018 and closed in the spring of 2019. The Slovenian Water Agency provides for the functioning of the mandatory national services of economic interest in water management. The maintenance of water land and of offshore land is carried out on the basis of the Annual Programme of Work for services of general economic interest rendered by a concession holder selected for a particular area on the basis of a Concession Agreement. Services within the scope of the Concession Agreement comprise maintenance services, cleaning, grass harvesting, felling, restoration of dams, embankments and weirs, the construction of water management control structures, such as stone and concrete barriers, retaining walls and low head dams, cleaning and maintenance of swallow holes and gravel barriers and removal of fine-grained river-bed material. Water utility companies obtain one share of revenue generated from rendering concession-related obligations and one share of revenue by rendering market activities connected with the construction of community infrastructure, the construction of environment protection structures, with agriculture-related services, geotechnical services and similar. The Republic of Slovenia holds a minority shareholding (25%) in the following water utility entities: Pomgrad VGP, d. d., VGP Drava, d. o. o., VGP Novo mesto, d. d., and VGP Kranj, d. d.. The Slovenian Water Agency and the Ministry of the Environment and Spatial Planning should provide for efficient implementation of services of general economic interest in terms of finding sources of financing for efficient water management and for new investment activities in water infrastructure to provide for flood protection and safety. The provision of funds for maintenance

and for the investment activities needed has been insufficient for several consecutive years. In addition, assets allocated for this purpose have been granted

in an uneven manner, decreasing the efficiency of operations of water utility companies.

## 7.3 Management of SSH and RS capital assets in 2018

The most important activity pursued by SSH is the management of SSH and RS capital assets. The activity includes the acquisition and disposition of capital assets and the exercise of rights of a shareholder. SSH acts proactively in implementing strategies adopted

by the State for individual industries (for example, the tourism strategy). The overview of capital assets under management is shown in the Table presented below.

### 7.3.1 Fundamental principles of asset management

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

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

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

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

## 7.3.2 Active management of RS and SSH capital assets

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

### Active management of state capital assets



#### CRITERIA

Criteria for measuring performance of SOEs  
*strategic goals, economic and financial goals*



#### MONITORING

Monitoring of SOEs' operations:  
*quarterly or monthly\* financial reports, periodic meetings with Supervisory Boards and/or Management Boards of SOEs, and business planning meetings*



#### ANNUAL PLAN

AAMP - Annual asset management plan for SOEs:  
*quantified strategic and economic and financial goals for all significant companies*



#### AGMs

Active preparation for annual general meetings of shareholders and exercise of all other shareholder's rights:  
*shareholder rights, property rights*



#### GOOD PRACTICE

Implementation of good Corporate Governance practice:  
*Corporate Governance Code for SOEs, SSH Recommendations and Expectations*



#### SUPERVISORY BOARD MEMBERS

Supervisory Board members: *the selection of Supervisory Board members with expertise, qualification, responsibility and strong ethical and business integrity*

\* Monthly reporting for SOEs was introduced in 2018.

Key factors for effective management of capital assets which is shown in increased total return on equity from RS and SSH capital assets, include as follows: the selection of independent, professional, responsible members of supervisory bodies with strong ethical and business integrity, prudent monitoring of the operating performance of SOEs and their oversight on the basis of goals and performance criteria

determined in advance, the implementation of good corporate governance practice and timely and suitable action-taking in cases of deviations from expected results.

The summary of results related to management of RS and SSH portfolio is presented in the remaining part of the Chapter.

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

In accordance with ZSDH-1 and other key documents related to corporate governance, in 2018, in addition to carrying out other tasks, SSH exercised shareholder's rights on its own behalf and on behalf of the Republic of Slovenia, particularly:

- regularly monitored the operations of companies under its management and their implementation of the Annual Assets Management Plan 2018;
- on the basis of the understanding of the companies' operations and industries in which they operate, including a critical consideration of their development plans, SSH prepared the Annual Assets Management Plan 2019 in which SSH's goals in managing individual capital assets and measures and policies for their attainment were defined in detail, as well as the expected cash flows from the state asset management activity. The Annual Asset Management Plan 2019 was adopted on 10 January 2019 after the consent was granted by the Government of the Republic of Slovenia;
- SSH acted proactively in implementing strategies adopted by the State for individual industries (for example, the tourism strategy) and carried out various activities in this regard;
- took part at the General Meetings and voted in its own behalf and on behalf of the Republic of Slovenia and passed founder's resolutions in companies managed by SSH; in 2018, the total of 109 General Meetings of Shareholders was convened, which included the adoption of the founder's resolutions;
- provided for the exercise of other rights of a shareholder or member such as the submission of the request for the convocation of General Meetings, extensions of agenda, lodging applications for a special audit review, an extraordinary audit review

and lodging compensation claims and similar tasks in accordance with the shareholder's corporate rights;

- provided for suitable content-related and legal evaluation of individual activities and decisions taken in the capacity of asset manager;
- carried out all necessary activities for relevant and timely procedure regarding the accreditation, nomination and selection of candidates for members of Supervisory Boards with the aim to appoint professional, heterogeneous and independent Supervisory Boards;
- ensured that the remuneration systems for the Supervisory Board members of SOEs satisfied the long-term interests of a company and attract and promote qualified experts to run for the membership in SOEs Supervisory Boards;
- acquired and disposed of individual capital assets in accordance with the applicable legislation and other relevant legal documents;
- in accordance with its powers, SSH took part in processes for corporate and financial restructuring of selected companies managed by SSH;
- continuously strived for raising the quality of corporate governance in the companies under SSH management, including its attempts expressed in its communication with companies to improve the compliance of their operations with the Corporate Governance Code for SOEs and with the SSH Recommendations and Expectations.

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

### 7.3.3.1 SSH Premises for Voting on General Meetings of Shareholders in 2018

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

Every year, prior to the General Meeting season, SSH prepares Premises for Voting on General Meetings of Shareholders, and publishes this document publicly. This makes voting by SSH predictable, transparent and compliant with the legal documents on corporate governance. After a General Meeting is held, all SSH's voting standpoints are publicly published on the following web site: [www.sdh.si](http://www.sdh.si).

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

- the participation at AGMs;
- the application to attend an AGM;
- the representation at AGMs;
- the convocation of AGMs;
- supplements to the Agenda of an AGM;
- voting at AGMs and the exercise of other shareholder rights;
- counter-proposals;
- the appointment of members of Supervisory Boards of companies;
- the remuneration policy for members of supervisory boards and management bodies of companies managed by SSH;
- the instrument to discharge the management or supervisory board members;
- the appropriation of distributable profit and the dividend payout;
- decisions in connection with the authorised

capital;

- the acquisition of own shares on the basis of the authorisation by the General Meeting in accordance with the provision of Article 247, indent 8 of ZGD-1;
- a standpoint in regard to the one-tier management system;
- a standpoint in regard to audit reviews;
- the disclosure of decisions made at individual General Meetings of shareholders, the exercise of voting rights at General Meetings of SOEs on behalf and for the account of KAD.

Some significant amendments and modifications adopted with regard to the voting standpoints in 2018 are as follows:

- a provision was inserted stating that as a rule, SSH will strive for modification of Articles of Association and Memorandums of Association in a manner that goals which may be implemented by a company itself or through other companies in a Group are clearly and specifically defined;
- alignment with provisions of the modified Corporate Governance Code for SOEs with regard to the permitted period of auditing a company by the same auditor (the permitted period of 10 years). SSH will also strive to include an item on the Agenda of regular General Meeting of Shareholders on the basis of which the General Meeting will become fully aware about written information on performed special audits which were completed in the company in the period of the last five years, and about procedures which were initiated on the basis of the findings of this special audit reviews. It was also stipulated what must be included in this written information.

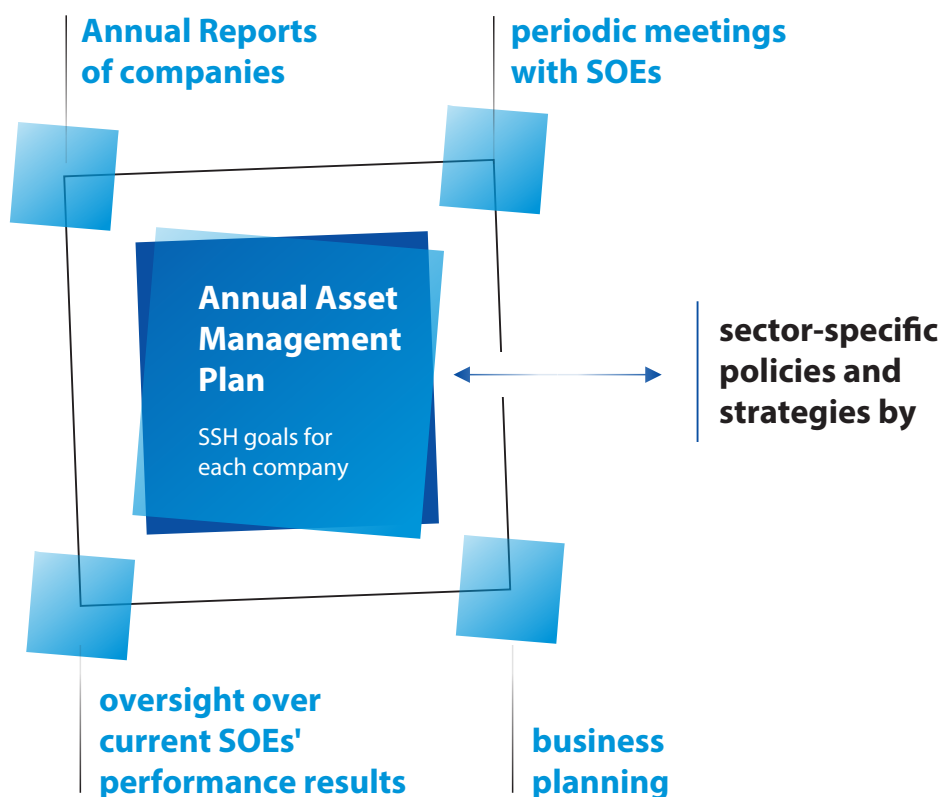
Modifications made in 2018 were mostly of editorial nature.

### 7.3.4 Monitoring operations of SOEs

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

**organisational form of an individual company and the equity holding of RS and SSH in such company.** The intensity of SSH's monitoring the activities pursued by individual companies is, among other things, also dependent on the fact whether a company is facing a "peaceful" period of operation or whether a company is in distress, carrying out important projects which do not form the part of its usual operation.

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



### 7.3.4.1 Fundamental goals for managing capital assets and their classification

In managing assets, in accordance with ZSDH-1, goals differ according to the classification of a company and state assets in strategic, important or portfolio asset. All assets owned by SSH and RS are classified into one of three groups of assets with equal or

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

## Fundamental goals for managing capital assets and their classification



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

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

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

Individual goals are given in the form of criteria, i.e. indicators, laid down in the Criteria for Measuring Performance of SOEs. In light of the type of assets,

certain economic and financial indicators are determined for an individual asset and strategic criteria and indicators in case of strategic assets.

For individual asset, specific goals set on the basis of criteria and indicators set are defined in every AMAP. For the necessary efficient monitoring of the success in regard to goals set for SOEs in the portfolio managed by SSH, suitable tools are deployed by SSH, together with data available at three levels, specifically:

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



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

An important proportion of companies in the RS portfolio which is managed by SSH renders public service of general economic interest. These are

companies rendering service of general economic interest as defined by laws in the area of energy, transport, environmental protection and other areas.

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

In terms of the content, this definition of a strategic asset is defined in the Capital Assets Management Strategy, specifically its criterion for classifying companies into strategic assets. Obviously, in addition to strategic objectives, economic and financial objectives must also be set for companies carrying out such activities, and define them with

regard to the nature of the service rendered by an individual company. SSH thus sets annual goals of economic and financial and strategic nature for these companies in AAMP and oversees their realization. The realization of these goals is reported in a respective Annual Report - Management of Capital Assets.

### 7.3.5 Risk management in SOEs

Risk identification, their quantification and risk management belong to key success factors of each company in today's business environment. SSH monitors and quantifies key macroeconomic risks, sectoral risks and risks by individual blue-chip companies under its management.

Risks in companies are regularly monitored on the basis of analysis of results of current operations and developments in the markets. Companies report to SSH on their key risks and on their management

within the scope of regular periodic meetings with members of the management and supervisory bodies.

In 2019, regular working meetings were introduced in SSH to discuss risks in SSH and risks in SOEs. With the aim of ensuring better cooperation and better flow of information in regard to monitoring risk management in SSH and in SOEs, a permanent working group was appointed.

### 7.3.6. Main events in 2018 in regard to asset management

#### **In October 2018, SSH submitted Annual Report - Management of Capital Assets of RS and SSH in 2017 to the Parliament.**

Pursuant to Article 67 of ZSDH-1, which has imposed the task of monitoring business performance of SOEs, SSH prepared the Annual Report - Management of Capital Assets of RS and SSH in 2017. SSH took into consideration recommendations regarding the best practice in corporate governance suggested by the OECD Guidelines on Corporate Governance of State-Owned Enterprises. The Report, which presents in detail the system of capital asset management and provides presentations of all companies under management, in addition to results obtained at the level of portfolios, was discussed by the Committee on Finance and Monetary Policy of the RS National Assembly and by the Commission for Economy, Trade, Tourism and Finance of the RS National Council. The said Report was also discussed by the RS National Council.

#### **SSH Conference for Management and Supervisory Boards of SOEs and for other stakeholders**

For the second year in a row, SSH organised an annual conference with the aim of presenting to the



stakeholders the asset management performance of capital assets held by the Republic of Slovenia and SSH in 2017, as well as the SSH's goals and expectations from SOEs in 2018 and 2019.

---

**As regards innovation, innovation governance is an extremely important governance and management process and a key factor in distinguishing successful companies from less successful companies.**

---

The main theme of the conference was innovation governance. The keynote speaker was Jean-Philippe Deschamps, an emeritus professor of technology and innovation management at IMD in Lausanne, Switzerland, and the lecturer at IECD - Bled School of Management, Slovenia. His lecture provided insights on innovation and the role to be played by supervisory and management boards of companies. His lecture was followed by a round table discussion

in which the Minister for Economic Development and Technology and other guests participated. The main theme lectured and discussed at the round table indicated that as regards innovation, innovation governance is an extremely important governance and management process and a key factor in distinguishing successful companies from less successful companies.

Photo STA: panel discussion at SSH Conference, 3 December 2018.



### 7.3.7. Main activities in 2018 in regard to asset management by individual companies

The remaining part of the Chapter presents the most important activities and events in 2018 by individual companies and industries.

- Družba za avtoceste v Republiki Sloveniji, d. d. (Motorway Company of the Republic of Slovenia) (DARS)

Considering the Annual Reports of preceding years, the certified auditor changed the practice for dealing with the asset item “the real estate of other operators”, representing state roads. Several activities have been carried out in 2018 in order to find a solution for the aforementioned issue. It was concluded that the said real estate be excluded from the Balance Sheet of DARS in a manner that share capital of the company was reduced (to be implemented in 2019); in this regard, however, a systemic solution for dealing with such real estate in the future should be found.

- Sava, d. d. (Sava)

In 2018, acting as a creditor and shareholder of Sava, SSH actively participated in the implementation of

its financial and business restructuring pursued in regard to the development and consolidation of its tourism business segment. Important activities included decisions made in relation to the takeover of Hoteli Bernardin d. d., for which additional financial funds were needed from the owner by the company. As regards the deleveraging of Sava, d. d., at the General Meeting of 22 June 2018, its shareholders granted their consent for the conclusion and implementation of the Sale and Purchase Agreement on the sale of Gorenjska banka shares to AIK Banka a. d.; the sale was realised in 2019 and had a significant contribution to the achievement of its financial restructuring plan. SSH also provided for a suitable management of claims due by Sava to SSH. The claim management activity includes the calculation of interest, the valuation of collateral, the monitoring of income from the cashed-in assets, coordination with remaining debtors, carrying out tasks in connection with the cashing-in of collateral, registration of collateral in relevant records, and similar tasks.

- Slovenian Tourism Strategy

In 2018, SSH examined the adopted Strategy for Sustainable Growth of Slovenian Tourism for 2017-2020 and, with the assistance of an international advisor, developed a financial analysis of directly or indirectly owned state companies operating in the hospitality industry; the said analysis has delivered a proposal for the optimisation of the portfolio of capital assets in the hospitality industry. On the basis of this analysis, SSH developed a proposal for the consolidation and for the development of state-owned tourism companies which includes the plan for their acquisition, management and restructuring. At the end of 2018, SSH started to harmonize the concept for the development of tourism with the responsible ministries which includes the provision of financial funds. At the time of adopting the AAMP 2019, the proposal developed by SSH was not finally harmonised with the two responsible ministries which is why it was not included in the AAMP 2019. Activities continued in 2019.

- Slovenske železnice, d. o. o. (Slovenske železnice)

In April 2018, the SSH Management Board, in the capacity of the founder and the sole shareholder of Slovenske železnice granted its consent for the conclusion of the agreement for the purchase of the rolling stock for the rail passenger transport. At the General Meeting held in December 2018, the SSH Management Board was making a decision on the share capital increase by RS in the amount of EUR 154,255,500. The total amount was dedicated to the share capital increase of SŽ-Potniški promet, d. o. o. for the purchase of the rolling stock for the rail passenger transport.

- Pošta Slovenije, d. o. o. (Pošta Slovenije)

In cooperation with Pošta Slovenije, a study on the Pošta Slovenije Group was carried out in 2018 by an external provider of advisory services in which the current situation of the said Group was analysed and its strategic operational directions were explored. The results of the study will be used for the development of strategic directions of the operation of the Pošta Slovenije Group.

In 2018, by acquiring a stake in the logistics company Intereuropa, d. d., Pošta Slovenije started to carry out intensive activities for increasing its market share in the logistics. Activities continued in 2019.

- HSE Group

SSH, in the capacity of the founder, agreed with individual activities in regard to financial and business restructuring of the Group and monitored the implementation of individual Action Plans. In 2018, the HSE Group successfully continued implementing its activities for the Group's deleveraging and exceeded its plan.

- GEN energija Group

SSH, in the capacity of the founder, endorsed a successful business model for public-private partnership of Gen energija, d. o. o. and GEN I, d. o. o.

- Rudnik Trbovlje-Hrastnik d. o. o. (RTH) - in liquidation

SSH coordinated all the necessary activities between RTH, MZI and MF for the adoption of the Act Amending the Act Regulating the Gradual Closure of the Trbovlje-Hrastnik Mine and the Economic Development Restructuring of the Region with which the deadline for the completion of the closure was extended from the end of 2018 to the end of 2019; the deadline for the completed liquidation of the company was extended to the end of 2020. Pursuant to the said Act, SSH passed a resolution on the liquidation of the said company in February 2019, and in 2019, the Government endorsed a new programme of closure for the period from 1 January 2019 until 31 December 2020, and organised the funding.

In 2018, SSH also took active part in activities which, in broader sense, mean **the implementation of strategic policies stated in the State Assets Management Strategy and in Annual Asset Management Plan 2018.**

- Geoplin, d. o. o. (carving out of Plinovodi, d. o. o., and equity-swap):

In accordance with the Ordinance On State-Owned Capital Assets Management Strategy, the strategic interest of RS is that RS and its related companies acquire and maintain a majority (higher than 50%) shareholding in Plinovodi, which was in a 100-per cent ownership of Geoplin. This could have been realized by carving out Plinovod from Geoplin. In line with the provisions of the Agreement on Conversion of Legal Form of Organisation in Geoplin of October 2015 and in accordance with the Equity Swap Agreement of July 2016 with

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

- **HSE Group (vertical integration):**

In 2018, within the scope of implementing its Action Plans, the HSE Group carried out important activities for unifying procurement processes, system infrastructure, software infrastructure and business solutions in the Group, system

solutions for managing investment activities and implemented a project for unifying support processes at the level of the mother company, aiming at the flattening of the Group's hierarchical structure. In May 2018, the first scheduled overhaul of Unit 6 of the Šoštanj Thermal Power Plant (TEŠ) was successfully carried out; it lasted for approximately two months. Following the completed ecological rehabilitation works, the TEŠ's Unit 5 started sending electricity into the Slovenian network in August 2018. HSE invested a lot of effort in 2018 in harmonising the Concession Agreement for the use of water for electricity generation on one part of the water body of the Sava River from Ježica to Suhi Dol (the middle Sava River).

- **GEN Group**

In 2018, GEN energija, d. o. o., together with GEN – EL, d. o. o., and GEN – I, d. o. o., strengthened the process for public-private partnership which has proved to be a successful business model from the economical point of view. The integration of Elektro energija into GEN-I Group was successfully implemented, together with the consolidation of GEN-I Group into the GEN energija Group. In 2018, the extensive and complex overhaul of the Krško Nuclear Power Plant (NEK) was completed and the construction of the new gas turbine unit PB6 was completed in the Brestanica Gas Thermal Power Plant (TEB).

### 7.3.8 Capital increases in companies carried out by RS and SSH in 2018

The General Meeting of **Slovenske železnice, d. o. o.** held in December 2018, passed a resolution on the share capital increase by RS in the amount of EUR 154,255,500. The total amount was dedicated to the share capital increase of SŽ-Potniški promet, d. o. o. for the purchase of the rolling stock for the rail passenger transport.

The General Meeting of CSS, d. o. o. held on 16 May 2018 passed a resolution on the share capital increase by RS in the amount of EUR 500,000. The payment of the monetary contribution was carried out on 21 June 2018. The share capital increase by RS was registered in the Court/Business Register on 9 July 2018. On this basis, the RS' shareholding increased from 96.65% to 97.96% of share capital of the said company.

The General Meeting of **Sava, d. d.** passed a resolution on the share capital increase at the sessions held on 22 June 2018 and on 14 December 2018. SSH did not take part in the first process for the share capital increase and assigned it pre-emption right to subscribe new shares to KAD as a result of which the SSH's shareholding decreased from 22.56% to 18.53%. SSH took part in the second process for the share capital increase of the said company: in its own name and for its own account, SSH acquired 543,378 Sava shares for the value of EUR 543,378, thus increasing its shareholding in the said company from 18.53% to 18.69%. Both share capital increases were intended for the take-over of Hoteli Bernardin, d. d.

### 7.3.9 Expectations in regard to ROE and dividend revenue

State capital 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 with the 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 the indicator generated by selected comparable companies.

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

maximises the market value of an equity unit and thus the equity of company's owners.

**A reasonable dividend policy must therefore contribute to the solid long-term market rate of return and development policy of a company.**

From this aspect, for SSH, the dividend policy is one of more important elements in corporate governance to which the necessary attention is paid.

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

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

### 7.3.10 Strategic focus and key success factors for corporate governance in the future

The Slovenian Development Strategy 2030 envisages that the growth of the Slovenian economy should be inclusive and green and that it should be based on high competitiveness and innovation. This shall enable sustainable development to be more resistant to economic turmoil, also on account of greater balance of all of three aspects. As regards economic growth, greater development of economy is shown in higher technological structure of economy and in higher added value per employee as a result of technological and non-technological innovation. In this manner, the competitiveness of economy is increased while the supporting environment

promotes new and higher-value investments in new jobs of better quality. The shift to a low-carbon economy is therefore a priority development policy for the entire economy. A reliable, sustainable and competitive energy supply is of key importance for the development, giving a priority to efficient use of energy and to renewable energies as one of the fundamental principles of development of the energy sector. One of key factors for increasing the share of renewables is the development of technologies for energy storage and digitalisation of the electricity system (the introduction of smart grid. Likewise, a fast increasing development of information and

communication technologies brings benefits to the modern society while at the same time it influences the creation of new and technologically more and more advanced cyber and hybrid threats posing a serious danger for the functioning of public and private sector.

SOEs represent an important part of the Slovenian economy which is why it is highly important that these policies are included in strategic and development plans of these companies.

As a manager of capital assets, in addition to corporate actions associated with current operations and short-term business planning of companies, SSH thus dedicates special attention to **strategic policies of companies** which means that it expects from companies to draw up development-oriented strategies, taking into account integrated inclusion of all aspects of sustainable development in their operation. In regard to strategic planning, SSH plays roles that differ in terms of their intensity, depending on a legal and organisational form of a company, of the shareholding in its ownership and of the strategic nature of a company under SSH management. Main guidelines are obviously provided with the applicable Strategy, yet, as regards this task, SSH takes into account and verifies all other important factors, such as characteristics and development trends of individual industry, competitors on the market, and specific characteristics of a company and statutory regulation of its activities.

An important challenge refers to a suitable **balance between long-term strategic and economic goals** and expectations from companies. The Strategy has set strategic goals for companies with state capital assets which have been defined as strategic or important and an overall economic objective for state capital assets in the form of ROE of the portfolio. The aforementioned objectives are often in conflict, since companies rendering services of strategic importance and often receiving public funds cannot attain ROE set, neither it is logical for them to use ROE as a fundamental indicator for their operation.

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

long-term. These measures include permanent improvements of the Corporate Governance Code and SSH Recommendations and Expectations with cases of good practice.

One of key pillars for strategic focus and for raising the level of corporate governance are providers of ideas, strategies and development in companies, i.e., their **bodies of management and supervision**. Due to changes on the market and as a result of an increased proportion of distinctly market services rendered by companies with state capital assets, it is of key importance that bodies of management and supervision comprise highly qualified, experienced and competent members, that they are equivalent to their rivals in the market. In addition to enhancing the HR function in companies, particularly with regard to key positions, it is necessary to ensure that suitable conditions are in place for competent members of bodies of management. This requires a suitable remuneration policy which when amended, must follow the regularities of the market. In the future, SSH will dedicate its efforts to change the remuneration policy for management bodies; in the opposite case, it is hard to expect SOEs to be in an equivalent competitive position with other rivals which in turn may affect the performance results of SOEs. Continued education and training of members of management and supervisory bodies is likewise important, just like the systemic organisation of their remuneration.

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

# Digital transformation and innovation projects of the selected portfolio companies

## *Plinovodi, d. o. o.*



### **Forecasting Party's Information Project**

*As regards digitalisation and innovation, in 2018, the forecasting party's Information Project stood out in Plinovodi, d. o. o. In accordance with the Commission Regulation (EC) No 312/2014, the Energy Agency appointed Plinovodi, d. o. o., as the natural gas transmissions system operator and a forecasting party in connection with the balancing of gas networks in the Republic of Slovenia.*

*After assuming the task, Plinovodi, d. o. o., first prepared the methodology on the basis of the standard load profile mode, carried out the public consultation and then published the document entitled "Methodology for the forecast of a network user's non-daily metered off-takes". The document stipulates the following procedures: firstly, for carrying out forecasting and for allocating non daily metered off-takes; secondly, the procedures in connection with the exchange of data between a forecasting party, a distribution system operator, a transmission system operator and a party responsible for balance groups.*

*On the basis of this methodology, applying its own know-how and skills, Plinovodi developed their own application for the forecast of non-daily metered off-takes and for allocating volumes to final users; it became operational on 1 October 2018. Within the scope of this development project, a mathematical model was developed with an innovative approach which enables the monitoring of the mass balance in the system; the approach was tested and implemented in the application and presented as an innovation at the event organised in Brdo pri Kranju, discussing innovation in the energy sector.*



# Digital transformation and innovation projects of the selected portfolio companies

## Pošta Slovenije, d. o. o.



### **Artificial intelligence and open innovations**

*The X5GON Project (Cross Modal, Cross Cultural, Cross Lingual, Cross Domain and Cross Site Global OER Network) refers to e-education and develops a platform which will connect dispersed freely-accessible educational sources from all over the world, will upgrade their language modalities and tailor them to a final user's educational experience and study habits.*

*The COG-LO Project (COGnitive Logistics Operations through secure, dynamic and ad-hoc collaborative networks) deals with logistics processes. Its main goal is to create intelligent logistics processes on the basis of a cognitive logistics object which will function in the environment of safe, dynamic and ad-hoc collaborative networks. The project will ensure the optimisation of logistics processes, the inclusion of various logistics stakeholders and the development of new logistics solutions.*

*The aim of these two projects and of the development guidelines is to transform processes, from manual to automated, and to offer new services, from standard to personalized services. Logistics processes in particular will thus become more proactive and predicative.*



# ACQUISITION AND DISPOSITION OF CAPITAL ASSETS IN 2018

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

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

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

In cases of a large number of shareholders in companies, sale processes related to the disposition of capital assets held in co-ownership by the Republic of Slovenia and SSH are, as a rule, conducted on the basis of Agreements on the Joint Sale of Shares. In case of sales of large capital assets, sale processes are conducted in cooperation with relevant financial and legal advisors. In these cases, sales documentation is developed about an individual company (a teaser and an Information Memorandum) and submitted to investors who have demonstrated their interest in the sale and have concluded a Non-Disclosure Agreement (NDA). In accordance with internal rules for individual companies, SSH obtains a Financial and Legal Due Diligence Report and, prior to the conclusion of the Purchase and Sale Agreements, the appraisals of the company value produced by an independent certified appraiser of company value for large SOEs, whereas, in case of small SOEs subject to sale, an internal value assessment is produced.

An effective implementation of a sale process requires an active cooperation of a company whose large equity stakes are the subject to the sale. With the aim of defining in detail the method of cooperation with an individual company subject to the sale process, the vendors strive to conclude a special agreement on mutual relations in the sale process with a company in question.

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

## 8.1 Activities in connection with the disposition of capital assets

The majority of activities connected with the sale of capital assets pursued in 2018 was linked firstly with the sale of a 65-per cent ownership stake of RS in NLB which was completed in November 2018, and secondly with the preparatory activities for the sale of a 100-per cent RS's shareholding in Abanka.

The process for the sale of **NLB** was run by SSH in accordance with the provisions of the State Assets Management Strategy which stipulates that for the realization of commitments given by RS to the European Commission, the listing of NLB shares on the international Stock Exchange is to be carried out through the initial public offering (IPO). The said process was launched when the Government of the Republic of Slovenia, in the capacity of the NLB's General Meeting, on 16 July 2018, adopted a resolution imposing SSH to re-engage in the activities for the sale of NLB shares through the IPO with the goal to sell at least 50% plus one share by the end of 2018 and the remaining part exceeding 25% plus one share by the end of 2019. On 19 July 2018, the Government granted its consent to the amendment to the Annual Asset Management Plan for 2018 relating to NLB d. d.

The initial public offering (IPO) of NLB shares was led and coordinated by SSH in cooperation with several legal and financial advisors. The banking syndicate was composed of international financial institutions, specifically: Deutsche Bank and J.P. Morgan Securities as Joint Global Coordinators and Joint Bookrunners, Citigroup Global Markets Limited as additional Joint Bookrunner and Wood & Company Financial Services and NLB as Co-Lead Managers, with NLB acting as the sole Domestic Co-Lead Manager, organising the retail offering of NLB shares to investors in the Republic of Slovenia. The initial public offering (IPO) of NLB shares was carried out in accordance with valid regulations and internationally comparable processes. On 26 October 2018, SSH and NLB published the Prospectus relating to the public offering of NLB shares in the form of Shares and Global Depositary Receipts (GDR), containing the key elements of the offering. On the basis of the interest expressed by qualified investors, the final offer price for NLB's share was set at EUR 51.50 per share. The 13,000,000 NLB shares were sold by RS to domestic and foreign investors, presenting

a 65% equity stake in NLB. The proceeds from the sale amounted to EUR 669,500,000. The transaction was closed on 14 November 2018 when NLB shares were listed on the Ljubljana Stock Exchange and NLB GDRs on the London Stock Exchange. At the end of 2018, the Republic of Slovenia held a 35-percentage ownership stake in NLB. In accordance with commitments given to the European Commission, the sale of the remaining 10- per cent equity stake minus 1 share of NLB was successfully closed by SSH in June 2019, specifically, by way of an accelerated bookbuild (ABB). After the completion of the sale process, the Republic of Slovenia continues to be the largest shareholder of NLB, owning a 25-per cent stake plus one Share.

As mentioned above, throughout 2018, SSH intensively pursued activities in connection with the sale of Abanka shares in accordance with the commitments given by the Republic of Slovenia to the European Commission in 2014. In order to successfully implement and close the process in the envisaged time period, in 2018, SSH carried out all preparatory activities of the sale process in line with the time schedule. Financial and legal advisor of SSH were selected. The seller's processes for legal, tax and IT due diligence of Abanka were completed and some of the transaction documents, for example, the Teaser and the Information Memorandum and the Non-Disclosure Agreements, were prepared. In the beginning of October 2018, the invitation to submit an expression of interest was publicised, marking the official launch of the process of the sale of Abanka. By the end of 2018, non-binding offers by potential investors were obtained. In 2019, all the necessary sale-related activities of the second phase of the sale process continued and in June 2019, the Agreement for the Sale and Purchase of Shares in Abanka was executed pursuant to which Nova KBM will acquire 100% Abanka shares after satisfying conditions precedent.

In addition, activities relating to the sale of some other capital assets were carried out in the reporting period. Thus, in 2018, SSH concluded an agreement regulating mutual relations between the contracting parties which executed the Agreement for the Sale and Purchase of Shares in **Casino Bled, d. d.** (Casino

Bled) back in 2011, and which could not be fully implemented due to the failure to satisfy conditions precedent. On the basis of the consent granted by the Ministry of Finance approving the transfer of shares to the buyer, the SPA of 2011 was partially implemented in 2011. An agreement was concluded in connection with the remaining shares, regulating the payment of the compensation for the loss of proceeds arising from the said SPA, specifically, for 27,772 Casino Bled's shares owned by SSH and for 2,262 Casino Bled's shares owned by KAD.

In addition to the aforementioned compensation, SSH received proceeds from four Sale and Purchase Agreements on the sale of capital assets which were concluded before 2018; their total amount stood at

EUR 1 million. This sum includes proceeds from the sale of 0.051-percentage equity stake in Geoplin, d. o. o. (Geoplin) which was finally completed in 2018. After all implemented transactions involving equity stakes in Geoplin, the ownership interest of the Republic of Slovenia now amounts to 25.01%.

Together with KAD, SSH published an invitation to submit an offer for the purchase of shares of Cetus d. d., however, the sale process was not yet completed by the end of 2018.

Up until the end of 2018, nine companies were sold out of 15 companies envisaged for the sale on the basis of the Parliament's Decision of 2013.

## 8.2 Activities in connection with the acquisition of capital assets

All activities in connection with the acquisition of capital assets which were carried out in 2018 referred to the acquisition of capital assets for the account of RS.

SSH continued pursuing activities relating to the transfer of compensation for the equity stakes in Koto d. o. o. (Koto) from BAMC to RS which had been started in 2017. In June 2018, the Government of the Republic of Slovenia, in the capacity of the General Meeting of BAMC, decided for BAMC to transfer its entire shareholding in Koto to RS against the payment of the appraised market value of the shareholding appraised by a certified business appraiser. The Government of the Republic of Slovenia, as the General Meeting of BAMC, was informed of the draft agreement and agreed for the agreement to include the top-up and the earn-out clauses and determined the highest permissible amount of the top-up payment. The transfer was carried out in accordance with the Decision of the Republic of Slovenia of 20 July 2018; on the basis of the above mentioned decision by the Government of the Republic of Slovenia, BAMC and SSH concluded the agreement by way of which, in October 2018, RS became the owner of a 66.23% equity stake in Koto, ensuring 93.69% of voting rights in the said company.

In 2018, SSH completed activities pursued since 2015 in connection with the implementation of the State

Assets Management Strategy which demonstrates an interest for RS and its related parties to obtain and maintain the majority shareholding in Plinovodi d. o. o. (Plinovodi) which used to be fully owned by Geoplin. Key activities were carried out in 2017, when after the carving-out of Geoplin, Plinhold d. o. o. (Plinhold) was established. Plinhold holds a 100% ownership stake in Plinovodi and by way of the Notarial Deed, the equity swap of stakes in Geoplin and Plinhold was implemented by and between the shareholders, specifically, RS and Petrol d. d. (Petrol). As a result, Petrol became a 49.56% owner of Geoplin and RS a 52.26% owner of Plinhold, while RS maintained a 25.01% stake in Geoplin. The decision on the swap of the above mentioned equity stakes became final in 2018: the said swap was a condition for implementing the Sale and Purchase Agreement relating to the purchase of equity stake by Salnal d. o. o. (Salnal) in Geoplin and Plinhold on the basis of which, in 2018, RS acquired for compensation additional 7.84% equity stake in Plinhold from Zavarovalnica Triglav. The ownership interest held by RS in Plinhold (and indirectly in Plinovodi) amounted to 60.1% at the end of 2018.

In 2018, RS took part in some processes for the increase of share capital of companies; these processes are presented in detail in the Chapter on recapitalisation of companies.

## Digital transformation and innovation projects of the selected portfolio companies

*SID banka, d. d.*



### **Green bond by SID banka**

*In December 2018, SID Bank became the first Slovenian issuer to issue green bonds on the international capital markets. The issue amounted to EUR75 million and will be earmarked for the financing of green projects. SID Bank will thus make a contribution for achieving positive environmental impacts and the objectives of the Slovenia's sustainable development. The international organisation, Climate Bonds Initiative, awarded SID Bank with a prestigious accolade for its issue of the first public sector green bond in the Republic of Slovenia.*

*SID Bank's green bonds received a positive opinion from the internationally recognised firm Sustainalytics, which confirmed in full the bonds' compliance with the Green Bond Principles*



*The category of green investments, applicable for funding by the SID's green bond, include investments in green projects in the areas of: 1. renewable energy sources, 2. energy efficiency, 3. the prevention and control of pollution, 4. the environmentally sustainable management of living natural resources and the use of land, 5. clean transport, 6. the sustainable management of water and waste water, 7. products adapted for an environmentally efficient and/or circular economy, production technologies/processes, and 8. green construction.*





# BUSINESS PERFORMANCE OF COMPANIES OWNED BY RS AND SSH

# BUSINESS PERFORMANCE OF COMPANIES OWNED BY RS AND SSH

## 9.1 Portfolio of RS and SSH capital assets as at 31 December 2018

As at 31 December 2018, SSH managed 74 active capital assets (as at 31 December 2017, this figure was 65). Of this number, RS held direct ownership stake in 50 companies, while SSH in 14 companies and both RS and SSH held direct ownership stake in 10 active capital assets. Pursuant to the entry into force of the Republic of Slovenia Budget for 2018 and 2019 Implementation Act ((ZIPRS1819-A), at the end of the year, SSH acquired 12 smaller shareholdings owned by RS (stakes lower than 0.1%) under its management.

In addition to the above mentioned, as at 31 December 2018, SSH managed 23 non-active capital assets (companies in bankruptcy or liquidation; likewise, as at 31 December 2017, there were 23 non-

active capital assets). Of these companies, RS held direct ownership stake in 11 companies, while SSH in 10 companies and both RS and SSH held direct ownership stake in 2 non-active capital assets.

In the tables below, equity interest has been rounded up to two decimal places - when the shareholding of 0.00% is referred to, this means that, in an individual company, the ownership stake held by the Republic of Slovenia and/or SSH does not exceed 0.005%. Through ZPIS, RS's equity interest in Zavarovalnica Triglav amounts to 34.47%, and including Zavarovalnica Triglav shares owned by RS, the total portion of RS's ownership stake in Zavarovalnica Triglav amounts to 34.48%.

Table: Portfolio of capital assets in direct ownership of the Republic of Slovenia and SSH as at 31 December 2018

Pillar, Capital asset	RS's shareholding (%)	SSH's shareholding (%)	Total (%)
<b>TRANSPORT</b>			
DARS, d. d.	100.00		100.00
INTEREUROPA, d. d.		1.73	1.73
KZPS, d. o. o.	100.00		100.00
LUKA KOPER, d. d.	51.00	11.13	62.13
POŠTA SLOVENIJE, d. o. o.	100.00		100.00
SŽ, d. o. o.	100.00		100.00
<b>ENERGY SECTOR</b>			
EGS-RI, d. o. o.	100.00		100.00
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
GEN energija, d. o. o.	100.00		100.00
GEOPLIN, d. o. o., Ljubljana	25.01		25.01
HSE, d. o. o.	100.00		100.00
INFRA, d. o. o.	100.00		100.00
Nafta Lendava, d. o. o.	100.00		100.00
PETROL, d. d., Ljubljana	10.10	12.68	22.78
Plinhold, d. o. o.	60.10	0.05	60.15
RTH, d. o. o., Trbovlje	100.00		100.00
RŽV, d. o. o.	100.00		100.00
<b>FINANCIAL SECTOR</b>			
ABANKA, d. d.	100.00		100.00
D.S.U., d. o. o.	100.00		100.00
DTK MURKA, družba tveganega kapitala, d. o. o.	49.00		49.00
GB, d. d., Kranj	0.31		0.31
M1, d. d., Ljubljana	0.00		0.00
Meta Ingenium, družba tveganega kapitala, d. o. o.	49.00		49.00
NLB, d. d.	35.00		35.00
PRVI SKLAD, družba tveganega kapitala, d. o. o.	48.90		48.90
Sava Re, d. d.	10.09	17.68	27.77
SID banka, d. d., Ljubljana	99.41		99.41
STH VENTURES, družba tveganega kapitala, d. o. o.	49.00		49.00
ZAVAROVALNICA TRIGLAV, d. d.	34.48	28.09	62.57
<b>TOURISM AND ECONOMY</b>			
ADRIA, d. o. o.		11.74	11.74
ALPINUM, D. D.	0.04		0.04
ARRIVA ŠTAJERSKA, d. d.	0.04		0.04
BODOČNOST MARIBOR, d. o. o.	77.52		77.52
CASINO BLEED, d. d.		33.75	33.75
CASINO Portorož, d. d.		9.46	9.46
CETIS, d. d.		7.47	7.47
CINKARNA Celje, d. d.		11.41	11.41
CSS, d. o. o.	97.96		97.96
Elektrooptika, d. d.	0.01	70.48	70.49
HIT, d. d., Nova Gorica		20.00	20.00
HRAM HOLDING, d. d.	0.01		0.01
IBT TRBOVLJE, d. d.	0.04		0.04
INKOS, d. o. o., Krmelj	2.54		2.54
KD GROUP, d. d.	0.01		0.01
KDD, d. d.		19.23	19.23



KOTO, d. o. o.	66.23		66.23
KRKA, d. d., Novo mesto	7.21	9.00	16.21
KS NALOŽBE, d. d.	0.00		0.00
LABOD KONFEKCIJA, d. d.	0.02		0.02
LOTERIJA SLOVENIJE, d. d.		15.00	15.00
MERCATOR, D. D.	0.00		0.00
PERUTNINA PTUJ, d. d.	0.00		0.00
POMGRAD – VGP, d. d.	25.01		25.01
POMORSKA DRUŽBA, d. d., PORTOROŽ	0.09		0.09
PS ZA AVTO, d. o. o., Ljubljana		90.00	90.00
RRA – CELJE, d. o. o.	5.89		5.89
SAVA, d. d.		18.53	18.53
SAVAPROJEKT, d. d.	3.47		3.47
SIJ, d. d.	25.00		25.00
STUDENTENHEIM KOROTAN GMBH	100.00		100.00
TELEKOM SLOVENIJE, d. d.	62.54	4.25	66.80
TELEMACH POBREŽJE, d. d.	0.01		0.01
TERME OLIMIA, d. d.		4.01	4.01
UNIOR, d. d.		39.43	39.43
Uradni list Republike Slovenije, d. o. o.	100.00		100.00
VARNOST SISTEMI, d. o. o.		9.74	9.74
VGP, d. d.	25.00		25.00
VGP DRAVA Ptuj d. o. o.	25.00		25.00
VGP Novo mesto, d. d.	25.00		25.00
VIPA HOLDING, d. d.	0.00		0.00

<b>Companies in bankruptcy, liquidation or being wound-up</b>	<b>RS's shareholding (%)</b>	<b>SSH's shareholding (%)</b>	<b>Total (%)</b>
AERO, d. d. – in bankruptcy		1.44	1.44
CASINO MARIBOR, d. d.– in bankruptcy		22.83	22.83
Družba za spodbujanje razvoja TNP, d. d. – in bankruptcy	51.05		51.05
GIO, d. o. o., Ljubljana - in liquidation		71.27	71.27
GLIN IPP, d. o. o., Nazarje – in bankruptcy	16.06		16.06
Gradis skupina G, d. d. – in bankruptcy		1.36	1.36
IPOZ TRBOVLJE, d. o. o. – in liquidation		1.20	1.20
KOMPAS RAC, d. d., LJUBLJANA –IN LIQUIDATION	0.01		0.01
LIPICA TURIZEM, d. o. o. – in bankruptcy	100.00		100.00
MAKSIMAHOLDING, d. d. – in bankruptcy	0.01		0.01
MAKSIMA INVEST, d. d. – in bankruptcy	0.00		0.00
MURA, d. d. - IN BANKRUPTCY		12.23	12.23
NFD HOLDING, d. d. – in bankruptcy	0.00		0.00
NOVOLES, d. d., Straža – in bankruptcy		16.69	16.69
PEKO, d. d. - IN BANKRUPTCY	61.16		61.16
POLZELA, d. o. o. – in bankruptcy	71.43	28.57	100.00
RIMSKE TERME, d. o. o. – in bankruptcy	3.83	13.55	17.38
RUDNIK KANIŽARICA V ZAPIRANJU, d. o. o., Črnomelj – in liquidation	100.00		100.00
RUDNIK SENOVO v zapiranju, d. o. o. – in bankruptcy	100.00		100.00
SVEA, d. d., Zagorje ob Savi – in bankruptcy T		15.57	15.57
TAM MARIBOR, d. d. – in bankruptcy	10.85		10.85
UNIVERZALE, d. d. – in bankruptcy		8.53	8.53
VEGRAD, d. d. – in bankruptcy		29.00	29.00

## 9.2 Value and structure of portfolio under management

The value of directly-held capital assets of RS and SSH, measured at their book-value, amounted to **EUR 10.1 billion** at the end of 2018, and in comparison to the value as at 31 December 2017, it was lower by 7.1% or by EUR 0.8 billion. The main reason for the decrease in value lies in the sale of a 65 % stake held by RS in NLB, d. d., which was sold through the initial public

offering of shares. The reduction in the value of the portfolio under management was mitigated by the increase in the book-value of equity stake held in the following companies: DARS, d. d. (high net profit), HSE, d. o. o. (revaluation surplus); GEN energija, d. o. o.; Slovenske železnice, d. o. o., Luka Koper, d. d., and in some other companies.

Table: Top 10 assets held by RS and SSH by book-value of equity as at 31 December 2018

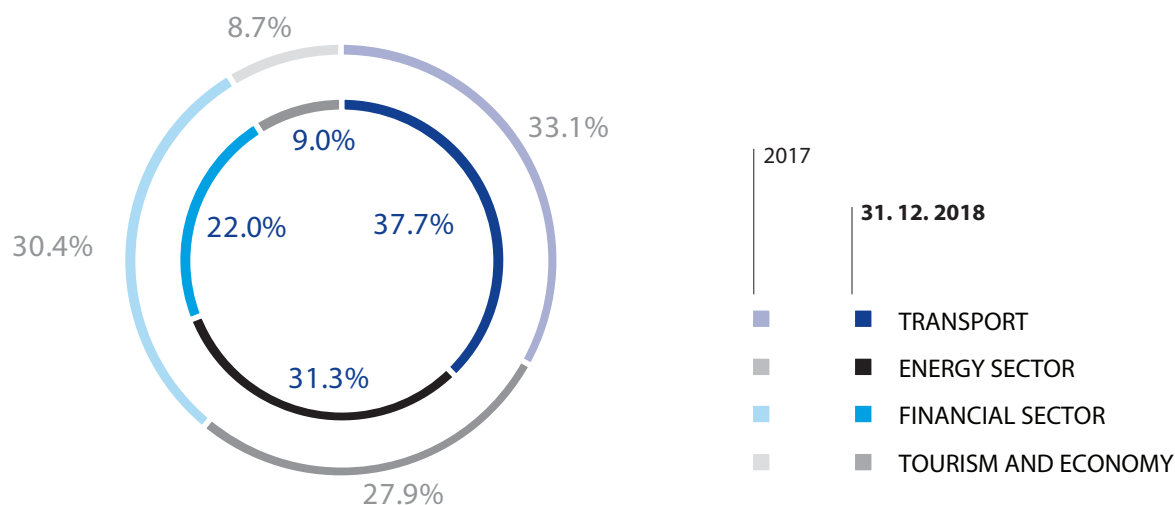
Capital asset	Pillar	Ownership stake of RS+SSH as at 31 December 2018	Book-value of shareholdings as at 31 December 2018 (EUR) *	Share in total portfolio
DARS, D. D.	TRANSPORT	100.00%	2,963,264,000	29 %
HSE, D. O. O.	ENERGY SECTOR	100.00%	1,091,245,475	10.8%
GEN ENERGIJA, D. O. O.	ENERGY SECTOR	100.00%	818,694,892	8.1%
ABANKA, D. D.	FINANCIAL SECTOR	100.00%	583,407,000	5.8%
NLB, D. D.	FINANCIAL SECTOR	35.00%	580,105,400	5.7%
ZAVAROVALNICA TRIGLAV, D. D.	FINANCIAL SECTOR	62.57%	467,312,057	4.6%
SID BANKA, D. D.	FINANCIAL SECTOR	99.41%	435,123,535	4.3%
TELEKOM SLOVENIJE, D. D.	TOURISM AND ECONOMY	66.79%	413,849,541	4.1%
SLOVENSKE ŽELEZNICE, D. O. O.	TRANSPORT	100.00%	356,023,566	3.5%
ELEKTRO LJUBLJANA, D. D.	ENERGY SECTOR	79.80%	255,312,034	2.5%
<b>TOTAL</b>			<b>7,964,337,500</b>	<b>78.7%</b>

\*Note: In a case when consolidated statements were available, data for the Group were taken into account.

High concentration of capital assets in the portfolio under management has further increased as a result of the sale of RS's shares in NLB. The top 10 assets represented as much as 79% of the portfolio while the top 20 assets represented more than 96% of the

book-value of the entire portfolio. The largest asset in the portfolio, Dars, d. d., characterised by a strongly regulated activity, represents almost one third of the said value and has a significant effect to ROE of the total portfolio.

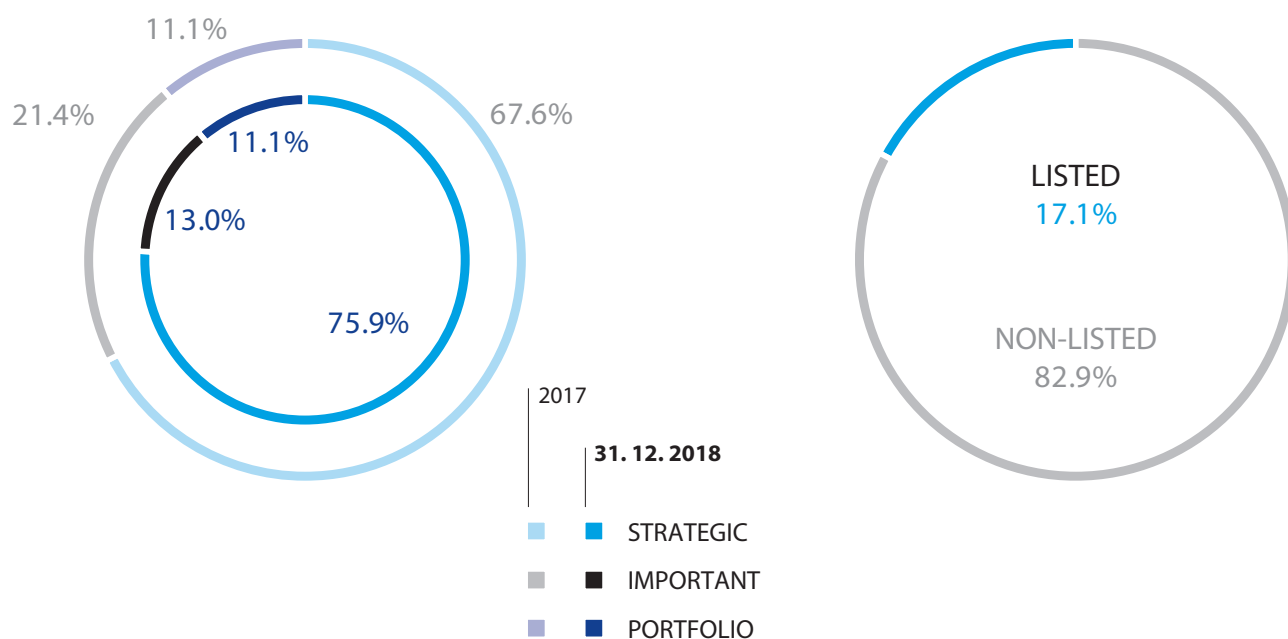
Graph: Composition of the portfolio under management as at 31 December 2018 - by pillars (industries)



A great majority of assets under management operates in transport and energy sector (70% of the value of the total portfolio). The share of these two pillars has increased as a result of the sale of RS's

shares in NLB. On account of the sale of shares in NLB, classified as important asset, the share of strategic assets has increased - amounting to more than three quarters of the portfolio at the end of 2018.

Graph: Composition of the portfolio under management as at 31 December 2018 - by classification of assets (strategic nature) and by quotation at the Stock Exchange

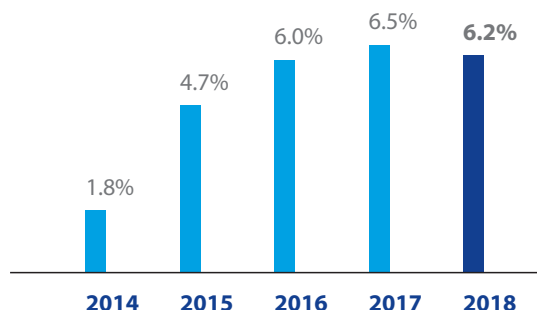


## 9.3 Business performance of portfolio companies

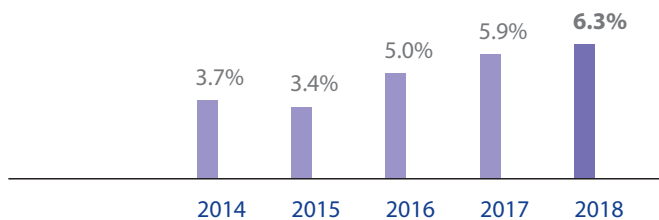
In 2018, ROE of the portfolio under management amounted to **6.2%** which is by 0.3 percentage points less than in 2017. The performance of the majority of companies was in accordance with the plan or even better, the great majority of companies exceeded their performance results obtained in 2017.

Graph: ROE for portfolio of assets - total and by pillars - in 2014-2018 period

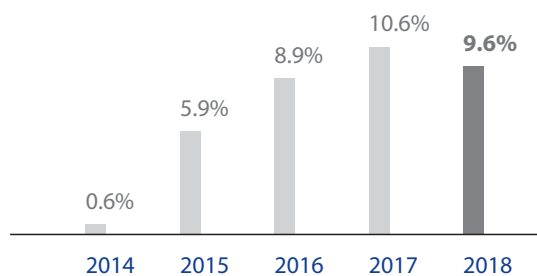
### TOTAL RS+SSH PORTFOLIO



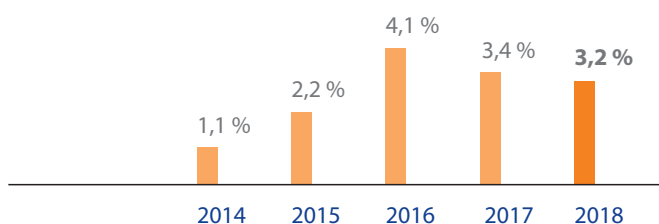
### TRANSPORT



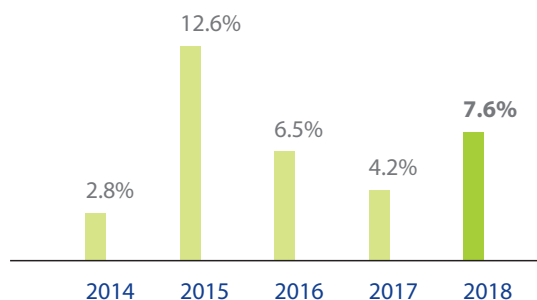
### FINANCIAL SECTOR



### ENERGY SECTOR



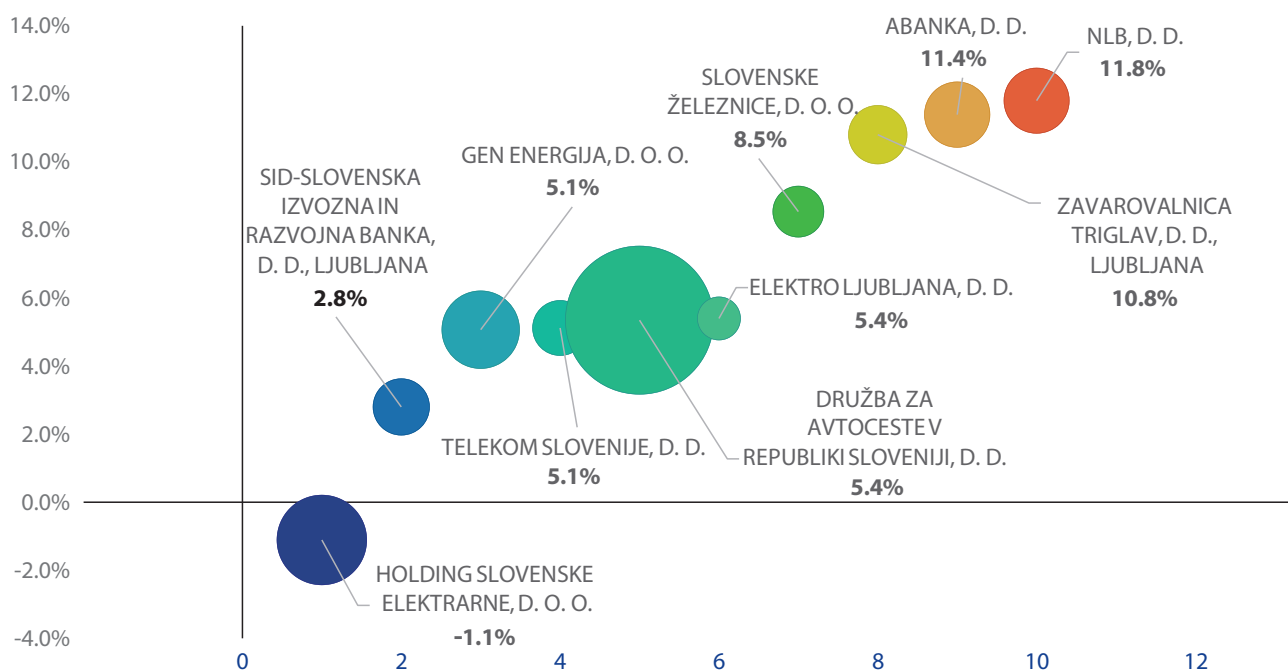
### TOURISM AND ECONOMY



A slightly lower result at the level of the portfolio was significantly affected by the loss in HSE Group, the second largest asset in the portfolio at the end of 2018; the said company recorded net loss in the amount of EUR 11.8 million (ROE -1.1%). A negative impact on the total ROE of the portfolio was also caused by the sale of 65% equity stake held by RS in NLB, d. d., the highly profitable company that was the second largest asset in the portfolio prior to the sale.

Similarly as in 2017, in addition to NLB, other financial institutions, some companies from the transport sector (Luka Koper, Kontrola zračnega prometa Slovenije) and from tourism and economy pillar contributed to a good performance result of the portfolio. Some enterprises recorded high growth in profitability (Abanka, Sava Re, Luka Koper, Unior). More detailed information are presented in the graph below (for top 10 capital assets in the portfolio) and in the table (top 5 assets in each pillar).

Graph: ROE of TOP 10 assets in the RS + SSH portfolio in 2018. The size of the circle represents the size of the company in the RS + SSH portfolio (book value of the equity stake) and therefore its significance (weight) in the calculation of the total ROE of the portfolio.



The aforementioned concentration of assets in some pillars (transport, energy sector) and in classification groups (strategic assets) has an impact on ROE achieved at the level of the portfolio as a whole. As a rule, companies from the largest pillars (transport, energy sector) and from the largest classification

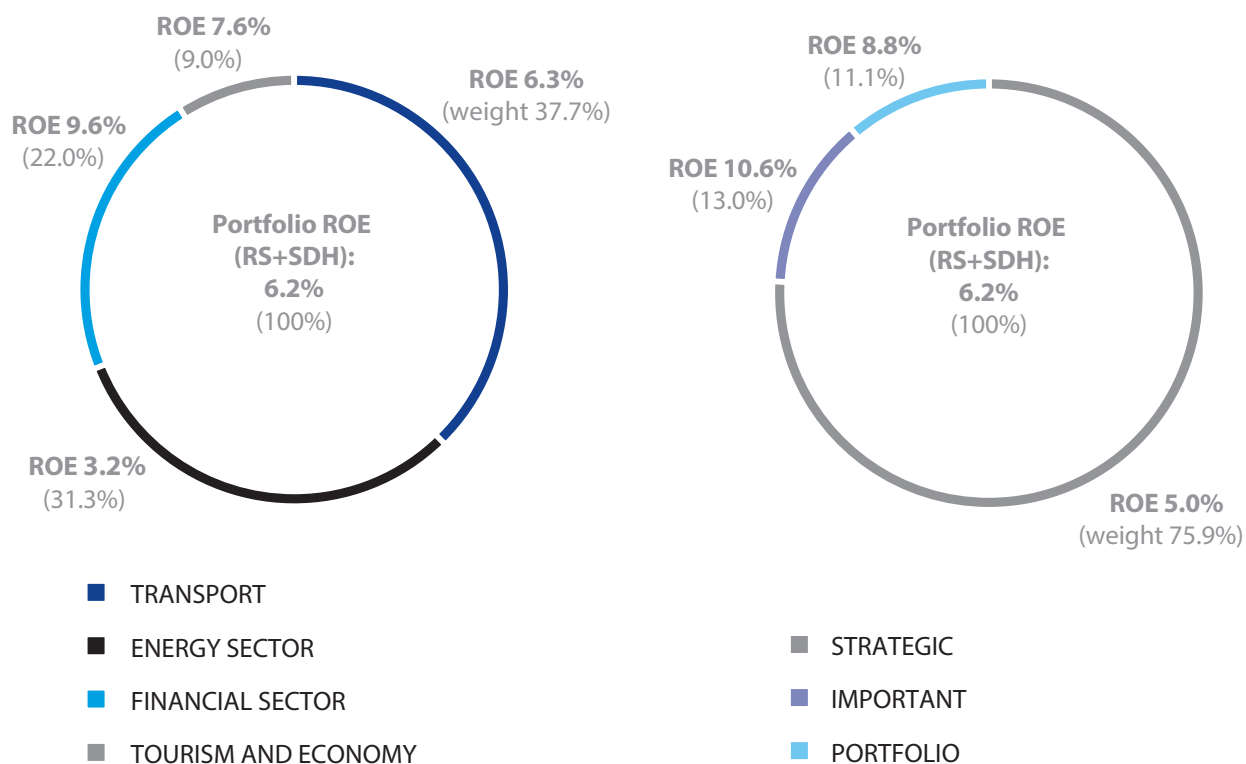
group (strategic assets) record lower profitability levels due to restrictions in their operations. The graph below presents a weight of an individual group of assets in total portfolio (the size of an individual pie) and ROE achieved in 2018.

Table: ROE 2018 and dividends for 2018, top 5 companies in an individual pillar of assets under management.

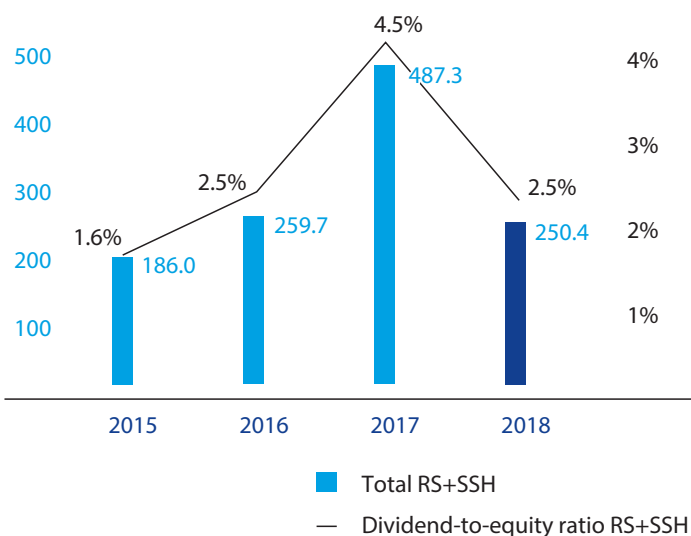
Pillar, Capital asset (as at 31 December 2018)	Ownership stake RS+SSH	Book value of stake RS+ SSH (EUR)	Share in total portfolio	ROE 2018	Difference in ROE Y-o-Y (in % points)	Dividends for RS and SSH for FY 2018 (EUR)
<b>TRANSPORT</b>						
DARS, D. D.	100.00%	2,963,264,000	29.29%	5.35%	0.20	0
SLOVENSKE ŽELEZNICE, D. O. O.	100.00%	356,023,566	3.52%	8.54%	-0.97	3,000,000
LUKA KOPER, D. D.	62.13%	244,716,902	2.42%	16.06%	5.81	11,568,150
POŠTA SLOVENIJE, D. O. O.	100.00%	228,128,880	2.25%	4.62%	0.64	4,000,000
KONTROLA ZRAČNEGA PROMETA (SLOVENIA CONTROL, LIMITED), D. O. O.	100.00%	21,909,903	0.22%	15.29%	-2.19	1,500,000
<b>TOTAL TOP 5 TRANSPORT</b>		<b>3,814,043,251</b>	<b>37.69%</b>			<b>20,068,150</b>
<b>ENERGY SECTOR</b>						
HOLDING SLOVENSKE ELEKTRARNE, D. O. O.	100.00%	1,091,245,475	10.78%	-1.11%	-1.91	0
GEN ENERGIJA, D. O. O.	100.00%	818,694,892	8.09%	5.07%	1.03	7,000,000
ELEKTRO LJUBLJANA, D. D.	79.80%	255,312,034	2.52%	5.40%	0.79	4,374,802
ELEKTRO MARIBOR D. D.	79.50%	228,300,585	2.26%	5.40%	1.13	3,728,033
ELEKTRO CELJE, D. D.	79.50%	181,754,147	1.80%	5.60%	1.05	2,596,452
<b>TOTAL TOP 5 ENERGY SECTOR</b>		<b>2,575,307,132</b>	<b>25.45%</b>			<b>17,699,287</b>
<b>FINANCIAL SECTOR</b>						
ABANKA, D. D.	100.00%	583,407,000	5.77%	11.39%	4.44	66,736,886
NLB, D. D.	35.00%	580,105,400	5.73%	11.80	-2.86	49,910,000
ZAVAROVALNICA TRIGLAV D. D., LJUBLJANA	62.57%	467,312,057	4.62%	10.80%	1.50	35,572,088
SID – SLOVENSKA IZVOZNA IN RAZVOJNA BANKA, D. D., LJUBLJANA	99.41%	435,123,535	4.30%	2.80%	0.00	0
POZAVAROVALNICA SAVA D. D., LJUBLJANA	27.77%	94,466,724	0.93%	13.10%	3.00	5,164,503
<b>TOTAL TOP 5 FINANCIAL SECTOR</b>		<b>2,160,414,716</b>	<b>21.35%</b>			<b>157,383,477</b>
<b>TOURISM AND ECONOMY</b>						
TELEKOM SLOVENIJE, D. D.	66.79%	413,849,541	4.09%	5.12 %	3.82	19,644,336
KRKA, D. D.	16.21%	249,677,767	2.47%	11.49%	1.08	17,010,854
SIJ – SLOVENSKA INDUSTRIJA JEKLA, D. D.	25.00%	101,852,500	1.01%	3.62%	0.13	*
UNIOR, D. D.	39.43%	65,629,769	0.65%	7.48%	3.82	0
CINKARNA CELJE, D. D., CELJE	11.41%	19,844,896	0.20%	17.95%	-0.46	2,627,697
<b>TOTAL TOP 5 TOURISM AND ECONOMY</b>		<b>850,854,473</b>	<b>8.41%</b>			<b>39,282,887</b>
<b>TOTAL TOP 5 ALL PILLARS</b>		<b>9,400,619,572</b>	<b>92.91%</b>			<b>234,433,801</b>
<b>TOTAL RS+SSH PORTFOLIO</b>		<b>10,118,341,076</b>	<b>100.00%</b>			<b>250,368,327</b>

\* The dividend pay-out by SIJ is envisaged. By the conclusion of the analysis of data for RS+SSH portfolio, SIJ had not yet obtained a confirmation by banks for the pay-out of dividends.

Graph: Share by an individual pillar and classification groups and ROE achieved in 2018



Graph: Dividends for RS (including dividends paid out by Zavarovalnica Triglav and received by ZPIZ) and for SSH for FYs 2015-2018 and dividend-to-equity ratio



## 9.4 Dividends

The amount of dividends paid out to the Republic of Slovenia and SSH in 2019 (for the financial year of 2018) amounted to **EUR 250.4 million** which represent 2.5% dividends-to-equity ratio. The dividends received exceeded the dividends planned in the Annual Asset Management Plan by EUR 7.8 million or by 3.2%. As expected, they were significantly lower than dividends paid out for FY 2017 which were characterised by high dividend amounts paid out by NLB, d. d. (EUR 270.6 million) and Telekom Slovenije, d. d. (EUR 58.5 million).

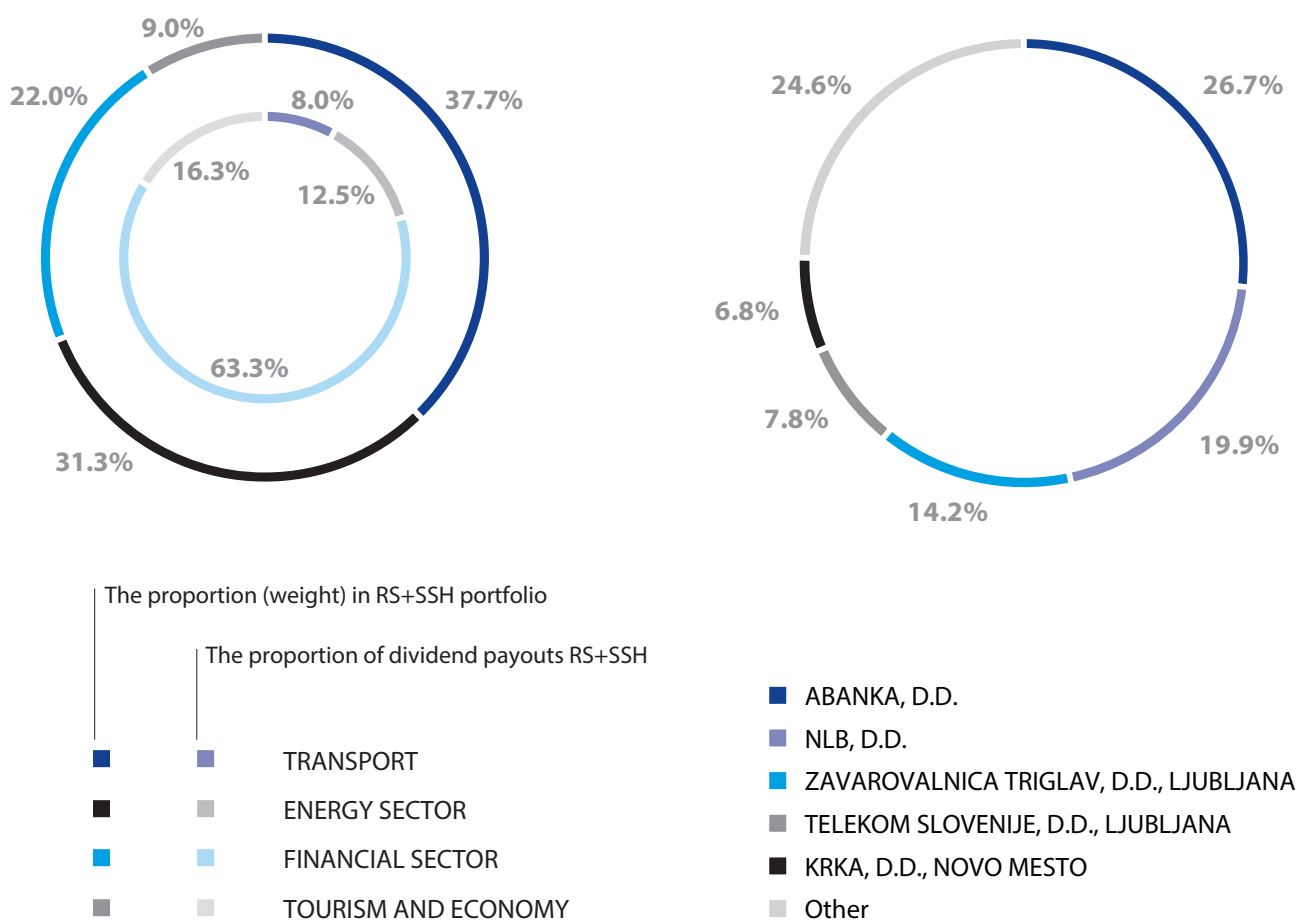
Dividend revenue received by RS for FY 2018 (including dividends directly received by Pension and Disability Insurance Institute of Slovenia (ZPIZ) from shares held in Zavarovalnica Triglav, d. d.) amounted to EUR 210.3 million (dividend-to-equity ratio of 2.2%), while dividend revenue received by SSH amounted to EUR 40.1 million (dividend-to-equity ratio of 5.8%).



The majority of companies from the portfolio under management in 2018, recording growth in profits and increasing dividend pay-outs (banks, both insurance companies, Luka Koper, d. d., Krka, d. d., Petrol, d. d., Sava Re, d. d., electricity distribution companies, Gen energija, d. o. o., when only the most significant companies are highlighted). The sale of RS's shared

in NLB, d. d., had an important impact for dividend revenue not being higher. Similarly high impact on dividend revenue may be expected in the coming years due to the sale of the ownership stake of RS in Abanka, d. d., and additional shares held by RS in NLB, d. d. (up to 25% + 1 share), high dividends by both banks will not be paid out.

Graph: The highest dividend payers for RS and SSH for FY 2018 (paid out in 2019) - by pillars under management and by individual companies



## 9.5 Summary of criteria for measuring performance of SOEs and satisfaction of such criteria in 2019

The table below presents an overview of satisfying two of criteria for measuring performance of SOEs (ROE and EBITDA margin), set at the end of 2017 for FY 2018 (Asset Management Annual Plan). As regards companies highlighted in grey, given values refer

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

Table: Attainment of goals on the basis of criteria set (ROE, EBITDA margin) in Annual Asset Management Plan 2018

Pillar, Capital asset	ROE 2018 (%)		EBITDA margin 2018 (in %)	
	Asset Management Annual Plan	Outcome	Asset Management Annual Plan	Outcome
<b>TRANSPORT</b>				
DARS, d. d.	4.50	5.35	79.92	81.22
INFRA, d. o. o.	0.00	0.00	0.00	0.00
KZPS, d. o. o.	12.00	15.29	16.00	20.56
LUKA KOPER, d. d.	15.00	16.06	38.00	40.72
POŠTA SLOVENIJE, d. o. o.	5.00	4.62	11.50	9.83
SŽ, d. o. o.	9.60	8.54	13.60	13.34
<b>ENERGY SECTOR</b>				
EGS-RI, d. o. o.	0.00	-3.62	12.55	20.42
ELEKTRO CELJE, d. d.	3.60	3.70	43.28	42.75
ELEKTRO GORENJSKA, d. d.	3.50	3.56	47.16	49.19
ELEKTRO LJUBLJANA, d. d.	3.00	3.50	46.18	45.91
ELEKTRO MARIBOR, d. d.	3.80	4.03	41.12	41.93
ELEKTRO PRIMORSKA, d. d.	3.35	3.17	42.54	41.61
GEN energija, d. o. o.	3,55	5.07	3.20	3.67
GEOPLIN, d. o. o., Ljubljana	3.70	1.45	0.61	0.86
HSE, d. o. o.	3.00	-1.11	8.49	8.51
Nafta Lendava, d. o. o.	-5.16	-22.31	-0.42	-537.93
PETROL, d. d., Ljubljana	13.40	12.67	10.10	8.30
Plinhold, d. o. o.	1.20	1.61	61.80	52.35

Pillar, Capital asset	ROE 2018 (%)		EBITDA margin 2018 (in %)	
	Asset Management Annual Plan	Outcome	Asset Management Annual Plan	Outcome
<b>FINANCIAL SECTOR</b>				
D.S.U., d. o. o.	4.25	6.28	65.00	64.77
			CIR 2018 (%)	
<b>Banks</b>			Asset Management Annual Plan	Outcome
ABANKA, d. d.	6.00	11.39	65.00	58.34
NLB d. d.	8.80	11.80	61.80	58.50
SID banka, d. d., Ljubljana	2.00	2.80	55.00	45.70
			Combined ratio 2018 (%)	
<b>Insurance companies</b>			Asset Management Annual Plan	Outcome
Sava Re, d. d.	11.60	13.10	94.00	93.10
ZAVAROVALNICA TRIGLAV, d. d.	11.00	10.80	94.00	91.80
<b>TOURISM AND ECONOMY</b>				
ADRIA, d. o. o.	2.70	2.11	21.00	15.88
BODOČNOST MARIBOR, d. o. o.	6.50	0.59	7.00	1.46
CASINO BLED, d. d.	44.00	13.17	17.00	6.73
CASINO Portorož, d. d.	10.00	2.58	–	14.93
CETIS, d. d.	10.00	6.59	11.00	9.97
CINKARNA Celje, d. d.	20.00	17.95	27.00	26.79
CSS, d. o. o.	14.00	11.24	7.00	4.93
HIT, d. d., Nova Gorica	12.50	6.28	16.70	14.25
KRKA, d. d., Novo mesto	11.50	11.49	25.00	27.08
LOTERIJA SLOVENIJE, d. d.	15.03	26.93	4.98	6.68
POMGRAD – VGP, d. d.	3.00	1.56	7.50	4.05
PS ZA AVTO, d. o. o., Ljubljana	-21.72	167.05	-25.75	-18.63
SAVA, d. d.	52.00	10.48	19.00	19.14
SIJ, d. d.	10.00	3.62	14.00	6.04
STUDENTENHEIM KOROTAN GMBH	1.40	-5.15	12.00	4.72
TELEKOM SLOVENIJE, d. d.	6.05	5.12	29.00	25.37
TERME OLIMIA, d. d.	6.21	9.51	25.00	27.04
UNIOR, d. d.	7.30	7.48	13.60	11.73
Uradni list Republike Slovenije, d. o. o.	1.34	5.02	12.00	16.87
VARNOST SISTEMI, d. o. o.	15.00	16.36	20.00	24.26
VGP, d. d.	1.00	3.90	4.00	4.15
VGP DRAVA Ptuj, d. o. o.	17.80	19.52	8.46	9.43
VGP Novo mesto, d. d.	6.90	6.98	8.00	11.95

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

# Digital transformation and innovation projects of the selected portfolio companies

## Krka, d. d., Novo mesto



**Parnido®** (paliperidon)

**Innovative product using the osmotic pump technology for treating schizophrenia in children and young adults aged 15 and more**

*Krka's Parnido® is the first generic product with paliperidone in the European markets. It is an innovative pharmaceutical form not dependant on a patent with prolonged release of the active ingredient.*

*In Krka, a tablet has been developed with precisely programmed speed for releasing the active ingredient which is the result of a controlled osmotic transfer of water into the tablet through a semi-permeable membrane and a precisely defined thrust of the active ingredient through a laser drilled pores in a membrane.*

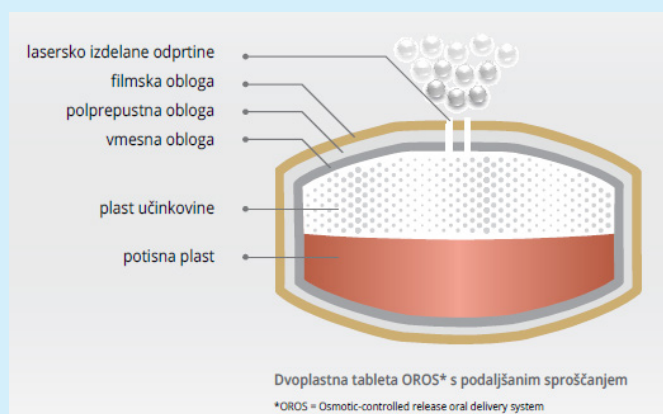
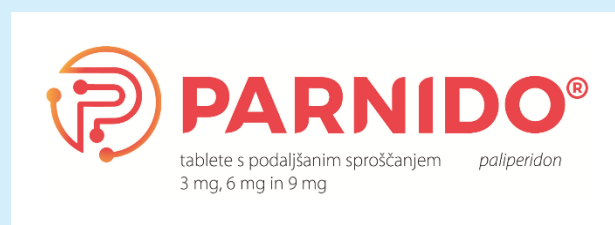


Photo: Parnido® (paliperidon)



*The main innovation of this Krka's product lies in the process for covering a tablet with semi-permeable membrane and in the laser drilling technology.*

*Krka launched the marketing of Parnido® in key West-European markets in 2018, other markets will follow in 2019; it is expected that the product will be well accepted by consumers.*

## **Notol 2 – The factory of 2018**

### **Highly automated pharmaceutical production plant with state-of-the-art technology**



Photo: Notol 2 – The factory of 2018 (Finance newspaper/KPMG)

*In the production plant Notol 2, the solid dosage forms production plant Ločna, the manufacturing and logistics and quality assurance was upgraded by means of information technology, automation and robotised equipment in order to optimise the processes for planning, managing and operating the pharmaceutical manufacturing, thereby having Krka adapt to numerous and diversified markets.*

*The concept of work is based on a vertical and horizontal integration of information systems, full automated main processes running without any human intervention in a paperless environment. The machines are aware of the condition of the nearby systems, the exchange of information between the machines and computer systems is automatic (horizontal integration). All data, regularly saved, serve as the basis for supervision and subsequent in-depth analyses of processes; as a result, these run faster, making the manufacturing significantly more efficient as compared to traditional production plants.*



Photo: The interior of Notol 2

*Following the selection of the newspaper Finance and KPMG, Krka received the Factory of 2018 award for its Notol 2 production plant.*



*The preliminary design for Notol 2 was conceived by the experts from Krka. The construction and installation systems was designed and implemented by Slovenian companies which supplied a great part of the necessary equipment. There were 240 designers, contractors and equipment suppliers involved in the project. The value of works and equipment carried out and supplied by Slovenian companies amounted to 63%.*

# METHODOLOGICAL, LEGAL AND OTHER NOTES

## Legal basis

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

## Operation performance data for SOEs

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

Comprehensive company presentations have been developed for top 20 companies using the criteria of the total book-value of SSH and RS shareholdings as at 31 December 2018 (available in Slovene version).

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

- companies in bankruptcy or liquidation (a common list of all such companies has been made),
- companies in which the equity stake of SSH or RS is lower than 1%;
- companies for which the take-over bid was accepted by or an SPA was concluded by SSH;
- capital assets transferred under the SSH's management on 26 December 2018 as a result of the Act Amending Implementation of the Republic of Slovenia's Budget (2018 and 2019) Act – ZIPRS1819-A (Official Gazette RS, No. 83/18 of 24 December 2018), and acquired by inheritance; and
- for other companies of less significant importance:
  - o Inkos d.o.o. d., Krmelj, with RS ownership stake amounting to 2.54%. SSH attempted to sell the above mentioned shareholding twice in 2016 and 2017, but with no success;
  - o Savaprojekt d. d., with RS ownership stake amounting to 3.34% and which SSH strives to sell;
  - o RRA, regionalna razvojna agencija Celje d. o. o., with RS ownership stake amounting to 5.89%. Considering all relevant criteria, the company is insolvent, most likely facing bankruptcy proceedings

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

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

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

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

### Other Notes

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

## Sources:

- Financial and Annual Reports of companies held in ownership of RS and SSH
- Bloomberg Information System
- 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, 2015
- Slovenian Sovereign Holding, 2018 SSH Recommendations and Expectations
- Slovenian Sovereign Holding, 2017 Corporate Governance Code for Companies with Capital Assets of the State
- Slovenian Sovereign Holding, 2019 SSH Asset Management Policy
- Slovenian Sovereign Holding, SSH Premises for Voting on General Meetings of Shareholders in 2018 and 2019.
- Slovenian Sovereign Holding, 2018 Rules on Supervisory Board Member Selection (Conditions, Criteria, Procedures and Evaluation for Determining Suitability and Selecting Potential Candidates for Members of Supervisory Bodies of Companies with State's Capital Assets)
- Slovenia Development Strategy 2030. 2017. Government Office for Development and European Cohesion Policy
- The Institute of Macroeconomic Analysis and Development, September 2019. [www.umar.gov.si](http://www.umar.gov.si).
- Directors' Association of Slovenia, Managers' Association of Slovenia, Ljubljana Stock Exchange, 2016 Corporate Governance Code for Listed Companies,

## List of acronyms and glossary of terms

**ADR** – the average daily rate; the indicator of the average realised room rental per day

**ARSO** – Slovenian Environment Agency

**BDP** – gross domestic product

**CIR** – the cost income ratio measuring operating costs as a percentage of operating income

**d. d. (PLC)** – public limited company

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

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

**DARS** – Motorway Company of Republic of Slovenia

**DarsGo** - electronic toll system in the free traffic flow

**DPN** – national spatial plan

**DRI** – Družba za razvoj infrastrukture

**Company** – Slovenian Sovereign holding d.d.

**DMS** – Distribution Management System

**DTK** – venture capital companies

**BAMC** – Bad Asset Management Company

**NA RS** – National Assembly of the Republic of Slovenia

**EBRD** – European Bank for Reconstruction and Development

**ECB** – European Central Bank

**EDC** – electricity distribution company

**EBITDA** – Earnings before Interest, Taxes, Depreciation and Amortisation

**EAM** - enterprise asset management

**EE** – electricity

**ECESA** – Expert Committee for Economic and Social Affairs

**ERP** – Enterprise resource planning

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

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

**EU** – European Union

**EU28** – European Union of 28 Member States

**EUR** – Euro currency

**EURIBOR** – Euro Interbank Offered Rate



**FED** – American Central Bank

**FIP** – Financial and Compensation Treaty

**GB** – Gorenjska banka, d. d., Kranj

**GDPR** - General Data Protection regulation

**GDR** – Global Depositary Receipts

**GJS** – service of general economic interest

**GWh** – Gigawatt hours

**HPP** – hydro power plant

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

**HSE** – Holding slovenske elektrarne

**ICSID** - International Centre for Settlement of Investment Disputes

**ICT** – Information and communication technology

**IPO** – initial public offering of shares

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

**KDD** – Central Securities Clearing Corporation

**KK** – Nomination Committee

**CA** – capital asset

**Code** – Corporate Governance Code for SOEs

**Commission** – Commission for handling alleged irregularities in SOEs

**CPC** – Commission for the Prevention of Corruption

**KZPS** – Kontrola zračnega prometa Slovenije, Slovenia Control Limited

**kWh** – kilowatt hour

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

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

**M & A** – method of searching for a strategic investor

**MoF** - Ministry of Finance

**MEDT** - Ministry of Economic Development and Technology.

**MRA** – Master restructuring agreement

**SME** – small and medium-sized enterprises

**IFRS** – International Financial Reporting Standards

**MOI** – Ministry of Infrastructure

**MWh** – megawatt hour

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

**NEK** – Krško nuclear power plant

**FIP** – Financial and Compensation Treaty

**NPE** - non-performing exposure

**SB** – Supervisory Board

**NKBM** – Nova Kreditna banka Maribor

**NLB** – Nova ljubljanska banka

**SSH SB** – Supervisory Board of Slovenian Sovereign Holding

**OECD**– Organisation for Economic Cooperation and Development

**OVS** – Environmental Approval

**Policy** – Asset Management Policy of SSH

**RS** – Republic of Slovenia

**RTH** – Rudnik Trbovlje-Hrastnik (Trbovlje Hrasnik Mine)

**RŽV** – Žirovski vrh Mine

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

**SAIFI** - the System Average Interruption Frequency Index; the average number of interruptions in electric power system

**SSH**– Slovenian Sovereign Holding

**SEL** – Savske elektrarne Ljubljana, d. o. o.  
**SEO net** – electronic information system of the Ljubljana Stock Exchange  
**SSH Group** – Slovenian Sovereign Holding Group  
**SID banka** – Slovenska izvozna in razvoja banka, d. d. Ljubljana  
**SOD** – Slovenska odškodninska družba, d. d.  
**SES** – Slovenian Entrepreneurial Fund  
**SPA** – Sales and Purchase Agreement  
**SRRF** – Slovenian Regional Development Fund  
**SAS** – Slovenian Accounting Standards  
**SSA** – standstill Agreement  
**Strategy** – State Assets Management Strategy  
**TEB** – Termoelektrarna Brestanica, d. o. o.  
**TEŠ** – Termoelektrarna Šoštanj, d. o. o.  
**TEU** – unit of cargo capacity describing container  
**TWh** – TheraWatt hour  
**UVTP** - Office of the Government of the Republic of Slovenia for the Protection of Classified Information  
**UK** – The United Kingdom of Great Britain and Northern Ireland  
**IMAD** – Institute of Macroeconomic Analysis and Development  
**ZBan-1** in Zban-2 – Banking Act  
**ZDIJZ** – Public Information Access Act  
**ZDSŽ** – Slovenian Railway Company Act  
**ZFPPIPP** – Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act  
**ZGD-1, ZGD-1** – Companies Act  
**ZIPRS1819-A** - ZAct Amending Implementation of the Republic of Slovenia's Budget (2018 and 2019) Act  
**ZIOOZP** - Act Regulating the Issuing of Bonds in Compensation for Confiscated Property pursuant to the Abrogation of the Penalty of Confiscation of Property  
**ZPKDPIZ** – Act Governing Conversion of the Pension Fund Management and Investment Policy of Pension Fund Management (KAD)  
**ZPre-1** – Takeovers Act  
**ZSDH-1** – Slovenian Sovereign Holding Act  
**SOS-1** – Slovenian Compensation Fund Act  
**ZSPOZ** – Act on Payment of Compensation to Victims of War and Post-War Violence  
**ZVVJTO** – Reimbursement of Investments in Public Telecommunications Network Act  
**ZZLPPO** – Law on completion of the privatization and privatization of legal persons owned by the Slovenian Development Corporation  
**ZSIRB** – Slovenian Export and Development Bank Act  
**ZZavar** – Insurance Act



**Annual Report - Management of Capital Assets of RS and SSH in 2018**  
**SSH Report to the National Assembly of RS (Abbreviated version)**

Issued by and Copyright Holder: Slovenski državni holding, d. d.

Address: Mala ulica 5, 1000 Ljubljana

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

E-mail: [info@sdh.si](mailto:info@sdh.si)

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

Text: Slovenski državni holding, d. d.

English translation and proofreading Maja Vitežnik, David Lillie

Design and lay-out: Hiša grafike, d. o. o.

Photos SSH and <http://www.shutterstock.com/>

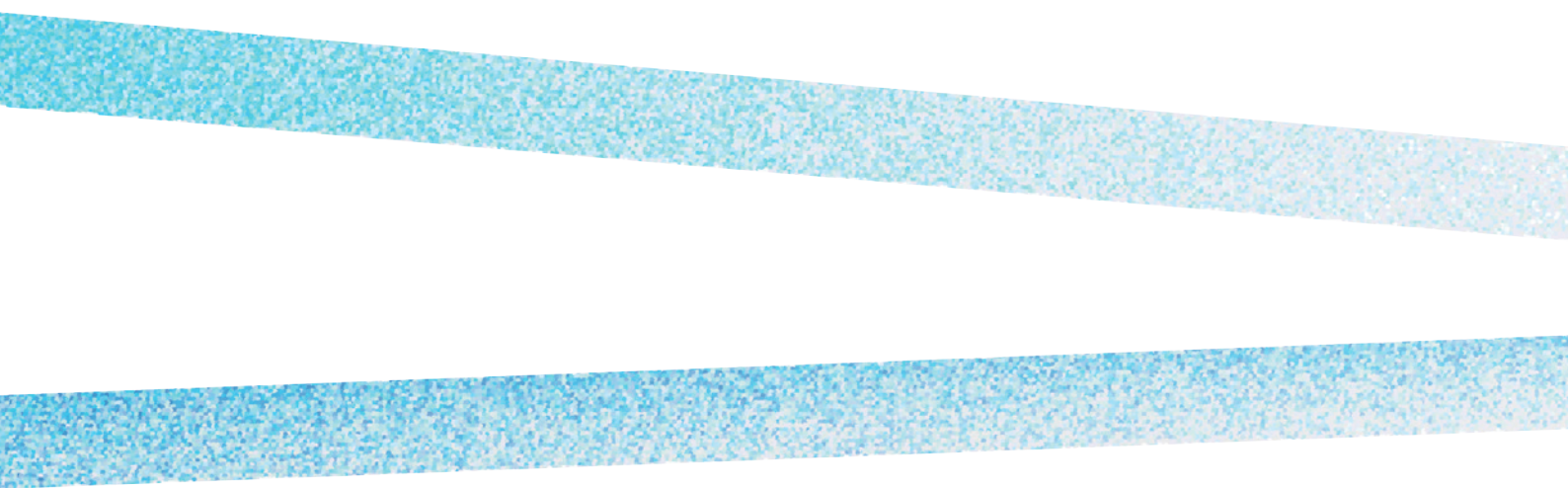
Date of issue: Ljubljana, October 2019

**Due to the extensive nature of the Document, the abbreviated version of the Annual Report - Management of Capital Assets of the Republic of Slovenia and Slovenian Sovereign Holding for 2018 has been translated, excluding the original Chapters 10 - Company Details for 20 Largest SOEs, and Chapter 11 - Company Details of Other Companies with Direct Ownership Stake by the Republic of Slovenia and Slovenian Sovereign Holding. In spite of its abbreviated nature, the English version includes all the most significant highlights and information from the original Annual Report in Slovenian.**

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

**Limitation of liability**

*The Annual Report - Management of Capital Assets of RS and SSH in 2018 (hereinafter referred to as; the "Document") is produced in accordance with Article 67, Paragraph 1 of ZSDH-1-- The Document is addressed to the National Assembly of the Republic of Slovenia, and in accordance with Article 67, Paragraph 1 of ZSDH-1, the Document is also published on the we site of SSH, enabling the Document to be accessed by the general public. The Document was developed in accordance with the principle of conscientiousness and fairness, by applying the necessary expertise and in accordance with the principle of professional diligence. The information on companies and Groups of companies used in the document were obtained from publicly accessible data bases and directly from companies. Any potential indicative value assessments are stated for informational purposes only and are not in any way binding neither they anticipate any action or decision on the part of SSH. The Document does not form any recommendation or a piece of advice for personal investment decisions or any other professional service or advice- The user of the Document agrees not to use the Document as a substitution for an independent and professional research, analysis or financial or expert assessment. Users of information from this Document are advised by SSH to verify the data with other suitable sources and to consult with an expert of a relevant discipline about any investment decision into a company referred to in the document or in regard to any other action. SSH has strived to ensure the accuracy and up-to-date status of data with all necessary prudence, however, it gives no assurances with regard to the completeness, accuracy, regularity, suitability, reliability of data or other assurances with regard to data or with regard to their use; data are such as they are and such as they are accessible. SSH, RS, companies with state capital assets and their employees shall not be held responsible by users for any damage or other consequences arising from this Document. Any public publication, reproduction, sale, modification or transformation of the content is prohibited without the written consent being given by SSH.*



SLOVENIAN SOVEREIGN HOLDING, d. d.