

ANNUAL REPORT

SSH Group
and SSH

for 2018



Annual Report SSH and SSH Group for 2018

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therefore prevail.*



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**SSH'S MANAGEMENT
OF ASSETS IS TARGET
ORIENTED**



1 KEY HIGHLIGHTS FOR 2018

1

Key highlights for 2018

MANAGEMENT OF PORTFOLIOS OF RS AND SSH CAPITAL ASSETS



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

6.1 %



*Estimated ROE of RS and SSH portfolios to be actually realised in 2018

6.3 %



In 2017, ROE of RS and SSH portfolios amounted to

6.5 %



The total sum of dividends paid out from RS Portfolio in 2018 (for FY 2017)

EUR
446.9
million



The total sum of dividends paid out from SSH Portfolio in 2018 (for FY 2017)

EUR
40.4
million



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

EUR
670.5
million



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

EUR
10.1
bn

**Final data for 2018, based on audited consolidated statements, are expected in October 2019.*

DENATIONALISATION AND COMPENSATION PAYMENTS



Settled liabilities arising from denationalisation in 2018 (SZ-1 included)

EUR
5.393
million



Paid compensations on behalf of and for the account of the Republic of Slovenia under the following laws: ZPOZ, ZVVJTO and ZIOOZP

EUR
6.359
million

SSH IN FIGURES AS OF 31 DECEMBER 2018

EUR 692.3
million

of assets

88.5 %

of the SSH's total assets placed as equity investments (the portfolio is composed of 24 active capital assets owned by SSH)

EUR 498.5
million

of total equity of SSH

EUR 43.1
million

of net profit or loss of SSH in 2018





2 LETTER BY
MANAGEMENT BOARD

2

Letter by Management Board

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 representing a significant portion of the Slovenian economy includes 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 to manage these assets successfully. 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 recent years. The European Commission and the OECD have acknowledged the progress made in asset management. It would be reasonable to provide relevant financial support for such a system in the future when SSH is going to lose the majority of assets under its management and a new arrangement with regard to the financing of the central asset management institution will have to be made.

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 the first estimates for 2018 from the beginning of 2019 show that in spite of a modified portfolio (the sale of the equity stake in NLB), a 6.3% ROE is expected to be achieved, and the goal set in AAMP 2018 will presumably be exceeded.

SSH supports the development and efficiency of operations of its portfolio companies, and, by means of its decisions made at General Meetings of Shareholders of companies, pursues a responsible approach to Dividend Policy in terms of advocating a suitable balance between dividend yield and development needs of companies. The total of EUR 266.8 million of »regular« dividends arising from the ownership of SSH and RS capital assets were collected in 2018 (for FY 2017). If »additional« dividends by Telekom Slovenije and Nova Ljubljanska banka (NLB), considered as one-off events, are taken into account, the total amount of all dividends collected amounts to a sum of EUR 487.3 million (EUR 259.7 million for FY 2016). As there were several one-off events recorded, such high dividend pay-outs are not to be expected in the future.

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

In the future, the sales process will have a negative impact on the calculation of the dividend-to-equity ratio and to the amount of dividends received by the RS's budget since in the last two years both banks, NLB and Abanka, paid high dividends and achieved high ROE, thus presenting a significant portion of the weight in the said calculation (a poor one fifth of the value of the RS's portfolio of capital assets). Other assets in the portfolio defined as strategic will not be able to compensate for these differences; therefore, it is hard to expect ROEs and dividend pay-outs to grow. As a matter of fact, the priority objective of strategic assets is the attainment of strategic goals for the Republic of Slovenia, and in some of the largest companies SSH has almost no influence with regard to their revenues (Dars, electricity distribution companies, and in part, Pošta Slovenije as well as other companies). Considering the changing structure of the portfolio under SSH's management, in the future, the assessment of the performance of asset management will have to take into account various criteria by sectors, including the consideration of the type of assets and the specific features of companies' operation, such as, for example, service of the general economic interest.



Igor Kržan

**President of the
Management
Board**



Boštjan Koler

**Member of the
Management Board**



Andrej Božič

**Member of the
Management Board**

Sales processes in 2018 marked by the sale of NLB shares

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 completed in November 2018, together with the preparatory activities for the sale of 100-percentage ownership stake of RS in Abanka 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 65-percentage equity stake of RS in NLB was sold to domestic and foreign investors for the total proceeds from sale amounting to EUR 669,5 million. The transaction was closed on 14 November 2018 when NLB shares started to be traded on the Ljubljana Stock Exchange and NLB GDRs on the London Stock Exchange. At the end of 2018, the Republic of Slovenia remained the largest individual shareholder of NLB, holding a 35-percentage ownership stake. In accordance with the commitments given by the Republic of Slovenia to the European Commission, its ownership stake in NLB will have to be decreased by an additional 10% minus one share by the end of 2019.

Analysis of SSH operations

SSH was successful in 2018: the operating profit and loss before taxes amounted to EUR 44.9 million, and following the deduction for deferred taxes, net profit and loss for the reported period amounted to EUR 43.1 million. The result generated is higher than in 2017 mainly due to newly formed reservations for satisfying denationalisation liabilities.

There was a EUR 59.7 million income generated, of which approximately 77.4% was attributed to financial income. The most significant revenue was the dividend income, however, due to the transfer of capital assets to RS (at the end of 2017), dividends are lower by approximately 12% as compared to 2017. Expenditure amounted to EUR 14,8 million. Operating expenses in 2018 were significantly higher as compared to the preceding period mainly due to costs incurred in the processes for the sale of capital assets although

operating income was higher for the same reason – these costs are reimbursed by RS. Interest expenses decreased compared to the preceding period since all liabilities to commercial banks had been settled by SSH.

Settlement of liabilities due to denationalisation beneficiaries, beneficiaries under other acts and repayment of debt in 2018

SSH continues to actively participate in denationalisation proceedings, now mainly dealing only with the most complex cases. On behalf of and for the account of the Republic of Slovenia, SSH also settles liabilities under the following laws: ZPOZ, ZIOOZP and ZVVJTO.

SSH provided cash for the coverage of its liabilities mainly with matured deposits and repayments made by RS. The most important source of funds to cover the SSH denationalisation liabilities in 2018 was the payout of dividends of companies owned by SSH. SSH settled its last bank loan in the total amount of EUR 5 million and decreased its financial liabilities to EUR 100 million, representing the debt issued by the SOS3 bond.

SSH's endeavours for sustainability and operational integrity enhancement continued

Sustainable development will be one of the important priorities of SSH's operation in the future. In 2018, among other matters, SSH improved its reporting activity. In 2019 some cases of good practice in corporate governance are to be improved, particularly as referred to in the Corporate Governance Code for SOEs and in the SSH Recommendations and Expectations; such practice in corporate governance is expected to be observed by enterprises and their gradual implementation is envisaged.

In 2018, all measures were implemented as regards integrity, responsibility, accountability, and limitation of risks of corruption, conflicts of interest and the abuse of proprietary information in the management of state assets. Based on its experience, SSH supplemented its compliance and business integrity system and in

2019, the modernisation of the SSH Business Integrity Plan is foreseen. Permanent and additional measures as stated in the Business Integrity Plan for managing corruption risks and for preventing illegal and unethical actions were carried out regularly.

In the future, the focus will be placed on the cooperation with stakeholders concerning strategic assets, on providing support for transformation of companies, on the improvement of legal documents regarding corporate governance, on measures related to lean organisation and on attaining goals set.

SSH is highly active in implementing its most important mission, i.e., the professional, active and effective 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 providing for sustainable and successful performance in the long term, to augmenting the corporate governance culture, to maintaining the competitiveness of companies and to the realisation of goals set.

Igor Kržan,
President of the
Management Board



Boštjan Koler,
Member of the
Management Board

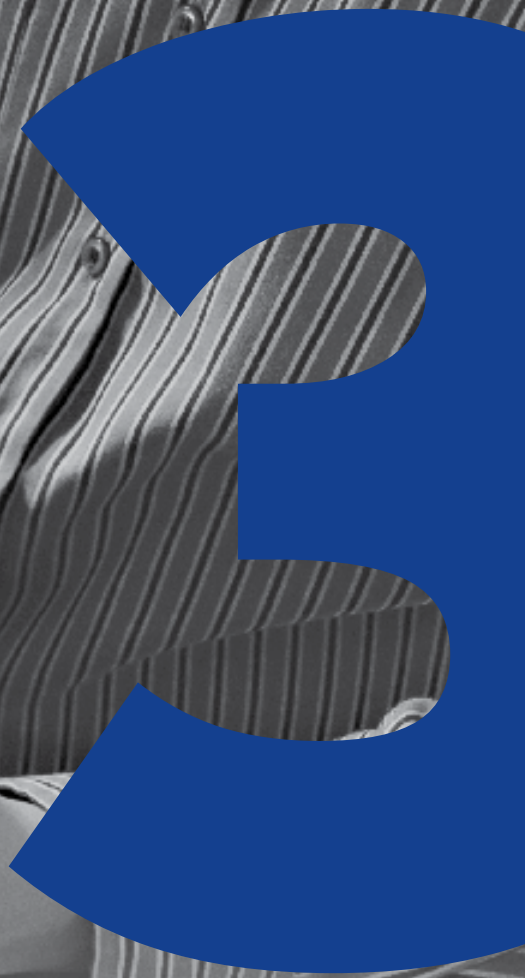


Andrej Božič,
Member of the
Management Board





**ADVOCATING THE INCREASE
IN CORPORATE GOVERNANCE
QUALITY IN PORTFOLIO
COMPANIES**



SUPERVISORY BOARD'S REPORT

3

Supervisory Board's Report

The Supervisory Board of Slovenian Sovereign Holding (»SB«) is composed of five members, in accordance with Article 39 of ZSDH-1. On 3 May 2018, in accordance with Article 273 of ZGD-1, SB appointed Dr Andrej Bertoncej as the SSH's Management Board Member, and he assumed his term of office on 3 May 2018. The term of office of Dr. Andrej Bertoncej in the function of the SB's Member was suspended from 3 May 2018 until his appointment as the Minister of Finance which took place on 13 September 2018. Since 19 December 2018, when Karmen Dietner was appointed as the Supervisory Board Member by the National Assembly of the Republic of Slovenia, the Supervisory Board had been operating in a five-member configuration.

Personnel decisions

In 2018, in accordance with its authority, Supervisory Board (SB) made several decisions on staff-related changes in the SSH's Management Board.

In December 2017, with the aim to complement the then two-member SSH's Management Board, SB published an international call to apply for a management board vacancy. In implementing the selection procedure, NS followed the provisions of ZSDH-1 and recommendations from the Corporate Governance Code for SOEs: it thus appointed the SB's Nomination Committee which was composed of all SB Members, authorising it to carry out the procedure for selecting a fit and proper candidate as a Member of the Management Board. The Nomination Committee defined duties and tasks, authorisation and responsibility, conditions and

competences including the personal characteristics and capabilities to be held by a candidate for a Member of SSH Management Board, in addition to the requirement for satisfying the formal statutory criteria for assuming the position of a Management Board Member. In March 2018, SB was informed on the Report developed by the Nomination Committee with regard to candidates who had applied for the job and took over the continuation of the appointment activities within the said nomination procedure; however, SB did not opt for any appointment.

At its extraordinary session held on 11 April 2018, SB accepted the irrevocable resignation and the termination of employment relationship filled by Nada Drobne Popović, MSc, the Member of the Management Board.

On 3 May 2018, in accordance with Article 273 of ZGD-1, the Supervisory Board filled the vacancy in the Management Board and appointed the SB's Member, Dr. Andrej Bertoncej, to the Management Board position for a period of not more than a year. As a result, during the mandate of a temporary SSH's Management Board Member, Dr. Bertoncej did not carry out the duties of a SB's Member, and his position of a President of the Risk Committee terminated on the date of his appointment as the temporary SSH's Management Board Member. On 3 May 2018, Igor Kržan was appointed as the President of the Risk Committee, and Janerz Vipotnik was appointed as a member of the Risk Committee.

On 13 September 2018, Dr. Andrej Bertoncej was appointed to the position of the Minister of Finance

in the new Government of the Republic of Slovenia, and as a result, all functions held in SSH terminated. On this day, SB published a new international call to fill up the vacancy of a Management Board Member while, in light of the anticipated lack of quorum, it also filed a motion before the Court for a court-appointment of a Management Board Member pursuant to Article 256 of ZGD-1. Based on the Court Decision, on 21 September 2018, Vanessa Grmek, Assistant to the SSH's Management Board, was appointed as a temporary Member of SSH Management Board.

At its regular session held on 22 November 2018, SB appointed Boštjan Koler as the SSH's Management Board Member for a four year term of office, who took up his position on 1 December 2018, and Andrej Božič as the SSH's Management Board Member for a four year term of office who took up his position on 21 January 2019.

Most important topics discussed at SB sessions

An important task carried out by SB is to monitor the attainment of goals and the performance of asset management activities envisaged by the State Assets Management Strategy, by each Annual Asset Management Plan and by the adopted SSH Business and Financial Plan.

SSH achieved its goals with regard to the target indicators stated in the SSH Performance Criteria for 2018, which were adopted by the Government of the Republic of Slovenia; detailed presentation is provided in the Chapter on Performance Criteria.

At its sessions, SB was regularly informed of the situation and of important activities pursued in the management of RS and SSH capital assets, it was briefed about the companies' attainment of goals in accordance with the Annual Asset Management Plan, about activities in connection with the disposal and acquisition of capital assets, about activities in connection with the Tourism Strategy, and it received a report about the SSH's quarterly Financial Statements.

Furthermore, SB's assignments in regard to the following matters have to be pointed out: the monitoring of the implementation of public authorisations under individual laws, the overseeing of the implementation of the Ordinance on State Asset Management Strategy and of risk management. In accordance with SSH's Articles of Association and ZSDH-1, SB discussed proposals given by the Management Board, granted consents to Advisory Agreements concluded with financial, legal and other advisors, with providers of due diligence reviews and with providers of business valuations of companies involved in the processes for the disposal of capital assets. Furthermore, SB dealt with quarterly reports on activities carried out by the Compliance Manager, and, in accordance with ZGD-1, granted consents to all documents prepared by the SSH's Internal Audit and to other documents presented in this Report's Chapter on the work carried out by the Audit Committee.

The text below presents the most important decisions taken by SB month by month as well as topics discussed by SB within the scope of their powers stipulated by the SSH's Articles of Association. In addition to the above mentioned, throughout 2018, SSH was regularly informed about activities pursued by SSH in the process of the sale of NLB d. d.

JANUARY 2018

- The decision on a consensual annulment of Annexes to the Employment Contracts of the President and of the Member of SSH Management Board and the approval of new Annexes to the said Employment Contracts;
- the consent granted to the conclusion of the Valuation Agreement for the valuation of the equity stake of Hoteli Bernardin d. d., Portorož;
- the consent granted to the Agreement on the Purchase and Sale of Equity Stakes in Geoplin d. o. o. and Plinhold d. o. o., concluded by and between the Buyers, Petrol and SSH, on behalf and for the account of RS, and the

Sellers, Zavarovalnica Triglav and Salnal, and consent granted for carrying out the transaction envisaged by the said Agreement.

FEBRUARY 2018

- The endorsement of the Internal Audit Programme of Work, the Multi-annual Internal Audit Operational Plan and amendments to the Internal Audit Charter.

MARCH 2018

- Briefing on the SSH and SSH Group Draft Annual Report for 2017;
- the endorsement of the Nomination Committee, its dissolution and continuation of procedures for appointing a new Member of the SSH Management Board;
- the decision on the conclusion of the nomination procedure without appointing a Management Board Member of SSH.

APRIL 2018

- The information on the activities to be pursued by SSH at the General Meeting of Sava d. d.;
- the information about the SSH's intention of providing either debt financing or acquiring an equity stake in Sava turizem d. d., in the maximum amount of EUR 4.7 million in order to ensure funds for acquiring a stake in HPBN;
- the information on the irrevocable resignation note submitted by Nada Drobne Popovič, MSc, the Member of the Management Board;
- the adoption of the Guidelines for the selection of the Auditor of SSH's Financial Statements and the provision of its independence;

- the adoption of the audited SSH and SSH Group Annual Report for 2017 and of the No Objection Letter to the Auditor's Reports for 2017;
- the proposal to the SSH General Meeting to grant a discharge to the SSH Management and Supervisory Board for 2017;
- the information on the proposed SSH's approach with regard to the proposal by Sava d. d. for transferring the Gorenjska banka shares;
- the filling up of a vacancy in the SSH Management Board; on 3 May 2018, SB's Member, Dr. Andrej Bertoncej, was appointed to the position of a temporary Management Board Member who during the term of office of the temporary SSH's Management Board Member did not carry out the duties of a SB's Member. Similarly his position as the President of the Risk Committee terminated on the date of his appointment as a temporary SSH's Management Board Member;
- the appointment of Igor Kržan to the position of the President of the Risk Committee and Janerz Vipotnik to the position of a member of the Risk Committee.

MAY 2018

- The endorsement and execution of the Employment Contract with Dr. Andrej Bertoncej, the Management Board Member.

JULY 2018

- The consent granted to amendments and modifications of the SSH Asset Management Policy;
- the proposal to the SSH General Meeting of Shareholders to appoint an Audit Firm for auditing the SSH's Annual Financial Statements;

- the consent granted to the Proposal for the Purchase of the Majority Stake in KOTO d. o. o. , and the consent granted to the Sale and Purchase Agreement on the acquisition of a shareholding concluded by and between the Seller, DUTB, and the Buyer, RS, represented by SSH;
- the consent granted to the Engagement Letter between SSH and BNP Paribas SA for rendering financial advisory services in the process of the sale of Abanka d. d.;
- the endorsement of amendments to the Rules of Procedure of the SSH Audit Committee;
- the consent granted to the amendment to the Annual Asset Management Plan for 2018 relating to NLB d. d. (NLB Group).
- the consent granted to the conclusion of the Engagement Letter with the law firm Kavčič, Bračun in partnerji for rendering legal advisory services in the process of the sale of Abanka d. d.;
- the consent granted to the SSH Management Board to conclude the Agreement with PWC London on the valuation of NLB d. d.;
- due to his appointment as the Minister of Finance in the RS Government, the function of Dr. Andrej Bertoncej as the SSH Management Board Member was terminated on 13 September 2018, and likewise, his position of a SSH Supervisory Board Member was terminated;
- SB filed a motion before the Court for having a Management Board Member appointed by the Court, pursuant to Article 256 of ZGD-1;

AUGUST 2018

- The consent granted to the SSH Management Board to conclude the Cooperation Agreement with the international legal firm Sherman & Sterling LLP;
- the consent granted to the SSH Management Board to conclude the Advisory Agreement with legal firm Ulčar & partnerji;
- the consent granted to the conclusion of Annex No. 2 to the Engagement Letter with Deutsche Bank in the process of the sale of NLB shares.
- the conclusion of the Agreement with Vanessa Grmek, a court-appointed SSH Management Board Member.

OCTOBER 2018

SEPTEMBER 2018

- The endorsement of the content of the international call to apply for the vacancy of the SSH Management Board Member;
- the formulation of the proposal for a temporary appointment of a Management Board Member of SSH under Article 256 of ZGD-1 (on account of an envisaged lack of consensus within the Management Board);
- The endorsement of the Annual Report - Management of Capital Assets of RS and SSH in 2017;
- the consent to the publication of a joint statement by NLB and SSH on the Intention to Float with regard to NLB shares (published on 15 October 2018);
- the consent granted to the key elements pertaining to the Prospectus relating to the public offering of NLB shares in the form of shares and Global Depositary Receipts relating to the information about the shareholder and the Seller, RS, about the NLB shares and about the offering;

- the consent granted by SB to the Offer Price for NLB's Share and the Offer Price Range for the Share from EUR 51.50 to EUR 66.00;
- the consent for listing the NLB Shares on Ljubljana Stock Exchange and for listing the GDRs on the London Stock Exchange in the process of the initial offering of shares;
- the consent granted for publishing the Prospectus relating to the public offering of NLB shares in the form of Shares and Global Depositary Receipts on the SSH's web site by way of giving a link to its publication on the NLB's web site;
- consent granted to the »Underwriting Agreement relating to an offering of no less than 10,000,001 (excluding the Overallotment Option) and up to 14,999,999 (including the Overallotment Option) Shares of Nova Ljubljanska banka d. d. (in the form of Shares and Global Depositary Receipts)«, and consent granted to the SSH Management Board to execute all documents necessary for closing the transaction.

NOVEMBER 2018

- The consent granted to the Criteria for Measuring Performance of SOEs;
- the consent granted to the Criteria for Measuring Performance of SSH;
- the appointment of Boštjan Koler as the SSH's Management Board Member, who assumed his term of office on 1 December 2018, for the 4-year term of office;
- the appointment of Andrej Božič as the SSH's Management Board Member, who assumed his term of office on 21 January 2019, for the 4-year term of office;
- the consent granted to the Annual Assets Management Plan 2019.

DECEMBER 2018

- The consent granted to the amendment to the Annual Asset Management Plan for 2018 relating to Slovenske železnice d. o. o. and Slovenske železnice Group;
- the information on the organisation of the D&O liability insurance;
- information about Sava d. d.

SB was informed of the adopted SSH corporate documents and regularly monitored circumstances which might have led to conflict of interest, consistently avoiding any incidence of such conflicts of interest.

Work carried out by SB's Committees

More detailed information on the composition of all SB's Committees is presented in tables included in the Corporate Governance Statement.

Three SB's Committees were active in 2018: two permanent committees (i.e., Risk Committee and Audit Committee) and the Nomination Committee which was dissolved for a few months but it is operational now. The Nomination Committee was appointed by SB in order to carry out the process for filling up the vacancy in the Management Board and was composed of all Supervisory Board Members. The President of the Nomination Committee is Duško Kos. In addition to activities relating to the processes for filling up the vacancy in the Management Board, the Nomination Committee deals with the remuneration of the SSH Management Board.

The work carried out by the Risk Committee is focused on Risk Register, risk quantification, consideration of the SSH Risk Management Reports and SSH High Risk Reports. The Risk Committee was informed of the updated risk management related corporate documents, of the presentation of the activities planned in SSH in relation to risk management and the progress of the project calculating the riskiness of SSH and RS capital

assets, while also considering risks exposed to by SSH during the satisfaction of its statutory obligations.

At its sessions, the Audit Committee considered the following matters: SSH Business and Financial Plan for 2019, Internal Audit Work Programme for 2018, the Multi-Annual Internal Audit Activity Plan for 2018-2020, the Final Audit Plan relating to Annual Financial Statements and presentation of the Draft Audit Report and the Internal Audit Activity Report for 2017, while discussing several times the SSH Management Board's Report on findings relating to the acquisition of DRI d. o. o. by ZRMK. In accordance with international guidelines and recommendations on activities carried out by the Audit Committee, the said Committee took part in the process for the selection of an auditor of the SSH and SSH Group for a three-year period, discussed the proposals for amending internal policies on internal audit function for SB, and considered the results obtained in the internal assessment of the internal audit function. The Audit Committee also considered the Audited SSH and SSH Group Annual Report for 2017 and the SSH and SSH Group Interim Report for 2017, took part in the formation of the draft agreement on auditing the SSH and SSH Group Annual Financial Statements for 2018, discussed the Audit Reports prepared by the Internal Auditor in which regard it proposed to the SSH SB to follow the Internal Auditor's recommendations and to implement the amendments proposed to the Rules of Procedure of the Audit Committee. The Audit Committee was regularly informed on the reports prepared by the Committee for Handling Irregularities in SOEs.

The Audit Committee performed its assignments in accordance with ZGD-1 provisions and recommendations about the audit committee's work; during its operation, it actively cooperated with the SSH Internal Audit Department, while having regular contacts with the SSH's independent auditor. In order to evaluate its current performance and adopt improvement measures for future work, the Audit Committee carried out a separate self-evaluation process of the Audit Committee's work

on the basis of a questionnaire divided in sections included in the recommendations about the work to be carried out by the Audit Committee. On the basis of the filled-in questionnaires, the Secretary of the Audit Committee made an analysis of the results obtained and compared those results with findings from the Audit Committee's self-evaluation process from the preceding year, drawing up a summary with proposals for improvement measures. The Audit Committee then discussed those areas of work which have received poor results and adopted relevant improvement measures. The comparison of the Audit Committee's self-evaluation results showed that the functioning of the Audit Committee has improved, however, further improvements to its operation will be made by way of the proposal to amend the Audit Committee's Rules of Procedures which will have to be endorsed by the SSH's SB.

Work carried out by Management and Supervisory Boards

In 2018, SB met at nine regular sessions and four extraordinary sessions, in addition to carrying out twelve correspondence sessions. The membership attendance at session, which was usually full, is presented in the Table included in the Corporate Governance Statement. Dr. Andrej Bertonecelj was excused from taking part at the SB session at which the SB made decisions on issues regulating his position of a SSH Management Board Member.

SB is composed of members who complement each other in terms of their expertise and competences; the membership varies in regard to education, work experience and personal characteristics, enabling efficient exchange of opinions at the SB's sessions. In line with the formal legal framework stipulated by the legislation, the SSH's Articles of Association and Corporate Governance Code and by adhering to the principle of due care and responsibility, SB fulfilled its responsibilities, duties and obligations in a prudent and fair manner.

During its operation, SB took into account Slovenian and international recommendations as well as good practice in corporate governance. The Corporate Governance Code for SOEs, which applied for SSH in 2018 as the reference Code, was adhered to when carrying out SB's activities. In order to evaluate the work carried out and to adopt improvements for future work, after the completion of the financial year, the SB Members conduct an annual self-evaluation review every year.

Irrespective of changes in the SB's membership in 2018, SB carried out the SB's self-evaluation process and all SB Members who performed the function of SB Member throughout 2018 took part in the said process. The self-evaluation review is an important indicator about the work carried out by SB. The self-assessment matrix developed by the Slovenian Directors' Association, adapted to special features of SSH, was applied in the process. Based on the analysis made, SB will focus on measures in areas of work which have been assessed as poor. By adopting the improvement measures for areas under the SB's influence, the work carried out by SB will be made more efficient. Similarly, on the basis of results obtained in the self-assessment process and according to recommendations by the SSH's Internal Audit, the Supervisory Board will adopt proposals for improving the Supervisory Board's Rules of Procedure.

The amount of EUR 13,000 was spent on the operation of SB and its committee in 2018, in addition to attendance charges and costs for performing the function. This cost related to procedure for the selection of the members of the Management Board.

In 2018, the Management Board regularly attended the SB's sessions and prepared the necessary underlying material for decisions to be made by SB or reported information to SB, thus ensuring the necessary basis for making decisions.

Review of SSH and SSH Group Annual Report

The Audit Committee considered the SSH and SSH Group Annual Report for 2018 and the Independent Auditor's Report to the SSH shareholder, both of which include the audit opinion with no reservations, at its 24th regular session held on 3 April 2019, at its 25th regular session held on 15 April 2019 and at its correspondence session held on 16 April 2019. With the aim of giving a detailed presentation of the findings made by the independent auditors, the representative of the independent auditor BDO revizija d. o. o. were invited to attend the two regular sessions and answered questions raised by the Audit Committee's members. After the in-depth consideration of the Annual Report during the regular sessions and after discussing the Annual Report's clean copy at the correspondence session, the Audit Committee, proposed to SB to approve the SSH and SSH Group Annual Report for 2018, to discuss the Auditor's Reports for 2018 and to take a positive position in their regard.

By taking into account the Audit Committee's assessment and its proposals, at its session of 24 April 2018, SB reviewed and discussed the SSH Group and SSH Annual Report 2018, as well as the Auditor's Reports to the shareholder. Furthermore, at the said meeting, the Management Board presented to the SB individual sections from the SSH and SSH Group Annual Report for 2018. Thus, at its session of 24 April 2018, SB determined the following: the above mentioned Report includes all components required, it is drawn up in accordance with ZGD-1 and International Financial Reporting Standards, the Report is clear and transparent, presenting companies' operations of the preceding year in a reliable manner and giving a true and fair view of the financial position, financial performance and cash flows of SSH/the Group as of 31 December 2018. On that basis, SB adopted the following resolutions:

- SB adopts the SSH and SSH Group Annual Report for 2018,

- SB has taken a positive position on the Auditor's Reports for 2018 prepared by the audit firm BDO revizija d. o. o.,
- SB proposes to the SSH General Meeting, i.e. the Government of RS, to adopt the Resolution granting the discharge from liability to the SSH Management and Supervisory Boards for FY 2018, on the basis of the approved SSH and SSH Group Annual Report for 2018, and the positive position on the Auditor's Reports for 2018.

Position in regard to independent auditor's report

The Management Board presented to SB the SSH and SSH Group Annual Report for 2018 together with the report on the audit review of consolidated annual financial statements developed in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the European Union at the SB's session of 24 April 2019.

The report prepared by the audit firm BDO revizija d. o. o. on SSH annual financial statements includes the audit opinion with no reservations - in all material aspects, financial statements give a true and fair view of the financial position, financial performance and cash flows of SSH as of 31 December 2018, in accordance with the International Financial Reporting

Standards (IFRSs). Similarly, the audit opinion by the audit firm for the SSH Group holds no reservations - in all material aspects, the consolidated financial statements give a true and fair presentation of the financial position of the SSH Group as of 31 December 2018 as well as the Group's consolidated financial performance and consolidated cash flows as of 31 December 2018, in accordance with the International Financial Reporting Standards (IFRSs). SB has taken a positive position on the Auditor's Reports for 2018 prepared by the audit firm BDO revizija d. o. o.

Endorsement of audited annual report

On the basis of the final review of the Audited SSH and SSH Group Annual Report for 2018, including the accompanying Auditor's Report for 2018, SB hereby declares that no objections in regard to the said report have been made, and, pursuant to Article 282 of Companies Act, SB therefore endorses the SSH and SSH Group Annual Report for 2018.

Karmen Dietner,
President of the Supervisory Board





SDH

SLOVENSKI DRŽAVNI

**SSH PURSUES RESPONSIBLE, PRUDENT
AND EFFECTIVE MANAGEMENT OF CAPITAL
ASSETS OF RS AND SSH AND ENSURES THAT
ALL OBLIGATIONS UNDER VARIOUS LAWS ARE
SATISFIED.**



HOLDING, d. d

REVIEW OF IMPORTANT
EVENTS AND PROJECTS
UNDERTAKEN IN 2018

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4

Review of important events and projects undertaken in 2018

Business processes optimisation and digital transformation project continues

In line with its Work Plan, the IT department continued its activities with regard to information safety, the provision of smooth operation in accordance with business requirements of the Company and continued with the business processes digitalisation (one of important processes is paperless operation). Many activities were focused on eliminating or minimising operational risks.

Innovation governance is an extremely important governance and management process and a key factor in distinguishing successful companies from less successful companies.



Photo STA: SSH Annual Conference 2018 - Round table, Ljubljana, 3 December 2018

SSH Annual Conference for Management and Supervisory Boards of SOEs and 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.

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 a lecturer at IEDC - Bled School of Management, Slovenia. His lecture provided the insights on innovation and the role to be played by supervisory and management bodies of companies.

His lecture was followed by a round table discussion at which the Minister for Economic Development and Technology and other interested 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 SSH: Cyber Security Panel Discussion 2018 - Lecturers and participants, Brdo pri Kranju, September 2018

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 the 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 these can be avoided by the SB Members, the cooperation with auditors and the presentation of new requirements to be included in annual reports.

In 2017, the RS Government adopted a programme of measures for enhancing integrity and transparency, 2017-2019. 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 addition to the annual conference organised for its strategic stakeholders, SSH organised another important event, entitled »Cyber Security – Anticipating Threats and Risk Management«, in cooperation with the Government Office of the Republic of Slovenia for the Protection of Classified Information.

Other projects which refer to several areas of asset management are presented in individual Chapters.



SLOVENSKI DRŽAVNI HOLDING, d. d.



SSH CORPORATE GOVERNANCE

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5

SSH CORPORATE GOVERNANCE

5.1 Corporate Governance Statement

In accordance with the provision of Article 70, Paragraph 5 of ZGD-1 and the Recommendation 3.4.1 of the Corporate Governance Code for SOEs, Slovenian Sovereign Holding hereby provides the Corporate Governance Statement which forms an integral part of this Business Report; the said Statement is available on the Company's web site: www.sdh.si. The Corporate Governance Statement includes all of the important aspects of the company's governance and refers to the period from 1 January to 31 December 2018.

SSH is an umbrella manager of state capital assets whose governance is specific and its fundamental principles are regulated in a special bill, which is ZSDH-1. By way of its adoption, the most part of the OECD Guidelines for Corporate Governance of State-Owned Enterprises have been transposed into the Slovenian legal order. In regard to those aspects of asset management which are not regulated by ZSDH-1, the provisions of ZGD-1 apply in a subsidiary manner, in addition to the following: the »apply or explain« principle, principles and recommendations from the reference code, that is the Corporate Governance Code for SOEs adopted by SSH in accordance with ZSDH-1. SSH has also adopted the SSH Asset Management Policy to which it has to adhere to.

I. Reference Corporate Governance Codes - Statement of Compliance with Reference Code

In accordance with ZSDH-1 and the SSH Asset Management Policy, adopted on 19 December 2014

and last supplemented in July 2018, SSH uses the Corporate Governance Code for SOEs, Issue May 2017 (also available on SSH's web site <http://www.sdh.si/>).

The Corporate Governance Code for SOEs is the legal document adopted by SSH in accordance with ZSDH-1 by way of which, SSH in the capacity of the umbrella manager of SOEs recommends to these companies good practice in corporate governance and, partially, set expectations from them. The said Code is one of the most important legal documents regarding the system of capital asset management with which SSH aims to increase the general level of quality of corporate governance pursued by SOEs..

In 2018, SSH deviated from the following recommendations referred to in the reference Code:

1. *Recommendations regarding remuneration for Supervisory Board members and members of Supervisory Board Committees for their services and attendance fees were not fully taken into account due to the specific regime applied by ZSDH-1.*
2. *The recommendation regarding the preparation of the remuneration policy by the SSH Supervisory Board was not fully taken into account due to the specific regime applied by ZSDH-1.*
3. *The talent development plan has not yet been introduced as this subject area is being developed by SSH.*
4. *SSH does not prepare a financial calendar due to its legal and organisational specifics (the*

powers and duties held by the SSH General Meeting are carried out by the Government of the Republic of Slovenia).

5. *The Supervisory Board has not determined the mandate of Supervisory Board's Committees (these Committees are composed of Supervisory Board members and independent external experts) by passing a resolution. In accordance with the Rules of Procedure of the Audit Committee of the SSH Supervisory Board and the Rules of Procedure of the Risk Committee of the SSH Supervisory Board, the engagement of members for both committees is in line with the engagement term of office for which the Supervisory Board members have been elected. Similarly, the mandate of an independent external expert is linked to the mandate of a Supervisory Board member who has appointed the independent external expert.*
6. *The Supervisory Board failed to formally develop an efficient and timely succession plan for the members of the Management Board owing to special statutory provisions (ZSDH-1) which stipulate the procedure for the selection and appointment of the Management Board Members of SSH.*
7. *The Supervisory Board failed to prepare a competence profile for Supervisory Board members from the aspect of the Supervisory Board's optimum size and composition due to the fact that the procedure for appointing Supervisory Board members is regulated in ZSDH 1.*
8. *The Management and Supervisory Boards did not develop a diversity policy. With regard to the composition of the Supervisory Board, special provisions of (ZSDH 1) determining the procedure for the selection and nomination of the Supervisory Board Members hamper the adoption of a diversity policy.*

II. Description of main characteristics embedded in the internal control systems and risk management in connection with financial reporting and information technology:

SSH has in place the internal control and risk management systems which are adapted to the SSH's development, to organisational and statutory changes and to cases of good practice. Internal control system and risk management system include:

- a clear organisational structure with precisely defines powers and authorisations at all levels;
- mechanisms for prompt internal controls and for preventing procedural errors which include suitable safety, administration and accounting procedures;
- the system for identifying, evaluating and measuring as well as managing and monitoring risks,
- the system for assuring operational compliance with statutory requirements and high ethical standards.

The characteristics and the functioning of the risk management system are presented in detail in the Chapter on risk management.

Internal controls in connection with financial reporting are policies and procedures implemented by SSH in accordance with statutory regulations, relevant standards and the Rules on Accounting and Good Business Practice. The said Rules contribute to efficient management of risks connected with financial reporting and with other areas of financial accounting. Internal controls provide for reliability and compliance of financial reporting with applicable laws and regulations.

Accounting controls are based on the principles of true presentation, responsibility, control of transactions, compliance of books of accounts with the true state of business, in addition to the principles of professionalism and independence.

The Information technology is an important factor when introducing the necessary systems and

procedures for an effective and efficient internal control system. The cooperation of all levels of organisation with the IT department is vital as it is not only significant for efficient functioning of the internal control system but also for the optimisation of business processes carried out at all levels. SSH has recently intensively renewed its information technology infrastructure, and has introduced additional safety systems to diminish or fully remove individual operational and cyber risks.

III. External and Internal Audit

In accordance with ZGD-1, SSH is obliged to have its financial statements audited. For the first time, the audit for 2018 will be carried out by the audit firm DBO revizija d. o. o. Before that, this audit assignment was carried out by the audit firm Deloitte revizija d. o. o. since 2009.

The Internal Audit is an independent and unbiased function within SSH, providing for assurances and rendering advisory services. It assists SSH in achieving its goals by systematically and methodically assessing the effectiveness of business processes related to control procedures and of Company's governance. It reports directly to the SSH Management Board and to the SSH Supervisory Board's Audit Committee or to SSH Supervisory Board. The activities pursued by the Internal Audit are presented in the Chapter on Internal Audit activities.

IV. Data regarding SSH General Meeting, its key responsibilities and presentation of shareholder rights and the method of their exercise

In accordance with ZSDH-1, the function of the SSH's General Meeting is exercised by the RS Government. The General Meeting makes decisions on key issues pertaining to SSH which are defined in ZGD-1 and ZSDH-1, in addition to adopting measures for measuring performance of SOEs. A special feature of the SSH organisation is that the members of the SSH Supervisory Board are not appointed by the General Meeting but they are appointed or dismissed by the National Assembly of the Republic of Slovenia. A shareholder exercises the rights at the General

Meeting. The General Meeting is convened and organised in accordance with applicable regulations. A holder of shares has the right to manage a company, a right to a dividend and a right to receive the corresponding value of assets remaining after the liquidation of a company. The Republic of Slovenia has declined its right to a dividend, as long as the Republic of Slovenia is the sole shareholder of SSH.

V. Compliance and corporate integrity system

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 (specifically, ZSDH-1). In SSH, statutory provisions are improved by means of having a detailed definition of procedures and measures stated in the corporate documents, by having appointed a Compliance Officer and by having detailed his job description; in addition, they are improved by employees, by the Management Board and the Supervisory Board Members taking an active role in detecting risks and in carrying out measures referred to in the Business Integrity Plan.

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

In addition to the regular implementation of permanent and one-off measures stated in the Business Integrity Plan, the personal data protection received special attention in 2018. New 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.

VI. Diversity Policy - description

The Management and Supervisory Boards did not formulate nor adopt a diversity policy which is usually carried out with regard to the composition of the management and supervisory bodies of the Company. With regard to the composition of the Supervisory Board, special provisions of ZSDH 1

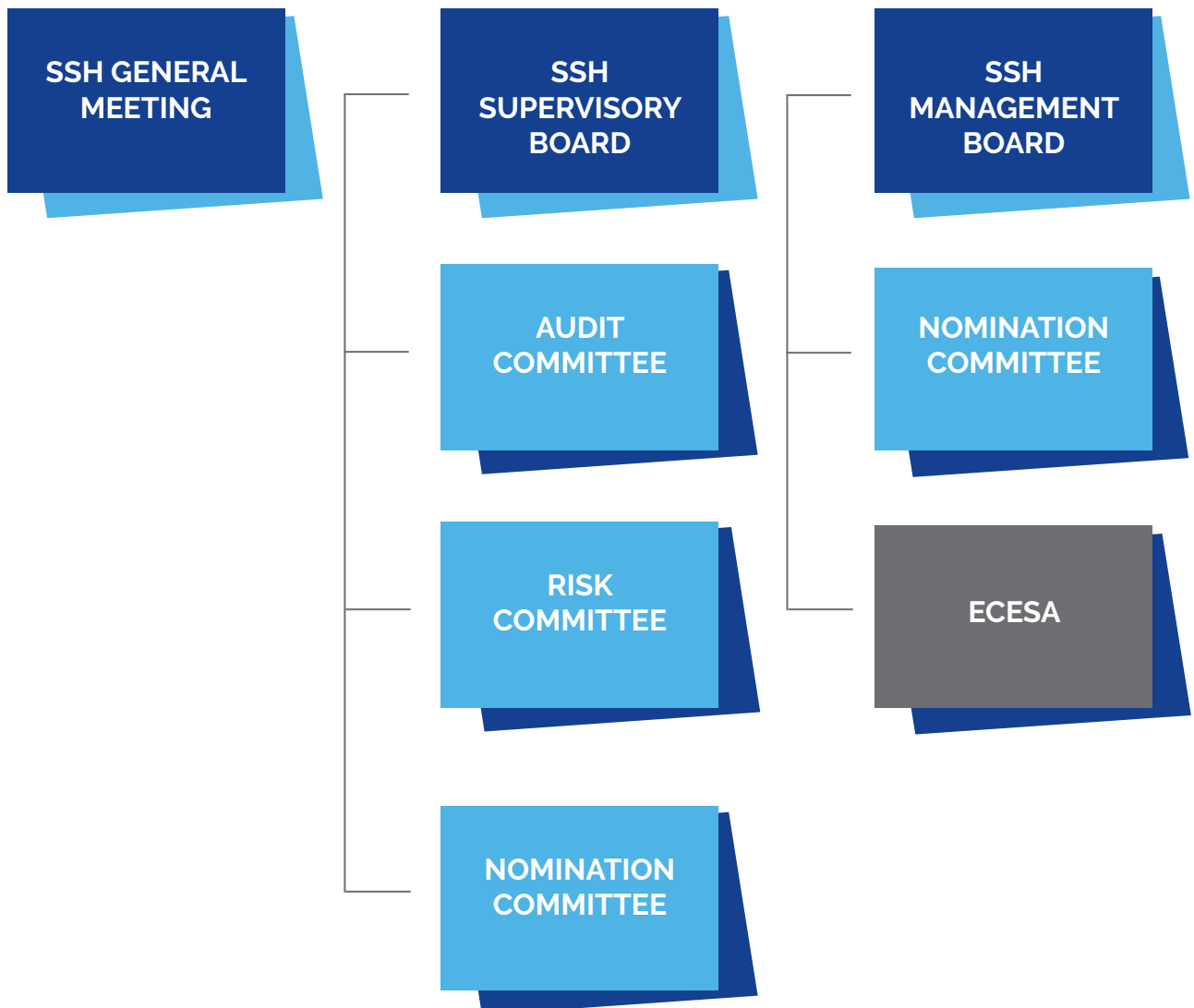
determining the procedure for the selection and nomination of the Supervisory Board Members hamper the adoption of the diversity policy (the only body proposing a candidate for a SSH's Supervisory Board Members is the Government RS and the body appointing them is the National Assembly of RS).

VII. Data on composition and functioning of supervision and management bodies and their committees

In accordance with ZGD-1 and ZSDH-1, a two-tier management system has been introduced in SSH, comprising the Management and Supervisory Boards. The Management Board runs SSH and organizes its work and operation, while the Supervisory Board

oversees the running of SSH's businesses. The management of SSH is based on statutory provisions, on the Articles of Association which is the fundamental legal document, internal legal documents and on the established and generally accepted good business practice. Formally speaking, SSH does not pursue a diversity policy to be applied in connection with the presence in management and supervisory bodies as regards gender, age and education, however, regardless of the above stated, management and supervisory bodies are organized in a manner that the complementarity in knowledge, skills and experience of the board members is achieved, while also providing for the board's heterogeneous composition.

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



Management Board

The SSH Management Board organises and runs the operation of Slovenian Sovereign Holding; it is responsible for all management decisions taken in accordance with ZSDH-1. The adoption and implementation of all decisions is carried out in an independent manner, with the Board acting under their own responsibility. The Management Board represents the Slovenian Sovereign Holding. In line with the law, the Management Board is composed of the President of the Management Board and the members of Management Board. In 2018, the Management Board was functioning in a two member-configuration. The Management Board made its decisions mainly within the scope of Management Board sessions, and in addition to formal board sessions it exercised its powers and duties which are necessary for the daily operation of SSH, together with powers and responsibilities held in respect of the General Meeting, as laid down in ZGD-1 and ZSDH-1. Activities in respect of the Supervisory Board were carried out by the Management Board in accordance with the provisions of the law, the Articles of Association and the Rules of Procedure of the SSH Supervisory Board. The Management Board is responsible for all decisions within its powers that refer to the sustainable development, that is economic, environmental and social subjects.

The President of the SSH Management Board represents SSH individually and without any restrictions, while members of the SSH Management Board represent the Company jointly with the President. In accordance with ZSDH-1, the obligation for obtaining the consent by the Management Board for some business transactions cannot be determined by the Supervisory Board unless stipulated in the law or in the SSH Articles of Association.

The Management Board is obliged to obtain the

Supervisory Board's consent for the following transactions:

- for legal transactions in regard to approving short-term loans to entities not having the authorisation of the Bank of Slovenia for pursuing banking activities – regardless of the nominal amount of an individual transaction;
- for legal transactions in regard to issuing guarantees to third persons – regardless of the nominal amount of an individual transaction;
- for legal transactions in regard to obtaining or granting loans maturing within more than 365 calendar days – regardless of the nominal amount of an individual transaction;
- for acquiring and disposing of investments which exceed the book value of EUR 5 million as recorded in the share register;
- for the adoption of the Criteria for Measuring the Effectiveness of State-Owned Enterprises,
- for the adoption of the Annual Asset Management Plan;
- for the adoption of the Asset Management Policy;
- for the adoption of the Corporate Governance Code for Companies with Capital Assets of the State;
- for concluding agreements on the provision of advisory services, such as agreements concluded with legal and financial advisors, agreements for carrying out due diligence of a company, agreements for company's valuations in processes for the disposition of capital assets, the value of which exceeds EUR 5000 per a contractor.

The SSH Management Board is appointed by the SSH Supervisory Board in accordance with Article 46 of ZSDH-1, which also stipulates conditions and criteria for their appointment.

The membership of the SSH Management Board in 2018

Name and Surname:	**Lidija Glavina	Boštjan Koler	*Andrej Božič
Position held (President, Member)	President of the Management Board	Member of the Management Board	Member of the Management Board
Area of work covered within the Management Board	disposal and acquisition of capital assets, management of capital assets and the support functions of SSH	management of capital assets, legal affairs and denationalisation	management of capital assets, SSH's financial operations, controlling and reporting
First appointment to the position	15 July 2016 – 22 February 2017, Lidija Glavina was engaged as the Interim President of the SSH Management Board, 23 February 2017 Lidija Glavina was appointed for the full term of office	1 December 2018	21 January 2019
Conclusion of the position/term of office	31 March 2019	/	/
Gender	F	M	M
Citizenship	Slovenian, Italian	Slovenian	Slovenian
Year of birth	1969	1961	1960
Qualification	the Dottore Magistrale degree obtained in the Republic of Italy; the degree is comparable to the second level of higher education in the Republic of Slovenia.	University degree in Law (LL.B.)	University degree in Economics (BA in Econ) specialisation in marketing and finance – Cleveland State University, USA
Professional profile	finance, running of companies and their governance, sale of companies	running of companies and their governance	running of companies and their governance, restructuring of companies
Membership in supervisory bodies of companies not related to the company	President of the Supervisory Board of Telekom Slovenije, d. d. Initiation of the term of office 27 April 2017	/	/

**Andrej Božič was appointed on 22 November 2018 and he took up his function on 21 January 2019. **On 1 April 2019, Igor Kržan was appointed as the President of the Management Board.*

Dr Andrej Bertoneclj	Nada Drobne Popovič, MSc.	Vanessa Grmek
Member of the Management Board	Member of the Management Board	Member of the Management Board
management of capital assets and financial operations of SSH	management of capital assets and financial operations of SSH.	management of capital assets, controlling and reporting, financial operations of SSH.
Pursuant to Article 273, Paragraph 2 of ZGD-1, appointed by way of SSH SB's Decision on 3 May 2018	27 October 2015	court appointment on 21 September 2018
13 September 2018	11 June 2018	30 November 2018
M	F	F
Slovenian	Slovenian	Slovenian
1957	1975	1975
PhD in Economics (Finance)	Master degree in government and European studies , university degree in economics (BA in Econ)	University degree in law (LL.B), MBA
financial operations, governance of companies and take-overs	management of capital assets, finance, running the company	corporate governance, management of capital assets, restructuring, running the company
/	2013-2017: Supervisory Board Member of Hit d.d., The President of Supervisory Board of Petrol d. d. Initiation of the term of office 11 April 2017	Supervisory Board Member of Pošta Slovenije d. o. o. 2014–2018, Supervisory Board Member of Gen energija d. o. o., initiation of the term of office 14 December 2018

Management Board's Consultation Bodies

The Nomination Committee is a consultation body of the SSH Management Board, which, pursuant to ZSDH-1 and SSH Asset Management Policy, implements procedures for recruiting candidates for members of Supervisory Bodies of SOEs, and procedures for their evaluation and for their accreditation. The Nomination Committee is composed of three members which are appointed by the SSH Management Board for a 4-year term of office 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:

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

The Expert Committee for Economic and Social Affairs (ECESA) is the SSH Management Board's consultation body composed of seven members that provide opinions and give initiatives related to the economic and social affairs. ECESA adopts opinions and initiatives that are related to affairs which result or may result in issues concerning the labour law, the SSH's Articles of Association or have or may have social impacts for SSH employees or for companies managed by SSH. 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.

In 2018, ECESA was composed of the following members:

- Lidija Jerkič, President,
- Zdenko Lorber, Vice President,
- Miroslav Garb, MSc
- Branimir Štrukelj, MSc.
- Franc Zupanc,
- Nevija Pečar, and
- Jakob Počivavšek.

Supervisory Board

In accordance with ZSDH-1, the SSH Supervisory Board is appointed as a five-member body. Until 3 May 2018, the SSH Supervisory Board consisted of five members. On 3 May 2018, the Supervisory Board appointed Dr. Andrej Bertonec as a temporary Management Board Member of SSH for a period of one year, pursuant to Article 273, Paragraph 2 of ZGD-1. Dr. Andrej Bertonec's position of a SSH Supervisory Board Member was suspended until 13 September 2018 when the National Assembly of the Republic of Slovenia appointed him as the Minister of Finance of the RS Government. Since 19 December 2018 when the National Assembly of the Republic of Slovenia appointed Karmen Dietner as a new SB Member, the said Board again functioned in a five-member configuration. There were two mandatory committees operating within the SSH Supervisory Board in 2018: the Audit Committee and the Risk Committee. The Nomination Committee of the SSH Supervisory Board, which is always composed of all members of SSH Supervisory Board, operated throughout 2018.

Review of terms of office of Supervisory Board members exercising their membership in 2018:

	2015						2016						2017						2018										
	Jan	Jul 17	Avg	Sep	Okt	Nov	Dec	Jan	Mar	Maj	Jul	Sep	Okt	Dec	Jan	Apr 21	Maj	Jun 20	Jun	Okt	Dec 14	Jan	Maj 3	Jun	Sept 13	Dec 19			
Damjan Belič	[Blue bar]																												
Duško Kos	[Blue bar]																												
Igor Kržan	[Grey bar]												[Blue bar]																
Dr Andrej Bertoneclj	[Grey bar]												[Blue bar]															[Dark blue bar: Management Board Member]	[Dark blue bar: Termination of term of office]
Janez Vipotnik	[Grey bar]												[Blue bar]																
Karmen Dietner	[Grey bar]												[Blue bar]																

Members of Audit Committee:

- Duško Kos, President,
- Damjan Belič, Member
- Darinka Virant, External Member

Members of Risk Committee:

until 3 May 2018:

- *Dr Andrej Bertoneclj, President*
- *Igor Kržan, Member*
- *Darinka Virant, External Member*

from 3 May 2018 onwards:

- *Igor Kržan, President*
- *Janez Vipotnik, Member*
- *Darinka Virant, External Member*

Supervisory Board membership and membership of SB's Committees

Name and Surname:	Damjan Belič	Duško Kos	Igor Kržan
Position held (president deputy, member)	President Supervisory Board	Deputy President of Supervisory Board	Member of Supervisory Board :
First appointment to the position	17 July 2015	17 July 2015	21 April 2017 – appointment by judicial decision
Conclusion of the position/ term of office	17 July 2020	17 July 2020	20 June 2022
Representative of capital/ employees	appointed in accordance with ZSDH-1	appointed in accordance with ZSDH-1	appointed in accordance with ZSDH-1
Attendance at SB's session in regard to the total number of SB's session	25/25	25/25	24/25
Gender	M	M	M
Citizenship	Slovenian	Slovenian	Slovenian
Year of birth:	1968	1960	1961
Qualification,	University degree in law (LL.B.) and an MBA	University degree in Sociology	University degree in Economics (BA in Econ), MBA
Professional profile	corporation law, corporate governance, asset management, insolvency law	corporation law, management of liabilities and assets	finance, corporate governance, management of liabilities and assets
Independence under Article 23 of the Code (YES/NO)	YES, appointed in accordance with ZSDH-1	YES, appointed in accordance with ZSDH-1	YES, appointed in accordance with ZSDH-1
Existence of conflict of interest, in the financial year: (YES/NO)	NO	NO	NO
Membership in supervisory bodies in other companies.	President of Supervisory Board of Thermana d.d., Laško	Member of Supervisory Board of Talum, d. d. and Member of Supervisory Board of Mladinska knjiga založba, d.d.	–

On 23 January, 2019, Igor Kržan was appointed as the SB's President while Damjan Belič was appointed as SB's Member. On 1 April 2019, Karmen Dietner became the President of Supervisory Board on account of the suspension of the position of Igor Kržan.

Dr Andrej Bertoncej	Janez Vipotnik	Karmen Dietner
Member of Supervisory Board	Member of Supervisory Board	Member of Supervisory Board
20 June 2017	14 December 2017	19 December 2018
13 September 2018	14 December 2022	19 December 2023
appointed in accordance with ZSDH-1	appointed in accordance with ZSDH-1	appointed in accordance with ZSDH-1
7/25 (on account of the early termination of office)	24/25	0/25 (on account of the subsequent assumption of office)
M	M	F
Slovenian	Slovenian	Slovenian
1957	1948	1968
PhD in Economics	University degree in Economics (BA in Econ)	University degree in Economics (BA in Economics)
finance, corporate governance, management of liabilities and assets	finance, corporate governance, management of liabilities and assets	finance, corporate governance
YES, appointed in accordance with ZSDH-1	YES, appointed in accordance with ZSDH-1	YES, appointed in accordance with ZSDH-1
NO	NO	NO
Member of Supervisory Board of Pokojninska družba A d.d.	–	–

Membership in the Audit Committee	President /member	Attendance at sessions of SB's Committees in regard to the total number of SB's sessions
Duško Kos	President of Audit Committee:	9 September
Damjan Belič	Member of Audit Committee:	9 September
Membership in Risk Committee	President /member	Attendance at sessions of SB's Committees in regard to the total number of SB's sessions
Dr Andrej Bertoneclj	President of Risk Committee until 3 May 2018	1/2 (on account of the early termination of office)
Igor Kržan	President of Risk Committee until 3 May 2018	2 February
Janez Vipotnik	Member of Risk Committee from 3 May 2018	1/2 (on account of the subsequent assumption of office)
Supervisory Board's Nomination Committee	President /member	Attendance at sessions of SB's Committees in regard to the total number of SB's sessions
Duško Kos	President of Nomination Committee from 5 December 2017 and President of Nomination Committee from 5 September 2018	In 2018, the Nomination Committee held 11 sessions.
Damjan Belič	Member of Nomination Committee from 5 December 2017 and Member of Nomination Committee from 5 September 2018	In 2018, the Nomination Committee held 11 sessions.
Igor Kržan	Member of Nomination Committee from 5 December 2017 and Member of Nomination Committee from 5 September 2018	In 2018, the Nomination Committee held 11 sessions.
Dr Andrej Bertoneclj	Member of Nomination Committee from 5 December 2017 until March 2018 when the Nomination Committee was dissolved for the first time.	In 2018, the Nomination Committee held 11 sessions and during the functioning of the first Nomination Committee established in December 2017, Dr. Andrej Bertoneclj was present at six sessions,
Janez Vipotnik	Member of Nomination Committee from 14 December 2017 and Member of Nomination Committee from 5 September 2018	In 2018, the Nomination Committee held 11 sessions.

External Members of Committees:

Name and Surname:	Darinka Virant	Darinka Virant
Committee	Audit Committee	Risk Committee from 12 July 2017
Attendance at sessions of SB's Committees in regard to the total number of SB's sessions	9/9	2/2
Gender	F	F
Citizenship	Slovenian	Slovenian
Qualification	Bachelor of Science in Economics	Bachelor of Science in Economics
Year of birth	1954	1954
Professional profile	expert in financial, accounting and auditing reporting	expert in financial, accounting and auditing reporting
Membership in supervisory bodies in companies not related to the company	external member of Audit Committees of Supervisory Boards of Eles, Talum, Elektro Celje and Mladinska knjiga	external member of Audit Committees of Supervisory Boards of Eles, Talum, Elektro Celje and Mladinska knjiga

Ljubljana, April 2019

Igor Kržan,
President of the
Management Board



Boštjan Koler,
Member of the
Management Board



Andrej Božič,
Member of the
Management Board





SLOVENSKI DRŽAVNI



HOLDING, d. d.

6 PRESENTATION OF SSH GROUP AND SSH D.D.

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6

Presentation of SSH Group and SSH d.d.

6.1 Presentation of SSH Group

On 31 December 2018, SSH is the controlling company drawing up the consolidated annual report for companies within its Group. For the purpose of consolidation, these companies are categorized into three groups:

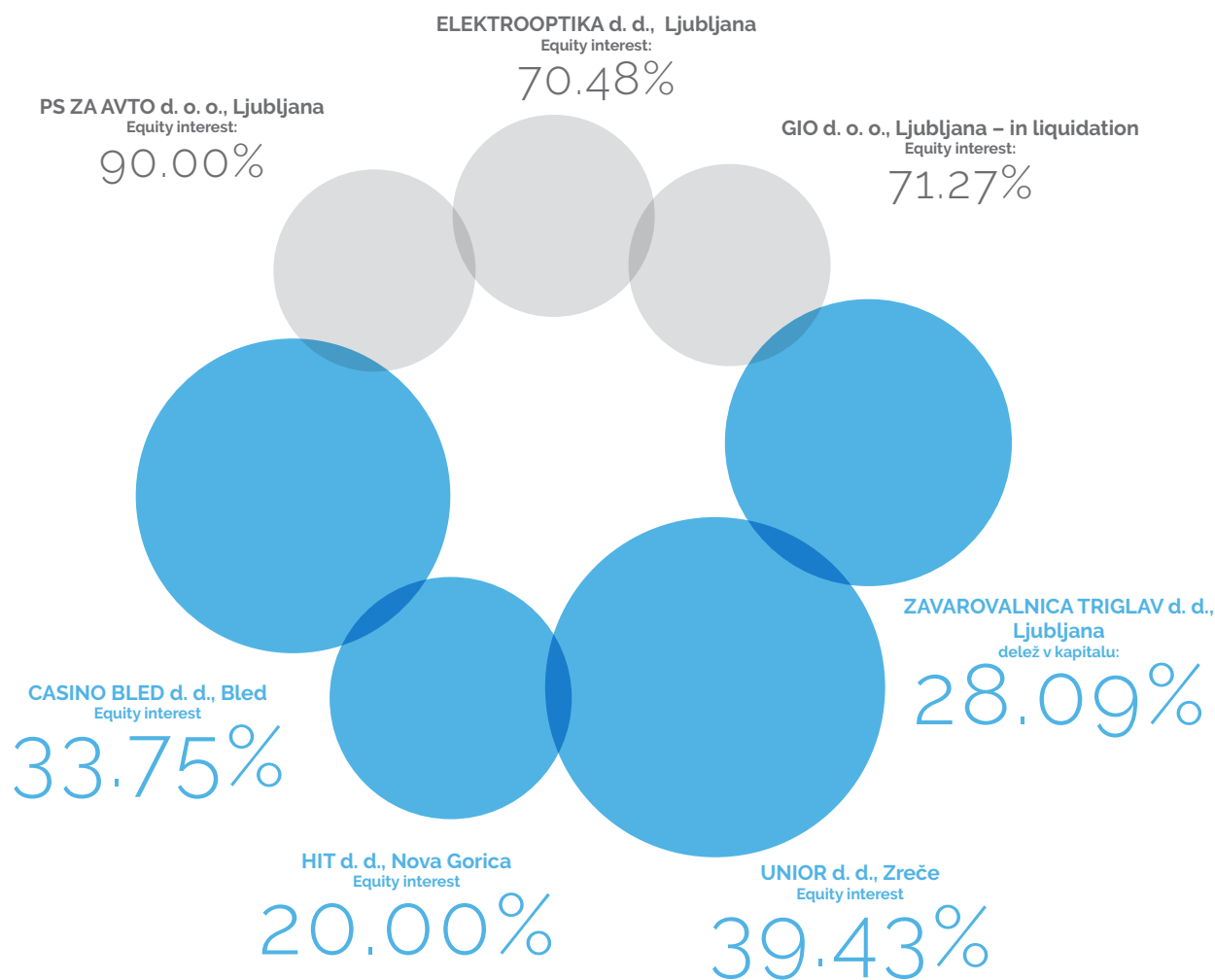
- subsidiaries;
- associates;
- entities which are solely the subject of management and are owned by RS and/or SSH.

On the basis of analysis and measures adopted in accordance with IFRS 10, entities from the third group are not controlled by but only managed by SSH, in accordance with the statutory basis arising from ZSDH-1. On the basis of the analysis and measures, SSH carries out the consolidation process at least once a year. The remaining part of the Chapter presents all subsidiaries and associates while entities with a minor SSH shareholding or being only managed by SSH are stated in the Chapter on Governance.

The scheme below shows which **subsidiaries** were controlled by SSH and which, by SSH exercising a significant influence, are considered to be **associates**.

Equity interest of the controlling company in associates as of 31 December 2018

Slovenian Sovereign Holding Group



Legend:

- Subsidiaries
- Associates

Notes:

*In accordance with Article 85 of ZSDH-1, the management of capital asset held by ZPIZ (equity interest: 34.47%) in Zavarovalnica Triglav, d. d., was transferred to SSH.

PS za avto d. o. o., Elektrooptika d. d. and GIO, d. o. o., Ljubljana – in liquidation, are not considered significant for the Group therefore their operation has not been included in the consolidated financial statements of SSH Group.

6.2 Presentation of Slovenian Sovereign Holding

SSH is the umbrella manager of capital assets of the State, 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 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 a compensation for nationalised assets and provides for regular settlement of liabilities arising from denationalised assets. In the capacity of a 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 ZVVJTO.

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

Corporate name:	Slovenian Sovereign Holding d. d.
Registered office:	Ljubljana
Business address:	Mala ulica 5, 1000 Ljubljana
Telephone No.:	++386 1 300 91 13
Web site and e-mail:	www.sdh.si; info@sdh.si
Activity code:	K 64.990
VAT ID:	SI 46130373
Registration No.:	5727847
Date of legal entity's establishment	19 February 1993
Date of SSH's incorporation:	26 April 2014
Date of company transformation from SOD into SSH:	11 June 2014
Registered legal form:	Public limited company registered before Ljubljana District Court, under the Reg. Entry No. 1/21883/00
Share capital:	EUR 260,166,917.04
No. of employees as at 31 December 2018:	66
Membership in other organisations:	Directors' Association of Slovenia, Association of Employers of Slovenia
Management Board:	Lidija Glavina, President of the Management Board (Until 31 March 2019) Igor Kržan, President of the Management Board (since 1 April 2019 onwards) Nada Drobne Popovič, MSc, Member of the Management Board (until 11 June 2018) Dr. Andrej Bertoneclj (from 3 May 2018 to 13 September 2018) Vanessa Grmek (from 21 September 2018 to 30 November 2018) Boštjan Koler (from 1 December 2018 onwards) Andrej Božič (from 21 January 2019 onwards)
Members of Supervisory Board:	Karmen Dietner, President (Member from 19 December 2018 until 31 March 2019, President since 1 April 2019 onwards) Duško Kos, Vice President, *Damjan Belič, Member Janez Vipotnik, Member (from 14 December 2017 onwards) Igor Kržan, Member (Member from 24 April 2017 to 22 January 2019, from 23 January 2019 until 31 March 2019, President, since 1 April 2019 his function in the Supervisory Board has been suspended) In 2018, the Supervisory Board also included the following member: **Dr. Andrej Bertoneclj, Member (from 20 June 2017 to 13 September 2018).
Members of the SB's Audit Committee:	Duško Kos, President, Damjan Belič, Member Darinka Virant, External Member
Members of SB's Risk Committee:	Janez Vipotnik, President (Member from 3 May 2018 to 31 March 2019, President since 1 April 2019 onwards) Karmen Dietner, Member (President from 23 January 2019 to 31 March 2019, Member since 1 April 2019 onwards) Darinka Virant, External Member **Dr. Andrej Bertoneclj, President (from 12 July 2017 to 3 May 2018), Igor Kržan, Member (from 12 July 2017), President from 3 May 2018 to 23 January 2019).
Members of Nomination Committee:	***Luka Gaberščik, President, ***Jagoda Vitez, Deputy President Brigita Vončina, Member
Members of ECESA:	Lidija Jerkič, President, Zdenko Lorber, Vice President, Members: Miroslav Garb, MSc. Branimir Štrukelj, Franc Zupanc, Nevija Pečar and Jakob Počivavšek.
Contact person for the Annual Report content and for sustainable reporting	pr@sdh.si

* He held the position of the SB President until 22 January 2019; he has been a SB Member since 23 January 2019.

** Membership in Supervisory Board was suspended from 3 May 2018 to 13 September, 2018, and at that date, he resigned from both functions.

*** On 1 April 2019, the terms of office of Luka Gaberščik and Jagoda Vitez terminated, Samo Roš and Urška Podpečan were appointed as new members.

Reporting in accordance with Article 70, Paragraph 6 of ZGD-1

In accordance with the provision of Article 33, Paragraph 1 of ZSDH-1, the Republic of Slovenia is the sole shareholder of SSH, and such provision implicitly includes a prohibition on the disposal of SSH shares. Therefore, there is not even a theoretical option for ZPre-1 to apply to SSH. As SSH is included in a list of companies held by the Securities Market Agency, for which ZPre-1 applies, irrespective of the above stated, in accordance with Article 70, Paragraph 6 of ZGD-1, SSH hereby states data as at the last day of the financial year and all necessary explanatory notes.

1. The structure of the SSH's share capital:

All SSH shares are ordinary, no-par value shares which grant their holders the right to participate in the management of the Company, the right to dividends and the right to the corresponding part of assets remaining after the liquidation of a company. All shares are one-class shares and are issued in non-certified form.

2. Restrictions regarding transfer of shares:

SSH shares are not freely transferable.

3. Qualified holding as stipulated by Takeovers Act:

As of 31 December 2017, the holder of the qualified holding as stipulated by the Takeovers Act was the Republic of Slovenia, holding 155,866 shares, that is a 100% of the share capital.

4. Explanatory notes regarding the holder of securities with special controlling rights:

Slovenian Sovereign Holding has issued 155,866 ordinary, registered, no-par value shares of the same class with the same rights which means that the holder has no special controlling rights arising from the ownership of shares.

5. Employee Share Scheme

There are no Employee Share Schemes established in SSH.

6. Agreements which could result in a restriction on the transfer of securities or voting rights:

There are no such agreements concluded. However, ZSDH-1 explicitly stipulates that RS is the sole shareholder of SSH which means that shares are not transferable without amendments being made to the legislation.

7. SSH's Rules on the appointment and replacement of members of Management and Supervisory Bodies and on amendments to Articles of Association:

The Management Board of SSH consists of three members of which one holds the position of the President of the Management Board. The Management Board is appointed by the Supervisory Board upon an international invitation to apply for the position or in cooperation with an international recruitment agency. The term of office for a Management Board member lasts for four years with an option of reappointment. The Supervisory Board assesses the fulfilment of the criteria required by ZGD-1 and ZSDH-1 in a prudent and responsible manner. Any violation of duties pursuant to ZSDH-1 or of any management-related documents is a severe violation of duties assumed by a Management Board Member. The provisions of ZGD-1 apply for the dismissal of a Management Board Member. The SSH Supervisory Board consists of five members who are all elected by the National Assembly of the Republic of Slovenia upon the proposal given by the Government of the Republic of Slovenia. The National Assembly of the Republic of Slovenia grants its consent to the proposal given by the Government of the Republic of Slovenia which cannot be modified. The provisions of the act regulating employee participation in the management do not apply to the SSH Supervisory Board. Detailed criteria regarding a SSH Supervisory Board Member are laid down in ZGD-1 and ZSDH-1. A SSH Supervisory Board Member may

be recalled by the National Assembly of the Republic of Slovenia upon the proposal by the Government of the Republic of Slovenia on the account of reasons stipulated in ZSDH-1.

There are no special rules stipulated by ZSDH-1 in regard to the amendments to the Articles of Association. Any potential amendments of the Articles of Association are pursued in accordance with ZGD-1.

8. Authorisations to the management, particularly authorisations to issue or purchase own shares:

Authorisations conferred on the Management Board Members are defined in the Chapter on the Management Board. However, there are no special authorisations granted to the Management Board in regard to the issue or purchase of own shares.

9. Major agreements which take effect, are changed or cancelled following a change in control over the Company resulting from a public take-over bid:

There are no such agreements concluded.

10. Agreements between SSH and its management or supervision bodies or its employees subject to which a compensation is envisaged, if, due to a bid as stipulated by the act governing mergers and acquisitions, these persons are dismissed without cause or their employment is terminated:

There are no such agreements concluded.

6.3 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 ownership means focusing on creating value for owners, that is, the Republic of Slovenia and SSH.

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

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

SSH Values

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

- integrity and legality,
- trust and respect,
- role model leadership and autonomy,
- objectivity and impartiality.

6.4 SSH Organisational structure

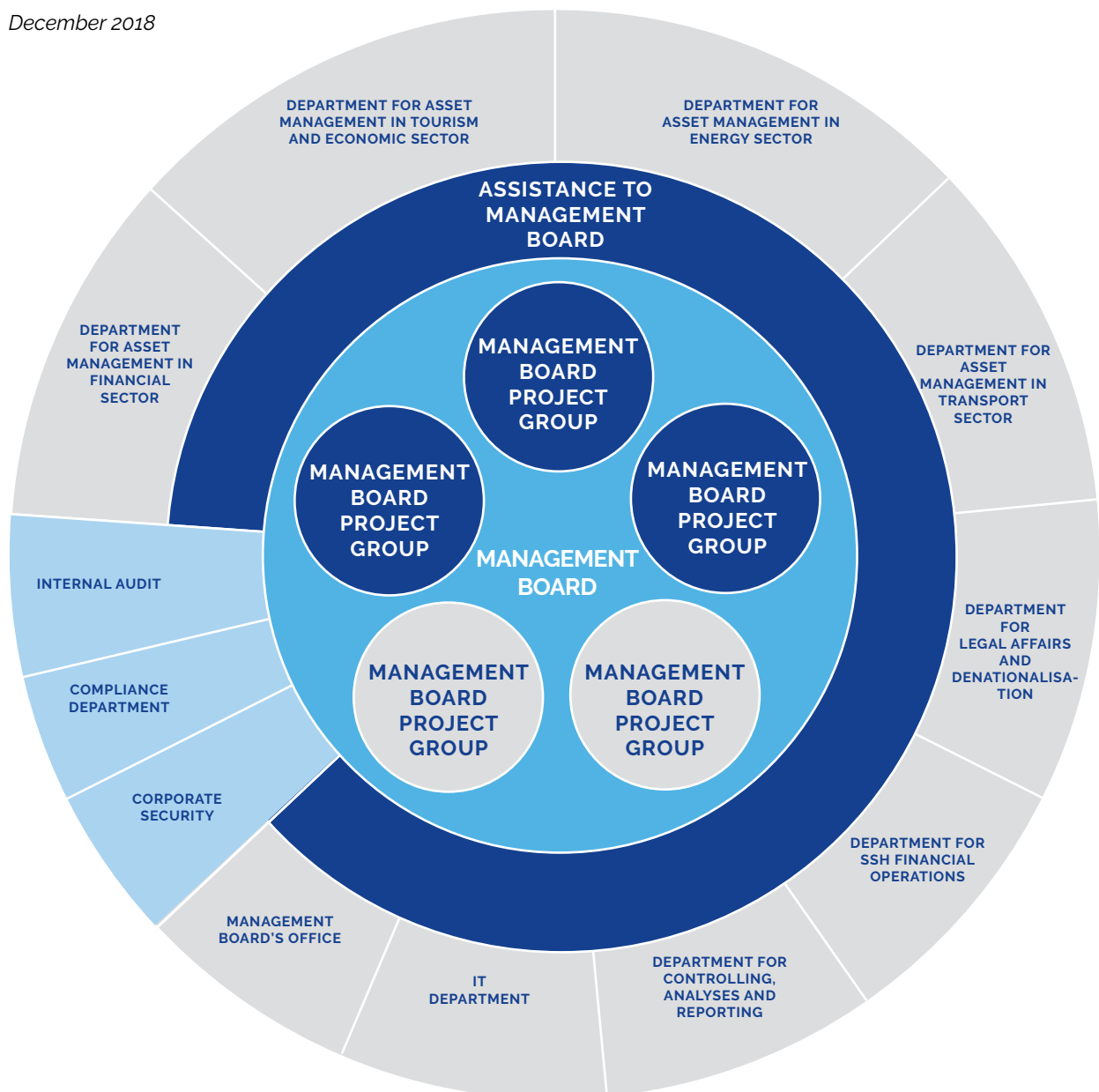
The major part of the envisaged organisational changes was completed in the first half of 2018. Some internal corporate documents were thus modified, some organisational units were abolished and new ones were established and some jobs were internally relocated. The internal organisation system is now more transparent, and the 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. Organisational units are divided into departments by functions and into special business functions. Considering the needs of basic business processes, the departments are divided into four units for managing capital assets, i.e., by industry, while the remaining departments pursue supporting activities, including controlling, analytical activities and reporting, legal affairs and denationalisation, SSH's financial operations, IT department and general affairs (Office of the Management Board).

Special business functions in SSH include, firstly, Compliance Department with one employee - a Chief Compliance Officer, secondly, Internal Audit with two employees, and thirdly, Corporate Security Department. The latter organisational unit has not yet been established as the decision on its establishment and on the employment of a Chief Corporate Security Officer will be made by the Management Board in 2019.

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

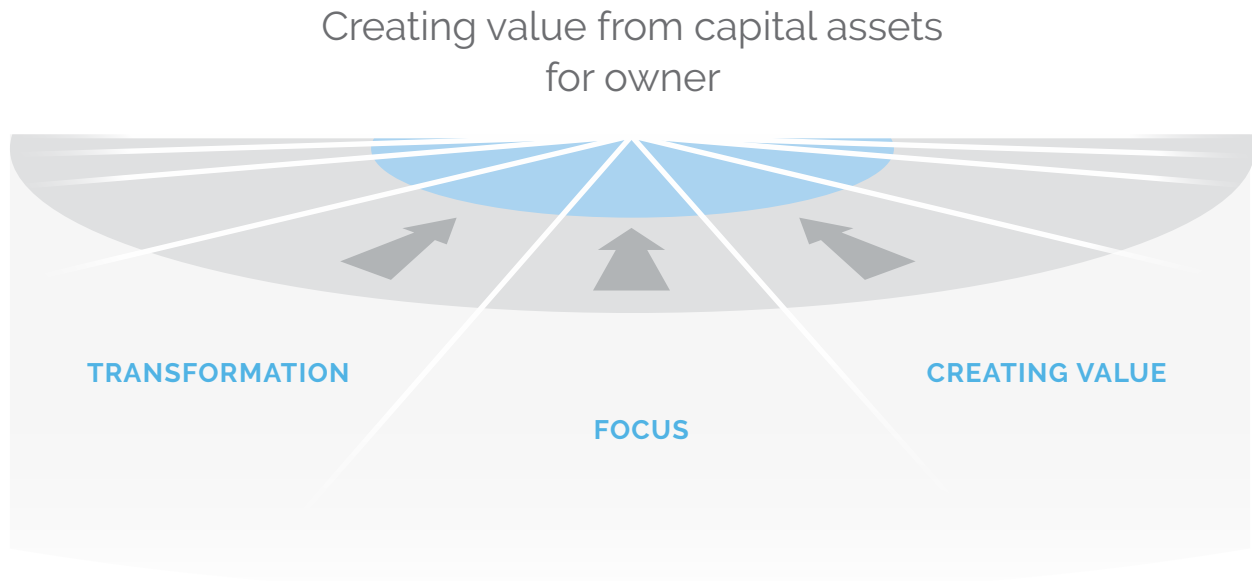
Figure 3: Organisational Structure of Slovenian Sovereign Holding as of 31 December 2018



6.5 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 which lays down the foundations for achieving the vision. The main factors of the first direction include:

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

Focus

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

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

Creating value

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

- increasing the equity value of companies under management 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.

6.5.1 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;
- attaining strategic, 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;
- continuous improvement of operations in portfolio companies;
- increasing their value of capital and their return on equity in the long term.

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 prudently implementing decision-making processes with regard to long-term development documents of SOEs, in accordance with their applicable instruments of incorporation;
- by setting 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.
- 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:

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

- setting ambitious yet realistic values for the expected strategic, economic and financial performance indicators, supervising performance results (AMAP) and implementing key asset management activities at the enterprise level;
- benchmarking of the top SOEs with comparable international enterprises;
- pursuing a suitable dividend policy considering the company's position, performance, 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 the diminishing of risks;
- sustainable operation and innovation activities are included in the company's strategy;
- 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.

Goals and values of key indicators in asset management in 2017 and estimates for 2018

The remainder of the Chapter presents quantitative goals set for SSH for 2018 and an estimate regarding the values achieved. It will be possible to present the achievement of the targeted ROE for 2018 with regard to RS and SSH assets under management on the basis of the audited financial statements of 2018 of all portfolio companies.

Financial indicator:	Achieved value in 2017	Targeted value in 2018	Estimate for value to be achieved in 2018
ROE of capital assets managed (RS and SSH) in %	6.5 %	6.1 %*	6.3 %*
Attaining the annual plan for RS dividend income**	EUR 213.7 million,	EUR 246.1 million***,	EUR 446.9 million***,
Attaining the annual plan for SSH dividend income	EUR 45.9 million,	EUR 47.7 million***,	EUR 40.4 million***,
Attaining the annual plan for disposition of assets (income from the sale of assets: RS + SSH)	EUR 12.3 million,	EUR 2.4 million****,	EUR 670.5 million****,
Cost efficiency*****	below 0.5 % from the value of capital assets under management	up to 0.5% from the value of capital assets under management	below 0.5 % from the value of capital assets under management

*The targeted value of ROE for 2018 has been set under the assumption of a 100% shareholding held by RS in NLB. The estimate of the value of ROE to be achieved in 2018 has been calculated on the basis of a 35-percentage shareholding held by RS in NLB. In spite of a lower weight held in the portfolio by NLB following the sale of a 65% shareholding held by RS in NLB, current business results of portfolio companies show that ROE of the portfolio for 2018 will be even higher (i.e., 6.3%) than anticipated in the AAMP 2018 (i.e., 6.1%). The said Plan took into account a 100% shareholding held by RS in NLB due to reasons stated below. If the sale of RS' shareholding in NLB did not take place, according to current estimates, ROE of the portfolio for 2018 would be higher (i.e., 6.8%) than the value achieved in 2017 (i.e., 6.5%).

** The said amount includes the dividend sum paid out by Zavarovalnica Triglav for a shareholding held by ZPIZ.

*** As regards capital assets owned by RS, the nominal amount of dividends paid in 2018 was higher than planned while as regards capital assets held by SSH, the sum was lower on account of the transfer of one portion of a shareholding held in Sava RE, Petrol and Krka to RS. The Dividend Income Plan for SSH and for SSH did not take into account any potential transfer of individual capital assets from SSH to RS. Due to the transfer of a certain portion of shares of Sava RE, Petrol and Krka from RS to SSH, the amount of dividend paid to SSH in 2018 was lower by EUR 8.7 million. If the said transfer of shares to RS had not taken place. Taking into account the impact of the said transfer, it may be conditionally concluded that SSH's portfolio of capital assets generated higher dividends for SSH than planned.

**** The closure of the process of sale and consequently the receipt of the proceeds from sale for significant capital assets were not envisaged in the AAMP 2018 which was endorsed on 22 December 2017. In July 2018, the Government of the Republic of Slovenia granted its consent to the modification of AAMP 2018 in the section which refers to NLB and which has envisaged that at least 50% plus one share of NLB would be sold by RS by the end of 2018. In 2018, EUR 670.5 million of proceeds from the sale of capital assets were generated by SSH (the effect of the sale of NLB in 2018).

***** Cost efficiency is calculated as a ration between the sum of the management commission received by SSH from RS for an individual year, and the total value of capital assets held by RS and managed by SSH.

In November 2017 while developing AAMP 2018, the simulation of ROE to be achieved from capital assets in 2018 assumed a 100% shareholding held by RS in NLB, due to the at the time unclear outcome with regard to the process of sale of NLB. In light of the said assumption, the calculation resulted in a value of 6.1% ROE for 2018. The development of an estimate with regard to the ROE of the capital asset's portfolio for 2018 (the estimate was made in March 2019 while, by law, companies are due to prepare their annual reports for 2018 not later than by 31 August 2019), and thus the calculation took into account a 35-percentage shareholding held by RS in NLB; in light of the said assumption, SSH estimates ROE of the portfolio for 2018 will amount to 6.3%. If, at the time of developing AAMP 2018 (in November 2017), the data on the shareholding held by RS in NLB (consequently, a 35% shareholding) were available, the targeted ROE of the portfolio for 2018 would amount to 5.8 %. If a 100% shareholding held by RS in NLB were included in the calculation of the estimate about the targeted ROE for 2018 (done in February 2019), the estimated ROE of the portfolio for 2018 would amount to 6.8 %. In addition to the change in the equity stake held by RS in NLB, at the time of calculating ROE of the portfolio for 2018 (in November 2017 and in March 2019), the estimate with regard to the value of ROE for NLB for 2018 also changed. The impact of the NLB's weight in the calculation of ROE for the portfolio is explained in-depth in the Chapter: Return on Equity of the Portfolio of Assets Managed by SSH in the period from 2015 to 2018. In addition to the above stated, a comparison between the targeted value and the realised value of ROE for the portfolio of capital assets has shown there are significant positive deviations in case of Abanka, Krka and SID banka. Capital assets of which estimated ROE for 2018 is lower than targeted in AAMP are held in the following companies: HSE, Geoplin and SIJ.

Main tasks in 2019

1. The efficient implementation of continuous taskfinancial both in regard to asset management and in regard to denationalisation and achieving goals set for economic and financial indicators in asset management in 2019
2. Improved reporting by SOEs to SSH
3. The review of strategies and business models selected by SOEs
4. The upgrading of the Corporate Governance Codes for SOEs and other fundamental legal documents in asset management
5. The implementation of systemic examination of risk in the largest SOEs
6. The improvement of SSH's internal organisation and its business processes





SSH CORE BUSINESS ACTIVITIES 37

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7 SSH core business activities

7.1 Overview of selected macroeconomic data and of Slovenian capital market

	Spring forecast (March 2019)			
	2018	2019	2020	2021
GDP, real growth in %	4.5	3.4	3.1	2.8
Registered unemployment rate in %	8.2	7.6	7.0	6.4
Inflation (annual average) in %	1.7	1.6	1.9	2.2

Source: IMAD; Spring forecast (March 2019)

According to forecasts by the analysts of the International Monetary Fund (IMF), the global economy grew by 3.7% in 2018 and a steady growth of 3.7% and 3.8% is expected for 2019 and in 2020, respectively. A stable economic growth was recorded both in advanced countries and in developing countries. The robust economic growth in the Euro zone and high inflation expectations have encouraged the European Central Bank (ECB) to gradually stop the ECB's quantitative easing. However, in light of a slightly worsened indicators of economic activity, an interest rate increase by the ECB is not expected for the first half of 2019. The Central Bank of the United States (the FED) continued to gradually raise key interest rate interest in 2018, mostly due to strong data from the labour market. The FED's forecast shows that the economic growth in the USA will move from 3.0% to 2.0% from 2018 onwards, while inflation is not expected to exceed 2.1%. The economic growth forecasts for the Euro area slightly deteriorated in the last period, which is particularly true for Germany, the largest European economy. IMAD's forecasts show that the economic growth in Slovenia is predicted to stand at 4.5% in 2018, and to move between 3.4% and 2.8% in the years to

follow. The inflation rate is forecast to move between 1.6% (2019) and 2.2% (2021), according to IMAD. The most important factor leading to economic growth in 2018 was export demand which slowed down in the last quarters, but the impact of private and government consumption increased. Private consumption strengthened, especially on account of favourable movements in the labour market which continued to record improved employment levels and higher wages. The surplus on the Slovenian current account of the balance of payments remained high (7.3% of GDP in 2018). The growth in exports will continue to ease in 2019 and will be lower than the growth in imports, according to the IMAD's forecast; the surplus on the current account of the balance of payments will be slightly lower in regard to GDP, however, it will still stand at approximately 6%.

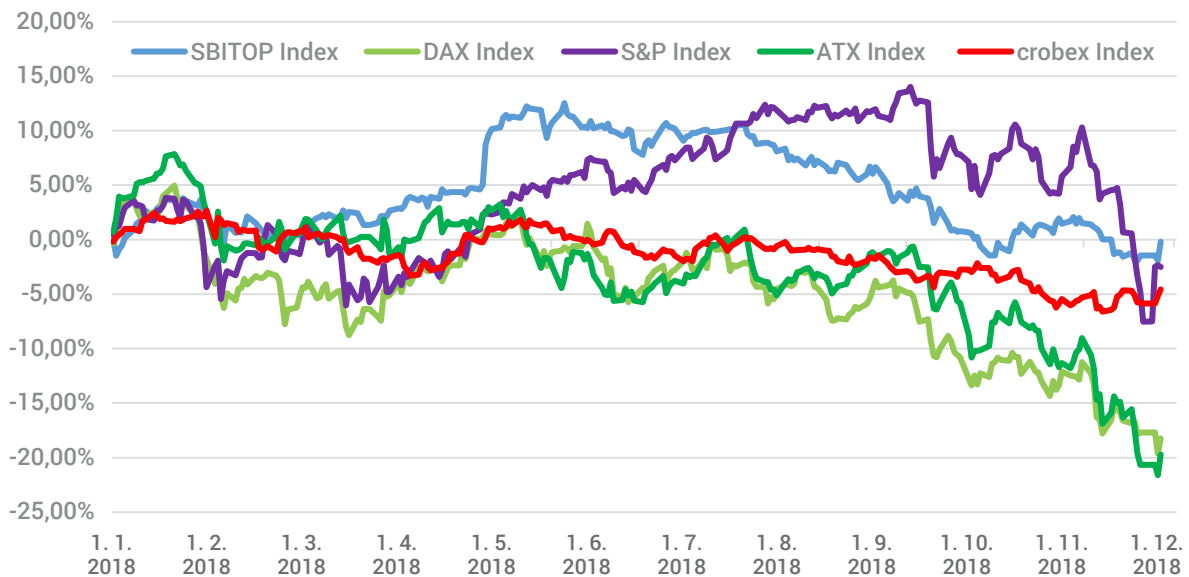
Slovenian capital market

Compared to previous years, shares traded on the Ljubljana Stock Exchange slightly lost in value in 2018. From shares highlighted in the graph below,

representing the highest weight in the SBI TOP index and playing an important role in the SSH portfolio, the highest fall in value was recorded with Telekom Slovenija shares, specifically, by 28.81%. The fall was also recorded with Petrol shares (11.29%) and Krka shares (0.52%), on the other hand, Zavarovalnica Triglav shares gained in value by 4.84%. The SBI TOP

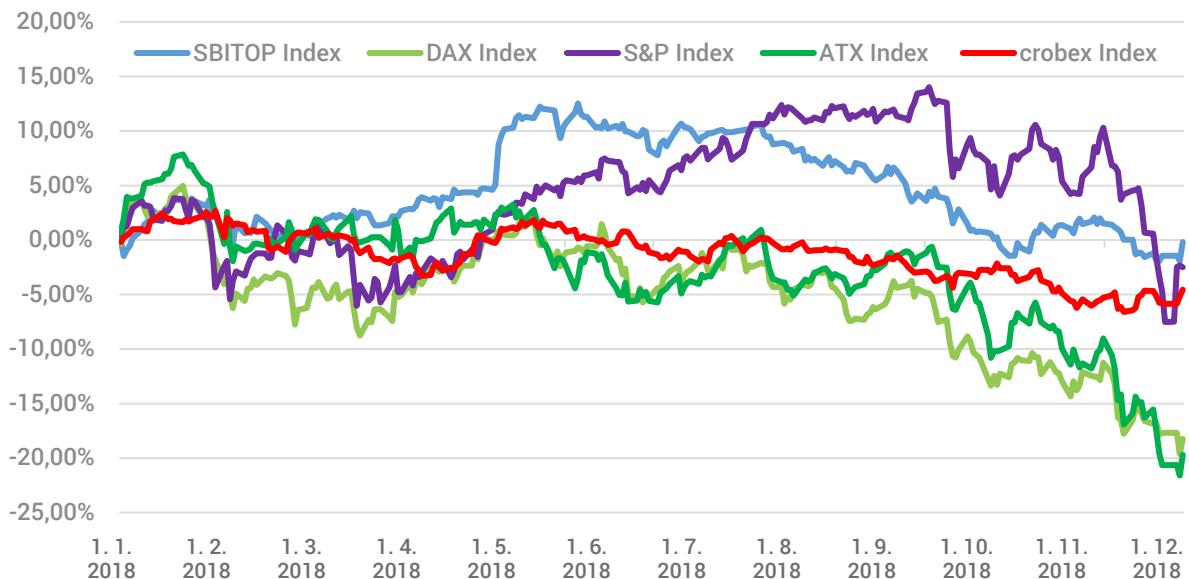
index, measuring the movement in prices of the most liquid and top shares traded on the regulated market of LJSE, decreased by 0.18% in its value in 2018. As a matter of fact, at the end of 2018, the SBI TOP index included all shares from the SSH portfolio, presenting more than a 95% weight of the said index.

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



Source: Bloomberg

Figure: Cumulative return from top regional and global share indices and SBITOP in 2018 (all returns in EUR currency).



Source: Bloomberg

All global share indices discussed were losing in value in 2018. Considering the indices discussed, the biggest loser was the Austrian ATX index (19.72%), followed by the German DAX (18.26%), the S&P

500 fell slightly (2.49%), and falling yields were also recorded with the Slovenian SBI TOP (0.18%) and Croatian Crobex (-4.56%).

7.2 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. The overview of capital assets under management is shown in the Table presented below.

7.2.1 Active management of RS and SSH capital assets

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



* Monthly reporting for SOEs was introduced in 2018.

Key factors for effective management of capital assets which is shown in the increased return on equity from RS and SSH capital assets, include: the selection of independent, professional, responsible members of supervisory bodies characterized by strong ethical and business integrity, prudent monitoring and oversight over the operating performance of SOEs on the basis of goals and performance criteria determined in advance, the implementation of good corporate governance practice and timely and suitable action-taking in cases of deviations from expected results.

The summary of results related to management of RS and SSH portfolio is presented in the remaining part of the Chapter. The activities related to asset management is presented in detail in the Annual Report - Management of Capital Assets of RS and SSH in 2017, which was submitted by SSH to the RS National Assembly in October 2018. For more information, see the Chapter on main activities and events in 2018 in regard to asset management.

7.2.2 Legal basis and asset management related documents

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

The systemic nature of corporate governance pursued by SSH is shown in the adopted documents which represent the foundation for corporate governance and are the main condition for ensuring transparency

in corporate governance. These documents are: the State Assets Management Strategy, the Annual Asset Management Plan (AAMP), Criteria for Measuring Effectiveness of SOEs, Corporate Governance Code for SOEs, SSH Recommendations and Expectations, SSH Asset Management Policy and SSH Premises for Voting at General Meetings. 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 of SSH is the State Asset Management Strategy by way of which state capital assets are classified into strategic, important and portfolio assets. The classification of capital assets in an individual group of assets affects asset management goals and the minimum state shareholding to be held in an individual company with state assets.

7.2.3 Asset management legal documents revised in 2018: SSH Asset Management Policy and SSH Recommendations and Expectations

On 4 July 2018, in accordance with Article 31 of ZSDH-1, the SSH Management Board, with the consent by the SSH SB, adopted the revised SSH Asset Management Policy. 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 the buyer 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 claims, a provision was added, stipulating that SSH may acquire receivables only on its own behalf and for its own account and in case of the acquisition of receivables with the aim of implementing the Strategy, only when funds are provided for in order not to hamper the liquidity of SSH.

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 three-year planning and in regard to the periodic reporting on operations by companies, by Groups and by subsidiaries in a 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. Recommendations are now 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 financial year to the two last financial 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.

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.

7.2.4 Active Preparation for Annual General Meetings and exercising 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 stated in the Annual Assets Management Plan 2019 which was adopted with the consent granted by RS Government on 10 January 2019, SSH defined in detail its goals in managing individual capital assets and measures and policies for their attainment, and defined expected cash flows from the state asset management activity;
- took part in the General Meetings and voted on its own behalf and on behalf of the Republic of Slovenia and passed founder's resolutions in companies managed by SSH; in 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, extension of the agenda, lodging applications for a special audit review, for 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 an 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 of appointing professional, heterogeneous and independent Supervisory Board's members;

- ensured that the remuneration systems for the Supervisory Board members of SOEs satisfied the long-term interests of a company, attracting and promoting 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;
- continuously strived for raising the quality of corporate governance in the companies under SSH management, including its attempts expressed in its communication with companies to raise the compliance of their operations with the Corporate Governance Code for SOEs and with the SSH Recommendations and Expectations.

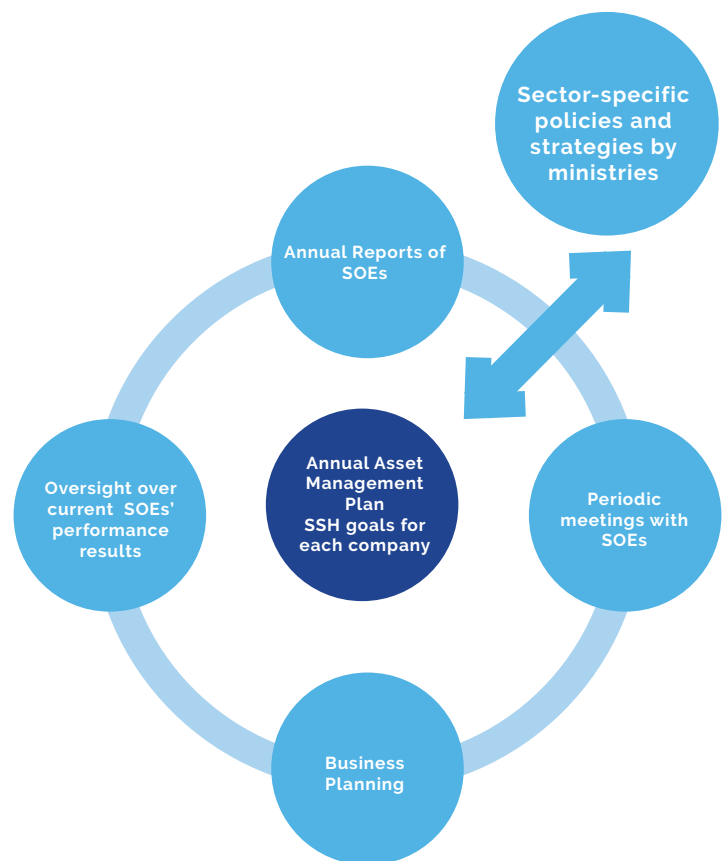
In its operation and management of capital assets, SSH cooperated with other important stakeholders (for example, KAD), responsible ministries and other bodies and institutions.

7.2.5 Monitoring operations of SOEs

As the manager of capital assets held by RS and SSH, in accordance with provisions of applicable regulations, SSH carries out regular periodic meetings with members of the management and supervisory bodies of SOEs. 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 actions 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 over the activities pursued by individual companies is, among other things, also dependent on the fact of whether a company is facing a »peaceful« period of operation or whether a company is in a distress or a company is carrying out important projects which are not part of its core business.

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



7.2.6 Main activities and events in 2018 in regard to asset management by individual companies and industries

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

- **Sava d. d.**

In 2018, SSH, acting as a creditor and shareholder of Sava, 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. (Sava), at the General Meeting held on 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.; its realisation will have 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 state owned 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.

- **Slovenske železnice d. o. o.**

In April 2018, the SSH Management Board, in the capacity of the founder and the sole shareholder of Slovenske železnice d. o. o., granted its consent for the conclusion of the agreement for the purchase of the rolling stock for 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., to be dedicated to the share capital increase of SŽ-Potniški promet d. o. o. for the purchase of the rolling stock for rail passenger transport.

- **Pošta Slovenije d. o. o.**

In cooperation with Pošta Slovenije d. o. o., 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 for the operation of the Pošta Slovenije Group.

- **HSE Group**

In 2018, the HSE Group successfully continued implementing its activities for the Group's deleveraging and in this pursuit exceeded its set plan. SSH, in the capacity of the founder, agreed with individual activities aiming at the business restructuring of the Group. In 2018,

the Group thus carried out several important activities for unifying procurement processes and operation, for unifying the system infrastructure, the software infrastructure and the business solutions in the Group, the 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 the 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 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 energija Group**

SSH approved the private-public partnership concept between GEN energija d. o. o. and GEN I d. o. o., and, in addition, prudently followed the implementation of significant investment projects, of which NEK and TEB needs to be highlighted.

- On 1 May 2018, the extensive and complex overhaul of the Krško Nuclear Power Plant (NEK) was completed after 30 days of work. The main investment activities and improvements within the scope of the plant's technological upgrading programme were carried out in the scheduled period of time. The largest activities included the construction of an emergency control room, the upgrading of the turbine sealing system and the replacement of the main generator exciter and voltage regulator with which the integrated overhaul of the generator system was completed. The October edition of the expert magazine Nuclear Engineering International published a comparison in which the indicators measuring the annual capacity of 341 power

plants were compared and according to which NEK was ranked in a high 23rd place.

- On 21 May 2018, only two years after launching the construction, a new gas turbine unit (PB 6) started its operation in the Brestanica Gas Thermal Power Plant. With the new gas turbine unit which is to be complemented with the seventh gas turbine unit in 2020, TEB has been carrying out the project for the replacement of three gas turbine units from 1974 and increasing the reliability of the power plant's operation which currently has the capacity of generating 350 MW of power. Compared to the old gas turbine units, the new unit boasts better operational utilisation and lower emission values.
- **Rudnik Trbovlje-Hrastnik d. o. o. (RTH)**
(successful implementation of closing works and financial restructuring process following the compulsory composition)
- SSH coordinated all the necessary activities between RTH, MZI and MF for the adoption of the Act Regulating the Gradual Closure of the Trbovlje-Hrastnik Mine and the Economic Development Restructuring of the Region.

Activities for the disposal of capital asset

Throughout 2018, SSH intensively pursued activities in connection with the sale of shares of Nova Ljubljanska banka d. d. and Abanka d. d., and activities in connection with the purchase of the equity stake in Koto d. o. o. (Koto), and finalised the activities started on the basis of the guidelines from the Strategy and from the Equity Swap Agreement concluded for the swap and sale of shareholdings in Geoplin d.o.o., (Geoplin) and Plinhold d. o. o. (Plinhold). All activities carried out by SSH in connection with the processes for the disposal and acquisition of capital assets were carried out in accordance with the provisions of the State Assets Management Strategy and Annual Asset Management Plans and are presented in detail in the Chapter on 'Acquisition and Disposition of Capital Assets in 2018.

7.2.7 Composition and performance results of the SSH portfolio of assets

7.2.7.1 List of RS and SSH capital assets managed by SSH

Table: List of RS and SSH capital assets in companies managed by SSH as of 31 December 2018

Lfd. No.	Asset	% RS	% SSH	% Total	Pillar
1.	Abanka d. d.	100.00		100.00	Financial sector
2.	Adria, turistično podjetje, d. o. o., Ankaran		11.74	11.74	Tourism and economy
3.	Bodočnost Maribor d. o. o.	77.52		77.52	Tourism and economy
4.	Casino Bled d. d.		33.75	33.75	Tourism and economy
5.	Casino Portorož d. d.		9.46	9.46	Tourism and economy
6.	Cetis d. d., Celje		7.47	7.47	Tourism and economy
7.	Cinkarna Celje d. d.		11.41	11.41	Tourism and economy
8.	CSS d. o. o.	97.96		97.96	Tourism and economy
9.	D.S.U. d. o. o.	100.00		100.00	Financial sector
10.	Družba za avtoceste v Republiki Sloveniji d. d.	100.00		100.00	Transport
11.	DTK Murka, družba tveganega kapitala, d. o. o.	49.00		49.00	Financial sector
12.	Elektrogospodarstvo Slovenije – razvoj in inženiring, d. o. o.	100.00		100.00	Energy sector
13.	Elektro Celje d. d.	79.50		79.50	Energy sector
14.	Elektro Gorenjska d. d.	79.42	0.31	79.73	Energy sector
15.	Elektro Ljubljana d. d.	79.50	0.30	79.80	Energy sector
16.	Elektro Maribor d. d.	79.50		79.50	Energy sector
17.	Elektro Primorska d. d.	79.50		79.50	Energy sector
18.	Elektrooptika d. d.	0.01	70.48	70.49	Tourism and economy
19.	Gorenjska banka d. d., Kranj	0.31		0.31	Financial sector

Lfd. No.	Asset	% RS	% SSH	% Total	Pillar
20.	GEN energija d. o. o.	100.00		100.00	Energy sector
21.	Geoplin d. o. o.	25.01		25.01	Energy sector
22.	HIT d. d., Nova Gorica		20.00	20.00	Tourism and economy
23.	Holding Slovenske elektrarne d. o. o.	100.00		100.00	Energy sector
24.	INFRA, izvajanje investicijske dejavnosti, d. o. o.	100.00		100.00	Energy sector
25.	Inkos d. o. o.	2.54		2.54	Tourism and economy
26.	Intereuropa d. d.		1.73	1.73	Transport
27.	KDD d. d.		19.23	19.23	Tourism and economy
28.	Koto d. o. o.	66.23		66.23	Tourism and economy
29.	Krka d. d.	7.21	9.00	16.21	Tourism and economy
30.	Kontrola zračnega Prometa Slovenije d. o. o.	100.00		100.00	Transport
31.	Loterija Slovenije d. d.		15.00	15.00	Tourism and economy
32.	Luka Koper d. d.	51.00	11.13	62.13	Transport
33.	M1 d. d.	0.00		0.00	Financial sector
34.	Meta Ingenium, družba tveganega kapitala, d. o. o.	49.00		49.00	Financial sector
35.	Nafta Lendava, proizvodnja naftnih derivatov, d. o. o.	100.00		100.00	Energy sector
36.	NLB d. d.	35.00		35.00	Financial sector
37.	Perutnina Ptuj d. d.	0.00		0.00	Tourism and economy
38.	Petrol d. d., Ljubljana	10.10	12.68	22.78	Energy sector
39.	Plinhold d. o. o.	60.10	0.05	60.15	Energy sector
40.	Pomgrad – vodnogospodarsko podjetje, d. d.	25.01		25.01	Tourism and economy
41.	Pošta Slovenije d. o. o.	100.00		100.00	Transport
42.	Prvi sklad, družba tveganega kapitala, d. o. o.	48.90		48.90	Financial sector

Lfd. No.	Asset	% RS	% SSH	% Total	Pillar
43.	PS za avto d. o. o., Ljubljana		90.00	90.00	Tourism and economy
44.	RRA Regionalna razvojna agencija Celje d. o. o.	5.89		5.89	Tourism and economy
45.	RTH, Rudnik Trbovlje- Hrastnik, d. o. o.	100.00		100.00	Energy sector
46.	RŽV, javno podjetje za zapiranje rudnika urana, d. o. o.	100.00		100.00	Energy sector
47.	Pozavarovalnica Sava d. d., Ljubljana	10.09	17.68	27.77	Financial sector
48.	Sava d. d.		18.53	18.53	Tourism and economy
49.	Savaprojekt d. d.	3.47		3.47	Tourism and economy
50.	SID – Slovenska izvozna in razvojna banka, d. d., Ljubljana	99.41		99.41	Financial sector
51.	SIJ – Slovenska industrija jekla, d. d.	25.00		25.00	Tourism and economy
52.	STH Ventures, družba tveganega kapitala, d. o. o.	49.00		49.00	Financial sector
53.	Studentenheim Korotan GMBH	100.00		100.00	Tourism and economy
54.	Slovenske železnice d. o. o.	100.00		100.00	Transport
55.	Telekom Slovenije d. d.	62.54	4.25	66.80	Tourism and economy
56.	Terme Olimia d. d.		4.01	4.01	Tourism and economy
57.	Unior d. d.		39.43	39.43	Tourism and economy
58.	Javno podjetje Uradni list Republike Slovenije d. o. o.	100.00		100.00	Tourism and economy
59.	Varnost sistemi d. o. o.		9.74	9.74	Tourism and economy
60.	Vodnogospodarsko podjetje d. d., Kranj	25.00		25.00	Tourism and economy
61.	Vodnogospodarsko podjetje Drava d. o. o., Ptuj	25.00		25.00	Tourism and economy
62.	Vodnogospodarsko podjetje Novo mesto d. d.	25.00		25.00	Tourism and economy
63.	Zavarovalnica Triglav d. d., Ljubljana	34.48	28.09	62.57	Financial sector

Note: Equity interest has been rounded up to two decimal places - when the shareholding of 0.00% is referred to, this means that the ownership stake held by the Republic of Slovenia and/or SSH does not exceed 0.005%.

Companies in bankruptcy or liquidation

Lfd. No.	Asset	% RS	% SSH	% Total	Pillar
1	Aero d. d. – v stečaju		1.44	1.44	Tourism and economy
2	Casino Maribor d. d. – v stečaju		22.83	22.83	Tourism and economy
3	Družba za spodbujanje razvoja TNP d. d. – v stečaju	51.05		51.05	Tourism and economy
4	GIO d. o. o., Ljubljana – v likvidaciji		71.27	71.27	Tourism and economy
5	GLIN IPP d. o. o. – v stečaju	16.06		16.06	Tourism and economy
6	Gradis skupina G d. d. – v stečaju		1.36	1.36	Tourism and economy
7	IPOZ Trbovlje d. o. o. – v likvidaciji		1.20	1.20	Tourism and economy
8	Lipica Turizem d. o. o. – v stečaju	100.00		100.00	Tourism and economy
9	Maksima Holding d. d. – v stečaju	0.01		0.01	Tourism and economy
10	Maksima Invest d. d. – v stečaju	0.00		0.00	Tourism and economy
11	Mura d. d. – v stečaju		12.23	12.23	Tourism and economy
12	NFD holding d. d. – v stečaju	0.00		0.00	Tourism and economy
13	Novoles d. d. – v stečaju		16.69	16.69	Tourism and economy
14	Peko d. d. – v stečaju	61.16		61.16	Tourism and economy
15	Polzela d. o. o. – v stečaju	71.43	28.57	100.00	Tourism and economy
16	Rimske terme d. o. o. – v stečaju	3.83	13.55	17.38	Tourism and economy
17	Rudnik Kanižarica v zapiranju d. o. o., Črnomelj – v likvidaciji	100.00		100.00	Energy sector
18	Rudnik Senovo v zapiranju d. o. o. – v stečaju	100.00		100.00	Energy sector
19	Svea d. d., Zagorje ob Savi – v stečaju		15.57	15.57	Tourism and economy
20	TAM Maribor d. d. – v stečaju	10.85		10.85	Tourism and economy
21	Univerzale d. d. – v stečaju		8.53	8.53	Tourism and economy
22	Vegrad d. d. – v stečaju		29.00	29.00	Tourism and economy

Note: Equity interest has been rounded up to two decimal places - when the shareholding of 0.00% is referred to, this means that the ownership stake held by the Republic of Slovenia and/or SSH does not exceed 0.005%.

Lists of capital assets held by RS in companies transferred to SSH under ZIPRS1819-A as of 31 December 2018

Lfd. No.	Asset	% RS	% SSH	% Total
1	Alpinium d. d.	0.04		0.04
2	Arriva Štajerska d. d.	0.04		0.04
3	Hram Holding d. d.	0.01		0.01
4	IBT Trbovlje d. d.	0.04		0.04
5	KD Group d. d.	0.01		0.01
6	Kompas RAC d. d. Ljubljana – v likvidaciji	0.01		0.01
7	KS Naložbe d. d.	0.00		0.00
8	Labod konfekcija d. d.	0.02		0.02
9	Mercator d. d.	0.00		0.00
10	Pomorska družba d. d., Portorož	0.09		0.09
11	Telemach Pobrežje d. d.	0.01		0.01
12	Vipa holding d. d.	0.00		0.00

Note: Equity interest has been rounded up to two decimal places - when the shareholding of 0.00% is referred to, this means that there the ownership stake held by the Republic of Slovenia and/or SSH does not exceed 0.005 %.

7.2.7.2 Proportion of largest assets and pillars in SSH portfolio of assets

The portfolio of RS and SSH capital assets is divided in four pillars of which the pillars of Transport and of Energy sector each comprise approximately one third of the portfolio. After the sale of NLB in 2018, the proportion of the financial pillar fell to amount to 22% of the portfolio while the proportion of Tourism and economy amounted to approximately 9% of the portfolio of assets. The portfolio is still quite

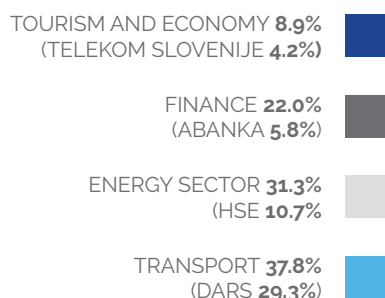
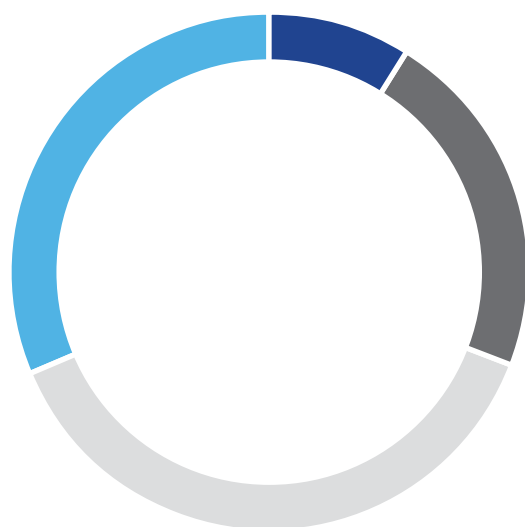
concentrated as the largest 20 assets represent as much as 96% of the total portfolio, measured at the book-value of capital assets. The three largest assets include Dars (29.3% of total portfolio), HSE (10.7% of total portfolio) and GEN (8.1% of total portfolio), and the book-value of equity interest in these three companies represents approximately one half of the total SSH portfolio under asset management.

Table: The proportion of the 5 largest capital assets in individual pillar (using the balance sheet book value as the relevant criterion) in regard to the total of the SSH portfolio of capital assets under management as of 31 December 2018¹

Asset	Equity Stake (in %)
ENERGY	
HOLDING SLOVENSKE ELEKTRARNE D. O. O.	10.7
GEN ENERGIJA D. O. O.	8.1
ELEKTRO LJUBLJANA D. D.	2.5
ELEKTRO MARIBOR D. D.	2.2
PETROL D. D.	1.9
FINANCE	
ABANKA D. D.	5.8
NLB D. D.	5.7
ZAVAROVALNICA TRIGLAV D. D., LJUBLJANA	4.6
SID – SLOVENSKA IZVOZNA IN RAZVOJNA BANKA, D. D., LJUBLJANA	4.4
POZAVAROVALNICA SAVA D. D., LJUBLJANA	0.9
TOURISM AND ECONOMY	
TELEKOM SLOVENIJE D. D., LJUBLJANA	4.2
KRKA D. D., NOVO MESTO	2.4
SIJ – SLOVENSKA INDUSTRIJA JEKLA, D. D.	0.9
UNIOR D. D., ZREČE	0.6
CINKARNA CELJE D. D., CELJE	0.2
TRANSPORT	
DRUŽBA ZA AVTOCESTE V REPUBLIKI SLOVENIJI D. D., CELJE	29.3
SLOVENSKE ŽELEZNICE D. O. O.	3.5
LUKA KOPER D. D.	2.4
POŠTA SLOVENIJE D. O. O.	2.3
KONTROLA ZRAČNEGA PROMETA, D. O. O.	0.2
Total	92.8

¹ The calculations in this table and in the remainder of the text are based on estimates and data for FY 2018 available at the time of drawing up this report.

Graph: The proportion of pillars in the total SSH portfolio of capital assets under management (total assets owned by RS and SSH) as of 31 December 2018



7.2.7.3 Return on equity (ROE) of the portfolio of assets under SSH management in 2015–2018 period

The return on equity (ROE) of the total portfolio of assets under SSH management has been increasing in numerical terms up to 2017. The analysis of the situation in 2018 has to take into account that the SSH portfolio (total assets owned by RS and SSH) includes two thirds of strategic assets whose priority is the attainment of strategic goals, that is, the realisation of various important social interests and not solely economic goals. In 2018, the proportion of strategic assets increased due to the partial sale of NLB. The attainment of strategic goals and economic goals is, however, often mutually exclusive, hampering the attainment of higher ROE arising from the state capital assets portfolio.

Table: The average weighted net rate of return on equity (ROE) of the SSH portfolio of assets under management, by pillars, in the 2015–2018 period

Pillar	ROE (in %)			
	2015	2016	2017	2018 (estimate)*
ENERGY	2.2	4.1	3.4	3.6
FINANCE	5.9	8.9	10.6	9.2
TOURISM AND ECONOMY	12.6	6.5	4.2	8.9
TRANSPORT	3.4	5.0	5.9	6.4
PORTFOLIO	4.7	6.0	6.5	6.3

*Note: The calculation does not include companies for which not enough data for stating an estimate regarding their operation in 2018 was given at the time of drawing up this Report. The total proportion of these companies in the portfolio is negligible and amounts to less than 0.1% of the total portfolio, according to the most recent data.

According to the first estimates, in 2018, the return on equity (ROE) for the portfolio of assets under SSH management (total of RS and SSH capital assets) decreased from 6.5% (achieved in 2017) to 6.3%. Strategic assets which took up approximately three quarters of the total portfolio had the greatest impact on the ROE achieved (in 2017, they amounted to two thirds of the total portfolio). According to current estimates and according to the criteria of asset classification, the highest ROE in 2018 was achieved by important capital assets (including companies such as Petrol, Krka, Pozavarovalnica Sava, and NLB...). In 2018, the 65% of the RS's equity stake in NLB was sold (NLB is categorised as an important asset), thus decreasing the weight of important assets in the total portfolio of assets (total assets owned by RS and SSH) as compared to their weight in 2017. Considering the fact that in 2017 and according to 2018 estimates, the group of important assets achieved the highest ROE in the SSH portfolio of assets (which also includes the groups of strategic and portfolio assets), and in light of the fact that current data for 2017 and 2018 show ROE recorded by NLB to be higher than ROE of the SSH portfolio of assets (total RS and SSH assets), a decline in ROE (estimate) for 2018 as compared to ROE for 2017 achieved by the SSH portfolio of assets is the result of the sale of the RS's 65% stake in NLB.

Table: Return on equity (ROE) for 2018 (estimate) by the criteria of assets classification as stated in the Asset Management Strategy

2018 (estimate)	BOOK VALUE OF RS AND SSH STAKES AS OF 31 DECEMBER 2018	PROPORTION OF THE PORTFOLIO	RETURN ON EQUITY (ROE)*
STRATEGIC	7,678,077,541	75.9%	5.1%
IMPORTANT	1,308,446,534	12.9%	10.9%
PORTFOLIO	1,131,062,745	11.2%	9.6%
PORTFOLIO	10,117,586,820	100.0%	6.3%

*Note: The calculation of ROE for individual pillars takes into account relevant weights of an individual asset within the scope of an individual classification and not within the portfolio as a whole.

Graphs: Presentation of the portfolio structure of capital assets owned by RS and SSH by the criteria of asset classification and the proportion of strategic assets in the total portfolio

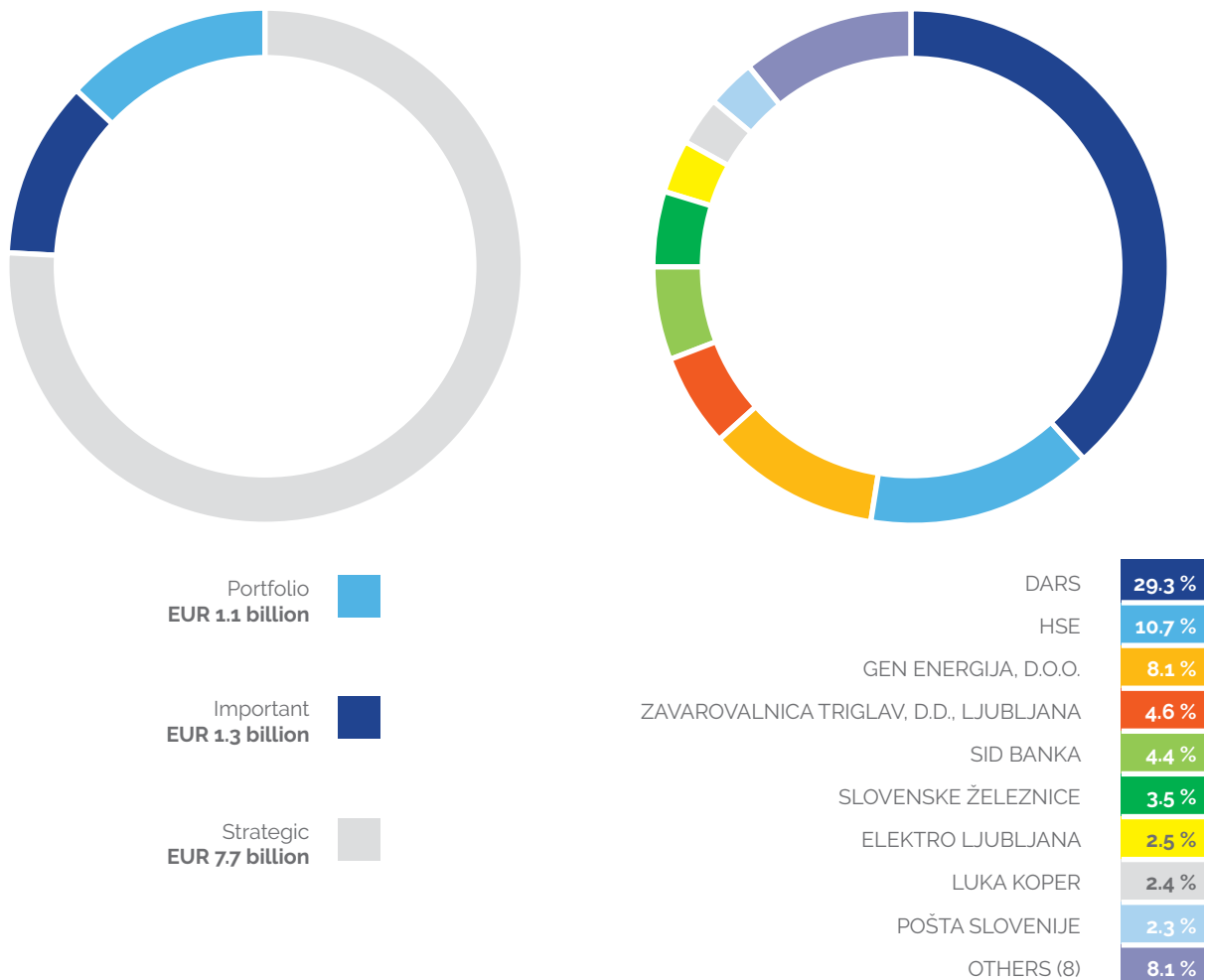


Table: Return on equity (ROE) for 2018 (estimate) by the criteria of share quotation on Stock Exchange

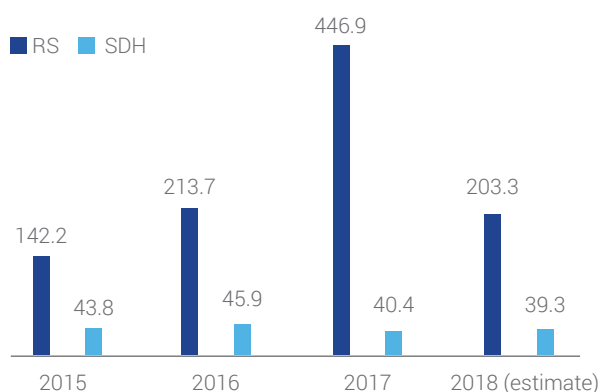
2018 (estimate)	BOOK VALUE OF RS AND SSH STAKES AS OF 31 DECEMBRE 2018	PROPORTION OF THE PORTFOLIO	RETURN ON EQUITY (ROE)*
LISTED	1,740,988,982	17.2%	10.4%
UNLISTED	8,376,597,838	82.8%	5.5%
PORTFOLIO	10,117,586,820	100.0%	6.3%

*Note: The calculation of ROE for individual pillars takes into account the relevant weights of an individual asset within the scope of an individual classification and not within the portfolio as a whole.

7.2.7.4 Dividends

SSH supports the development and efficiency of operations of companies under its management, and, by means of its decisions made at General Meetings of Shareholders of companies, pursues a responsible approach to the dividend policy in terms of advocating a suitable balance between dividends and the development needs of companies. Having achieved high dividends paid out by companies under SSH's management in 2018 (RS received a total of EUR 446.9 million whereas EUR 40.4 million was paid to SSH, totalling EUR 487.3 million of dividend pay-outs), SSH expects the total dividend amount paid out by companies from the SSH portfolio of assets (total RS and SSH assets) to be lower for 2019 (for FY 2018) than in 2018. This forecast is based on the fact that in 2019 the RS's equity stake in NLB will be lower as compared to the time of the dividend pay-out in 2018.

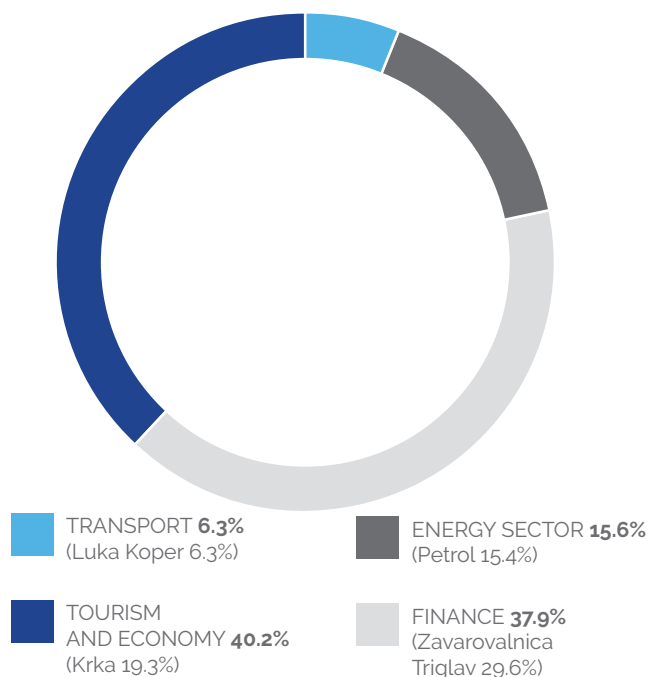
Table: Dividend pay-outs in EUR for assets owned by RS and SSH separately (for financial years)



7.2.7.5 Capital assets managed by SSH

The portfolio of assets owned by SSH amounted to EUR 699.1 million, measured at the book-value of equity holdings at 31 December 2018². The portfolio of assets owned by SSH continues to be highly concentrated - the total of assets from the Tourism and Economy Pillar and Financial Sector Pillar represents more than four fifth of the entire portfolio, with equity stakes in Zavarovalnica Triglav and Krka together amounting to more than one half of the portfolio of assets owned by SSH.

Graph: The proportion of pillars in the SSH portfolio (capital assets owned by SSH) as of 31 December 2018



² The value is an estimate taking into account the data available at the time of drawing-up this Report.

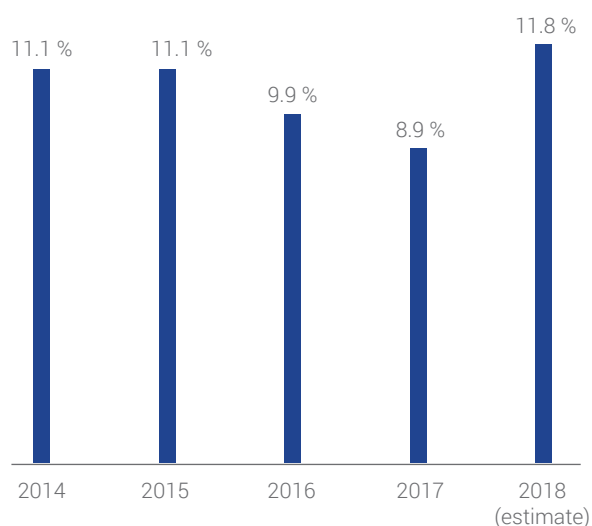
Table: Selected data on the portfolio of capital assets owned by SSH in 2015-2017 period

Companies directly owned by SSH (excl. companies in bankruptcy or liquidation) – in 000 EUR	2016	2017	2018 (estimate)
Total sum of book-value of shareholdings	818,974	675,610	699,085
Portfolio ROE	9.9%	8.9%	11.8%
Dividend per financial year	45,927	40,365	39,271
Dividend-to-equity ratio (dividends/equity)	5.6%	6.0%*	5.6%

*When all dividends received by SSH are taken into account (including the impact of higher dividend income paid by Telekom Slovenia, excluding the given impact), the dividend-to-equity ratio would amount to 5.6%.

Since the portfolio which, as opposed to the portfolio of assets owned by RS, includes fewer strategic assets, return on equity (ROE) of the said portfolio is correspondingly higher and has moved between 9% and 12% in the last three years.

Graph: ROE for portfolio of assets owned by SSH in 2014-2018 period



7.3 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 presents principles, procedures and criteria applied by SSH in carrying out its duties and activities as stipulated by ZSDH-1. Thus, in addition to other matters, the Asset Management Policy determines the methods for the sale of capital assets, 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 the sales processes regarding the largest capital assets in cooperation with renowned international financial and legal advisors qualified in financial advisory services.

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

In cases of a large number of owners of companies, sale processes related to the disposition of capital assets held in co-ownership by the Republic of Slovenia and SSH are, 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 are 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 made.

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 the 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 process is simpler with regard to the sale of smaller SOEs.

7.3.1 Activities in connection with the disposition of capital assets

In 2018, the majority of activities carried out by SSH in connection with the sale of capital assets included the sale of a 65-percentage stake of RS in Nova Ljubljanska banka d. d. (NLB) which was concluded in November 2018, and to the preparatory activities for the sale of a 100-percentage ownership stake of RS in Abanka d. d. (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 process was launched after the Government of the Republic of Slovenia, acting in the capacity of the General Meeting of Shareholders of SSH, adopted a resolution on 16 July 2018 imposing on 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, and after, on 19 July 2018, the Government of the Republic of Slovenia granted its consent to the amendments of the Annual Asset Management Plan for 2018 in the section which refers to NLB.

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.



Photo NLB Archive: The start of the trading of NLB shares at the Ljubljana Stock Exchange, Ljubljana, 14 November 2018

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 an offering of no less than 10,000,001 and up to 14,999,999 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 qualifying 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 669,5 million. The transaction was closed on 14 November 2018 when NLB shares started to be traded on the Ljubljana Stock Exchange and NLB GDRs on the London Stock Exchange. At the end of 2018, the Republic of Slovenia remained the largest individual shareholder of NLB, holding a

35-percentage ownership stake. In accordance with the commitments given by the Republic of Slovenia to the European Commission, its ownership stake in NLB will have to be decreased by additional 10% minus one share by the end of 2019.

In the 2019 European Semester: Country Reports, the European Commission wrote that Slovenia has achieved a certain progress in regard to the privatisation of state-owned enterprises.

As mentioned above, throughout 2018, SSH intensively pursued activities in connection with the sale of Abanka shares to which the Republic of Slovenia committed itself with its commitments 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. The financial and legal advisors 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 developed. 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 will continue.

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 Sale and Purchase Agreement relating to the shares of Casino Bled d. d. (Casino Bled) back in 2011, and which could not be fully implemented due to the failure of satisfying 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 regard to the remaining shares, regulating the payment of compensation for the loss of proceeds arising from the said SPA, specifically, for 27,772 Casino Bled's shares owned by SSH and for 2,261 Casino Bled's shares owned by Kapitalska družba d. d. (KAD).

In addition to the compensation received as a result of the above mentioned agreement, SSH received proceeds from four Sale and Purchase Agreements on the sale of capital assets which were concluded before 2018; their total amount was 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. With all transactions involving equity stakes in Geoplin having been implemented, 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.

7.3.2 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 for compensation of 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, in the capacity of 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. On the basis of the above mentioned decision by the Government of the Republic of Slovenia, BAMC and

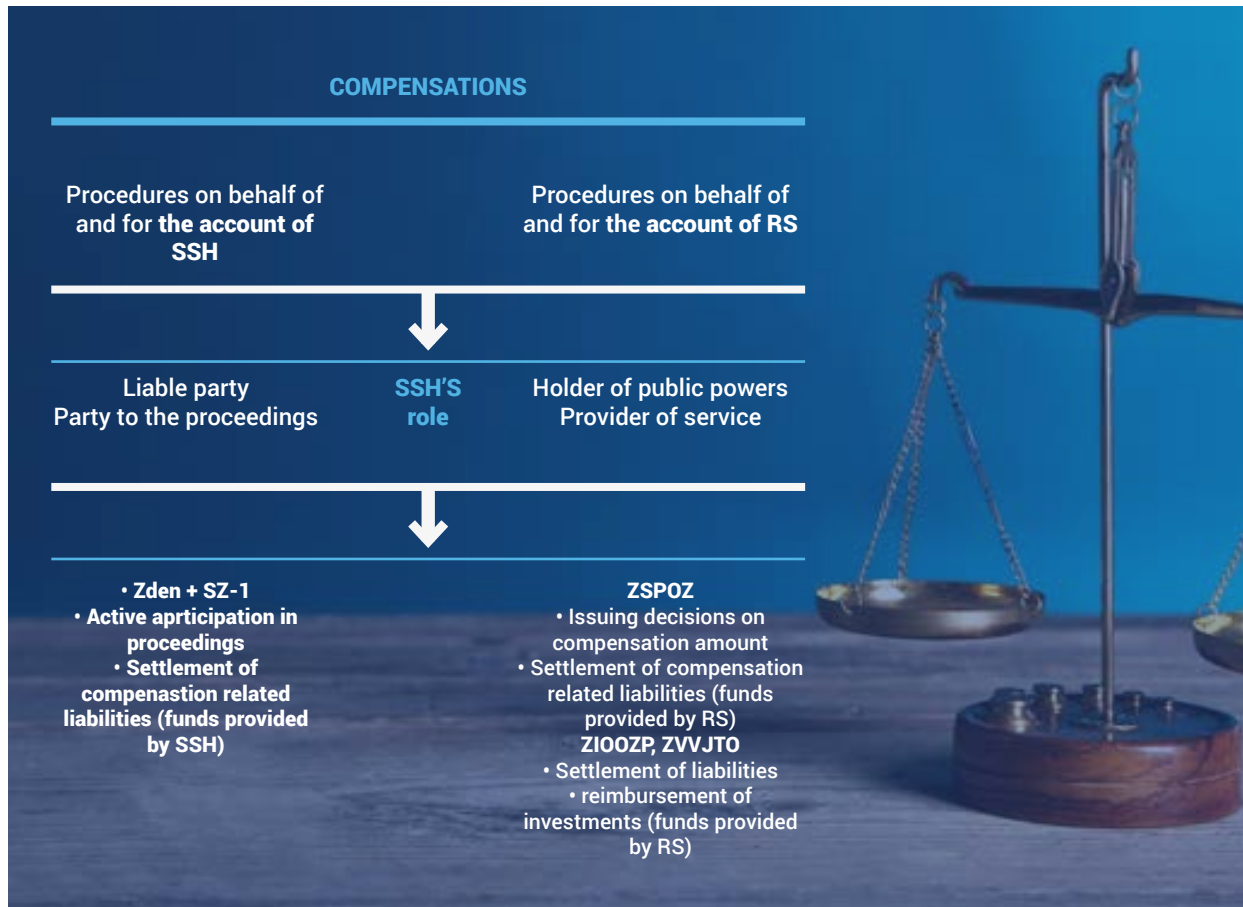
SSH concluded the agreement by way of which, in October 2018, RS became the owner of a 66.23% equity stake in Koto, ensuring 93.69% of voting rights in the said company.

In 2018, SSH completed activities which had been pursued since 2015 in connection with the implementation of the State Assets Management Strategy, expressing 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 RS and Petrol d. d. (Petrol), on the basis of which 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 an 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 which are managed by SSH on behalf of and for the account of RS. RS invested a monetary contribution amounting to EUR 154,255,500 in Slovenske železnice d. o. o., and thus continues to remain the sole shareholder of the said company. RS also invested the amount of EUR 500,000 in the share capital of CSS d. o. o., as a result of which it increased its ownership interest from 96.65 % to 97.96 % of the share capital of the said company.

SSH also carried out some other activities in connection with the acquisition of capital assets for RS which, however, were not closed with the acquisition by the end of 2018.

7.4 Denationalisation and settlement of compensation under various bills



7.4.1 SSH's role in denationalisation processes

In accordance with ZDen and other regulations regulating denationalisation, SSH takes an active part in proceedings before administrative and judicial bodies, in proceedings under Article 5 of ZDen and in procedures for determining compensation under the provision of Article 73 of ZDen. SSH is a party to the proceedings and a party liable to pay compensation in bonds. SSH also takes part in the mediation procedure in which claims in regard to nationalised assets are handled by the courts. In accordance with

ZDen and other regulations, the compensation is determined when the nationalised property cannot be returned in kind, and in cases when a beneficiary refuses the restitution of a nationalised company to be implemented under Articles 34 and 37 of ZDen. In procedures for the determination of compensation to claimants who have restored the property to beneficiaries in kind from their own assets, a compensation at the market value of property is envisaged.

7.4.2 Denationalisation procedures at the level of the Republic of Slovenia

According to the Ministry of Justice which monitors the implementation of the denationalisation, 99.6% of cases (145 cases) before the administrative bodies were complete and final as at 31 December 2018. As at 31 December 2018, local courts settled 99.5% of cases (nine cases), in which regard this data refers only to cases handled under Article 5 of Zden and it does not include data on filed and pending claims under the provision of Article 73 of ZDen and for claims lodged by re-established agricultural communities. Claims lodged under ZPVAS may be filed before responsible courts in the future.

7.4.3 Denationalisation procedures at the level of SSH

SSH diligently examines all received claims upon their legal basis, upon their scope and upon their amount and consistently determines the appropriate compensation amount in accordance with the law. When required, individual pieces of evidence and supporting documents are obtained from various archives and other sources, SSH inspects the data in the Electronic Land Register, examines aerial photo images and checks databases of surveying and mapping authorities, etc. When it is not possible to establish the current state of immovable property in any other way, an inspection of immovable property is conducted. SSH provides an answer to the submitted claims within the time periods set, and in its first reply takes its position regarding all facts having an impact on the decision. The value calculations of

the nationalised agricultural and building plots of land, the valuation of movable property, purchase prices, compensation granted upon nationalisation, are reviewed internally whereas valuation reports in regard to construction and mechanical engineering and arts are produced outside with the assistance of experts and appraisers of a certain discipline. SSH takes an active part in denationalisation procedures by taking part in the scheduled oral proceedings and hearings and when required, organises meetings with participants in the procedures. After the completion of the fact-finding procedure, an administrative body or a responsible commission draws a report on the established actual and legal state of affairs which shows the intended decision to be made by the administrative body. SSH often enforces all of its legal opinions in the process before issuing this document.

A total of 250 claims was registered and outstanding as at 31 December 2018. Seventeen (17) new and continued claims were lodged in 2018. Those claims in which an administrative or a judicial body invites SSH as a party to the proceedings are recorded as new claims, while continued claims are claims from the same administrative case. SSH contributes to the resolution of claims by entering into settlement agreements when all of statutory conditions are met. From the initiation of its functioning in 2007 and up to 31 December 2018, the Settlement Committee met at 120 sessions, and concluded 78 settlement agreements. In 2018, two claims were made ready to conclude a settlement agreement. SSH takes part in the scheduled oral proceedings and hearings and, when the attendance is necessary for proper and full determination of legal status of the case.

Table: The number of claims, reports, decisions received and sent

	Total by 31 December 2017	Total by 31 December 2018	From 1 January until 31 December 2018
New claims and continued claims received	22,509	22,526	17
Reports on the established actual and legal state of affairs regarding the case	22,561	22,621	60
First-instance decisions received determining compensation in bonds	20,416	20,467	51
Appeals lodged in regard to decisions with time of preclusion	6,002	6,016	14

In 2018, SSH received 26 decisions of rejections by way of which claims were rejected at the first and at the higher instances since no conditions had been given for determining compensation under regulations regulating denationalisation. As a rule, SSH lodged applications for legal remedies against decisions on compensation amounts only when justified reasons were given, specifically, either due to an incompletely or incorrectly determined statement of affairs, or due to erroneous application of the substantive law. Reasons for appeal mainly referred to the questionable legal foundation of the claim and the eligibility for denationalisation, the timely lodging of claims, and an incorrectly determined compensation amount.

7.4.4 Significant decisions made and issues raised in denationalisation procedures

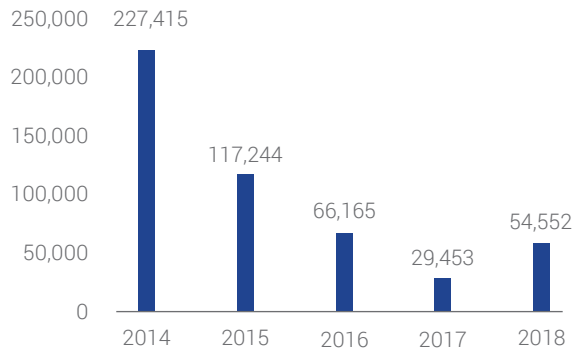
Claims handled in the reported period had been lodged by individuals, by cooperatives, by the churches and by claimants by way of which property had been restituted to denationalisation beneficiaries in kind (which included companies, public institutions, banks and similar institutions). Companies, capital assets, properties and immovable properties were subject to denationalisation under which relevant compensation was determined. Claims are still being handled that refer to the denationalisation of property that used to belong to owners - members of agricultural communities, and which are dealt with in accordance with ZPVAS and in accordance with Agricultural Communities Act which was adopted in 2015 (agricultural communities with a registered seat in another country). SSH has received some important decisions adopted by the highest decision-making bodies which have reinforced the case law in regard to the issue of active legitimation, in regard to the denationalisation eligibility and to similar issues. Only the most complex denationalisation cases are still being handled. These include cases which are either highly complex or include a claim for a high compensation amount, involving complex legal issues.

Due to the decision passed by the Constitutional Court of the Republic of Slovenia which refer to the issue whether former owners of assets who had the right to receive compensation from the Republic of Austria are eligible to claim a compensation for denationalisation in Slovenia, SSH handled a little less than a quarter of the recorded claims. SSH profoundly and prudently examined these claims, verifying them not only from the aspect of eligibility to denationalisation but, similarly as with other claims, also from the aspect of the satisfaction of all conditions stipulated by Zden. SSH has been successful in enforcing its positions, for example in the case regarding the Archdiocese Ljubljana – Baraga Seminary, or in the case of Nova kreditna banka Maribor; both claims were rejected in the review of the case initiated by investors (the total amount claimed stood at EUR 21.1 million payable in the form of SOS2E). In the case of Banka Celje, the claim was rejected with final decision but the investors lodged an application for review in due time (the amount claimed stands at EUR 8.1 million payable in the form of SOS2E).

7.4.5 Implementation of denationalisation-related decisions and settlement of liabilities

SSH also implements denationalisation decisions issued under the provisions of Article 59 of ZDen and decisions issued by the Ministry of the Environment and Spatial Planning in connection with the decision-making under the provisions of Article 173, Paragraph 3 of SZ-1. Such decisions are no longer implemented by paying out all of the matured coupons of the SOS2E bond (the last coupon matured on 1 June 2016) and not by transferring bonds to the account of a recipient who may be a beneficiary, an heir or a trustee in special cases. The implementing regulation regulating the implementation of denationalisation-related decisions has not been modified, neither has been ZDen, and therefore, it still applies that for SSH to implement such decisions, a full application is needed which is not followed by a transfer of bonds but with the fulfilment of the entire liability arising from these bonds.

Graph: The number of paid-out SOS2E bonds



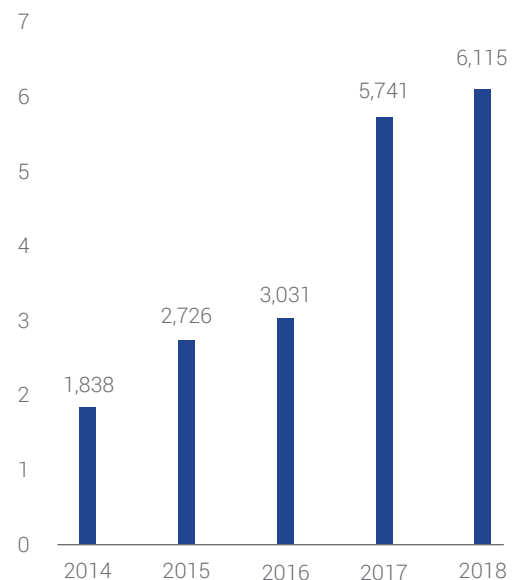
For settling liabilities due to beneficiaries under ZDen and under other regulations governing the denationalisation of property, SSH transferred 17,402,613 bonds to 27,690 holders and paid out the total of EUR 1.7 billion, since the initiation of performing its duties under ZDen and until 31 December 2018. Eighty-nine beneficiaries were paid compensation in the amount of EUR 5,386 million in 2018.

7.4.6 Compensations to victims of war and post-war violence

In accordance with the public powers granted under ZSPOZ, SSH runs procedures for issuing decisions on compensation amounts and performs administrative and technical activities in relation to their implementation. The basis for making a decision on the compensation amount is provided in ZZVN and in ZPkri. Following the adoption of the Act amending ZSPOZ, beneficiaries, who have been issued and served the decision after 7 April 2009, are paid the compensation amount only in cash. A beneficiary may receive compensation either under ZZVN or under ZPkri or under the combination of both laws, but the total sum to be received by an individual beneficiary under ZSPOZ should not exceed the statutory amount. In light of the above stated, SSH also issues decisions determining that an eligible person is not eligible for compensation in spite of holding a status having been acknowledged under ZZVN or ZPkri.

Since the beginning of its functioning under the said public powers and until 31 December 2018, SSH has transferred 31,776,353 bonds. In 2018, 4,589 RS39 bonds in the amount of EUR 0.024 million were paid out, in addition to EUR 6.115 million paid in cash. In the same period, SSH issued 882 decisions on compensation amount. In regard to decision type, decisions issued under ZPkri still prevail while decisions issued under ZZVN are less significant in terms of their number and their compensation amount. The compensation was not determined for a significant number of beneficiaries since they had received the highest possible compensation ruled in previous decisions.

Graph: Payments under ZSPOZ in EUR



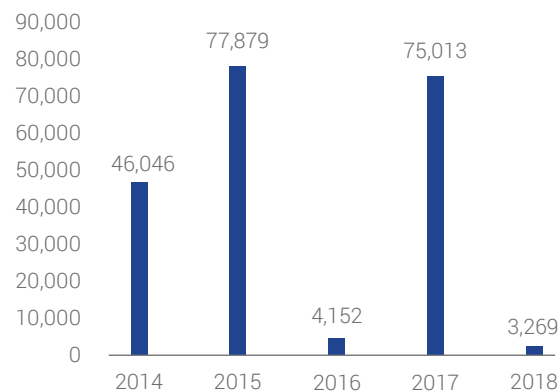
7.4.7 Settlement of liabilities arising from compensation for confiscated property pursuant to the abrogation of the property confiscation penalty

With ZSPOZ, SSH's duties which originally referred to the settlement of liabilities under regulations governing denationalisation expanded to the issue, servicing and payment and calculation of interests for bonds issued by the Republic of Slovenia on 1 February 2001 for the purpose of paying compensation under the said act.

Slovenian Sovereign Holding enforces final decisions on compensation for the confiscated property by paying out the relevant compensation amount and no longer by transferring bonds since RS21 bond matured on 1 March 2015. Considering the interpretation of Article 3, Paragraph 5 of ZIOOZP, a compensation amount is determined so that interest is calculated from the day when the decision on the abrogation of the confiscation of property penalty and the determination of compensation for the confiscated property becomes final until the issue of bonds. The enforcement of a decision may be requested by a beneficiary or his/her legal successor demonstrating such status by way of a final decree of distribution or any other valid legal title. Since the beginning of the implementation of decisions until 31 December 2018, SSH paid out the equivalent of 1,822,997 RS21 bonds.

As regards the reporting period, the compensation in the equivalent value of 3,269 RS21 bonds was paid out to beneficiaries or their legal successors.

Graph: The number of paid-out RS21 bonds



7.4.8 Settlement of liabilities under the Return of Investments in the Public Telecommunications Network Act

Pursuant to Article 3 of ZVVJTO, Slovenian Sovereign Holding reimburses payments for investments into the public telecommunication network on behalf of and for the account of the Republic of Slovenia. Slovenian Sovereign Holding mainly fulfilled its obligations arising from these enforceable instruments in six months following the entry into force of amendments to ZVVJTO. The settlement of liabilities pursuant to the documents which are submitted directly by the State-Attorneys of the Republic of Slovenia is carried out by SSH within 60 days following their receipt.

Until 31 December 2018, the total sum of EUR 191.499 million was paid for liabilities arising under ZVVJTO; and EUR 0.018 million were paid in the reporting period.



Financial report

Balance sheet

Assets	754,828
Current assets	86,805
Non-current	1,944,921
Liabilities	168,830
Current liabilities	113,227
Non-current liabilities	55,603
Equity	74,393
Paid-in capital	72,981
Retained earnings	1,412



Equity statement

Current year	1,774,576
Comprehensive income	98,000
Issue of share capital	25,800
Dividends	-14,000
Previous year	166,830
Comprehensive income	110,227
Issue of share capital	58,900
Dividends	67,678



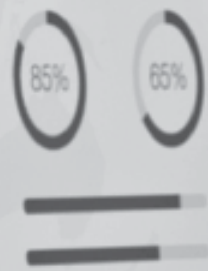
Income statement

Revenues	12,978,516
Net sales	12,872,938
Interest	104,624
Expenses	8,372,535
Research and Development	1,385,874
Operating expenses	4,438,118
Marketing	949,202
Net income	6,505,981



Cash flow statement

Operations	12,978,516
Net earnings	12,872,938
Dividends	104,624
Investing	6,372,535
Real estate	1,281,280
Equipment	4,438,118
Financing	6,505,981
Notes payable	6,505,981





MANAGEMENT OF SSH'S LIQUID INVESTMENTS PORTFOLIO AND OF ITS BALANCE SHEET 83

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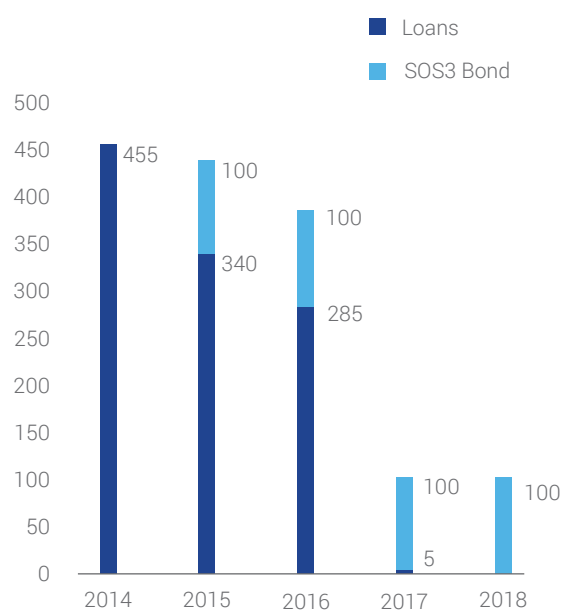
8 Management of SSH's liquid investments portfolio and of its balance sheet

8.1. Financial result for SSH Group and SSH

The financial position and financial results of SSH and SSH Group are mainly affected by some key financial categories: firstly, financial income in which regard dividends received are by far the most important category, in part in addition to capital gains generated with the sale of financial investments, and, secondly, financial expenditure mostly covering interest for liabilities in connection with SOS3. The remaining part of this chapter illustrates certain categories for SSH as the equity method is applied by SSH for the consolidated financial statements of SSH Group.

The graph below shows the movement in the total financial debt of SSH in the past five-year period. In June 2015, one proportion of debt arising from bank loans was replaced by the debt arising from the issue of SOS3 bond in the amount of EUR 100 million. The source of funding for the said deleveraging was the capital increase by the Republic of Slovenia which took place in December 2016, and amounted to EUR 200 million, while EUR 80 million was paid from SSH's own funds. In 2018, SSH repaid the last loan in the value of EUR 5 million. The volume of debt in the amount of EUR 100 million as at 31 December 2018 is assessed to be manageable.

Graph: Volume of SSH's financial debt (in EUR mio)



The SOS3 bond in the amount of EUR 100 million will mature on 24 June 2020. The bond has not been secured by guarantees granted by the Republic of Slovenia.

In 2018, financial expenses decreased significantly as compared to the preceding year as a result of lower financial liabilities. In the years to come, financial expenses will additionally decrease, as they will consist solely of interest expenses for SOS3 bond totalling EUR 2.5 million per year.

Dividend income from capital assets are the most important regular source of funds for the payment of liabilities. In 2018, dividend income decreased on account of the transfer to RS of capital assets in the equivalent amount of EUR 200 million (December 2017). Extraordinary sources of funds are Inflows from the sales of capital assets, however, these are more difficult to predict as they depend on every applicable Annual Asset Management Plan and the adopted State Assets Management Strategy.

Graph: Value of capital assets owned by SSH at the end of individual year (in EUR million)



The value of equity at the end of 2018 is impacted by the decrease in the market value of capital assets and the net profit or loss for the reporting period in the amount of EUR 43.1 million. Net profit or loss is higher as compared to the preceding year mainly on account of long-term provisions in the amount of EUR 14.5 million formed in 2017 due to the expected additional denationalisation liabilities.

8.2 Primary focus of SSH investment policy

SSH implemented the adopted SSH investment policy within the scope of the adopted Business and Financial Plan for 2018 and the Rules on Investment Policy for liquidity investments portfolio. The liquid investments portfolio is dedicated to the provision of liquidity reserve - its structure is shown in the Table below. In regard to financial investments, and in accordance with the basic premises of its investment policy, SSH took into account both the riskiness and liquidity of investment as well as the balance between investments and liabilities in regard to their maturity.

In 2018, SSH settled all of its statutory and contractual obligations on a regular and timely basis. It maintained its current liquidity by planning cash flows and keeping a permanent liquidity reserve. Excess funds were mainly invested in long-term deposits intended for the settling of liabilities arising from the SOS3 bond maturing in 2020.

8.3 Volume and structure of liquid investments portfolio

On 31 December 2018, the value of the liquid investments portfolio of SSH, measured at market prices, amounted to the sum of EUR 41.7 million; and it significantly increased as compared to 2017.

The largest part of debt investments entails assets invested in long-term deposits, representing a 77% proportion of the total portfolio. The call-deposits represented a 17% proportion of the total portfolio, while investments in bonds only 2% of the total portfolio of liquid investments.

Table: The structure of the SSH's liquid investment portfolio by investment type

Investment type	Balance as at 31 December 2017		Balance as at 31 December 2018	
	in EUR 1,000	%	in EUR 1,000	%
Total debt investment	10,371	91	40,761	98
Deposits	8,390	74	38,780	93
Bonds	1,981	17	1,981	5
Equity investments	1,030	9	899	2
Mutual Funds	1,030	9	899	2
Total investment portfolio	11,401	100	41,660	100

8.4 Profitability of liquid investments portfolio

In 2018, deposits generated a relatively low return, mainly as a result of negative interest rates while the return generated by mutual funds was negative. The weighted rate of return of the SSH portfolio of liquid investments amounted to 0.17 % in 2018. The fall in the portfolio profitability was mainly affected by the structure of the portfolio. The impact on the total portfolio profitability by the negative return generated by mutual funds was lower due to its low proportion in the total portfolio. In 2019, SSH will be careful in investing and will continue to pursue a conservative investment policy as no long-term surplus is expected.

Table: The SSH investment portfolio performance and performance by investment class (in %)

Investment type	2016	2017	2018
Deposits	0.14	0.03	0.21
Certificate of deposits	0.63	–	–
Bonds	1.94	6.38	5.25
Mutual Funds	2.2	11.75	-12.04
Shares and EFT (foreign, listed)	-2.3	11.42	–
The investment portfolio's performance	0.26	0.50	0.17

Financial report

Balance sheet

Assets	1,734,826
Current assets	88,905
Non-current assets	1,645,921
Liabilities	166,630
Current liabilities	110,327
Non-current liabilities	56,303
Equity	74,393
Paid-in capital	72,921
Retained earnings	1,472



Income statement

Revenues	12,978,516
Net sales	12,873,892
Investment	104,624
Expenses	6,372,535
Research and Development	1,385,395
Operating expenses	4,439,118
Marketing	548,022
Net income	6,505,981



Equity statement

Current year	1,774,576
Comprehensive income	15,897
Issue of share capital	88,905
Dividends	23,853
Previous year	166,630
Comprehensive income	110,327
Issue of share capital	56,303
Dividends	67,678



Cash flow statement

Operations	12,978,516
Earnings	12,873,892
Depreciation	104,624
Investing	6,372,535
Real estate	1,385,395
Equipment	4,439,118



ORGANISATIONAL DEVELOPMENT OF SSH

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9 Organisational development of SSH

9.1 Operational compliance and integrity

Measures for enhancing corporate compliance 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. The Annual Report on implemented measures from the Integrity Plan for a one-year period was sent to the Committee for the Prevention of Corruption, following prior discussion with employees, the Management and the Supervisory Boards.

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 developed 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 operational compliance and corporate integrity and on the enforcement of anti-corruption principles, by way of which individual goals from the Programme for Integrity and Transparency 2017-2019 developed 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 must be emphasized:

- the monitoring and the implementation of the corporate 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 outside bodies 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 providing

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.

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 handling by a responsible body);
- 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 received 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.

Access to information of a public nature

In 2018, SSH received six requests for the access to information of a public character. All of the said requests refer to various areas of SSH's operation. Persons requiring information were journalist, companies, private individuals and attorneys-at-law. Five requests for access to information of a public character (83%) were denied due to the existence of exemptions under Article 6, Paragraph 1 of the Public Information Access Act (ZDIJZ), while a request by one person was partially accepted.

9.2 Respect of human rights

The basis for our operation are equal opportunities for everybody. SSH fosters its respect for human rights by formulating standards of good practice which are included in the Corporate Governance Code for SOEs and are addressed to companies under SSH management.

Important elements of respect for human rights are included in the SSH's Code of Ethics and in the Internal Rules on Prevention of Mobbing (bullying) and other Forms of Harassment in the Work Place.

9.3 Internal Audit

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 (for example, the Protocol on enforcing the right for reviewing operations in individual companies managed by SSH), defining and explaining the rights and duties of reviewers engaged in audit reviews of operations in the above mentioned companies. The formal legal framework for implementing reviews by

the SSH's Internal Audit was put in place and the basis for other forms of cooperation with internal auditing units of companies managed/owned by SSH was established. The purpose for including companies owned/managed by SSH into the scope of activities carried out by the SSH's Internal Audit is to reinforce the review and oversight by SSH over the operation of companies under SSH management as well as the harmonisation of the internal audit services in companies under SSH management and the transfer of knowledge and cases of good practice among the legally and organisationally independent internal audit services in the above mentioned companies. Thus, an important step forward was made in the management of capital assets and an active cooperation with the internal audit services of these companies was established.

The SSH's Internal Audit functions as an independent department. The basis for its functioning is the Internal Audit Charter which is approved by the SSH Management Board and the 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 management 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 on whether key risks are suitably managed and whether the internal control system functions in an efficient manner.

The Annual Internal Audit Plan 2018 was prepared on the basis of a risk analysis. It was adopted by the Management and the Supervisory Boards. The Internal Auditor regularly reports to the SSH Management Board and to the SSH Supervisory Board's Audit Committee on a quarterly basis. The SSH Management

Board and the Audit Committee were informed of all audit reviews carried out, of their findings and of recommended measures for improvements.

In 2018, the Internal Audit achieved its goals set with regard to the review of SSH operations. It carried out seven audit reviews, which included the provision of advisory services. Special attention was dedicated to the following areas of operation: firstly, SSH's risk management, secondly, asset management and thirdly, the protection of personal data processing. The audit review of corporate governance in SSH was carried out, in addition to two extraordinary audit reviews in regard to public procurement and the audit review regarding the assessment of risks relating to internal frauds. In addition, the Internal Audit regularly monitored the implementation of recommendations given.

Within the scope of an individual internal audit review, the Internal Audit assessed and verified the suitability and efficiency of the established internal controls. The Internal Audit Service is thus of the opinion that the internal control system in SSH is established and adequate, however, there are possibilities for its improvements which are referred to in recommendations issued with regard to each audit review.

On the basis of reviews carried out, the Internal Audit Service has assessed that:

- the establishment of the internal control system for preventing significant frauds in reviewed areas is established and operational;
- important risks have been identified and quantified and the relevant response measures have been selected;
- there are risks in regard to the information technology which is mostly managed, however, additional recommendations have been issued during the review of the management of the IT-related risks;
- as regards the management of organisation, SSH's strategic policies and operational goals are pursued, the relevant ethical conduct and

values of operations are enforced within SSH, the management of organisation is efficient and organised, the communication and provision of information among employees and wider, from the Management Board to the Supervisory Board and other providers of assurances, is adequately organised.

In addition to regular activities in connection with the internal audit function, the Internal Audit cooperated with the national supervisory and investigation institutions, such as the Court of Audit of RS, the Police, the Commission for the Prevention of Corruption.

9.4 Risk management

Sound knowledge and a good understanding of risks enables every company to take timely and proper response action in an increasingly dynamic economic environment. This is why SSH dedicates special attention to risks to which SSH is exposed to during its operation, from the legal and formal aspects as well as from practical ones. It aims to establish a culture of risk awareness in order to better understand risks and obtain good quality information for decision-making processes to be pursued at all levels of their functioning. Risk management is of concern for every SSH's employee whose actions and decisions expose him/her to risks on a daily basis when performing their duties.

The risk management process in SSH is based on the principal risk management standard, SIST ISO/IEC 31000/2011 – Risk Management – Principles and Guidelines for Risk Management and on SIST ISO/IEC 31010/2011 – Risk Management – Risk assessment techniques.

9.4.1 Risk management process organisation and risk assessment method

In SSH, the area of work regarding risk management is regulated by the Rules on Risk Management. Individual risks are registered in the Master Risk Register. The risk management and the coordination of the risk management process is in charge of the

Department for SSH's Financial Operations. In accordance with ZSDH-1, the handling of risks having an element of corruptive, illegal and other unethical conduct as defined in the Integrity Plan is specifically regulated in the Master Risk Register. The bodies involved in the risk management process are the SSH Management Board, the Risk Management Commission and the Risk Committee functioning within the SSH Supervisory Board. The Risk Management Commission is composed of the Management Board Members, executive officers, a Chief Compliance Officer, an Internal Auditor and of a Senior Advisor from the Department for SSH's Financial Operations responsible for risk management. The President of the said Commission is the President of the SSH Management Board. The Supervisory Board's Risk Committee is a consultation body of the Supervisory Board tasked to provide expert opinions on the risk management system established within SSH and to propose its improvements by submitting such proposals to the SSH Supervisory Board.

Scheme: Risk management system in SSH



The risk exposure is assessed with the qualitative risk assessment method, which means that risks are assessed in terms of the importance of their potential consequences for SSH or their influence on the SSH's operations and in terms of the probability for the occurrence of an event. Risks are assessed by applying uniform risk assessment criteria.

In 2018, the SSH's Master Risk Register was updated and improved, and the project for the revision of the content of the Risk Management Manual was started. The exposure to risks was regularly monitored and all of the necessary activities for their management were pursued. In 2018 we organised three sessions of the Risk Commission and received reports of two incidents, which were handled and successfully resolved.

9.4.2 Key risks

Regulatory risk

Regulatory risk is associated with the legislative changes and their potentially negative consequences for the scope and subject-matter of the SSH's operations. For managing this risk, several measures have been taken by SSH which are implemented on a regular basis: for example, regular monitoring of regulations and the case law and preparation of timely business projections, communication and cooperation with supervisory bodies, participation in expert associations, weekly provision of information on RS Government's decisions, weekly monitoring of changes to legislation and notifications to employees on statutory modifications.

Liquidity risks

SSH is exposed to liquidity risk mainly due to varied maturity of assets and maturity of liabilities since the major part of SSH assets is still held in long-term capital investment. SSH minimises this risk by having a sufficient volume of available liquid assets and by means of liquid portfolio investments which may be immediately cashed in at the current market values. SSH manages this risk with a number of measures which are implemented on a regular basis

for example: daily cash flow planning, verifying the balances in cash accounts, discussing and monitoring cash flows at regular sessions of the Liquidity Commissions, planning cash flows in the long-term and short-term, investing surplus of monetary funds in line with plans, ensuring liquidity reserve in a current account, and implementing similar measures.

HR risks

HR risks may be shown in the shortage of the key personnel, in the lack of SSH's preparedness to address the unexpected departures of the key personnel, in the absence of succession planning, in the fluctuation of employees, in the inappropriate and unprofessional staffing for business processes, and similar factors. To cope with this risks, SSH have taken measures which are implemented on a regular basis: for example, a suitable HR strategy and Personnel Development Plan, the implementation of annual employee interviews and the assessment of executive officers, clear recruitment criteria and processes, monitoring changes to the legislation and training of HR personnel, observing the content of internal legal documents, and similar measures.

Risk associated with lack of integrity

Owing to the nature of its work, SSH is subject to pressures on its business decisions, to non-registered lobbying contacts, unethical and illegal conduct or to inducing employees to enter into such conduct. The set of risks associated with the lack of integrity includes risks in regard to internal and external frauds which are connected with illegal actions by employees against SSH (internal frauds) and illegal actions by third parties against SSH (external frauds). They include, for example, unauthorised disclosure of confidential and protected information about SSH and an individual state-owned enterprises, the abuse of insider information, conflict of interest, disclosing of trade secrets, possibilities for corruption, frauds in the settlement of denationalisation cases, and similar. The following two risks have been defined as key corruption-related risks:

- the risk of dependent operation and pressures on SSH operations – implementation of all types of pressures on the conduct of employees or members of SSH's bodies in order to obtain a direct or indirect benefit;
- abuse of insider information and of protected information – the risk is connected with illegal actions by employees and third persons against SSH.

For managing risk associated with the lack of integrity, several measures have been taken and are implemented on a regular basis: for example, a consistent implementation of the provisions of ZSDH-1, the provision of information, regular training sessions for employees and the permanent warnings for employees and other liable persons of such potential risks, the cooperation with the Management Board and directors of SSH's divisions, holding meetings with the Chief Compliance Officers, pieces of advice provided to employees and other liable persons on the said subject-matter, and similar measures.

Risks in managing and restructuring of capital assets

Risks in managing capital assets arise from the following elements and factors: the processes for regular management, the process for the selection and proposal of suitable members of supervisory boards and monitoring of their suitability during the mandate, analytical decisions, processes for the preparation and updating of Articles of Association, Memorandums of Association, keeping of various records and other data on companies under management and preparation of financial reports. Risks in connection with the restructuring of capital assets arise from the processes for financial and business restructuring, processes in connection with the purchase of receivables, conclusion of Master Restructuring Agreements (MRAs), SSAs, processes connected with the closing of the purchase of receivables, conclusion of MRAs, SSAs, and processes following the closing of the formal restructuring phase. There are two key risks defined

in regard to asset management and restructuring, as follows:

- inadequate staffing for SBs of companies – in spite of procedures run by SSH in connection with the nomination of members for Supervisory Boards of companies under SSH management, there may be an appointment of a person who is subsequently proved not to be adequate;
- the risk of the failure to restructure a company – a failed restructuring of a company may consequently lead to the bankruptcy of the company and the decrease in value of assets for SSH.

For managing the above mentioned risks, numerous measures have been taken and are implemented on a regular basis: for example, verification of the candidates for Supervisory Boards of SOEs, avoidance of the conflict of interests, timely selection of suitable candidates for SOEs Supervisory Board's membership and updated monitoring of SB's members duration of term of office, intensive communication activities and collection of all necessary data about SOEs for drawing up the Annual Asset Management Plans and for their adoption, focusing on timely and suitable preparation of an SOE for carrying out its activities (monitoring the SOE's performance results and the financial situation of SOEs), the assessment and active monitoring of the implementation of measures, and similar.

Risks in regard to disposal of capital assets

Risks in regard to disposition of capital assets arise from processes in connection with the preparatory activities for the sale of capital assets, from the process of the sale or acquisition of capital assets and from processes in connection with the final closure of the sale of capital assets and after-sale processes.

The following risk has been defined as a key risk:

- the risk of the conflict of interest on the part of providers of advisory services in the processes for the sale/acquisition of capital assets – in spite of verifications prior to the launch of the

sale process or during the process, it may be determined that one of the advisors is in a conflict of interest which may block the sale process, incurring additional costs during the sale process;

For managing the above stated risks several measures have been adopted by SSH which are implemented on a regular basis. In case of the risk associated with the conflict of interest on the part of providers of advisory services in the processes for the sale/acquisition of capital assets, for example, providers are obliged to sign a Conflict of Interest Statement and to commit to the observance of the said statement during the provision of their services.

Risks connected with Information Technology

The main risks associated with information technology arise from processes for obtaining, maintaining and managing the ICT equipment, processes for controlling the operation of ICT equipment, the processes for physical and technical security, the management of user rights, the protection of personal data and cyber security. Key risks defined by SSH in regard to information technology are as follows:

- the information system failure, the failure of services rendered by external providers – the risk of the failure of the main part or of the entire information system;
- the occurrence of malfunction/errors in hardware, systemic equipment or in software, occurrence of malicious software (viruses);
- cyber-attack on the IT system.

In connection with information security, SSH has adopted numerous measures which are implemented on a regular basis; for example; regular backup of data and server settings, introduction of additional data centre, regular monitoring of the functioning of the information system with relevant control system, preventive maintenance of hardware and software, implementation of internal control system, regular verification of the functioning of the back-up centre,

official and unofficial communication with employees, introduction of protection against malware and computer viruses, and similar.

9.4.3 Goals for 2019

The established management of risks will be improved in 2019 and adapted to changes in business environment, in organization and in processes. Key risks from the aspects of measures, time periods for the implementation of measures, persons responsible for measures and for other content connected with the risk management will be regularly followed at the monthly sessions of the Risk Committee, and any potential newly-detected risks and incidents will be handled. Other risks registered in the Risk Register will be reviewed every six months according to the same criteria.

These improvements serve to SSH's desire to efficiently identify and determine risks and to adopt even more efficient measures for reducing their risk levels.

The project for the quantification of risks under the Risk Register will be continued, and the final revision of an internal legal document regulating risk management is planned.

A great focus will be placed on training sessions organised for employees responsible for risk management.

9.5 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 databases 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 complaints in regard to the breaches of privacy, neither was any incidence involving personal data protection recorded.





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10

Sustainable development of SSH

SSH's endeavours for sustainability in business derive from strategic orientation of value creation which is implemented by pursuing a responsible attitude towards the social environment with aspects of integrity, ethics, transparency and inclusion of stakeholders and sustainable operations.

The ultimate objective of state-owned companies being managed by SSH is effective, profitable, economical in operation, creative in value, and in many cases, efficient management of individual assignments in the public interest. This must be achieved by means of a balanced, stable and sustainable development of enterprises from the economic, social and environmental aspects.

Characteristics of reporting

SSH is not liable to provide a statement on non-financial reporting, nevertheless, as a case of good practice it draws up a Statement on Sustainable Development, taking into account one part of the international guidelines in this regard and recommendations regarding non-financial reporting from the Corporate Governance Code. A questionnaire for the twenty largest companies according to their value of equity was prepared for this Report. Answers to questions regarding the materiality of key topics for companies and employees is presented in an aggregate manner in the Materiality Matrix which is one of the tools for managing relationships with stakeholders. Key topics were defined on the basis of key guidelines of the legal documents on asset management and on past experience in collaboration with stakeholders. The decision to conduct a comprehensive external review of sustainable reporting (audit of the sustainable report) has not yet been made.

Key principles for SSH's sustainable development and goals for 2018

Corporate governance and economic operation

- Viability of SSH and the attainment of the set economic and strategic indicators;
- transparent governance;
- inclusion and cooperation with stakeholders;
- risk management;
- ethics and integrity;
- operational compliance;
- developing and improving the environment in which SSH operates towards sustainable business.

Employees

- Recruitment;
- relations between employees and chief executives;
- health and safety at work;
- supplementary training and education;
- diversity and equal opportunities;
- prevention of discrimination;

The environment

- Responsible attitude towards environment (materials, waste, waste water, etc.).

Key guidelines for socially responsible conduct and for the attainment of goals

The remaining part of the document presents key topics and the attainment of goals presented with the relevant commentary.

In accordance with its authority and responsibilities, SSH wishes to contribute to the sustainable

development of the broader social environment by addressing the above-mentioned topics. SSH has an impact on an important number of enterprises from the Slovenian economy since, by means of its operation and by setting their goals and expectations for them, SSH has an influence on the quality of their governance which may be expressed in different positive ways.

Contents	Goals for 2018	Commentary
Corporate governance and sustainable development	The preparation of strategic guidelines for the sustainable development of SSH;	The activities in this direction started to be carried out in February 2019 when a project group was formed.
	identification of key topics in regard to the most important SSH's stakeholders.	The top 20 companies were submitted a questionnaire on key topics.
HR management and organisation	Enforcing a new organisational structure towards matrix organisation;	The new organisational structure has been implemented. The regulation of the payment system, the employee promotion and career development system will continue in 2019.
	obtaining the full Family Friendly Company Certificate;	SSH obtained the full Family Friendly Company Certificate in 2018.
	carrying out workshops for the middle management for more efficient leadership.	The goal was postponed to 2019.
Further development of the good practice in corporate governance	On the basis of findings from the extended questionnaire, encouraging companies with an important proportion of state capital assets to enforce all provisions of Corporate Governance Codes and SSH Recommendations;	SSH's permanent task.
	continuous monitoring of the development of good practice in corporate governance and implantation of amendments to the Code, SSH Recommendations and SSH Asset Management Policy (constant practice).	The amendments to the Code were prepared in 2018; their adoption is planned in 2019.
Corporate integrity	Organising a training session for SB members of SOEs discussing this topic (training sessions are regularly organised in regard to various topics concerning corporate governance);	Two training sessions were organised during which the topic of the conflict of interest was discussed and the anti-corruption guidelines were presented by Transparency International. The guidelines were presented to all SSH's employees.
	consistent implementation of the Integrity Plan.	SSH's permanent task.

The remainder of this Chapter presents the identification of key topics, together with their materiality matrix, which is then followed by an overview of SSH's stakeholders (employees and

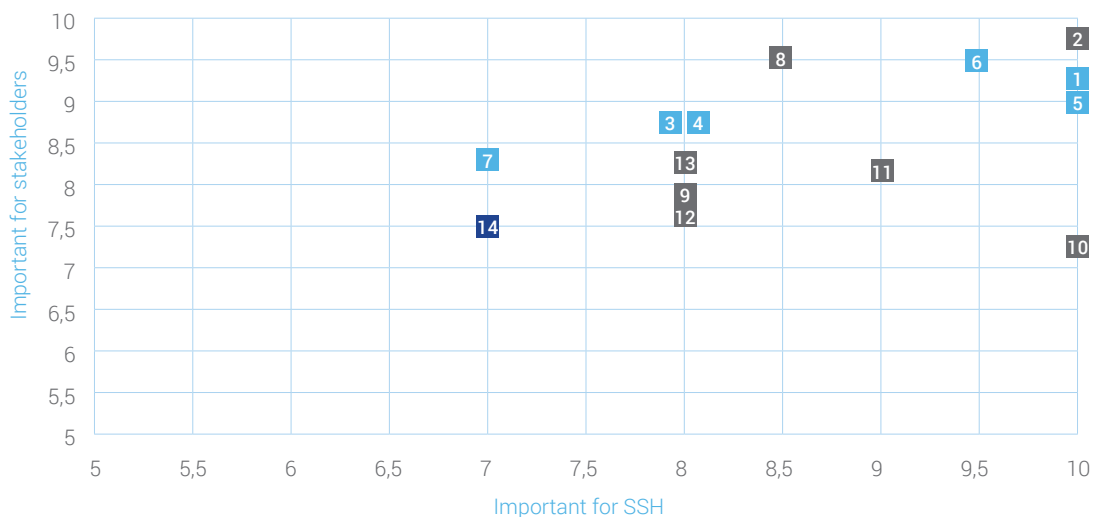
the largest SOEs) and their inclusion, whereas other groups of stakeholders and main activities carried out in 2018 are presented in further detail.

Schemes: Identification of key topics, interest of stakeholders and the materiality matrix (presentation of the importance of topics for SSH and for the stakeholders)

STAKEHOLDER'S INTEREST

1.	Economic performance and the achievement of economic and strategic indicators	CORPORATE GOVERNANCE/ ECONOMIC PERFORMANCE
2.	Transparent operation	
3.	Inclusion of stakeholders and cooperation with them	
4.	Risk management	
5.	Ethics and integrity	
6.	Operational compliance	
7.	Development and the improvement of the environment in which SSH operates aiming at sustainable operations	
8.	Recruitment	EMPLOYEES
9.	Relations between employees and executives	
10.	Health and safety at work	
11.	Supplementary training and education	
12.	Diversity and equal opportunities	
13.	Prevention of discrimination	
14.	Responsibility towards the environment (materials, waste, waste water)	ENVIRONMENT

MATERIALITY MATRIX



10.1 Overview of stakeholders and inclusion of their needs and interest

SSH has many stakeholders who represent an important part of the Slovenian economy, political system and social partnership, if only the three largest groups were to be pointed out. SSH strives for

professional and two-way communication with them, in which regard their interests and needs are identified and monitored and included in various ways.

The table below presents the most important SSH's stakeholders, the method of their inclusion and cooperation with them and key topics for cooperation and interest.

Stakeholder	Methods of cooperation	Areas of cooperation and interests covered
Companies from the RS and SSH portfolios; members of Supervisory and Management Boards	regular periodic and other meetings, written communication, invitations to events and training sessions organised by SSH	monitoring business performance of a company and of the attainment of economic and strategic indicators set, monitoring of companies' operations and harmonisation of goals planned, supplementary training and implementation of cases of good practice; stable, professional, predictable and transparent governance
National Assembly of RS, Government of RS, sectoral ministries	quarterly asset management reports, Annual Report - Management of Capital Assets of RS and SSH, cooperation in regard to the carrying out of sectoral policies, participation of three decision-makers at the sessions of SSH's SB (ZSDH-1)	effectiveness in the attainment of economic and strategic goals from the Asset Management Strategy and Annual Asset Management Plan, the amount of dividends paid out to the RS's budget
Employees	interpersonal contacts, electronic mails, participation in the governance (Employees' Council), Intranet portal, employee meetings, directors' meeting and sectoral meetings	supplementary training and education, relations between employees and chief executives, diversity and equal opportunities, health and safety at work, measures for a family friendly enterprise
The media	press releases, press conferences, interviews answers to questions raised by journalists, personal contacts with journalists, invitations to events	up-to-date, integrated and transparent information on significant events in SSH's operations and in the management of RS and SSH assets
Beneficiaries for compensations under various bills	procedures before administrative, judicial and other bodies, implementation of public powers	consistent adherence to regulations for the determination of compensations, fair and effective payment of compensations under various bills
Investors into SOS3 bond (until 2020)	annual, interim reports and SEOnet announcements	relevant, up-to-date and timely pieces of information in connection with SSH's operations
Social partners	sessions of the Expert Committee for Economic and Social Affairs which is a consultation body of the SSH's Management Board (representatives of trade union associations),	providing opinions and giving initiatives in regard to economic and social affairs (consequences for employees in companies managed by SSH in the fields of labour law, legal form of organisation and social security)
Business partners	calls to tender, meetings	adherence to the Public Procurement Rules, internal policies on procurement of goods and services and relevant provisions in regard to prevention of corruption, protection of trade secrets, avoidance of conflicts of interest, etc., clear selection criteria, regular settlement of liabilities
Potential investors	publicly published Requests for Proposal for the purchase of capital assets, announcement and submission of information on SSH's activities in connection with the processes for the sale of capital assets	transparent, equal and competition based conduct of sale processes in accordance with applicable regulations and comparable international practice

10.2 Detailed overview of cooperation with stakeholders in 2018

The figure below presents all SSH's stakeholders and the remainder of the documents describes the nature of SSH's relations with them.

Scheme: SSH's stakeholders



10.2.1 Relations with SOEs from the portfolio

SOEs are a strategic stakeholders and a standardised system of cooperation and relations with companies from the RS and SSH portfolios has been established by SSH (Supervisory Boards and Management Boards); the system is explained in detail in a Chapter on active management of capital assets of RS and SSH.

10.2.2 Relations with employees

SSH's employees in numbers and by educational structure in 2018

In 2018, on average, there were 68 employees employed in SSH.

On 31 December 2018, there were 66 employees employed in the Company, and of this number, 46 were women and 20 men. Sixty-five employees are employed for indefinite time period. The average age of employees is 47, the average years of service per employee is 22 years. The majority of employees come from the Osrednjeslovenska region.

In 2018, five new employees were employed, of this, three women and two men.

No. of employees /type of employment as of 31 December 2018

Number of employees/type of employments as of 31 December 2018	indefinite period of time.	temporary employment	all employment types
Number of employees: Total:	65	1	66
of which female	46	0	46
share in %	69.7	0	69.7
of which male	19	1	20
share in %	28.8	1.5	30,3

As of 31 December 2018, the proportion of women holding executive and managerial functions in SSH was slightly less than 67% (in regard to the number of executive and managerial positions).

The most changes in 2018 occurred in the Management Board of SSH as described in detail in the Supervisory Board's Report.

Employees with a university degree or a master of science degree represent a solid 75% of all SSH's employees, 15% of employees hold a higher education degree and 9% of employees hold a secondary education certificate.

Educational structure of SOD's employees as of 31

Education level:	No. of employees as of 31 December 2018	Percentage of employees by education Level
Secondary education (V)	6	9.1 %
Higher education, first-tier diploma (VI/1)	7	10.6 %
University education (VII/2)	3	4.5 %
University degree (VII)	40	60.6 %
2 nd Bologna cycle (VII)	3	4.5 %
Master of Science (VIII)	7	10.6 %
Total	66	100 %

Internal communication

Members of the Management Board and other employees in SSH are aware of the significance of an open and regular communication between the employees and the management and of the impact it has for maintaining good relations and achieving good business results. For the most part, internal communication in SSH is carried out directly at internal meetings, sectoral meetings, meetings of executives and the managerial staff and occasionally at meetings

organised for all employees. The electronic method of communication is conducted via e-mail and through the Intranet portal which is dedicated to all employees and covers all areas of operation, presenting all important news referring to SSH or to SSH's employees, making available internal legal documents, information on training sessions and material for them, measures for the prevention of mobbing, for safety at work, for health promotion, for a family friendly company and current topics handled by the Employees' Council. The Employees' Council is an interface between the employees and the Management Board. The Employees' Council plays a particularly important role in cases regarding the reorganisation of SSH, and in cases of significant changes in the Company that refer to employees; occasionally, it convenes company-wide employee meetings. Key topics discussed are as follows: organisation, working environment, working time, job systematization, wage policy and remuneration. The Management Board and the Employees' Council meet at meetings, when necessary, and the summary of such meetings is posted on the Intranet.

The Management Board adheres to all statutory and internally-stipulated time periods for informing representatives of the Employees' Council on important organisational changes and changes in operations which may have a significant impact on the work carried out by employees.

HR management

The committed, professional and motivated employees are the foundation for successful performance and for sustainable development of the Company. Some areas of HR management are still a challenge for the Company. In 2018, the organisation of work in SSH was renewed, some organisational units were reformed and some internal legal documents were revised (from September 2017 to April 2018), annual career development interviews with employees were carried out, however, the Company did not manage to implement the planned renewal of the wage and the remuneration systems, neither to measure the organisational climate and the employee commitment, leaving these as a priority tasks for HR management in 2019.

At the same time, the results of the employee career development interviews carried out in 2018 show that the majority of employees is satisfied with their work, with business processes, with the methods and subject matter of training sessions to which they are referred. They are similarly satisfied with measures for health and safety at work and for health promotion and with measures for balancing private and professional life taken within the scope of the Family Friendly Company Certificate.

Training of employees in 2018

In the light of the nature of work carried out by employees in SSH, their continuing education is very important for maintaining their competences and expertise. Employees from all organisational units were referred to individual training sessions, comprising the total of 1,300 education hours or on average, 20 hours per person; on average, more women took part in the training sessions than men. Employees also took part in specialized training sessions dedicated both to employees and to external participants – members of Supervisory Boards of companies under management, and other representatives of companies under direct or indirect ownership of the State.

Recruitment method

As compared to past years, a growth in the employment rate has been noticed recently. The recruitment process is settled and all candidates have an opportunity to apply, regardless of gender, age and other circumstances. SSH thus employs its staff according to the principle of equal opportunities, transparency and non-discrimination. All employees receive the same benefits. All invitations to apply are published publicly.

Fluctuation of employees in 2018

In 2018, five new employees were employed, of this number, three women and two men whereas 12 employees terminated their employment – six women and six men.

Fluctuation of employees in 2018

Age group	ARRIVALS			DEPARTURES		
	Number	of which female	of which male	Total number	of which female	of which male
group	Total:					
20–29 years	0	0	0	1	1	0
30-39 years	1	1	0	1	1	0
40-49 years	1	1	0	6	3	3
above 50 years	3	1	2	4	1	3
Total:	5	3	2	12	6	6

Concerns for health and safety at work and promotion of health at work

The working environment in the Company is prudent and organised. The work involved is mostly office work and as such not dangerous. No accidents at work were recorded in 2018, neither was there any occupational disease registered. Regardless, the Company is aware of the risks such as a non-ergonomic workplace, bad posture and improper work with display screen, which is why the work environment and means for work are regularly examined and improved, employees receive regular training in regard to safety at work and fire protection and they undergo periodical medical examinations. The cooperation with advisors for safety and health at work and experts from the field of occupational medicine has always been very good.

The concern for the psychological and physical health of employees falls under the responsibility of every individual and of the Company as a whole, however special attention is dedicated to this subject matter by chief executives and other middle management personnel by way of their position as a role model and by means of support they provide at work, together with the group of volunteers promoting health who ensure the work in this field is continuously carried out.

Health promotion

In order to maintain high level psychological and physical health of employees, the group for health promotion continued pursuing its activities, specifically, raising the awareness of employees in regard to the importance of diet and exercise for health and well-being (training, physical exercises), ensuring additionally improved provision of local food products for shared healthy breakfasts (selection of suppliers holding the certificates for bio and eco food production) and more diversified provision of seasonal fruit and vegetables (supplied by local producers) and organising mountaineering excursions outside business hours. All of the above mentioned activities have been well accepted by the employees who not only take part in events but also participate in their organisation.

Employees are regularly informed of activities in this field and on new measures taken, as a matter of fact, all these pieces of information are available on the Intranet and can be obtained from the members of the group in charge of health promotion. Considering the survey on employee satisfaction with measures and their implementation in 2018, the employee's response is positive and satisfactory, and the goal of the health promotion group for 2019 is for the number of participants and organisers to increase.

SSH holds the Family Friendly Enterprise Certificate

Since measures introduced by the Family Friendly Enterprise certification scheme (FFE) were successfully implemented during the first period of holding the said certificate (2015-2018), on the basis of a decision by the Audit Council of the organization granting the Family Friendly Enterprise, SSH received a full Family Friendly Enterprise Certificate on 24 August 2018. The current fifteen measures relating to the FFE were supplemented by the members of the SSH's FFE Group with additional five measures to be implemented in the next three-year period (2018-2021), of which three are new while two current measures have been complemented.

The measure still attracting the greatest attention from employees relate to the child-related time bonus for parents of pre-school children who are afforded eight additional hours for preparing their children for kindergarten, and for parents with children of the first and the second classes of the elementary school escorting them on the first school day for which the parents are provided with a paid day of leave. From 2019 onwards, an additional day of leave will also be provided to parents who will escort their ninth-graders to the Secondary School Information Days.

For the second year in a row, the Santa Clause has visited and brought gifts to children of up to 10 years of age.

Within the scope of FFE measures, a lecture was organised for employees, discussing topics on balancing private and professional life and topics beneficial for health and well-being. The spring and winter lectures were well-attended and were complimented and assessed as beneficial.

Take-up of paternal leave

In 2018, none of SSH employees took paternal leave.

Social security

Slovenian Sovereign Holding provides to all its employees a premium for additional pension insurance which is provided by the Pension Fund MKPR, managed by Modra zavarovalnica.

10.2.3 Relations with state authorities: National Assembly of RS, Government of RS, sectoral ministries

The activities carried out by SSH are closely connected with decisions made by state authorities and policies and industry development strategies by sectoral ministries and other state bodies operating in sectors in which an individual company from the SSH/RS portfolios operates. The Article 7 of ZSDH-1 stipulates that communication between SSH, state bodies and other entities of public law must be traceable. This is why SSH has prepared the internal Instructions on Traceability of Communication between SSH and State Bodies and other Entities of Public Law.

In 2018, the representatives of SSH responded to the invitation by the Commission of Public Finance Control and the Committee on Finance and Monetary Policy of the National Assembly of RS several times where they explained some decisions they made and opinions taken.

The annual report on the management of capital assets of RS and SSH is prepared by SSH for the National Assembly, the Government of the Republic of Slovenia on an annual basis while quarterly reporting is carried out for the Parliamentary Commission for Public Finance Control. In addition, the Annual Report - Management of Capital Assets of RS and SSH was orally presented in detail to the parliamentary body responsible for finance.

In accordance with Article 41 of ZSDH-1, the SSH Supervisory Board's sessions may also be attended by the ministers responsible for finance and the economy and the President of the Parliamentary Commission for Public Finance Control, however, without having the right to make decisions. For each SB's session, invitations, all material and minutes are submitted to these bodies.

10.2.4 Media relations

The media are considered to be of key importance in conveying messages between SSH and its public groups which is why SSH strives for transparent and efficient communication with the media. The aim is to increase information and contribute to better understanding of SSH's functioning and the results of its work and to achieve support for the achievement of SSH's goals. SSH replies to numerous questions raised by journalists and received on a daily basis in a fast and comprehensive manner. The SSH's web site is also available to the public on which numerous reports of importance and information relating to asset management are published.

Public relations in 2018 were very intense. As many as 11,650 articles or reports addressing SSH either fully or partially were published in 51 mass media outlets, in which regard SSH made an active response in regard to some reports. In 2018, as many as 380 different authors wrote or reported about SSH, while the total number of authors writing about SSH stood at 773. Further, on, 221 e-mails sent by journalists were submitted to the media-dedicated e-mail address: pr@sdh.si, containing in total 729 questions. SSH replied to all journalists' questions which have been raised in the given time period, mostly providing an answer on the very same day the question was received. The President of the Board, Lidija Glavina, answered the questions by the journalists set at the press conference organised after the General Meeting of Sava and after the admission of the NLB shares to the stock exchanges. The member of the Management Board, Nada Drobne Popovič, MSc, gave three statements for the radio RaSLO1, took part in the Studio at 17h show and gave three statements for the TV in regard to the management of state capital assets. In 2018, SSH organised the annual conference at which its performance results and outlook for the future were presented. There were 53 press releases published for the media and the interested public groups on the SSH web site.

10.2.5 Investor relations – bond purchasers

Slovenian Sovereign Holding provides for the transparency of its operation which is ensured by

publishing information which is important for bond investors. From June 2016 onwards, one bond issued by SSH has been listed on the Ljubljana Stock Exchange, specifically: SOS3 Bond investors may follow all important announcements issued by SSH through SEOnet and via notifications published on the Company's website www.sdh.si.

10.2.6 Relations with social partners

ECESA is a consultative body of SSH Management Board, which passes opinions and makes initiatives in regard to affairs which result or may result in issues concerning the labour law, legal form of organisation or with social impacts for companies managed by SSH. ECESA is composed of seven representatives of Slovenia's representative trade unions and confederations who are members of the Economic and Social Council.

In 2018, ECESA convened two regular sessions on which the report on capital asset management and on sales of capital assets was addressed. Its members were informed of the draft amending the SSH Asset Management policy, and discussed current issues dealt with by companies managed by SSH, primarily with the focus on employees' rights. The cooperation between the SSH Management Board and ECESA was adequate and pieces of information submitted by SSH to ECESA were extensive and up-to-date. The Management Board was present at both ECESA's sessions.

10.2.7 Relations with business partners

SSH has established a clear and transparent manner for selecting business partners (financial advisors, legal advisors and other suppliers of goods and services), observing in this regard the provisions of the applicable law regulating public procurement and internal legal documents, such as the SSH Asset Management Policy which in Chapter 16 regulates the procedures for the selection of financial and other advisors in the processes of sale, acquisition or another type of transfer of capital assets, in addition to the internal Rules on

Award of Public Contracts, regulating procurement procedures in which the value of goods or services does not exceed EUR 20 thousand (excluding VAT), and public procurement procedures with a value exceeding EUR 20 thousand (excluding VAT). The said Rules lay down detailed regulations on duties, appointments, tasks and responsibilities of individual persons participating in the process for the procurement of goods or services. SSH respects business agreements and settles its liabilities in due time. It also takes into account the provisions of the Decree on Green Public Procurement For all transactions for which public publication is necessary in accordance with the Public Information Access Act, the key elements of the transaction are published on SSH's web site.

Procurement of goods and services

The criteria for the selection of suppliers of goods and providers of services differ in regard to the type of a supplier and provider. However, the following principles apply to them all: the principles of economy, of competition among the bidders, of transparency, of equal treatment and of proportionality. The most important criterion for the selection is the price. When several criteria are given for the selection of the most favourable supplier or provider, these criteria must be clearly defined in advance and the relative weight is attributed to them. In 2018, in addition to the procedures for the selection of suppliers of goods and providers of services which were run in accordance with ZJN-3, another 202 contracts were concluded (in the value of from EUR 0 to EUR 19,999 per an individual order) in relation to goods and services for general affairs, i.e., for the purchase of goods, 90 contracts were awarded in the total value of EUR 168 thousand, mostly for IT-related needs, such as the Procurement of computer equipment and software, various support applications, office supplies and material for representation. For the provision of services for general affairs, 112 contracts were awarded (in the value of from EUR 0 to EUR 19,999 per an individual order, and for the rendering of social and other special services up to the threshold of EUR 750 thousand), totalling EUR 764 thousand, mostly referring to advisory services, maintenance services, provision of training and telecommunication services.

Additionally, EUR 8,9 million was allocated for financial advisory services rendered in the processes for the sale of companies, including expenses for company appraisals, financial and legal due diligence of companies involved in the processes for the sale and acquisition of companies (the largest proportion of these costs represent costs incurred by advisors in the processes of the sale of NLB and Abanka). The majority of suppliers and providers come from Slovenia, and broadly speaking, from the European Union.

Sponsorships and donations

No Sponsorship or Donation Agreements were concluded by SSH in 2018. In accordance with ZSDH-1, SSH is subject to explicit prohibition of concluding Sponsorship and Donation Agreements.

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

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

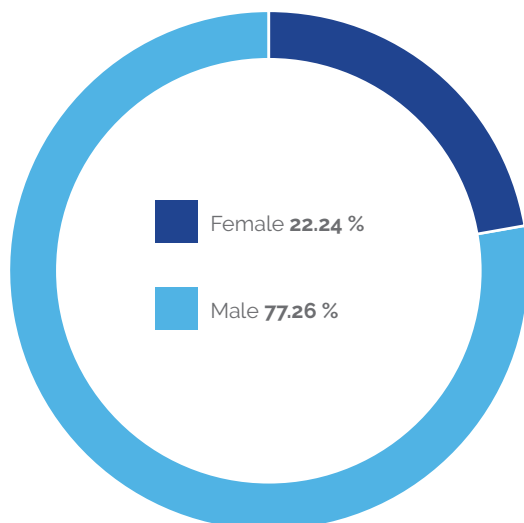
The remainder of the text presents a basic analysis of potential candidates registered at the Portal of the Nomination Committee, and the analysis on the members of supervisory and management bodies of SOEs by gender as at 31 December 2018.

10.3.1 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 SSH's Register of potential candidates for the members of supervisory boards stands at 1,316.

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

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



The age structure of registered individuals (regardless of gender), who have expressed their interest for the candidacy in the membership of supervisory boards of enterprises managed by SSH, shows that the average age of candidates moves between 41 to 50, (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 least represented category.

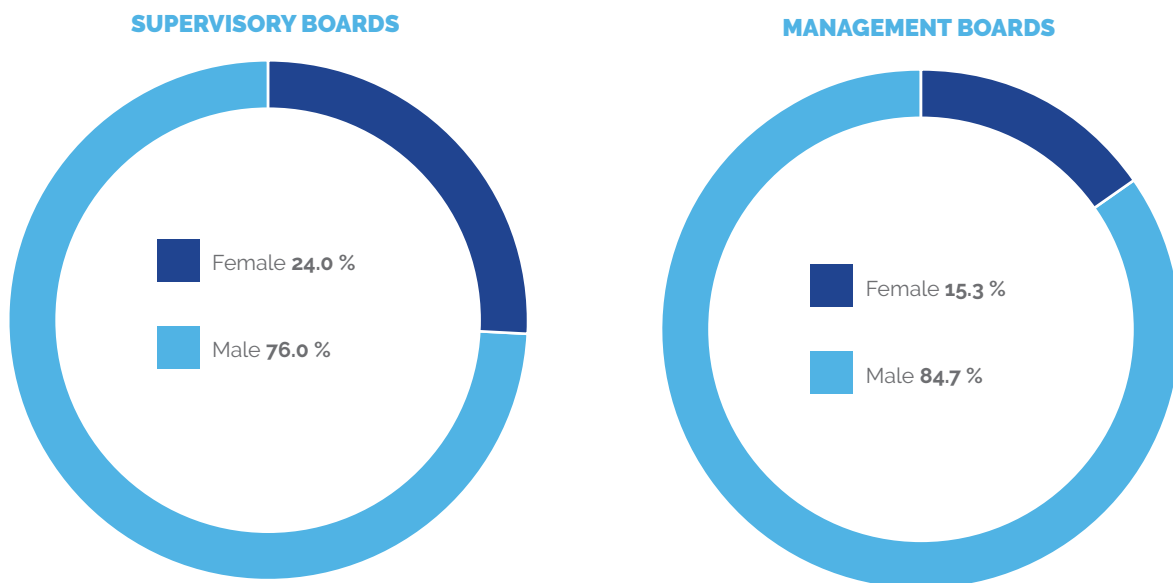
10.3.2 The composition of Supervisory and Management Boards of companies owned by the Republic of Slovenia by gender

In 2018, the composition of Supervisory and Management Boards by gender was similar as in 2017, i.e. mostly imbalanced, although it is improving as compared to previous years. Men continue to prevail in membership of supervisory and management boards, although in 2018, the diversity of their 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, 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 15.3 % of women. In spite of the disproportion regarding gender presence in management and supervisory bodies, the care for heterogeneous composition, including by means of the provisions of Corporate Governance Code for SOEs and by promoting the Diversity Policy in companies under management, is shown in an increased number of women in Supervisory Boards, specifically their number increased from 19.5% in 2016 to 24% in 2018, and in Management Boards from 9.7% in 2016 to 15.3% in 2018. In 2018, the composition of Supervisory and Management Boards by gender was similar as in 2017, i.e. mostly imbalanced, although it is improving as compared to previous years. Men continue to prevail in membership of supervisory and management boards, although in 2018, the diversity of their composition in terms of gender turned in favour of women. At 31 December

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Figure: The composition of Supervisory and Management Boards of companies directly owned by the Republic of Slovenia and SSH by gender (companies in bankruptcy or liquidation are excluded)



10.4 Responsibility towards environment

10.4.1 Waste treatment

SSH belongs to less intensive environmental polluters and is of the opinion that it does not have a major impact on the environment, considering the nature of its activities. However, the indirect impact on the environment is considered, in terms of relations to suppliers in the supplier chain, involving the material purchased by SSH and as a result, in the future, more attention will be dedicated to the verification of suppliers from the aspect of their impact on the environment. In public procurement procedures relating to the purchase of goods or provision of services to which the Decree on Green Public Procurement applies, the compliance with the said

Decree is required in the tender documentation. In 2018, this principle was taken into account in the procurement of computer hardware and in the renovation of business premises.

Similarly, SSH ensures that as little impact onto the environment is caused by its operations. The process for paperless operations at all levels of operations continued in 2018. Such processes will result in, among other matters, in a decreased use of toners and paper. Considering the nature of its activities, SSH does not measure the quantity of waste water. In SSH, waste is separated following the established waste separation system (paper, packaging, glass, toners, electronic equipment and other). At the same time, the use of plastic products for single use is being phased out.

Events after balance sheet date

Significant events after balance sheet date are described in detail under item 15.6 of the Accounting Report of this Annual Report.





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Slovenian Sovereign
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Accounting Report



For year ending on 31 December 2018

11 Statement of management responsibility

The Management Board is responsible for the preparation of the Annual Report so that it provides a true and accurate account of the financial position of Slovenian Sovereign Holding (SSH) and Slovenian Sovereign Holding Group (SSH Group) as at 31 December 2018 and results of performance and cash flows for 2018.

The Management Board confirms that applicable accounting policies and accounting estimates have been consistently applied in the preparation of separate and consolidated financial statements of SSH and the SSH Group. The Management Board further confirms that Financial Statements and Notes have been prepared under the assumption of the going concern and are in line with applicable legislation and the International Financial Reporting Standards as adopted by the EU.

The Management Board is responsible for adequate and orderly accounting and the adoption of appropriate measures for safeguarding property and other assets as well as for the prevention and detection of frauds and other irregularities and illegalities.

At any time, tax authorities may verify the operation of SSH within five years from the tax calculation date which may consequently result in additional tax liability, default interest and penalty being imposed pursuant to the Corporate Income Tax Act, or arising from any other taxes and levies. The Management Board is not familiar with any circumstances that may give rise to any potential significant liability arising thereunder

The President and the Members of the Management Board of Slovenian Sovereign Holding hereby declare that we are fully cognisant of the content of all integral parts of the Annual Report and we confirm it hereby with our signatures.

Ljubljana, 16 April 2019

Igor Kržan,
President of Management Board



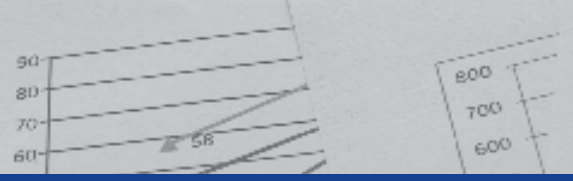
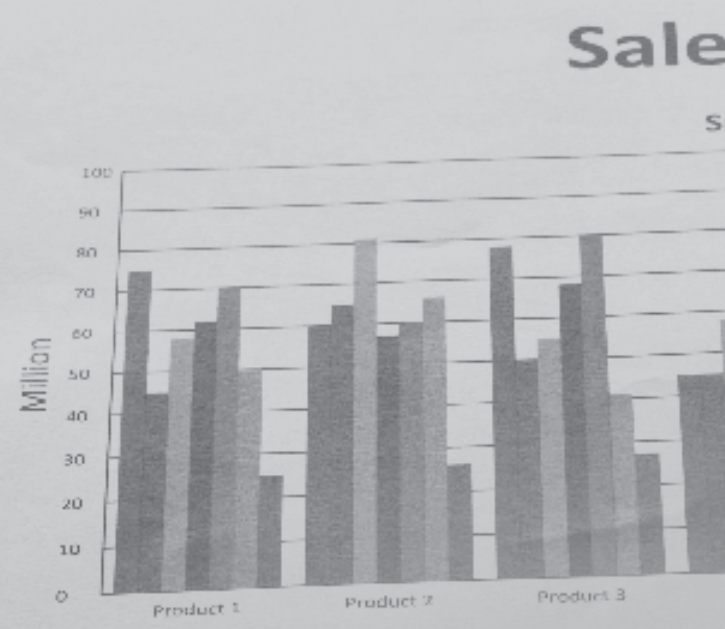
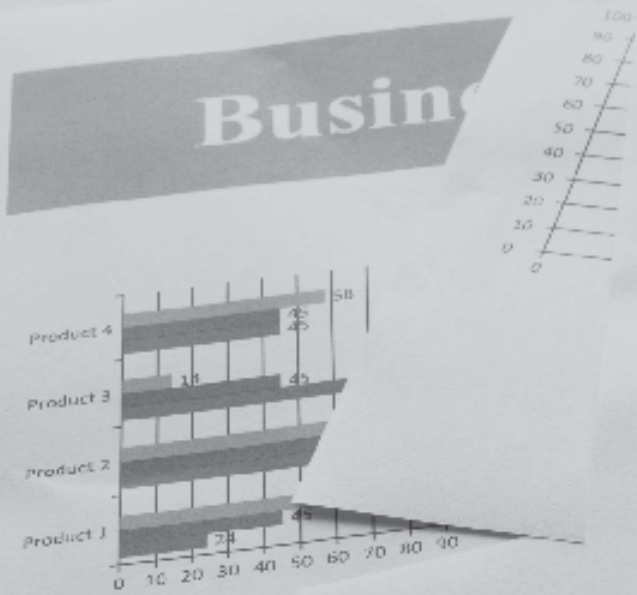
Boštjan Koler,
Member of
Management Board



Andrej Božič,
Member of Management
Board



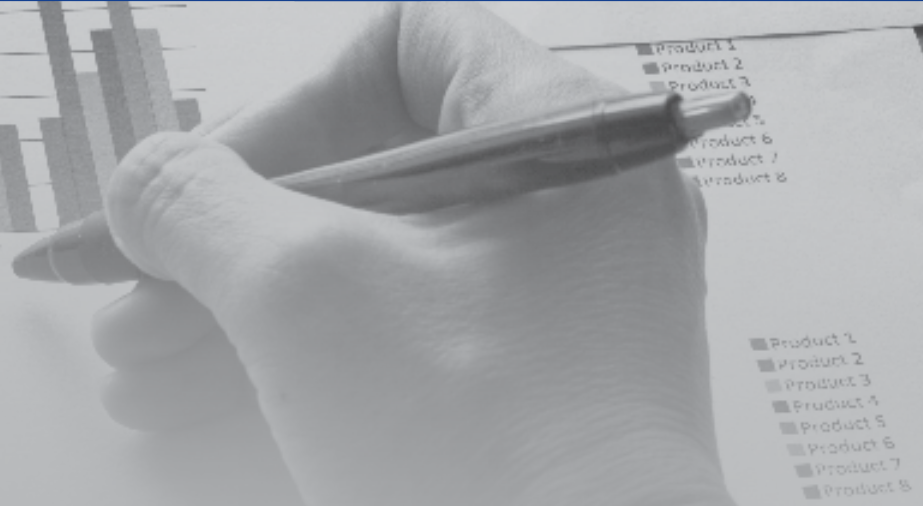
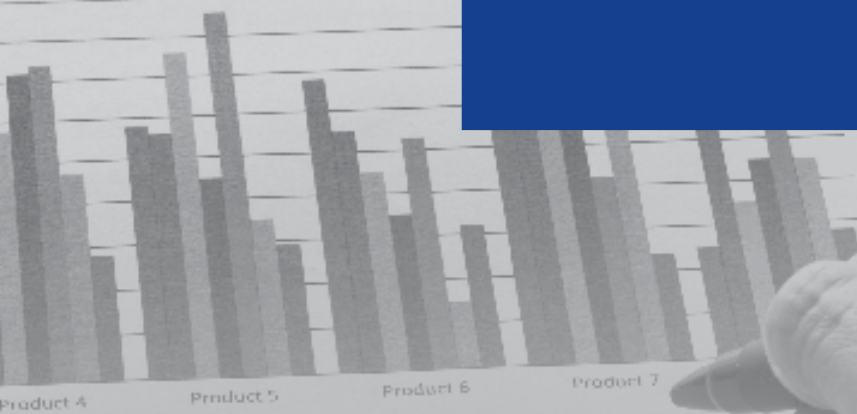
SDH



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Report

Summary



INDEPENDENT
AUDITOR'S
REPORT

12 Independent auditor's report



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INDEPENDENT AUDITOR'S REPORT

To the shareholder of Slovenian Sovereign Holding

(Translation of the original report in Slovene language - for information purposes only)

Opinion

We have audited the separate financial statements of Slovene Sovereign Holding (SSH or Company) and the consolidated financial statements of SSH group (SSH Group), which comprise the statement of financial position and the consolidated statement of financial position as at 31 December 2018, the income statement and the consolidated income statement, statement of other comprehensive income and the consolidated statement of other comprehensive income, statement of changes in equity and the consolidated statement of changes in equity, and the statement of cash flows and consolidated statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the accompanying separate and consolidated financial statements present fairly, in all material respects, the financial position of SSH and SSH Group as at 31 December 2018, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and Regulation (EU) No. 537/2014 of the European Parliament and Council on specific requirements regarding statutory audit of public-interest entities (Regulation (EU) No, 537/2017 of the European Parliament and Council). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Separate and Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the separate and consolidated financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the separate and consolidated financial statements of the current period. These matters were addressed in the context of our audit of the separate and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of financial investments, for which market prices are not readily available

Key Audit Matter

As at 31.12.2018 the Company, in the separate financial statements, accounts for 54,063 thousand EUR of financial investments, and the Group in its consolidated financial statements accounts for 54,130 thousand EUR of financial

Our response

Our audit procedures included an assessment of the adequacy of the methods used in evaluating the fair values of each financial investment, the suitability of the assumptions used, the input data and the discount rates. Our audit team included valuation experts



investments (investments in shares and shareholdings and purchased receivables) for which no fair values, resulting from quoted market prices are available. The fair value of these investments has been established by using various valuation models.

As the assessment of fair values of investments is linked to material subjective judgments, we determined this matter as a key audit matter.

who assisted us in performing the relevant audit procedures regarding material investments.

We also assessed the adequacy of disclosures in the note 15.1.2.

Other matters

The separate and consolidated financial statements for the year ended 31 December 2017 have been audited by another auditor who issued an unqualified audit opinion on 16 April 2018.

Other Information

Management is responsible for the other information. The other information comprises the Business Report included in the Company's Annual Report but does not include the separate and consolidated financial statements and our auditor's report thereon.

Our opinion on the separate and consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the separate and consolidated financial statements, our responsibility is to read other information and, in doing so, assess whether the other information is materially inconsistent with the separate and consolidated financial statements, legal requirements or our knowledge obtained in the audit, or otherwise appear to be materially misstated. If, on the basis of the work done, we conclude that there is a material misstatement of other information, we must report such circumstances. Based on the procedures performed, we report that:

- the other information is in all material respect consistent with audited separate and consolidated financial statements;
- the other information is prepared in compliance with applicable law or regulations;
- based on the knowledge and understanding of the Company and its environment, obtained in the audit, we have not identified any material misstatement of other information.

Responsibilities of Management, Audit Committee and Supervisory Board for the Separate and Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the separate and consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of separate and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate and consolidated financial statements, management is responsible for assessing the Company's and Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.



The Audit Committee and the Supervisory Board are responsible for overseeing the Company's financial reporting process for preparing the separate and consolidated financial statements and for the confirmation of the Annual Report.

Auditor's Responsibilities for the Audit of the Separate and Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate and consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for audit opinion.

With the Supervisory Board and the Audit Committee we communicate the planned scope and timing of the audit and significant findings from the audit, including any significant deficiencies in internal control we have identified during our audit.

We also provide the Supervisory Board and the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



From the matters communicated with the Supervisory Board and the Audit Committee, we determine those matters that were of most significance in the audit of the separate and consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other reporting obligations as required by EU Regulation No. No 537/2017 of the European Parliament and of the Council

In compliance with Article 10 (2) of EU Regulation No. 537/2014 of the European Parliament and the Council, we provide the following information in our Independent Auditor's report, which are required in addition to the requirements of International Standards on Auditing:

Appointment of the Auditor and the Period of Engagement

We were appointed as the statutory auditor of the Company by the shareholders at the General Shareholders' Meeting held on 31 July 2018 for the financial years 2018, 2019 and 2020. The Chairman of the Supervisory Board signed the engagement letter for financial year 2018 on 8 August 2018. Total uninterrupted engagement period for the statutory auditor has lasted for 1 year. The audit partner responsible for the audit is Mateja Vrankar.

Consistence with the Additional Report to the Audit Committee

Our audit opinion on the separate and consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 16 April 2019.

Non-audit Services

We confirm that we have not performed any prohibited non-audit services referred to in Article 5(1) of EU Regulation No. 537/2014 of the European Parliament and the Council and we remain independent from the Company in conducting our audit.

In addition to the statutory audit services and services disclosed in the annual report, no other services were provided by us to the Company.

Ljubljana, 16. April 2019

BDO Revizija d.o.o.
Cesta v Mestni log 1, Ljubljana

*(signature on the original issued
in Slovene language)*

Mateja Vrankar, certified auditor
Managing partner





FINANCIAL STATEMENTS OF SLOVENIAN SOVEREIGN HOLDING COMPANY AND SSH GROUP 138

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13 Financial statements of Slovenian Sovereign Holding Company and SSH Group

13.1 Statement of financial position of SSH and SSH Group

in 1.000 EUR	Note	SSH			SSH Group		
		Corrected	Corrected	Corrected	Corrected	Corrected	
		31 Dec 2018	31 Dec 2017	1 Jan 2017	31 Dec 2018	31 Dec 2017	1 Jan 2017
ASSETS							
Long-term assets - total		641,357	667,309	780,539	641,424	665,969	779,598
Intangible assets		172	203	90	172	203	90
Tangible fixed assets	15.1.1.	691	622	583	691	622	583
Financial investments in subsidiaries	15.1.2.	3,757	3,203	3,512	3,757	3,203	3,512
Financial investments in associates	15.1.2.	214,404	214,956	231,340	214,471	213,616	230,399
Other financial investments	15.1.2.	422,333	448,325	545,014	422,333	448,325	545,014
Short-term assets - total		50,948	11,979	232,529	50,948	11,979	233,626
Long-term assets held for sale	15.1.3.	5,903	0	4,988	5,903	0	6,085
Financial investments	15.1.2.	34,372	38	166,000	34,372	38	166,000
Operating receivables	15.1.4.	2,399	2,886	1,779	2,399	2,886	1,779
Assets from Contracts with Customers		891	0	0	891	0	0
Other short-term assets		31	653	524	31	653	524
Cash and cash equivalents	15.1.5.	7,352	8,402	59,238	7,352	8,402	59,238
Assets - total		692,305	679,288	1,013,068	692,372	677,948	1,013,224

in 1.000 EUR	Note	SSH			SSH Group		
			Corrected	Corrected		Corrected	Corrected
		31 Dec 2018	31 Dec 2017	1 Jan 2017	31 Dec 2018	31 Dec 2017	1 Jan 2017
EQUITY AND LIABILITIES							
Equity - total	15.1.6.	498,516	472,472	536,082	498,583	471,132	536,238
Called-up Equity		260,167	260,167	260,167	260,167	260,167	260,167
Capital reserves		0	0	0	0	0	0
Fair value reserve		353,888	428,204	483,602	114,326	203,311	299,858
Retained profit		-115,539	-215,899	-207,687	64,957	7,654	-23,787
Net profit for the period		0	0	0	59,133	0	0
Long-term liabilities - total		163,703	174,585	165,429	163,703	174,585	165,429
Provisions and long-term deferred costs and accrued revenues	15.1.7.	45,887	50,461	39,396	45,887	50,461	39,396
Financial liabilities	15.1.8.	99,886	104,807	104,731	99,886	104,807	104,731
Deferred tax liabilities		17,930	19,317	21,302	17,930	19,317	21,302
Short term liabilities		30,086	32,231	311,557	30,086	32,231	311,557
Liabilities-held-for sale	15.1.3.	2,070	0	0	2,070	0	0
Financial liabilities	15.1.9.	11,743	12,996	293,172	11,743	12,996	293,172
Operating liabilities	15.1.10.	15,582	19,077	17,825	15,582	19,077	17,825
Other liabilities		691	158	560	691	158	560
Liabilities - total		193,789	206,816	476,986	193,789	206,816	476,986
Liabilities and equity - total		692,305	679,288	1,013,068	692,372	677,948	1,013,224

Notes to the financial statements form an integral part of financial statements and should be read in conjunction with them.

13.2 Income statement of SSH and SSH Group

in EUR 1,000	SSH		SSH Group		
	Note	Corrected		Corrected	
		1 Jan-31 Dec 18	1 Jan-31 Dec 17	1 Jan-31 Dec 18	1 Jan-31 Dec 17
Revenue from contracts with customers	15.1.11.	10,002	3,902	10,002	3,902
Other operating income	15.1.11.	3,514	3,063	3,514	3,063
Operating income		13,516	6,965	13,516	6,965
Costs of goods, materials and services	15.1.12.	7,535	2,145	7,535	2,145
Labour costs	15.1.13.	4,105	4,150	4,105	4,150
Depreciation and amortisation	15.1.14.	234	169	234	169
Long-term provisions		0	14,453	0	14,453
Write-offs		288	6	288	6
Other operating expenses		48	61	48	61
Operating profit or loss		1,306	-14,019	1,306	-14,019
Financial income	15.1.15.	46,192	55,755	29,994	36,073
Financial expense	15.1.15.	2,625	4,192	2,625	4,192
Proportion of profit/loss from investments measured at equity method	15.1.16.	-	-	32,273	73,995
Profit before taxes		44,873	37,544	60,948	91,857
Income tax	15.1.17.	0	0	0	0
Deferred taxes	15.1.17.	-1,815	-3,609	-1,815	-3,609
Net profit for the period		43,058	33,935	59,133	88,248
Basic and adjusted earnings per share - in EUR		276.24	217.71	379.38	566.18

Notes to the financial statements form an integral part of financial statements and should be read in conjunction with them.

13.3 Statement of other comprehensive income of SSH and SSH Group

in EUR 1,000	Note	SSH		SSH Group	
		Corrected		Corrected	
		1 Jan-31 Dec 18	1 Jan-31 Dec 17	1 Jan-31 Dec 18	1 Jan-31 Dec 17
Net profit for the period		43,058	33,935	59,133	88,248
Changes in fair value reserve (financial investments)		-20,239	-60,985	-34,908	-102,135
Recalculation of post-employment benefits		24	-7	24	-7
Effects of deferred taxes		3,201	3,609	3,201	3,609
Other comprehensive income not recognised in Income Statement in the future		-17,014	-57,383	-31,683	-98,533
Other comprehensive income after tax		-17,014	-57,383	-31,683	-98,533
Total comprehensive income after tax		26,044	-23,448	27,450	-10,285

Notes to the financial statements form an integral part of financial statements and should be read in conjunction with them.

13.4 Statement of cash flows of SSH and SSH Group

in EUR 1,000	SSH		SSH Group	
	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017
Cash flows from operating activities				
Proceeds from operating activities	13,810	16,743	13,810	16,743
Proceeds from operating activities	6,520	7,292	6,520	7,292
Proceeds from Republic of Slovenia (commission business)	7,290	9,451	7,290	9,451
Expenses from operating activities	-19,179	-20,232	-19,179	-20,232
Expenses for materials and services	-2,705	-1,759	-2,705	-1,759
Wages and salaries for employees	-4,088	-4,201	-4,088	-4,201
Expenses for various levies and charges	-695	-666	-695	-666
Payments pursuant to ZDen and SZ	-5,076	-2,879	-5,076	-2,879
Expenses for the account of the Republic of Slovenia (commission business)	-6,359	-10,475	-6,359	-10,475
Other expenses from operating activities	-256	-252	-256	-252
Net cash flow from operating activities	-5,369	-3,489	-5,369	-3,489
Cash flow from investing activities				
Proceeds from investing activities	64,806	361,533	64,806	361,533
Proceeds from interest income and from shareholdings included in distribution of profit of others	40,415	46,013	40,415	46,013
Proceeds from sale of property, plant and equipment	19	14	19	14
Proceeds from sale of long-term financial investments	2,984	25,526	2,984	25,526
Proceeds from sale of short-term financial investments	21,388	289,980	21,388	289,980

in EUR 1,000	SSH		SSH Group	
	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017
Expenses from investing activities	-52,928	-124,353	-52,928	-124,353
Expenses for acquisitions of intangible assets	-89	-187	-89	-187
Expenses for acquisitions of property, plant and equipment	-138	-151	-138	-151
Expenses for acquisitions of long-term financial investments	-31,500	0	-31,500	0
Expenses for acquisitions of short-term financial investments	-21,201	-124,015	-21,201	-124,015
Net cash flow from investing activities	11,878	237,180	11,878	237,180
Cash flow from financing activities				
Proceeds from financing activities	0	3,300	0	3,300
Proceeds from increase in short-term financial liabilities	0	3,300	0	3,300
Expenses for financing activities	-7,559	-287,827	-7,559	-287,827
Expenses for interest paid in connection with financing activities	-2,559	-4,527	-2,559	-4,527
Expenses for repayment of long-term financial liabilities	-5,000	-280,000	-5,000	-280,000
Expenses for repayment of short-term financial liabilities	0	-3,300	0	-3,300
Net cash flows from financing activities	-7,559	-284,527	-7,559	-284,527
Cash and cash equivalents at the beginning	7,352	8,402	7,352	8,402
Cash flows in the period	-1,050	-50,836	-1,050	-50,836
Cash and cash equivalents at the end	8,402	59,238	8,402	59,238

Notes to the financial statements form an integral part of financial statements and should be read in conjunction with them.

13.5 Statement of changes in equity

13.5.1 Statement of changes in equity of SSH

in EUR 1,000	Share capital	Capital reserve	Retained earnings	Fair value reserve	Total
Balance at 31/12/2016	260,167	0	-186,385	483,602	557,384
Error correction	0	0	-21,302	0	-21,302
Balance as of 1 Jan 2017	260,167	0	-207,687	483,602	536,082
Transactions with owners	0	0	-42,146	-142,108	-184,254
Transfer of capital assets to the Republic of Slovenia	0	0	-42,146	-157,854	-200,000
Change in deferred tax assets due to transfer	0	0	0	15,746	15,746
Total comprehensive income for the reporting period	0	0	33,934	86,710	120,644
Net profit for the reporting period	0	0	33,934	0	33,934
Other comprehensive income for the reporting period	0	0	0	96,861	96,861
Change in deferred tax assets due to revaluation	0	0	0	-10,151	-10,151
Closing balance as of 31 Dec 2017	260,167	0	-215,899	428,204	472,472
Effect of transition to IFRS 9	0	0	57,083	-57,083	0
Opening balance as of 1 Jan 2018	260,167	0	-158,816	371,121	472,472
Total comprehensive income for the reporting period	0	0	43,058	-17,014	26,044
Net profit for the reporting period	0	0	43,058	0	43,058
Other comprehensive income for the reporting period	0	0	0	-17,014	-17,014
Changes in equity	0	0	219	-219	0
Transfers due to sale of financial investments	0	0	219	-219	0
Closing balance as of 31 Dec 2018	260,167	0	-115,539	353,888	498,516

Notes to the financial statements form an integral part of financial statements and should be read in conjunction with them.

13.5.2 Statement of changes in equity of SSH Group

in EUR 1,000	Share capital	Capital reserve	Retained earnings	Fair value reserve	Total equity
Balance as of 31 Dec 2016	260,167	0	-2,485	299,858	557,540
Error correction	0	0	-21,302	0	-21,302
Balance as of 1 Jan 2017	260,167	0	-23,787	299,858	536,238
Transactions with owners	0	0	-42,146	-142,108	-184,254
Transfer of capital assets to the Republic of Slovenia	0	0	-42,146	-157,854	-200,000
Change in deferred tax assets due to transfer	0	0	0	15,746	15,746
Total comprehensive income for the reporting period	0	0	88,247	45,561	133,808
Net profit for the reporting period	0	0	88,247	0	88,247
Other comprehensive income	0	0	0	45,561	45,561
Changes in equity	0	0	0	0	0
Movements from equity	0	0	14,660	0	14,660
Other changes in equity	0	0	14,660	0	14,660
Closing balance as of 31 Dec 2017	260,167	0	7,654	203,311	471,132
Effect of transition to IFRS 9	0	0	57,083	-57,083	0
Opening balance as of 1 Jan 2018	260,167	0	64,737	146,228	471,132
Total comprehensive income for the reporting period	0	0	59,133	-31,683	27,540
Net profit for the reporting period	0	0	59,133	0	59,133
Other comprehensive income	0	0	0	-31,683	-31,683
Changes in equity	0	0	219	-219	0
Transfers due to sale of financial investments	0	0	219	-219	0
Balance as of 31 Dec 2018	260,167	0	124,090	114,326	498,583

Notes to the financial statements form an integral part of financial statements and should be read in conjunction with them.



14

BASIS FOR PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

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14 Basis for preparation and significant accounting policies

14.1 Reporting company

The reporting company – Slovenian Sovereign Holding, is a joint stock company registered before the Ljubljana District Court by way of a Decision Srg. No. 199304616, holding the Registration Entry No. 1/21883/00. Considering the provisions of Articles 55 and 56 of ZGD-1, the Company is classified as a large company obliged to undergo a regular annual audit.

In line with the Standard Classification of Activities, the Company's activity is categorised in the following class: K 64.990 - Other financial service activities, except insurance and pension funding n.e.c.. The Company's activity is presented in detail in the Business Report, Chapter 6.

The Company's share capital in the amount of EUR 260,166,917.04 is divided into non-par value shares not listed on the regulated stock exchange market. The sole shareholder of SSH is the Republic of Slovenia.

The Company is a controlling company of Slovenian Sovereign Holding Group, with the registered seat in the Republic of Slovenia, at the address: Mala ulica 5, Ljubljana.

As at 31 December 2018, there were three subsidiaries in the SSH portfolio: Elektrooptika, d. d., GIO, d. o. o., Ljubljana – in liquidation, and PS ZA AVTO, d. o. o.

As at 31 December 2018, the portfolio of associated companies consisted of the following enterprises: Casino Bled d. d., Hit d. d., Unior d. d. and Zavarovalnica Triglav d. d. Until August 2018, inclusive, Sava, d. d. was also included in the portfolio of the associated companies, however, as a result of the capital increase in the said company in which SSH was not involved, the SSH's shareholding in the said company fell below 20%.

SSH prepared the consolidated financial statements, reporting the situation as at 31 December 2018, in which associated entities are reported by applying the equity method.

The inclusion of a subsidiary, PS ZA AVTO, d. o. o., into the consolidated financial statements is insignificant from the aspect of presenting fair and

true financial statements for the Group; therefore the company was not included in the consolidation. Two companies, Elektrooptika, d. d., Ljubljana and GIO, d. o. o., Ljubljana – in liquidation, have been liquidated. These two companies are similarly insignificant from the aspect of presenting fair and true financial statements for the Group; therefore they were not included in the consolidated financial statements.

On the basis of the provisions of IFRS 10 there was an examination as to whether any of the capital assets owned by RS and being part of the portfolio of companies solely managed by SSH pursuant to ZSDH-1 should be included in the consolidated financial statements. Since SSH has no economic benefits, and it is RS that is eligible to receive dividends, and due to the fact that SSH is paid a contractually-determined fee which does not equal the arm's length fee, as well as considering the fact that the Strategy and the Annual Asset Management Plan are approved by the RS Government, it has been concluded that conditions have not been satisfied for including capital assets not owned by SSH into the consolidation.

In 2018, the average number of employees employed with the Company was 65.31, calculated from the number of hours worked. As at 31 December 2018, there were 66 employees employed.

The Financial Statements for the financial year of 2018 were approved for the publication by the SSH Management Board on 16 April 2019.

14.2 Basis of preparation

14.2.1 Statement of compliance with IFRS

The Accounting Report presents in parallel accounting data for Slovenian Sovereign Holding and for Slovenian Sovereign Holding Group. For the purpose of providing clear and unambiguous data, the term »SSH« is used for Slovenian Sovereign Holding in the remainder of the text while data in regard to Slovenian Sovereign Holding Group are disclosed under the term the "Group« of "SSH Group".

For the year ending on 31 December 2018, the consolidated financial statements have been prepared, in addition to separate financial statements. The consolidated financial statements for the controlling company and the financial statements for the Group have been prepared in accordance with International Financial Reporting Standards, as adopted by the European Union (hereinafter: »IFRS«) and Interpretations issued by the International Accounting Standards Board (»IASB«) and adopted by the EU. The Slovenian legislation (ZGD-1) and the SSH's internal legal documents have been taken into account in the preparation of the financial statements.

14.2.2 Correction of past errors from previous years

When preparing financial statements for 2018, the management realised that deferred tax assets arising from the deferred tax losses were recognised in the total amount of the recognised liabilities for deferred taxes. As the tax legislation makes it possible for taxable profits to be reduced by half of the amount of the deferred losses, it would be correct to recognise the deferred tax assets for taxes arising from tax losses only by half of the amount of the future taxable profits, unless higher taxable profits might reasonably be planned by the management in the predictable

future. Since the planning of future taxable profits is connected with significant uncertainty and subject to factors which cannot be reliably planned by the management, deferred tax assets have been derecognised by SSH/SSH Group and such derecognition has been presented as corrections of prior period errors. In accordance with IAS 8, corrections of prior periods errors were recognised in retained earnings as at 1 January 2017 in the amount of EUR 21,302K, and the comparative financial statements for 2017 were corrected accordingly.

The correction of errors affects the comparative financial statements, but it does not affect the Financial Statements for 2018.

Impact on items of Financial Position of SSH and SSH Group

	SSH					
	Corrected	Change		Corrected	Change	
	31 Dec 17		31 Dec 17	1 Jan 17		31 Dec 16
in EUR 000						
Retained earnings	-215,898	-19,316	-196,582	-207,687	-21,302	-186,385
Deferred tax liabilities	19,316	19,316	0	21,302	21,302	0

	SSH Group					
	Corrected	Change		Corrected	Change	
	31 Dec 17		31 Dec 17	1 Jan 17		31 Dec 16
in EUR 000						
Retained earnings	7,654	-19,316	26,970	-23,787	-21,302	-2,485
Deferred tax liabilities	19,316	19,316	0	21,302	21,302	0

Impact on items of Income Statement of SSH and SSH Group

	SSH			SSH Group		
	corrected	change		corrected	change	
	2017		2017	2017		2017
Deferred taxes	-3,609	1,986	-5,595	-3,609	1,986	-5,595
Net profit	33,935	1,986	31,949	88,248	1,986	86,262

14.2.3 Basis of measurement

These Financial Statements were prepared under the assumption of the going concern.

The historical cost basis was used as the basis for measurement in these financial statements, except for the following items the measurement of which is presented in detail below:

- investments in subsidiaries - acquisition cost or lower recoverable value
- investments in associates - fair value through other comprehensive income in separate financial statements and the reported value measured under equity method in the consolidated financial statements
- financial investments - fair value through other comprehensive income
- financial investments - fair value through Income Statement
- loans given and received - at amortised cost
- operating receivables and liabilities - at amortised cost
- provisions for retirement benefits and jubilee premiums - at present value assessed deferred payments on the basis of actuarial calculation
- other provisions - at present value assessed deferred payments
- deferred tax assets and liabilities - at non-discounted amount measured in consideration of the applicable tax rate.

Impairment of all assets is regularly reviewed and recorded, when necessary.

14.2.4 Use of estimates and judgements

The preparation of financial statements requires the management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and underlying assumptions are based on historical experience and other factors reasonable in the circumstances and are the basis for determining the carrying amount of assets and liabilities that do not result directly from other sources. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates, judgements and assumptions are recognised in the period in which the estimates are revised and in any future periods affected.

Estimates and assumptions are presented in the following judgements:

- Income from contracts with customers; the relationship of a principal or an agent;
- the estimate of the expected useful life of intangible and tangible fixed assets;
- adjustments of the value of receivables;
- the estimate regarding the value of provisions and of contingent liabilities;
- estimating the fair value of assets;
- the estimate of the possibility for applying deferred tax assets.

The estimates and related assumptions and uncertainties are disclosed in the Notes to individual items of financial statements.

Regardless of the fact that the management carefully examines all factors which might affect such assumptions and estimates, it is possible that the actual consequences of business events may be different from the estimates. Estimates are subject to subjective judgement and a certain amount of uncertainty.

14.2.5 Adoption of new and supplemented accounting standards

a) Standards and interpretations valid for the period beginning on or after 1 January 2018

The following standards issued by the International Accounting Standards Board (IASB) and adopted by the EU entered into force in 2018:

- IFRS 9 – »Financial Instruments«
- IFRS 15 - Revenue from Contracts with Customers
- Amendments to IFRS 2 – »Share-based Payments« – Classification and measurement of share-based payment transactions;
- Amendments to IFRS 4 – »Insurance contracts« – Applying IFRS 9 Financial Instruments with IFRS Insurance Contract;
- Amendments to IFRS 15 - Revenue from Contracts with Customers – Clarifications to IFRS 15 – Revenue from Contracts with Customers;
- Amendments to IAS 40 – »Investment Property« – Transfers of investment property;
- Amendments to IFRS 1 and IAS 28, Annual Improvements cycle 2014-2016, resulting from the Annual Improvements process of IFRS (IFRS 1, IFRS 12, IAS 28) with the aim to eliminate inconsistencies and interpretations;
- IFRIC 22 – Foreign Currency Transactions and Advance Consideration

The new application of IFRS 9 – »Financial Instruments and IFRS 15 - Revenue from Contracts with Customers represent changes in accounting policies of the Company which is presented in detail in item 14.2.6.

The adoption of other new standards and amendments of existing standards and Interpretations should not have any significant impact on the financial statement of SSH and SSH Group.

b) Adopted standards, amendments to standards and interpretations not yet effective

As of the day of approval given to these financial statements, the following new standards and amendments to existing standards issued by IASB and adopted by the EU but not yet being effective, are:

- IFRS 16 – »Leases« (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IFRS 9 –«Financial Instruments« – Prepayment features with negative compensation (effective for annual periods beginning on or after 1 January 2019),
- IFRIC 23 – “Uncertainty over Income Tax Treatments”(effective for annual periods beginning on or after 1 January 2019),
- Amendments to IAS 28 –“Investments in associates” – Long term interests in associates and joint ventures (effective for annual periods beginning on or after 1 January 2019),

The Company has not elected for an early application of these standards.

The initiation of the application of IFRS 16 is currently not believed to have any material impact on financial statements since no assets will be leased by SSH/ SSH Group.

It is not expected that new standards or amendments to existing standards issued by the IASB and not yet effective will have any material impact on financial statements.

c) New standards and amendments to existing standards issued by the IASB and yet to be adopted by the EU (situation as of February 2019):

- IFRIC 14 – “Regulatory Deferral Accounts” – (effective for annual periods beginning on or after 1 January 2016), The European Commission (EC) has concluded not to initiate the process for endorsement of the interim standard and to wait for its final version.
- IFRS 17 – »Insurance Contracts« (effective for annual periods beginning on or after 1 January 2021),
- Amendments to IFRS 3 – ‘Business Combinations’ – Definition of a Business; the amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020, and for acquisitions of assets or groups of assets on or after the beginning of such period.
- Amendments to IFRS 10 – »Consolidated Financial Statements« and IAS 28 »Investments in Associates and Joint Ventures« – Sales or contributions of assets between an investor and its associate/joint venture and subsequent amendments (the effective date of the amendments made has been deferred for indefinite period of time until the research project in regard to the equity method is completed).
- Amendments to IAS 1 – »Presentation of Financial Statements« and IAS 8 – “Accounting Policies, Changes in Accounting Estimates and Errors” – Definition »material«, (effective for annual periods beginning on or after 1 January 2020),
- Amendments to IAS 19 –«Employee Benefits» – Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019).
- Amendments to various standards »Annual Improvements cycle 2015-2017«, resulting from the Annual Improvements process of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) with the aim to eliminate inconsistencies and interpretations adopted by the EU on 15 December 2015, (amendments effective for annual periods beginning on or after 1 January 2019),
- Amendments of references to the conceptual framework in IFRS are effective for annual periods beginning on or after 1 January 2020.

SSH/SSH Group has assessed that the introduction of these new standards, the amendments to the existing standards and the introduction of new Interpretations should not have any significant impact on the Company's financial statement in the transition period.

14.2.6 Amendments of accounting policies

The accounting policies, the treatment of business events and their reporting in financial assets were harmonised with the requirements of IFRS 15 – “Revenue from Contracts with Customers” and with IFRS 9 – “Financial Instruments”, in SSH/SSH Group, effective on 1 January 2018.

IFRS 15 - Revenue from Contracts with Customers

On 1 January 2018, the provisions of IFRS 15 – “Revenue from Contracts with Customers”, together with their associated Interpretations started to be applied, which had replaced the IAS 11 – “Construction Contracts” and IAS 18 – “Revenue”. The standard introduces a new five-step model for revenue recognition and it requires from a company

to have revenue recognised in a sum which reflects an amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer. The introduction of IFRS 15 does not have an impact on the amount and on the time of revenue recognition in SSH/SSH Group but it does require a different reporting of short-term accrued revenue within the scope of the Statement of Financial Position. The short-term accrued revenues from the sale of services to customers, were reclassified under the item assets from contracts with customers in the Statement of Financial Position. The impact of the transition to IFRS 15 on 1 January 2018 is shown in the Table below.

	in 1.000 EUR			SSH			SSH Group		
	1 Jan 18	Change	31 Dec 17	1 Jan 18	Change	31 Dec 17			
Assets from Contracts with Customers	621	621	0	621	621	0			
Other short-term assets	32	-621	653	32	-621	653			
Effects	653	0	653	589	0	-653			

IFRS 9 “Financial Instruments”

Amendments of IFRS 9 – “Financial Instruments” replaces the IAS 29 – “Financial Instruments”; the standard has brought forward a new model for classification and measurement which is based on a business model of a company and on characteristics of contractually determined cash flows from an individual financial asset. The business model means a method by way of which a company manages its financial assets for generating cash flows. In accordance with IFRS 9, there are three groups for measuring financial instruments:

- the amortised cost model;
- the fair value through other comprehensive income model (FVTOCI);
 - with subsequent measurement in PL (debt instruments);
 - without any measurement in PL (equity instruments);
- the fair value through profit or loss statement model (FVTPL).

The business model of SSH/SSH Group was assessed on 1 January 2018.

As regards the cash flow characteristics, the business model of SSH includes loans/deposits and those debt securities not intended for sale. These investments are thus measured **at amortised cost** when the Solely Payments of Principal and Interest (SPPI) test is passed.

Investments in bonds and claims due from Sava d. d. were classified into the group of financial assets measured at **fair-value through the profit or loss (FVTPL)**, at the transition date. Upon the transition, the amount of fair value reserve (for listed instruments the data from the stock exchange is applied, whereas in the case of non-listed instruments, an internal estimate is made and applied), was transferred to the retained net profit. Similarly, investments in shares and stakes of

companies against which bankruptcy proceedings have been initiated have also been included in this group, as no contractually identified cash flows are expected by SSH from these investments, neither are they held for sale.

Investments in shares and stakes of domestic companies and in UCITS units were classified into the group of financial assets measured at **fair-value through other comprehensive income (FVTOCI)**, at the transition date. The main reason for such a decision is the result of the Act Amending the Slovenian Compensation Fund Act under which these investments are intended to be transferred to the Republic of Slovenia, presumably in 2020.

SSH measures the investments in subsidiaries at (considering the provisions of IAS 27) and they do not fall under the requirements of IFRS 9.

Fair values of financial instruments determined by a valuation model include:

- a comparison to prices obtained during last transactions performed,
- the use of the discounted cash flow model;
- valuation using the price model.

These valuation models reflect market conditions as of the measurement date which can differ from market conditions existing before or after this date.

Gains and losses arising from the changed fair value of securities measured through other comprehensive income are recognized directly in the other comprehensive income statement. All impairments of equity instruments held by SSH/SSH Group as of the transition date, were reclassified from the retained profits/losses to the fair value reserves item. Upon such derecognition, the accumulated gains and losses reported in the fair value reserves are reclassified to retained earnings.

Interests from debt securities are recognized directly in the Income Statement.

The classification of financial instruments in accordance with IFRS 39 and the new IFRS 9 as of 1 January 2018

in EUR 1,000	Categories In accordance with IAS 39		Item and new category In accordance with IFRS 9	Original book value in accordance with IAS 39	New book value in accordance with IFRS 9
	Portfolio	Measurement category			
Cash at hand and bank balances/ commercial bank deposits	Loans and receivables	Amortised value	Cash at hand and bank balances/ commercial bank deposits	8,402	8,402
Financial assets held-for-sale					
Debt instruments	Financial assets held-for-sale	fair value through other comprehensive income (FVTOCI)	Financial assets measured at fair value through profit or loss (FVTPL)	1,981	1,981
Equity instruments	Financial assets held-for-sale	fair value through other comprehensive income (FVTOCI)	Financial assets measured at fair value through other comprehensive income (FVTOCI) - an option	626,444	626,444
Other financial assets	Financial assets held-for-sale	fair value through other comprehensive income (FVTOCI)	Financial assets measured at fair value through profit or loss (FVTPL)	34,856	34,856
Loans					
Loans to banks	Loans and receivables	Amortised value	Financial assets measured at amortised cost	0	0
Loans to customers who are not banks	Loans and receivables	Amortised value	Financial assets mandatorily measured at fair value through profit or loss (FVTPL) not held for trading	38	38
Other financial assets	Loans and receivables	Amortised value	Financial assets measured at amortised cost	2,886	2,886

An exception was applied by SSH/SSH Group which allows for comparative information from previous periods not to be calculated for the comparative period, due to the classification impact.

The impact of the transition to IFRS 9 on 1 January 2018 is shown in the Table below.

in EUR 000	SSH			SSH Group		
	1 Jan 2018	Change	31 Dec 2017	1 Jan 2018	Change	31 Dec 2017
ASSETS						
Long-term assets	469,976	-7,629	477,605	469,976	-7,629	477,605
Financial assets held-for-sale	0	-448,325	448,325	0	-448,325	448,325
Financial investments measured at fair value through other comprehensive income (FVTOCI)	411,488	411,488	0	411,488	411,488	0
Financial assets measured at fair value through profit or loss (FVTPL)	36,837	36,837	0	36,837	36,837	0
Deferred tax assets	21,651	-7,629	29,280	21,651	-7,629	29,280
EQUITY AND LIABILITIES						
Equity - total	231,622	0	231,622	230,282	0	230,282
Fair value reserve	371,121	-57,083	428,204	146,228	-57,083	203,311
Retained earnings	-139,499	57,083	-196,582	84,054	57,083	26,971
Long-term liabilities - total	40,967	-7,629	48,596	40,967	-7,629	48,596
Deferred tax liabilities	40,967	-7,629	48,596	40,967	-7,629	48,596

14.2.7 Currency reporting

a) Functional and presentation currency

All financial information in financial statements of the SSH/SSH Group is presented in the Euro (EUR) which is the functional and presentation currency of SSH/SSH Group. All accounting information, with the exception of earnings for the members of the Management Board, Supervisory Board and the Supervisory board's Committees, presented in the Euro has been rounded to the nearest thousand. The rounding of the value information may result in some insignificant differences in sums and tables.

b) Transactions and balances

Transactions presented in foreign currencies are converted into the Euro at the European Central Bank's reference exchange rate at the transaction date. The gain or losses incurred in these transactions and in the reconversion of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

Foreign exchange differences arising from investments in equity financial investments classified in the group measured at fair value through other comprehensive income (FVTOCI) are recognized directly in the Statement of Other Comprehensive Income. Non-monetary assets and liabilities denominated in foreign currencies and measured at fair value are translated to the functional currency at the exchange rate at the date when the fair value was measured and the exchange rate differences are recognised in the Profit and Loss Statement.

14.3 Summary of significant accounting policies for SDH and SSH Group

Operating income

Revenue from contracts with customers refers to services and it is recognised upon the transfer of the control of service to a customer in the amount which reflects the consideration for which SSH/SSH Group expects to be entitled to in exchange for transferring promised goods or services to a customer. Revenue from contracts with customers is recognised at the fair value of the consideration received, reduced by any potential discount. Revenue is measured when the benefits of services rendered have been passed on to the customer. Revenue is recognised in the reporting period during which services are rendered.

Financial income and expense

Financial income refer to the following: income from participation in profit and to interest income and to income from the sale of debt financial instrument measured at fair value through other comprehensive income (FVTOCI) and through profit and loss (FVTPL) and to changes in fair value of financial assets through profit and loss t (FVTPL). Income from the participation in profit is recognised as income from financing activities when AGMs of these companies pass a resolution on the profit distribution and its pay-out. Interest income is recognised as it accrues unless there is a doubt about its collection.

Since SSH/SSH Group elected to measure investments in equity instruments through Other Comprehensive Income Statement, capital gains or losses are never recognised in the Income Statement. An exception is applied to subsidiaries which are exempt from the application of IFRS 9; any potential profits or losses will be recognised in the Income Statement upon their sale.

Financial expenses comprise borrowing costs, changes in fair value of financial assets at fair value through profit and loss (FVTPL), and losses due to impairments of financial assets. Borrowing costs are recognised by applying the effective interest rate method.

Investments in subsidiaries

A consolidated subsidiary is a company in which the controlling company has a controlling interest or a controlling influence for other reasons as a result of which such company is actually controlled, and it joins the Group for which the consolidated financial statements are prepared.

When the value of a subsidiary is irrelevant for the true and fair presentation of the Group's financial position, such subsidiary is not included in the consolidated financial statements.

Investments in subsidiaries are measured at historical acquisition value reduced by any potential impairments.

An impairment loss is measured as the difference between the carrying amount of an asset and its recoverable value.

Investments in associates

Associates are companies in which SSH holds from 20% to 50% of voting rights, or it has a significant influence for their operation but it does not control them.

Investments in associates are recognised at fair value through other comprehensive income (FVTOCI) in separate financial statements. Quoted market price at the date of the Statement of Financial Position is applied whereas the value of the remaining investments is an estimate. SSH regularly monitors business results and follows on major events; it measures fair value at an annual basis. All changes in fair value are recognised in Other Comprehensive Income.

In regard to the SSH Group, financial investments in associates are recognised by applying equity method from the date when the investment becomes an associate, in accordance with IAS 28. In the Statement of Financial Position, by using equity method, the investment is recognised initially at cost increased by proportional changes - upon the acquisition- in the equity of the associate. The amount obtained from the distribution of net profit of a company in which SSH has a significant influence reduces the book value of the financial investment. If the investment must be impaired, it is measured as the difference between its carrying amount and its recoverable value.

Intangible assets

Intangible assets include investments in computer software and other intangible assets. When computer software forms an integral part of the suitable computer hardware, it is considered a tangible fixed asset. Intangible assets are recognised as such only when it is likely that future economic benefits will be generated for SSH/SSH Group and when its cost can be reliably measured.

The cost model is applied which is why intangible assets are recognised at cost less accumulated amortisation and impairment losses.

The estimated useful life for all significant assets (an asset whose individual at cost value exceeds 10% of the value of all intangible fixed assets) is reviewed at least at the end of each financial year. When the estimated useful life of an intangible asset significantly differs from the previous estimation, the amortisation period is modified accordingly.

The amortisation of intangible assets is calculated by the straight-line method by taking into account the useful life of the assets. The estimated useful life ranges from 3 to 10 years.

Property, plant and equipment

Tangible fixed assets include property, plant and small equipment. Tangible fixed assets are recognised at cost less depreciation and accumulated impairment losses.

The depreciation is calculated at the straight line method by taking into account the useful life of the assets. The estimated useful life is as follows:

- buildings and parts of buildings: from 16 to 33 years
- computer equipment : from 2 to 3 years
- motor vehicles: 8 years
- other equipment : from 3 to 5 years.

Land is not depreciated since it is presumed to have an unlimited useful life. Likewise, assets in course of construction are not depreciated until they are ready to be used. If the book value of assets exceeds their estimated recoverable value, they must be impaired to the estimated recoverable value, i.e. impaired pursuant to IAS 36. Gains and losses incurred upon the disposal of land, buildings and equipment are determined according to their carrying amount and they affect the Company's operating results.

Subsequent costs associated with property, plant and equipment increase their acquisition cost when future economic benefits are expected from these assets. Costs of all other repairs and maintenance services are included in the Income Statement for the period in which they are incurred. Property, plant and equipment with useful life exceeding one year and with individual acquisition cost being less than EUR 500 are allocated to costs, except for printers, facsimile machines, desktop calculators, and similar equipment.

The residual value of significant assets (an asset whose individual at cost value exceeds 10% of the value of all tangible fixed assets) and their estimated useful life are reviewed and amended during the preparation of financial statements, when necessary,

Financial assets

Financial assets include cash and cash equivalents, receivables and loans and financial investments. Financial investments include investments in associates and investments in financial instruments.

When a financial asset is first recognised, it is classified by applying the business model for managing financial assets and on the basis of characteristics of contractual cash flows of assets. It is classified into one of the groups below:

- Financial assets measured at amortised cost;
- financial investments measured at fair value through other comprehensive income (FVTOCI);
- Financial assets measured at fair value through profit or loss (FVTPL).

Cash and cash equivalents are initially recognized in the amount stated in relevant documents. With regard to the Cash Flow Statement, cash and cash equivalents comprise cash in hand, cash at bank, deposits and certificates of deposit held with banks (maturing within 90 days from the transaction execution date) and other investments in money market instruments. When a bank account overdraft contract has been signed, bank overdrafts are recognised as short-term financial liabilities in the Statement of Financial Position.

Financial assets measured at amortised cost are financial assets held by SSH/SSH Group within the scope of the business model for collecting the contractual cash flows and when cash flows represent solely the payments of principal and interest on the principal amount outstanding. This group includes loans (with the exception of loans impaired at acquisition which are classified into the group measured at fair value through profit or loss (FVTPL) and receivables. Initially, they are recognised at fair value increased by direct transaction costs and subsequently they are measured at amortised cost applying the effective interest rate method written down for impairment losses.

Financial assets measured at fair value through other comprehensive income (FVTOCI) represent investments in equity instruments, i.e. shares and shareholding of other companies. At initial recognition of investments as equity instruments not held for trading, SSH/SSH Group makes an irrevocable election to measure these investments at fair value through other comprehensive income (FVTOCI). This election is made for each investment separately. The fair value of listed investments is measured at the closing quote on the reporting date. The fair value of non-listed investments is measured by applying the estimate model. Gains and losses arising from the changed fair value are recognized in Other Comprehensive Income Statement and are presented in equity as fair value reserves in their net amount, after the calculation of the associated deferred tax assets or liabilities. Amounts presented in other comprehensive income must not be subsequently transferred to the profit or loss; however, they may be transferred to the retained earnings or losses. Dividends arising from equity instruments are recognized as financial income in the Income Statement when the right to their pay-out is established.

Financial assets at fair value through profit or loss are those investments which are held for trading and those investments which, considering the business model, are not classified in another group of financial instruments. Gains and losses are recognized as financial income in the Profit and Loss Statement as financial income or financial expense.

Operating receivables arising from financial, legal and other relations are guaranteed rights to claim from an entity the payment of debt, the supply of goods or the provision of services. Operating receivables are not considered to include long-term financial investments or short-term financial investments but only those associated with financial revenues derived thereunder.

In books of accounts and the Statement of financial position, receivables are recognized as an asset when it is probable that the future economic benefits embodied within the asset will flow to the company and its cost can be reliably measured. Recognised

receivables are de-recognised as assets in books of account and Statement of Financial Position when its contractual obligations are no longer controlled, have already been exercised, have expired or have been assigned.

Impairment of financial assets

Requirements of IFRS 9 with regard to the impairment of financial assets apply for debt instruments measured at fair value through profit or loss (FVTPL)/other comprehensive income (FVTOCI). As of 1 January 2018 or rather as of 31 December 2018, SSH/SSH Group holds no debt instruments measured at fair value through other comprehensive income (FVTOCI). As regards financial instruments measured at fair value through other comprehensive income (FVTOCI), impairment loss is not recognised.

In contrast to IAS 39 which recognised only the accumulated losses, IFRS 9 is based on the premise of providing for expected losses which in addition to historical and present data takes into account future-oriented information when making an impairment estimate.

Receivables are initially recognised in amounts stated in relevant documents with an assumption that they will be paid. On the basis of historical experience, SSH/SSH Group makes an estimate as to whether any 12-month expected credit losses associated with the probability of default are likely to occur. Impairment of operating receivables also occurs when it is expected that the full amount of outstanding receivables will not be collected. The impairment amount is the difference between the carrying amount and the current value of the expected estimated cash flows being discounted at the effective interest rate. Impairments are recognized in profit or loss.

Financial liabilities

Financial liabilities include loans, debt securities issued and operating liabilities.

Operating liabilities are liabilities due to suppliers for assets acquired or services, and liabilities due to employees, government, owners, etc. In books of accounts, liabilities are recognized when it is probable that due to their settlement the factors enabling economic benefits will decrease, and when the settlement amount can be reliably measured.

Financial liabilities are recognised when incurred at fair value without any transaction costs arising thereunder. In subsequent periods, financial liabilities are measured at amortised cost using the effective interest rate method. Any difference between proceeds (without transaction costs) and liabilities is recognised in profit and loss throughout the lifetime of the financial liability. Interest received is calculated in accordance with contracts; as a result, financial interest expenses are increased. A portion of long-term liabilities having already matured or to mature within twelve months after the reporting date is recognised as short-term liabilities.

Derivative financial instruments

In 2018, SSH/the Group did not hold any derivative financial instruments.

Assets held for sale or disposal

Assets or disposal group comprising assets and liabilities that are expected to be recovered primarily through sale or disposal, are classified as held for sale or disposal. When this criterion is met, financial investments in subsidiaries or associates are also classified into the category of assets/disposal group held for sale. Immediately before the classification

as held for sale or distribution, the assets or disposal group is remeasured. Accordingly, the long-term asset or disposal group is recognized at book value or fair value less transaction costs, whichever is lower. Impairment losses on initial classification as held for sale or disposal and subsequent gains or losses on re-measurement are recognised in profit or loss.

Impairment of non-financial assets

At each reporting date, book value of assets is reviewed with the aim to assess any indication of impairment. Indefinite-lived assets that are not amortised or depreciated are tested for impairment on an annual basis. Assets subject to amortisation or depreciation are checked for impairment whenever the events or circumstances indicate impairment. An impairment loss is recognized in the amount by which the carrying amount of an asset exceeds its recoverable value. The recoverable value is an estimated value which is expected to be recovered during the future use of an asset; it also includes its value at disposal. The recoverable value is the higher of the fair value of the asset, less the costs to sell and its value in use.

For the purpose of identifying impairment, assets are divided into smaller units identified as generating cash flows independently of other units (cash-generating units).

Provisions

Provisions are recognised, if, as a result of past events, SSH/SSH Group has a present legal obligation that can be reliably estimated and it is highly probable that it will have to be settled in the future, while simultaneously a reliable estimate of an expenditure for satisfying this obligation is possible. Amounts recognised as provisions are the best possible estimation of an expenditure necessary to be settled on the Statement of financial position date in order to meet the present obligations. Provisions must not be created in order to offset future operating losses.

When estimating which claims arising from denationalisation proceedings are to be included among provisions and which are to be included among contingent liabilities, decisions of administrative bodies and courts and the current case law for similar cases have been taken into account, together with SSH's own assessment. Contingent liabilities include some claims referring to various legal issues. In regard to all of these cases it is difficult to make a reliable assessment, however, it can be expected that the Company will not be classified as an entity liable to pay a compensation. In cases when, by examining all facts, it is assessed, that there is a small probability for SSH to be classified as a party liable to pay compensation, such claims are classified as contingent liabilities.

Provisions for retirement benefits and jubilee premiums

In accordance with the statutory requirements and internal legal documents, SSH/SSH Group is liable to pay jubilee premiums and retirement benefits to its employees. For this purpose, long-term provisions are formed. This liability is calculated by the actuary who takes into account various factors. The calculation is discounted to the present value. The actuarial calculation is based on assumptions and estimates (discount rate, employee fluctuation estimate, mortality estimate, wage increase estimate) which are valid at the time when the calculation is made and which are likely to be modified in the future. The actuarial calculation is usually prepared every second year, and earlier in case of any significant changes as regards employees.

Deferred taxes

Deferred taxes are directly associated with the basic accounting principle of comparing revenues and expenses in the Income Statement. Deferred taxes are recognised in full using the liability method on the basis of the temporary differences between the tax bases of assets and liabilities and the carrying amounts. Deferred taxes are calculated using statutory tax rates for the period in which it is expected to be applied when the deferred tax asset is realized and deferred tax liability is settled.

Deferred tax asset is recognised when it is probable that taxable income is to be generated in the future to allow for making the use of deferred tax asset. Tax assets and tax liabilities are recognised in the offset amount in the Statement of financial position as deferred taxes are connected with the same tax authority.

Equity

The total of SSH's equity is its liability due to its sole owner, the Republic of Slovenia, that falls due for payment on the dissolution of SSH, d.d. The total equity consists of called-up capital, capital reserves, profit reserves, fair value reserves, retained earnings and the provisionally undistributed profit for the current year.

Fair value reserve refers to changes in fair value of financial investments measured at fair value through other comprehensive income (FVTOCI) and actuarial gains/losses or losses arising from provisions for retirement benefits.

The profit remaining after covering losses and creating statutory reserves is allocated to other reserves in accordance with ZSOS, ZSDH-1, the Company's Articles of Association, and ZGD-1.

Fair value measurement

In accordance with SSH/SSH Group's accounting policies, the fair value of financial and non-financial assets and liabilities is required to be determined in numerous cases. The fair value is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

SSH/SSH Group applied fair value for financial assets measured at fair value through other comprehensive income (FVTOCI) and for financial assets measured at fair value through profit or loss (FVTPL). Other items in financial statements are measured at cost or at amortised value.

When measuring fair value of financial instruments, the following 3-level fair value hierarchy is taken into account:

- the first level includes quoted prices (unadjusted) in the operating markets for identical assets or liabilities; this level includes shares and bonds;
- the second level includes the values which are not equal to quoted prices but can be also acquired directly or indirectly from the market (for example values derived from quoted prices in an active market); for example UCITS units of mutual funds
- the third level includes input data for an asset or liability not based on market data; this level represents non-marketable shares, bonds and receivables. Valuations are based on the yield-based method and partially on the asset-based method. Methods used by SSH are the discounted method, the method including comparable listed companies, the comparable purchases-and-sales method and the adjusted book values method.

Quoted prices are used as a basis for determining fair value of financial instruments; if financial instrument is not listed on the regulated market, inputs from the second and third levels are applied by SSH/SSH Group to evaluate the fair value of a financial instrument.

The fair value of investments in associates is measured in accordance with the above mentioned 3-level fair value hierarchy.

Consolidation

Subsidiaries in which the Group holds a direct or indirect equity interest exceeding one-half of the voting power or having an influence over their operations in any another manner are subject to consolidation. They are included in the Group's financial statements from the date of the acquisition of a controlling interest by the Group. The consolidation no longer applies when the Group loses its controlling interest. All transactions, receivables and liabilities between the Group companies are removed for the purpose of the preparation of consolidated financial statements. Any impairment of the subsidiaries recognised in the individual financial statements of the controlling company should also be removed. In order to provide for accurate information for the purposes of consolidation and financial reporting of the Group, the accounting policies of the subsidiaries should be aligned with those of the controlling company.

Takeovers of companies within the Group are accounted for by applying the acquisition method. The acquisition value of takeovers is measured at fair value of the assets given, the equity instruments and liabilities assumed as of the transaction date, including costs directly attributable to the takeover. The assumed assets, liabilities and contingent liabilities are initially recorded at fair value as of the takeover date, notwithstanding the size of the minority shareholding. The excess of the acquisition value over the fair value of the Group's share of the net assets of the acquired company, which cannot be attributed to determinable assets or liabilities of the acquired company, is recognised as good will and

impairment test is made. If the acquisition value is lower than the fair value of the acquired company's net assets, the difference is recognized as financial income in the Statement of Comprehensive Income.

After loss of control, assets and liabilities of the respective subsidiary are de-recognised and gains or losses are recognised in the Profit and Loss Statement of the Group. When the Group retains any interest in the former subsidiary, this interest is measured at fair value on a date of the loss of control. Subsequently, the interest is accounted for as investment in associate (using the equity method) or as financial asset at fair value through other comprehensive income (FVTOCI) or through profit or loss (FVTPL), depending on the business model. Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary are equity transactions.

Transactions with minority owners are treated in the same way as transactions with outside partners. The profits and losses of the minority owners are shown in the Statement of Comprehensive Income.



W CREDIT RATING*

The credit rating of a country is a measure of its ability to service its foreign and local currency debt. It is based on the country's economic, financial, and political performance. The rating is expressed by "letters" and "numbers" and is used by investors to assess the risk of investing in a country.

Rating - Outlook

Outlook refers to the rating agency's forecast of the country's credit rating over the next 12 to 18 months. It is expressed by "letters" and "numbers" and is used by investors to assess the risk of investing in a country. The outlook is based on the country's economic, financial, and political performance.

Key factors affecting the rating and outlook change are:

1. Economic growth: A strong economy leads to a higher rating, while a weak economy leads to a lower rating. 2. Inflation: High inflation leads to a lower rating, while low inflation leads to a higher rating. 3. Government debt: High government debt leads to a lower rating, while low government debt leads to a higher rating. 4. Political stability: A stable government leads to a higher rating, while an unstable government leads to a lower rating.

Standard & Poor's (S&P) lowered the government bond rating of Greece from A- to A- in 2011. The outlook on the rating was "stable". The rating agency cited the country's high level of government debt, its weak economic growth, and its political instability as the reasons for the downgrade. S&P also lowered the rating of Ireland from A- to A- in 2011. The outlook on the rating was "stable". The rating agency cited the country's high level of government debt, its weak economic growth, and its political instability as the reasons for the downgrade.

Standard & Poor's (S&P) lowered the government bond rating of Italy from A- to A- in 2011. The outlook on the rating was "stable". The rating agency cited the country's high level of government debt, its weak economic growth, and its political instability as the reasons for the downgrade. S&P also lowered the rating of Portugal from A- to A- in 2011. The outlook on the rating was "stable". The rating agency cited the country's high level of government debt, its weak economic growth, and its political instability as the reasons for the downgrade.

Rating overview (continued)

1. Rating Moody's
Long Term Rating
Foreign Currency
Date: 2010-09-15

2. Rating S&P
Long Term Rating
Foreign Currency
Date: 2010-09-15

3. Rating Fitch
Long Term Rating
Foreign Currency
Date: 2010-09-15



Date YYYY-MM-DD is given for rating change date)

Local Currency	Short Term Rating	Foreign Currency	Local Currency
Date	Rating	Date	Rating
2013-01-29	Baa2		

Local Currency	Short Term Rating	Foreign Currency	Local Currency
Date	Rating	Date	Rating
2016-09-12	A		

Local Currency	Short Term Rating	Foreign Currency	Local Currency
Date	Rating	Date	Rating
2011-09-17	Baa2		



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NOTES AND DISCLOSURES

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15 Notes and disclosures

15.1 Notes to financial statements

With the exception of Notes in connection with financial investments (Note 15.1.2) and Equity (Note 15.1.6), all Notes refer simultaneously to SSH and SSH Group.

15.1.1 Tangible fixed assets of SSH/SSH Group

Tangible fixed assets are not encumbered with any mortgages, pledges or any other encumbrances. It has been assessed that there are no factors giving grounds for any impairments of tangible fixed assets to be carried out.

15.1.2 Financial investments

Long-term financial investments

Investments in shares of companies in which SSH/SSH Group holds at least a 20% ownership shareholding

Company	Registered office		Core business/notes
Casino Bled d. d.	Cesta svobode 15	4260 Bled	Organisation of gaming activities
Elektrooptika d. d.	Mala ulica 5	1000 Ljubljana	Consulting services
Gio d. o. o. Ljubljana - in liquidation	Dunajska 160	1000 Ljubljana	in liquidation
Hit d. d.	Delpinova 7A	5000 Nova Gorica	Organisation of gaming activities
PS za avto d. o. o.	Tržaška cesta 133	1000 Ljubljana	Rental activities
Sava d. d.	Dunajska cesta 152	1000 Ljubljana	Activities of holding companies
Unior d. d.	Kovaška cesta 10	3214 Zreče	Forging
Zavarovalnica Triglav d. d.	Miklošičeva 19	1000 Ljubljana	Insurance business

SSH also held a higher than 20% shareholding in the following companies for which bankruptcy proceedings had been initiated: Casino Maribor d. d. (22.83 %), Vegrad d. d. (29 %) and Polzela d. o. o. (28.57 %).

Equity and profit or loss generated in associates and subsidiaries

Company	No. of shares	31 Dec 2018 % of ownership	Total equity in EUR 1,000	Profit /loss in EUR 1,000	Data from Fin. Statements for FY
Casino Bled d. d.	27,772	33.75	378	47	2018
Elektrooptika d. d., Ljubljana	463,570	70.48	-89	1	2018
Gio d. o. o. Ljubljana - in liquidation*	-	71.27	7,579	-921	liq. BS 2018
Hit d. d.	1,357,727	20	52,852	2,141	2018
PS za avto d. o. o.	-	90	4,552	4,225	2018
Sava d. d.	4,891,650	18.53	35,817	551	2018
Unior d. d.	1,119,079	39.43	95,864	6,795	2018
Zavarovalnica Triglav d. d.	6,386,644	28.09	560,121	65,544	2018

Note: Data in regard to Zavarovalnica Triglav d.d., Pozavarovalnica Sava d. d., Sava d. d. and Unior d. d., are taken from audited annual financial statements

* The column regarding equity presents the liability due to owners from the opening liquidation balance sheet increased and/or decreased by gains/losses during liquidation proceedings.

** Sava d. d. - change in ownership as at 24. August 2018 (from 22.57% to 18.53%).

SSH is not liable without limitation for any liabilities in any company in which it holds an equity interest.

Long- term financial investments in subsidiaries

	Voting rights and ownership	Voting rights and ownership	SSH		SSH Group	
	31 Dec 18	31 Dec 17	31 Dec 18	31 Dec 17	31 Dec 18	31 Dec 17
	in %	in %	in EUR 000	in EUR 000	in EUR 000	in EUR 000
Elektrooptika d. d.	70.48	70.48	0	0	0	0
Gio d. o. o. Ljubljana - in liquidation*	71.27	71.27	0	3,203	0	3,203
PS za avto, d. o. o.	90	90	3,757	0	3,757	0
Total			3,757	3,203	3,757	3,203

None of subsidiaries is listed in the regulated market. The impairment test is carried out every year. There were no transactions carried out between the parent company and a subsidiary which should have been excluded in consolidation. The inclusion of the mentioned subsidiaries into the consolidated financial statements is insignificant from the aspect of presenting fair and true financial statements for the

Group; therefore, these companies were not included in the consolidation. As grounds in PS za avto were eliminated on account of which the investment in the said subsidiary was impaired in the preceding year, this impairment was reversed. Liquidation proceedings for GIO are expected to be finished soon which is why this investment is reported as long-term assets held for sale.

Assets/revenue/equity of subsidiariesb

Company	in EUR 1,000	Income in FY	Equity	Assets
		2018	31 Dec 18	31 Dec 18
Elektrooptika d. d.		5	-89	0
Gio d. o. o. Ljubljana - in liquidation		0	7,579	8,049
PS za avto d. o. o.		123	4,552	5,810
SDH d. d.		59,708	498,516	692,305
Total (SSH + subsidiaries)		59,836	510,558	706,164
Proportion (%) of subsidiaries in total		0.21	2.36	1.96

Long-term investments in associates

Overview of investment value in associates in the financial statements of SSH/SSH Group

	Voting rights and ownership	Voting rights and ownership	SSH		SSH Group	
	31 Dec 18	31 Dec 17	31 12 18	31 Dec 17	31 Dec 18	31 Dec 17
	in %	in %	in EUR 1,000	in EUR 1,000	in EUR 1,000	in EUR 1,000
Casino Bled d. d.	33.75	43.00	61	135	128	143
Hit d. d.	20	20	3,146	5,243	3,146	10,201
Sava d. d.	18.53	22.56	-	5,968	-	3,096
Unior d. d.	39.43	39.43	17,682	19,036	17,682	15,602
Zavarovalnica Triglav d. d.	28.09	28.09	193,515	184,574	193,515	184,574
Total			214,404	214,956	214,471	213,616

The ownership percentage is equal to the percentage of voting power in all associates.

Other long-term financial investments

Other financial investments are accounted for at fair value through equity. The fair value of listed investments is determined on the basis of a market (quoted) price on the reporting date. The fair value

of unlisted investments is assessed on the basis of a model. SSH/SSH Group regularly monitors business results and major events related to each company in which it holds its financial investment.

Overview of other long-term financial assets (excluding investments in subsidiaries and associates)

in EUR 1,000	SSH		SSH Group	
	31 Dec 2018	1 Jan 2018	31 Dec 2018	1 Jan 2018
Financial assets measured at fair value through other comprehensive income (FVTOCI)				
Investments in enterprises	341,382	362,369	341,382	362,369
Investments in insurance firms	46,571	48,093	46,571	48,093
Investments in mutual funds	899	1,026	899	1,026
Total	388,852	411,488	388,852	411,488
Financial assets measured at fair value through profit or loss (FVTPL)				
Investments in bonds	1,981	1,981	1,981	1,981
Investments in purchased receivables	0	34,856	0	34,856
Total	1,981	36,837	1,981	36,837
Financial assets measured at amortised cost				
Investments in deposits, loans	31,500	0	31,500	0
Total at amortised value	31,500	0	31,500	0
Total	422,333	448,325	422,333	448,325

As of 31 December 2017 has reported, all assets were measured at fair value through equity.

The ten major investments in domestic companies (including associates), at the value presented in SSH's Financial Statements as of 31 December 2018 represent 85.8% of assets of the company:

- Zavarovalnica Triglav d. d. EUR 193.5 million,
- Krka d. d. EUR 170.5 million,
- Petrol, d. d. EUR 82.0 million,
- Pozavarovalnica Sava d. d. EUR 46.6 million,
- Luka Koper d. d. EUR 40.5 million,
- Unior d. d. EUR 17.7 million,
- Cinkarna Celje d. d. EUR 16.8 million,
- Telekom Slovenije d. d. EUR 16.4 million,
- Sava d. d. EUR 5.9 million,
- Loterija Slovenije d. d. EUR 4.3 million.

As of 31 December 2018, SSH/SSH Group held financial investments in five mutual funds, their market value totalling EUR 0.9 million.

The long-term portfolio of SSH/SSH Group included a bond maturing in 2020; its fair value amounted to EUR 2 million, and the interest rate is 5.95% p.a.

The interest rate for long-term deposit moved between 0.15% and 0.51%.

Movements in long-term financial investments of SSH

in EUR 1,000	1 Jan 2018	Acquisitions	Transfers	Disposals	Revaluations	31 Dec 2018
Long-term financial investments in subsidiaries	3,203	0	-3,203	0	3,757	3,757
Long-term financial investments in associates	214,956	0	-5,997	0	5,445	214,404
Financial assets measured at fair value through other comprehensive income (FV-TOCI)	411,488	0	3,297	-50	-25,883	388,852
Financial assets measured at fair value through profit or loss (FVTPL)	36,837	0	-34,372	-1,236	752	1,981
Financial assets measured at amortised cost	0	31,500	0	0	0	31,500
Total	666,484	31,500	-40,275	-1,286	-15,929	640,494

in EUR 1,000	1 Jan 2017	Acquisitions	Transfers	Disposals	Revaluations	31 Dec 2017
Long-term financial investments in subsidiaries	3,512	0	0	-309	0	3,203
Long-term financial investments in associates	231,340	0	-40,240	-16,671	40,527	214,956
Financial assets measured at fair value through other comprehensive income (FV-TOCI)	545,014	0	40,240	-184,421	47,492	448,325
Total	779,866	0	0	-201,401	88,019	666,484

The item Transfers (FY 2018) of long-term investments in associates shows the transfer of investment in Sava d. d. into the category of financial assets measured at fair value through other comprehensive income (FVOCI), on account of the reduction in the ownership stake.

Major revaluations of investments in associates include as follows:

- the increase in market value of shares of Zavarovalnica Triglav, d.d. EUR 8.9 million;
- the decrease in market value of shares of Unior, d.d. EUR 1.4 million.

The item Disposals of long-term financial assets measured at fair value through profit or loss (FVTPL) mainly presents the transfer of receivable due from Sava d. d. to short-term items.

Important revaluation of other financial assets measured at fair value through other comprehensive income (FVTOCI):

- the increase in estimated value of shares of Loterija d. d. EUR 0.4 million;
- the increase in estimated value of shares of Terme Olimia d. d. EUR 0.6 million;
- the increase in market value of shares of Krka d. d. EUR 0.9 million,
- the decrease in market value of shares of Petrol d. d. EUR 10.4 million;
- the decrease in market value of shares of Luka Koper d. d. EUR 6.9 million;
- the decrease in market value of shares of Telekom Slovenije d. d. EUR 6.6 million;
- the decrease in market value of shares of Cinkarna Celje d. d. EUR 3.3 million;
- the decrease in estimated value of shares of Hit d. d. EUR 2.1 million;
- the decrease in market value of shares of Pozavarovalnica Sava d. d. EUR 1.5 million.

Making an estimate of major investments for which no market prices are given

Sava d.d. was measured by applying an asset-based approach (the method of adjusted book values) with the assumption of on-going concern. The basis for the valuation estimate of Sava Turizem d. d. (subsidiary) was the SSh's own valuation of the said company. The income-based approach, specifically the discounted cash flow method (DCF-method) was applied in the appraisal. The estimate of free cash flow was discounted by applying the discount rate of 7.8% and the growth of normalised cash flow was estimated at 1%. The assumption that the shares of Gorenjska banka would be sold at the price of EUR 298 was taken into account.

The appraisal of the fair value of ordinary shares issued by HIT d. d. was determined by applying the income-based approach, specifically the discounted cash flow method (DCF-method). The estimate of free cash flow was discounted by applying the discount rate of 9.1%. The remaining growth of normalised cash flow amounts to 1%.

The appraisal of the fair value of ordinary shares issued by Loterija d. d. was determined by applying the income-based approach, specifically, the discounted cash flow method (DCF-method). The estimate of free cash flow was discounted by applying the discount rate of 10.2%. The remaining growth of normalised cash flow amounts to 1%.

PS za Avto d. o. o. was measured by applying an asset-based approach (the method of adjusted book values) with the assumption of on-going concern. The basis for the company appraisal was the valuation of real estate owned by PS za Avto as at 31 December 2018 made by a certified real-estate appraiser.

The estimated fair value of ordinary shares issued by Adria turistično podjetje d. o. o. is made under the income-based approach, by applying the discounted cash flow method (DCF). The estimate of free cash flow was discounted by applying the

discount rate of 8.8 %. The remaining growth of normalised cash flow amounts to 2%.

The estimated fair value of ordinary shares issued by Terme Olimia d. d. is made under the income-

based approach, by applying the discounted cash flow method (DCF). The estimate of free cash flow was discounted by applying the discount rate of 8.0 %. The remaining growth of normalised cash flow amounts to 2%.

Movements in long-term financial investments of SSH Group

in EUR 1,000	1 Jan 2018	Acquisitions	Transfers	Disposals	Revaluations	31 Dec 2018
Long-term financial investments in subsidiaries	3,203	0	-3,203	0	3,757	3,757
Long-term financial investments in associates	213,616	0	-5,133	0	5,988	214,471
Financial assets measured at fair value through other comprehensive income (FV-TOCI)	411,488	0	3,268	-50	-25,854	388,852
Financial assets measured at fair value through profit or loss (FVTPL)	36,837	0	-34,372	-1,236	752	1,981
Financial assets measured at amortised cost	0	31,500	0	0	0	31,500
Total	665,144	31,500	39,440	-1,286	-15,357	640,561

in EUR 1,000	1 Jan 2017	Acquisitions	Transfers	Disposals	Revaluations	31 Dec 2017
Long-term financial investments in subsidiaries	3,512	0	0	-309	0	3,203
Long-term financial investments in associates	230,399	0	-40,240	-16,671	40,128	213,616
Financial assets measured at fair value through other comprehensive income (FVTOCI)	545,014	40,240	40,240	-224,661	47,492	448,325
Total	778,925	40,240		-241,641	87,620	665,144

Short-term financial investments

General notes and policies applied in the disclosures of financial statements are equal to those explained in regard to long-term financial investments.

in EUR 1,000	SSH		SSH Group	
	31 Dec 18	31 Dec 17	31 Dec 18	31 Dec 17
Purchased receivables due from Sava d. d.	34,372	0	34,372	0
Loans made to related parties	0	38	0	38
Total	34,372	38	34,372	38

Purchased receivables

In 2016, during the financial restructuring procedure and on the basis of the Agreement on Compensated Transfer of Receivables and Bonds of Sava, d. d., SSH acquired from BAMC Sava's receivables, whose nominal value amounted to EUR 61.2 million, while their transaction value stood at EUR 34.5 million. The subject of this purchase were loans that Sava had been unable to pay to its creditors and which were transferred to BAMC. The purchased receivables were secured by means of a lien registered against financial instruments (units in mutual funds, shares in banks and in enterprises) with an interest rate of 1% per annum. In 2018, on account of proceeds from the sale of pledged assets, SSH reduced the claim by EUR 1.2 million. In connection with this claim,

financial income in the amount of EUR 1.2 million was generated (i.e., EUR 0.8 million were transferred from accrued and deferred liability items, and EUR 0.4 million from interest income). At the end of 2018, the value of collateralised assets was again tested. It increased by EUR 0.8 million and was disclosed as financial income.

The disclosed value of the short-term financial investments reflects their fair value.

In 2018, no loans were granted neither to the management, members of the Supervisory Board nor to members of its Commissions or employees.

Movements in short-term financial investments of SSH/SSH Group

in EUR 1,000	1 Jan 2018	Acquisitions	Transfers	Disposals	Revaluations	31 Dec 2018
Purchased receivables due from Sava d. d.	0	0	34,372	0	0	34,372
Loans made to related parties	38	10	0	-48	0	0
Loans made to banks	0	21,201	0	-21,201	0	0
Total	38	21,211		-21,249	0	34,372

in EUR 1,000	1 Jan 2017	Acquisitions	Transfers	Disposals	Revaluations	31 Dec 2017
Loans made to related parties	0	38	0	0	0	38
Loans made to banks	166,000	123,980	0	-289,980	0	0
Total	166,000	124,018	0	-289,980	0	38

Fair value levels of financial instruments

Classification of financial instruments according to fair value hierarchy as of 31 December 2018

in EUR 1,000	SSH			SSH Group		
	1 level	2 level	3 level	1 level	2 level	3 level
Investments in subsidiaries	0	0	3,757	0	0	3,757
Investments in associates	211,197	0	3,207	211,197	0	3,274
Other long-term financial assets	377,207	899	12,727	377,207	899	12,727
Investments in listed shares	375,226	0	0	375,226	0	0
Mutual Funds	0	899	0	0	899	0
Investments in listed bonds	1,981	0	0	1,981	0	0
Non-listed shares and stakes	0	0	12,727	0	0	12,727
Long-term assets held for sale (fin. investments)	0	0	5,903	0	0	5,903
Purchased receivables	0	0	34,372	0	0	34,372
Deposits to commercial banks	0	0	31,500	0	0	31,500
Short-term operating receivables	0	0	2,399	0	0	2,399
Long-term financial liabilities	0	0	99,886	0	0	99,886
Liabilities-held-for sale	0	0	2,700	0	0	2,700
Short term financial liabilities	0	0	11,743	0	0	11,743
Short term operating liabilities	0	0	16,273	0	0	16,273

Classification of financial instruments according to fair value hierarchy as of 31 December 2017

in EUR 1,000	SSH			SSH Group		
	1 level	2 level	3 level	1 level	2 level	3 level
Investments in subsidiaries	0	0	3,203	0	0	3,203
Investments in associates	203,610	0	11,346	200,176	0	13,440
Other long-term financial assets	404,441	1,026	8,002	404,441	1,026	8,002
Investments in listed shares	402,460	0	0	402,460	0	0
Mutual Funds	0	1,026	0	0	1,026	0
Investments in listed bonds	1,981	0	0	1,981	0	0
Non-listed shares and shareholdings	0	0	8,002	0	0	8,002
Purchased receivables	0	0	34,856	0	0	34,856
Other QFI - loans	0	0	38	0	0	38
Short-term operating receivables	0	0	2,886	0	0	2,886
Long-term financial liabilities	0	0	104,807	0	0	104,807
Short term financial liabilities	0	0	12,996	0	0	12,996
Short term operating liabilities	0	0	19,077	0	0	19,077

15.1.3 Long-term assets held for sale and liabilities held for sale

Two capital assets were classified in the group of non-current assets held for sale. For KDD the concluded contract was completed in the beginning of 2019. As regards GIO, d. o. o., Ljubljana - in liquidation, the liquidation proceedings are ending.

The partial advance payment for the shares of KDD are disclosed as liabilities held for sale.

15.1.4 Operating receivables

With the exception of adjustments made, SSH has no overdue receivables.

There are no material receivables due from related parties, except for receivables due from the Republic of Slovenia which is considered a related party in accordance with IAS 24.

in EUR 1,000	SSH		SSH Group	
	31 Dec 18	31 Dec 17	31 Dec 18	31 Dec 17
Receivables due from customers	1,028	650	1,028	650
Adjustments of receivables due from customers	-283	0	-283	0
Receivables due from the Republic of Slovenia pursuant to ZSPOZ, ZIOOZP, ZVVJTO	717	1,649	717	1,649
Receivables due from state institutions	775	456	775	456
Other receivables	2,192	2,155	2,192	2,155
Adjustments of other receivables	-2,030	-2,024	-2,030	-2,024
Total	2,399	2,886	2,399	2,886

The disclosed value of short-term operating receivables reflects their fair value.

Movements in value adjustment of receivables

in EUR 1,000	SSH		SSH Group	
	31 Dec 18	31 Dec 17	31 Dec 18	31 Dec 17
Adjustment balance as of 1 Jan	2,024	2,936	2,024	2,936
Collected receivables for which adjustment was made	151	855	151	855
Written-off receivables for the year	2	61	2	61
Adjustments made for the year through PL	283	0	283	0
Other adjustments for the year	159	4	159	4
Total adjustments as of 31 Dec	2,313	2,024	2,313	2,024

15.1.5 Cash and cash equivalents

in EUR 1,000	SSH		SSH Group	
	31 Dec 18	31 Dec 17	31 Dec 18	31 Dec 17
Cash on hand	0	0	0	0
Credit balances with commercial banks	72	12	72	12
Cash equivalents	7,280	8,390	7,280	8,390
Total	7,352	8,402	7,352	8,402

Cash equivalents include call deposits held with BKS Bank, AG.

Interest rates ranged from:

- for deposits from 0,15% to 0,51%, and
- for call deposits from 0,001% to 0,002 %,

15.1.6 Equity

Equity of SSH

Determination of accumulated profit/loss of SSH

in EUR 1,000

Retained earnings (31 Dec 2017)	-215,899
The impact of the transition to IFRS 9 - transfer of impairments to fair value reserve	53,270
The impact of the transition to IFRS 9 - reclassification of financial investments into group measured at FVTPL	3,813
Transfer from fair value reserve (compliant with IFRS 9)	219
Net profit or loss for 2018	43,058
Accumulated loss for 2018	-115,539

in EUR 1,000

Retained earnings (31 Dec 2016)	-186,385
Value adjustment of the opening balance	-21,302
Transfer of assets to RS	-42,146
Net profit or loss for 2017	31,949
Value adjustment for 2017	1,985
Accumulated loss for 2017	-215,899

The accumulated loss has been disclosed in accordance with Article 66 of ZGD-1.

The equity of SSH includes the called-up capital, fair value reserve arising from financial investments revaluation and retained losses. The sole shareholder of SSH is the Republic of Slovenia. The share capital of SSH amounts to EUR 260,166,917.04 and is divided into 155,866 (one hundred and fifty-five thousand, eight hundred and sixty-six) non-par value shares.

Fair value reserve balance

	in EUR 1,000	SSH
	31.dec.18	31.dec.17
Increases of investments in shares of domestic listed companies	207,344	284,996
Increases of investments in shares of domestic non-listed companies	842	11,825
Increases of investments in shares of insurance companies	183,313	175,893
Increases/impairments of other investments	149	4,104
Actuarial gains/losses	6	-18
Deferred tax liability	-37,766	-48,596
Total	353,888	428,204

Increases by individual groups of investments include impairments of equity instruments held by SSH/SSH Group at the date of transition to IFRS 9 which were accounted for through profit or loss in the previous periods. At the transition date these losses were reclassified as fair value reserve (Unior d. d., Luka Koper d. d., Intereuropa d. d., Telekom d. d., Hit d. d., etc.)

Significant increases in the balance as of 31 December 2018:

- Zavarovalnica Triglav d. d. EUR 154.3 million,
- Krka d. d. EUR 147.5 million,
- Petrol, d. d. EUR 52.5 million,
- Luka Koper d. d. EUR 29.4 million,
- Pozavarovalnica Sava d. d. EUR 29.1 million,
- Unior d. d. EUR 13.8 million,
- Cinkarna Celje d. d. EUR 13.3 million.

Movements of fair value reserve for 2018

in EUR 1,000	Balance as of 1 Jan 2018	Transfer from retained earnings to fair value reserve	Transfer to retained earnings	Added during FY	Balance as of 31 Dec 2018
Surplus from domestic listed companies	284,996	-50,585	0	-27,067	207,344
Surplus from domestic non-listed companies	11,825	-10,299	50	-634	842
Surplus from investments in insurance firms	175,893	0	0	7,420	183,313
Surplus from other investments	4,104	-15	3,813	-127	149
Actuarial gains/losses	-18	0	0	24	6
Total by surplus type	476,800	-60,899	3,863	-20,384	391,654
Deferred tax liability	-48,596	-8,353	-9	2,468	-37,766
Total	428,204	-69,252	3,854	-17,916	353,888

Movements of fair value reserve for 2017

in EUR 1,000	Balance as of 1 Jan 2017	Transfer to profit or loss/equity	Added during FY	Balance as of 31 Dec 2017
Surplus from domestic listed companies	388,453	138,007	34,550	284,996
Surplus from domestic non-listed companies	5,832	0	5,993	11,825
Surplus from investments in insurance firms	141,050	9,414	44,257	175,893
Surplus from other investments	2,469	1,587	3,222	4,104
Actuarial gains/losses	-11	-1	-8	-18
Total by surplus type	537,793	149,007	88,014	476,800
Deferred tax liability	-54,191	-16,048	-10,453	-48,596
Total	483,602	132,959	77,561	428,204

The book value per SSH share is calculated as a ratio between the total capital and the number of the SSH's shares:

- as of 31 December 2018
 $498,515,594/155,866 = \text{EUR } 3,198.36$
- as of 31 December 2017
 $491,788,699/155,866 = \text{EUR } 3,155.20$
- as of 31 December 2017 (adjusted)
 $472,472,156/155,866 = \text{EUR } 3,031.47$

Equity of SSH Group

The equity of the Group includes the equity of the controlling company amounting to EUR 491.8 million, and the proportional value of the equity of associates measured by applying the equity method. In line with the equity method, the consolidation included the following companies: Zavarovalnica Triglav Group, Hit Group, Unior Group, and Casino Bled, d. d. The effect of an individual associate on the equity of the Group is explained in section: 15.1.16.

The book value per SSH Group share is calculated as a ratio between the total capital and the number of the SSH's shares:

- as of 31 December 2018
 $498,582,159/155,866 = \text{EUR } 3,198.79$
- as of 31 December 2017
 $490,449,330/155,866 = \text{EUR } 3,146.61$
- as of 31 December 2017 (adjusted)
 $471,132,787/155,866 = \text{EUR } 3,022.68$

15.1.7 Provisions and long-term accrued costs and deferred revenues

in EUR 1,000	SSH		SSH Group	
	31 Dec 18	31 Dec 17	31 Dec 18	31 Dec 17
Provisions for denationalisation	44,644	48,192	44,644	48,192
Provisions for jubilee premiums	41	48	41	48
Provisions for post-employment benefits	260	259	260	259
Other provisions	93	457	93	457
Accrued costs and deferred revenues	849	1,505	849	1,505
Total	45,887	50,461	45,887	50,461

The applicable legislation, past experience and, particularly, the legal practice are taken into account when it is assessed whether the conditions have been met in order to form long-term provisions for denationalisation claims lodged under ZDen. The sum of provisions was assessed by examining each denationalisation claim. The current practice shows that the sum on such claims usually significantly exceeds the compensation amount endorsed which is taken into account when forming the estimation. The amount of the provision is reviewed once a year. Denationalisation claims undergo various procedure phases; coming closer to the procedure's final phase makes the estimation more reliable:

- potential final decisions with the compensation amount having been determined - SSH agrees with the claim, however, legal remedies lodged by a claimant are considered possible;
- claims with issued decisions but legal remedies have been lodged and the procedure has been renewed;
- claims undergoing the process and awaiting a decision.

Provisions have been formed for jubilee premiums and retirement benefits paid to employees. The following assumptions have been taken into account in the last calculation made (as of 31 December 2018):

- upon their retirement, employees are entitled to a severance pay in the amount of his/her two average salaries, or in the amount of two average salaries at the state level, whichever is more favourable for employees;
- jubilee premiums are paid out in the threshold amount referred to in Decree on tax treatment of reimbursement of costs and of other income arising from employment;
- minimum conditions for the acquisition of compulsory insurance have been taken into account, as stipulated in ZPIZ-2;
- the Slovenian mortality rates tables from 2000 - 2002 were applied;
- jubilee premiums are granted to employees for the total length of their service;
- staff turnover is 5.0%;
- the wage growth in the company is 0.5 %;
- discount rate of 1.6 %.

The greatest portion of the item referring to accrued costs and deferred liability items represents the difference between the nominal value and the fair value of purchased receivables of Sava at the day of their acquisition. The item will be transferred to revenues in proportion to the repayment of the said receivable and with regard to the time element.

Liabilities for post-employment benefits

in EUR 1,000	SSH		SSH Group	
	2018	2017	2018	2017
Balance as of 1 January	259	229	259	229
Current service cost	19	19	19	19
Net interest	4	4	4	4
Paid-out post-employment benefits	0	0	0	0
Actuarial gains	-22	0	-22	0
Actuarial losses	-	7	-	7
Balance as of 31 Dec	260	259	260	259

Sensitivity analysis

Change in	Discount rate		Salary increases	
	percentage point		percentage point	
Change by	0.5	-0.5	0.5	-0.5
Impact on balance of liabilities in EUR 1,000	-15	16	16	-15

Movements in provisions of SSH/SSH Group

in EUR 1,000	Balance as of 1 Jan 2018	Newly formed provisions	Use	Reversal	Balance as of 31 Dec 2018
Provisions for denationalisation	48,192	0	2,982	566	44,644
Provisions for jubilee premiums	48	5	4	8	41
Provisions for retirement benefits	259	24	0	23	260
Other provisions	457	0	0	364	93
Accrued costs	1,505	99	3	752	849
Total	50,461	128	2,989	1,713	45,887

in EUR 1,000	Balance as of 1 Jan 2017	Newly formed provisions	Use	Reversal	Balance as of 31 Dec 2017
Provisions for denationalisation	36,360	14,453	2,621	0	48,192
Provisions for jubilee premiums	41	12	5	0	48
Provisions for retirement benefits	229	34	0	4	259
Other provisions	497	26	66	0	457
Accrued costs	2,269	110	2	872	1,505
Total	39,396	14,635	2,694	876	50,461

15.1.8 Long-term financial liabilities

in EUR 1,000	SSH		SSH Group	
	31 Dec 18	31 Dec 17	31 Dec 18	31 Dec 17
Loans granted by banks	0	4,997	0	4,997
Principal of SOS3 bond	99,886	99,810	99,886	99,810
Total	99,886	104,807	99,886	104,807

The SSH/SSH Group's long-term financial liabilities include long-term debt securities issued. The SOS3 bonds was issued by SSH in 2015, with a single repayment due after five years at 2.5% interest rate.

No liability falls due within a period of five years after the reporting date.

The value of the recognised long-term financial investments reflects their fair value.

Movements in long-term financial liabilities of SSH/SSH Group

in EUR 1,000	Balance as of 1 Jan 2018	Acquisitions	Repayments	Transfer from/to long-term loans	Balance as of 31 Dec 2018
Loans granted by banks	4,997	3	5,000	0	0
SOS3 bond	99,810	76	0	0	99,886
Total	104,807	79	5,000	0	99,886

in EUR 1,000	Balance as of 1 Jan 2017	Acquisitions	Repayments	Transfer from/to long-term loans	Balance as of 31 Dec 2017
Loans granted by banks	4,997	0	0	0	4,997
SOS3 bond	99,734	76	0	0	99,810
Total	104,731	76	0	0	104,807

15.1.9 Short term financial liabilities

The last coupon matured in 2016, which is why all liabilities arising from SOS2E (denationalisation compensations) that have already been handed over and those bonds to be handed over on the basis of final court decisions are disclosed in short-term liabilities. The amount of the matured and outstanding debt has no significant value for SSH. The reason for the non-payment lies with beneficiaries who fail to submit the necessary payment data.

Short term financial liabilities

in EUR 1,000	SSH		SSH Group	
	31 Dec 18	31 Dec 17	31 Dec 18	31 Dec 17
Loans granted by banks	0	0	0	0
Principal of SOS2E bond	11,743	12,996	11,743	12,996
Total	11,743	12,996	11,743	12,996

Movements in short-term financial liabilities of SSH/SSH Group

in EUR 1,000	Balance as of 1 Jan 2018	Acquisitions	Repayments	Transfer from/to long-term loans	Balance as of 31 Dec 2018
Loans granted by banks	0	0	0	0	0
SOS2E bond	12,996	1,540	2,793	0	11,743
Total	12,996	1,540	2,793	0	11,743

in EUR 1,000	Balance as of 1 Jan 2017	Acquisitions	Repayments	Transfer from/to long-term loans	Balance as of 31 Dec 2017
Loans granted by banks	279,911	3,389	283,300	0	0
SOS2E bond	13,261	1,279	1,544	0	12,996
Total	293,172	4,668	284,844	0	12,996

15.1.10 Operating liabilities

in EUR 1,000	SSH		SSH Group	
	31 Dec 18	31 Dec 17	31 Dec 18	31 Dec 17
Trade payables	3,819	4,845	3,819	4,845
Interest on loans granted by banks	0	20	0	20
Interest for SOS2E bond	9,810	10,972	9,810	10,972
Interest for SOS3 bond	1,308	1,308	1,308	1,308
Liabilities due to employees	218	251	218	251
Liabilities due to state institutions	413	259	413	259
Advances received for shares	0	1,405	0	1,405
Other operating liabilities	14	17	14	17
Total	15,582	19,077	15,582	19,077

At the end of the reporting period, except for wages and salaries payables, there are no payables outstanding associated with related under takings.

A major sum included in trade payables is the liability for the purchase of a part of an office building in the amount of EUR 3,6 million due to GIO, d.o.o., Ljubljana – in liquidation; the said liability will mature upon the fulfilment of special contractual provisions (the Seller must submit certified copies of the Land Register Deletion Permit, a deletion of writ of execution and the release of other easements is pending). The above mentioned co-ownership share of the office building was transferred against payment to D.S.U., d.o.o., in autumn 2014.

There are no overdue and outstanding liabilities.

15.1.11 Operating income

in EUR 1,000	SSH		SSH Group	
	Jan - Dec 2018	Jan - Dec 2017	Jan - Dec 2018	Jan - Dec 2017
Income from contracts with customers	10,002	3,902	10,002	3,902
Net sales revenues	10,002	3,902	10,002	3,902
Income from disbursing and removing long-term provisions - denationalisation	566	0	566	0
Income from disbursing and removing other long-term provisions	372	4	372	4
Income connected with denationalisation	1,807	1,918	1,807	1,918
Revalued operating income	769	1,141	769	1,141
Other operating income	3,514	3,063	3,514	3,063
Total	13,516	6,965	13,516	6,965

In accordance with contracts, the operating income includes the recognised reimbursement of costs incurred in the process for the sale of state-owned assets (NLB d.d., Abanka d. d. and in other small-value sale processes), in addition to fees for managing capital assets owned by RS and fees for the implementation of three laws (i.e., ZSPOZ, ZIOOZP and ZVVJTO).

Significant income allocated for denationalisation includes:

- proceeds from the sale and management of agricultural land and forests, paid by the Farmland and Forest Fund of the Republic of Slovenia;
- proceeds resulting from the companies ownership transformation procedures – paid in cash or by means of shares or equity holdings, transferred to SSH/SSH Group partly from D.S.U., d.o.o., and partly from the budget of the Republic of Slovenia.

The revalued operating income includes income received by means of the collection of receivables for which value adjustment was made in the past.

In 2018, the operating income amounted to 22.6% of all income that was generated by SSH All sales revenues are generated in the domestic market.

15.1.12 Costs of goods, materials and services

in EUR 1,000	SSH		SSH Group	
	Jan - Dec 2018	Jan - Dec 2017	Jan - Dec 2018	Jan - Dec 2017
Cost of material	68	70	68	70
Cost of services	7,467	2,075	7,467	2,075
Total	7,535	2,145	7,535	2,145

The highest portion of costs incurred in 2018 (EUR 6.3 million) is connected with the sale of capital assets of the Republic of Slovenia.

The contractual amount for the auditing of the financial statements of SSH and the SSH Group for 2018 amounted to EUR 17,250, excluding VAT. The amount of EUR 3,960, excluding VAT, was transferred to the audit firm for various other services rendered. All services rendered are permitted services in accordance with Regulation (EU) 537/2014.

15.1.13 Labour costs

Labour costs include wages and salaries paid to employees, wage compensation attributable to employees for a period off work in accordance with the law, collective agreement or an employment agreement, bonuses and rewards paid to employees, as well as taxes charged on the aforementioned

items. They also include reimbursement for commuting expenses paid to employees and costs of meals, holiday allowances, any severance payments paid upon the termination of the employment relationship and costs of provisions for jubilee premiums and retirement benefits, as well as provisions for potential labour-law related lawsuits.

in EUR 1,000	SSH		SSH Group	
	Jan - Dec 2018	Jan - Dec 2017	Jan - Dec 2018	Jan - Dec 2017
Salaries and wages	3,160	3,222	3,160	3,222
Retirement insurance costs	284	288	284	288
Costs of voluntary supplementary pension insurance	86	91	86	91
Social security costs	233	235	233	235
Annual leave allowance, reimbursements and other earnings	317	281	317	281
Provisions for jubilee premiums	5	11	5	11
Provisions for retirement benefits	20	22	20	22
Total	4,105	4,150	4,105	4,150

15.1.14 Depreciation and amortisation

in EUR 1,000	Company		SSH Group	
	Jan - Dec 2018	Jan - Dec 2017	Jan - Dec 2018	Jan - Dec 2017
Amortisation of intangible assets	125	67	125	67
Depreciation of buildings	13	24	13	24
Depreciation and amortisation of equipment and spare parts	96	78	96	78
Total	234	169	234	169

15.1.15 Financial income and expense

in EUR 1,000	SSH		SSH Group	
	Jan - Dec 2018	Jan - Dec 2017	Jan - Dec 2018	Jan - Dec 2017
Financial income from equity investments and other financial instruments	46,138	55,715	29,940	36,033
Financial income from loans made	54	40	54	40
Total financial income	46,192	55,755	29,994	36,073
Financial expenses for the write-offs and impairments of financial investments	1	20	1	20
Financial expenses for financial liabilities	2,624	4,172	2,624	4,172
Total financial expenses	2,625	4,192	2,625	4,192
Impact of revaluation of associated financial investments measured under equity method	0	0	32,273	73,995
Net profit or loss	43,567	51,563	59,642	105,876

Financial income from equity investments and other financial instruments

in EUR 1,000	SSH		SSH Group	
	Jan - Dec 2018	Jan - Dec 2017	Jan - Dec 2018	Jan - Dec 2017
Dividends - domestic and foreign enterprises	21,965	26,518	21,734	26,247
Dividends - insurance companies	18,402	19,411	2,435	0
Dividends - mutual funds	5	35	5	35
Gains from the sale of UCITS units	0	2,108	0	2,108
Proceeds from sale of equity investments in enterprises	7	6,250	7	6,250
Income from valuation of financial investments at fair value	3,757	0	3,757	0
Income in connection with purchased receivables	1,898	1,289	1,898	1,289
Interest income arising from bonds	104	104	104	104
Total	46,138	55,715	29,940	36,033

Financial expenses for financial liabilities

in EUR 1,000	SSH		SSH Group	
	Jan - Dec 2018	Jan - Dec 2017	Jan - Dec 2018	Jan - Dec 2017
Expenses for interest for SOS3 bond	2,576	2,580	2,576	2,580
Interest on loans granted by banks	42	1,588	42	1,588
Expenses from actuarial calculations	6	4	6	4
Total	2,624	4,172	2,624	4,172

Overview of financial income and expenses generated by SSH with subsidiaries and associates

	SSH	
	Jan - Dec 2018	Jan - Dec 2017
Financial income in connection with subsidiaries	3,757	931
Financial income in connection with associates	17,307	21,075
Financial expense in connection with subsidiaries	1	0
Financial expense in connection with associates	0	0
Net profit or loss	21,063	22,006

Financial income and expenses in relation to subsidiaries and associates are additionally disclosed in this section. All sums stated in the above table are included in tables where financial income and expenses are disclosed.

15.1.16 Participation in profit/loss in associates

	SSH Group	
	Jan - Dec 2018	Jan - Dec 2017
Corresponding participation in profit of associates	30,042	41,045
Reversal of impairment	10,439	32,950
Corresponding participation in losses of associates	15	0
Impairment	8,193	0
Net profit or loss	32,273	73,995

On 31 December 2018, the SSH Group held in its ownership 6,386,644 of shares in Zavarovalnica Triglav, which amounted to the 28.09% ownership stake. In 2018, **Zavarovalnica Triglav Group** generated profit (the proportion of controlling owners) in the amount of EUR 80,466K. SSH Group recorded net financial income which, proportionally, amounted to EUR 22,604K. Zavarovalnica Triglav Group distributed dividends in the amount of EUR 56,838K, and reduced

fair value reserves by EUR 28,986K of which the proportion attributable to SSH Group amounts to EUR 8,135K. In previous periods the investment was impaired (the value established by applying equity method was higher than fair value). Due to the de-recognition of impairment in Zavarovalnica Triglav shares, the financial income in the amount of EUR 10,439K was accounted for, and the difference to the fair value amount was recognised.

On 31 December 2018, SSH Group held in its ownership 1,357,727 shares of **Hit d. d.**, representing a 20% ownership stake in the said company. In 2018, Hit Group generated profit in the amount of EUR 3,070K (the proportion of controlling owners), the proportional amount for SSH Group amounted to EUR 614K. HIT Group distributed dividends in the amount of EUR 1,154K, and reduced fair value reserves of which the proportion attributable to SSH Group amounts to EUR 66K. Due to fact that the fair value (estimate) of the investment in Hit shares is lower than the value for which equity method was applied, the Group recognised a financial expense in the amount of EUR 7,372K.

The ownership interest held by RS in **Unior d. d.** amounted to 39.43 % at the end of 2018. In 2018, Unior Group, d. d., generated profit in the amount of EUR 9,146K (the proportion of controlling owners). On this basis, SSH Group reported net financial income which, proportionally, amounted to EUR 3,606K. Unior Group reduced fair value reserves by EUR 1,789K of which the proportion attributable to SSH Group amounts to EUR 706K. Due to fact that the fair value of the investment in Unior shares is lower than the value for which equity method was applied, the investment was impaired and a financial expense in the amount of EUR 821K was recognised.

On 31 December 2018, SSH Group held in its ownership 4,891,650 shares of **Sava d. d.**, representing a 18.53% ownership stake in the said company, a reduction from the 22.57% ownership stake held by the Group until the end of August 2018. In the first six months of 2018, Sava Group generated profit in the amount of EUR 10,884K, the proportional amount for SSH Group amounted to EUR 2,456K. Due to the exclusion of Sava d. d. from SSH Group, financial expense in the amount of EUR 761K was recorded.

On 31 December 2018, SSH Group held in its ownership 27,772 shares of **Casino Bled d. d.**, representing a 33.75% ownership stake in the said company. In 2018, Casino Bled Group generated profit in the amount of EUR 47K, of which net financial income was recognised by SSH Group in the amount of EUR 16K. The ownership stake held by SSH Group in the said company was reduced from 43% to 33.75 %.

15.1.17 Taxes

Calculation of the effective tax rate

in EUR 1,000	SSH		SSH Group	
	31 Dec 18	31 Dec 17	31 Dec 18	31 Dec 17
Profit before tax	44,873	37,544	60,948	91,857
Calculated tax (applicable rate = 19%)	8,526	7,133	8,526	7,133
Effect of non-taxable income	-44,221	-48,268	-44,221	-48,268
Adjustment of expenses	-2,232	-14,893	-2,232	-14,893
Tax relief	-438	0	-438	0
Other adjustments	2,018	2,413	-14,057	-28,696
Income tax	0	0	0	0
Effective tax rate	0	0	0	0

Long-term deferred tax assets and liabilities

in EUR 1,000	SSH		SSH Group	
	31 Dec 18	31 Dec 17	31 Dec 18	31 Dec 17
Deferred tax assets	19,836	29,280	19,836	29,280
Deferred tax liabilities	37,766	48,596	37,766	48,596
Net deferred tax liabilities	-17,930	-19,316	-17,930	-19,316

Deferred tax assets are a result of impairment of financial investments and revaluation of receivables, provisions for retirement benefits and jubilee premiums and unused tax losses.

As it is shown in the tables above and notes, deferred tax assets are not fully recognised in the financial statements of SSH/SSH Group.

Movements in tax losses

in EUR 1,000	SSH		SSH Group	
	31 Dec 18	31 Dec 17	31 Dec 18	31 Dec 17
Opening balance of unused tax losses	911,365	888,161	911,365	888,161
Increase in FY	0	23,204	0	23,204
Use in FY	-219	0	-219	0
Closing balance of unused tax losses	911,146	911,365	911,146	911,365

Movements in long-term deferred tax liabilities

in EUR 1,000	SSH		SSH Group	
	31 Dec 18	31 Dec 17	31 Dec 18	31 Dec 17
Balance of deferred tax liabilities as of 1 Jan	48,596	54,191	48,596	54,191
Transfer from deferred tax assets (IFRS 9)	-7,629	0	-7,629	0
Change due to reclassification of investments (IFRS 9)	-724	-	-724	-
Use	-9	-302	-9	-302
Change due to transfer to RS	0	-15,746	0	-15,746
Change due to revised taxable base	-2,468	10,453	-2,468	10,453
Balance as of 31 Dec	37,766	48,596	37,766	48,596

Long-term deferred tax liabilities include the revaluation of financial investments at fair value through other comprehensive income (FVTOCI). When forming long-term deferred tax liabilities or deferred tax assets, the provisions of the applicable

Corporate Income Tax Act are taken into account, on the basis of which and subject to the fulfilment of certain conditions, half of the capital gain is excluded from the taxable base.

Movements in long-term deferred tax assets for SSH and SSH Group

in EUR 1,000	Revaluation of financial investments	Impairment of short-term operating receivables	Provisions	Unused tax losses	Total
Balance as of 1 Jan 2018	9,334	613	17	19,316	29,280
Reclassification of liabilities (IFRS 9)	-7,629	0	0	0	-7,629
Use in 2018	-1,319	-75	-20	0	-1,414
Newly made	0	0	32	0	32
Exclusions	0	0	0	-433	-433
Total changes in Income Statement	-1,319	-75	12	-433	-1,815
Total changes in Statement of Financial Position	-7,629	0	0	0	0
Balance as of 31 Dec 2018	386	538	29	18,883	19,836

in EUR 1,000	Financial investments	Adjustments of receivables	Provisions	Tax loss	Total
Balance as of 1 Jan 2017	10,785	786	17	42,603	54,191
Correction of opening balance	0	0	0	-21,302	-21,302
Use in 2017	-1,451	-173	0	0	-1,624
Newly made	0	0	0	0	0
Exclusions	0	0	0	-1,985	-1,985
Total changes in Income Statement	0	-173	0	-1,985	-2,158
Total changes in Statement of Financial Position	-1,451	0	0	0	0
Balance as of 31 Dec 2017	9,334	613	17	19,316	29,280

15.1.18 Net profit per share

in EUR 1,000	SSH		SSH Group	
	31 Dec 18	31 Dec 17	31 Dec 18	31 Dec 17
Profit/loss of majority owners	43,058	33,935	59,133	88,248
Number of issued shares	155,866	155,866	155,866	155,866
Weighted number of shares	155,866	155,866	155,866	155,866
Net profit per share	0.276	0.218	0.379	0.566

15.1.19 Dividends per share

In compliance with its rules and regulations, the controlling company does not pay out any dividends.

15.1.20 Note to the Cash Flow Statement

The cash flow statement shows changes in the balance of monies in a particular financial year, using the direct method. The data were obtained from the books of accounts of SSH/SSH Group and from other accounting records such as original documents on receipts and expenditure and account balance slips provided by commercial banks. The data for the preceding year were prepared by using the same methodology.

The amounts paid for SOS2E bond interest and principal were disclosed in the first part of the Cash

Flow Statement (cash flows from operating activities), since SSH/SSH Group's core business is the settling of denationalisation liabilities. Proceeds, with the exception of proceeds from financial investments sold for covering these outflows, were recognised as operating proceeds. Similarly, the first part of the Cash Flow Statement includes cash flows arising from the payment of liability due by the Republic of Slovenia which are executed on its behalf by SSH (ZSPOZ, ZIOOZP and ZVVJTO).

Cash flows in 2018 based on the execution of the following acts: ZSPOZ, ZIOOZP and ZVVJTO

in EUR 1,000	ZSPOZ	ZIOOZP	ZVVJTO	Total
Payments to beneficiaries	6,139	202	18	6,359
Received from the Republic of Slovenia	6,831	441	18	7,290
Net financial impact	692	239	0	931

The most important source of funds to cover SSH liabilities in 2018 were dividends of companies

owned by SSH, in addition to the repayment of costs for the management of capital assets owned by RS.

15.2 Financial risk management of SSH/SSH Group

The financial risks are continuously monitored and assessed by SSH/SSH Group with the aim to provide for a long-term liquidity and to avoid excessive exposure to individual risks. SSH/SSH Group is exposed to and monitors the following risks: credit risk, interest rate risk, and particularly market and liquidity risk. Considering the fact that all financial instruments are linked to the Euro, the currency risk is negligible for SSH/SSH Group..

15.2.1 Credit risk

Financial investments in banks or other in issuers of securities create risks that might arise due to the borrowers' default in settling their liabilities, which means that upon maturity, funds invested are not repaid in full or in part. For the purpose of managing credit risks, the financial position of issuers and their capacity to generate sufficient funds for repayment are assessed. In regard to investments in debt securities, restrictions and limits have been set by SSH/SSH Group in relation to individual issuers and banks, which, by taking into account their balance sheet data, are renewed on an annual basis. Ratings of internationally renowned credit agencies are used in the analysis of individual securities,

SSH/the Group used to invest financial assets in financial institutions and any potential failure to meet contractual obligations would result in its decreased liquidity. In 2017, the volume of such investments was substantially reduced. It is therefore assessed, that there are no risks associated with a failure to fulfil contractual obligations.

15.2.2 Interest rate volatility risk

Interest rate risk is the risk that the value of interest sensitive assets will change due to a change in market interest rates, as well as the risk that financially sensitive assets and financially sensitive liabilities will mature on different dates and in

different amounts. A fixed interest rate was agreed on when investing assets.

A fixed interest rate is also applied to all debt held as at 31 December 2018. Changes in the market interest rates do not affect SSH/SSH Group's liabilities in relation to bonds issued.

15.2.3 Liquidity risks

Special attention was dedicated to managing liquidity risk. As before, all liabilities were regularly settled. A thorough planning of cash flows enabled a timely forecasting in regard to potential deficits or surpluses and their optimum management.

In accordance with the provisions of the Act on financial operations, insolvency proceedings and compulsory dissolution, particularly in regard to the short-term and long-term financial capacity and solvency of the Company/Group, it was assessed that SSH/SSH Group remains solvent and is not at risk of insolvency. The value of assets exceeds the value of liabilities, and the solvency is not at risk. As a matter of fact, the highest value of liabilities included in short-term liabilities refers to liability arising from final denationalisation decisions which have not yet been implemented (in the amount of EUR 21.6 million) and has remained stable at the approximately same level for several years; the reason for this is that beneficiaries have not lodged their applications for payments. Dividend income received will have a favourable impact on liquidity.

All liquid financial investments are considered as liquid assets. In spite of the fact, that cash flows are planned as thoroughly as possible, there is a small degree of probability that an unpredictable liability may arise. SSH has an option of selling individual investments accounted for as long-term financial investments (domestic shares, foreign shares, units of mutual funds, bonds) for the occurrence of any unforeseen events. In the worst case scenario, i.e., if SSH/SSH Group runs

out of funds, the Constitutional Court Decision No U-I-140/94 of 14 December 1995, stipulates that the Republic of Slovenia is obliged to provide additional funds for the Company when the Company's sources of funds do not suffice for the regular settlement of the Company's liabilities under the Denationalisation Act, the Cooperatives Act and other regulations governing the restitution of property.

Liquidity ratios

	in EUR 1,000		in %	
	31 Dec 18	31 Dec 17	31 Dec 18	31 Dec 17
Direct coverage of short-term liabilities				
Liquid assets	41,724	8,440	152.70	26.31
Short term liabilities	27,325	32,073		
Accelerated coverage of short-term liabilities				
Short-term assets	50,948	11,979	169.34	37.17
Short term liabilities	30,086	32,231		

Maturity of SSH/SSH Group liabilities according to contractual cash flows

in EUR 1,000	Book value of liabilities	Contractual cash flows				
		Liability	up to 6 months	from 6 to 12 months	From 1 to 5 years	more than 5 years
Financial liabilities	112,937	116,743	14,243	0	102,500	0
Operating liabilities	14,965	14,965	14,965	0	0	0
Total liabilities	127,902	131,708	29,208	0	102,500	0

ZSOS, zato je kumulativni presežek izločen iz postavke.

15.2.4 Market risk

Domestic marketable shares of SSH/SSH Group as of 31 Dec 2018

Type of equity investment	Value in EUR 1,000	Structure in %
Zavarovalnica Triglav d. d.	193,515	33.00
Krka d. d.	170,503	29.08
Petrol, d. d.	82,000	13.98
Other equity investments	53,329	9.09
Pozavarovalnica Sava d. d.	46,571	7.94
Luka Koper d. d.	40,504	6.91
Total	586,422	100

Changes in market share prices represent a significant risk which is being increased by low liquidity levels in regard to the majority of significant equity investments.

Liquidity of the most important investments of the Company/Group in quoted shares

Turnover capitalisation* in 2018

Krka d. d.	4.57%
Luka Koper d. d.	4.51%
Petrol, d. d.	5.79%
Pozavarovalnica Sava d. d.	3.51%
Telekom d. d.	5.35%
Zavarovalnica Triglav d. d.	6.38%
Prime market	5.11%
Standard market	12.64%

Note: *Note: Yearly turnover / average market capitalisation on 31 December, 30 June, 31 December of previous year

Source: Source: Monthly and Annual Statistics LJSE, 2018

It has been assessed that the risk exposure related to changes in market prices of shares is extremely high. The average duration of liabilities held on the passive side of the balance sheet is 24 months, whereas 88% of assets on the active side include

shares in domestic companies. The largest three individual investments of SSH/SSH Group represent approximately 69% of all long-term financial investments. The risk due to a low dispersion of investments is extremely high.

Sensitivity analysis of equity investments against changes in market prices

Type of equity investment	Value	Change in market prices	Change in market prices	Change in market prices	Change in market prices
in EUR 1,000	31 12 2018	15%	20%	-15%	-20%
Krka d. d.	170,503	25,575	34,101	-25,575	-34,101
Zavarovalnica Triglav d. d.	193,515	29,027	38,703	-29,027	-38,703
Petrol, d. d.	82,000	12,300	16,400	-12,300	-16,400
Sava Re d. d.	46,571	6,986	9,314	-6,986	-9,314
Luka Koper d. d.	40,504	6,076	8,101	-6,076	-8,101
Other marketable domestic shares	53,329	7,999	10,666	-7,999	-10,666
Other investments (non-marketable)	25,595	3,839	5,119	-3,839	-5,119
Mutual Funds	899	135	180	-135	-180
Total	612,916	91,937	122,583	-91,937	-122,583

15.2.5 Managing capital adequacy

In 2018 and in 2017, there were no changes to the equity management. The main purpose of equity management is ensuring the capital adequacy and the financial stability of a company with the primary objective of providing for a high return on equity.

In accordance with the dividend policy of the sole shareholder, no dividends are paid out.

For controlling its capital structure, the financial leverage ratio is applied by SSH showing net debt against equity. Net debt includes issued bonds, SOS3 and SOS2E, loans received and operating liabilities reduced by cash and cash equivalents

in EUR 1,000	SSH		SSH Group	
	31 Dec 18	31 Dec 17	31 Dec 18	31 Dec 17
Short term liabilities	28,016	32,231	28,016	32,231
Long term financial liabilities	99,886	104,807	99,886	104,807
Cash and cash equivalents	7,352	8,402	7,352	8,402
Net indebtedness	120,550	128,636	120,550	128,636
Equity	498,516	472,472	498,583	471,132
Financial leverage ratio in %	24.18	27.23	24.18	27.30

Relatively low indebtedness level is reported for the Company for 2018. The major part of financial liabilities refers to the long-term debt securities of SOS3 in the sum of EUR 99.9 million for unsettled principle and liabilities for denationalisation compensations (not-yet implemented final decisions) in the amount of EUR 21.6 million.

In 2018, no transactions were concluded by SSH which might result in harmful consequences for the operation of related parties

15.3 Transactions with related entities

In addition to the Republic of Slovenia, considered as 100% owner, the following entities are considered to be related entities, in accordance with IAS 24:

- subsidiaries and associates;
- management bodies and members of Supervisory Board and of Audit Committee;
- companies related to the state.

15.3.1 Subsidiaries and associates

As at 31 December 2018, SSH held a 20% or higher shareholding in the following companies: Casino Bled d. d., Elektrooptika, d. d., GIO, d. o. o., Ljubljana – in liquidation, Hit Nova Gorica d. d., and PS za avto, d. o. o., Unior d. d. and Zavarovalnica Triglav d. d. The majority of the above mentioned shares and shareholdings were obtained pursuant to the Ownership Transformation of Companies Act and other laws passed with the aim of settling denationalisation compensation to beneficiaries and compensation to victims of war- and post-war violence, and pursuant to ZSDH-1. There were no significant business transactions taking place between SSH and the above mentioned companies.

In 2018, no mandatory instruction in the capacity of a controlling company was given by the Management Board of the Company. Neither was there any legal transaction concluded by and between the controlling company and related parties, as a result of any mandatory instruction.

The Company hereby declares that the controlling company has not used its influence by forcing its related entities to carry out any legal transaction which is a detriment to them or to do anything which is to their detriment. In addition to capital-related connections, business cooperation with associates mainly refers to insurance transactions.

15.3.2 Management and members of Supervisory Board and Audit Committee

All payments received by the management personnel and members of Supervisory Board and its committees refer to the reporting period.

Remuneration of Management Board members in 2018

in EUR	Lidija Glavina	Drobne Popovič Nada	Andrej Bertonec	Vanessa Grmek	Boštjan Koler
	1 Jan - 31 Dec 18	1 1 - 11 June 18	3 May - 12 Sept 18	21 9 - 30 Nov 18	1 Dec - 31 Dec 18
Fixed income (gross)	131,698	52,500	42,602	22,718	9,877
Variable income (gross)	0	0	0	0	0
Other earnings (bonuses, company car)	3,764	2,084	842	0	396
Net income (salary plus benefits)	61,509	25,787	22,076	11,529	4,882
Holiday pay (gross)	843	351	281	0	70
Reimbursement of costs (meals, transportation cost)	3,216	551	692	369	107
Reimbursement of business travel costs	19,306	11	343	1,241	0
Voluntary suppl. pension insurance	0	1,280	0	517	235

In 2018, with the exception of Management Board Members, no employees were employed on the basis of individual employment contracts.

Salaries paid to the members of Management Board are paid in accordance with the Act Governing the Remuneration of Managers of Companies with Majority Ownership held by the Republic of Slovenia or Self-Governing Local Communities (ZPPOGD, by way of which the Company is considered a large company), although it is not binding for SSH.

Members of the Management Board using company cars for private purposes do not receive any payments reimbursing their commuting costs. Members of the Management Board represented the interest of capital contributors by participating in Supervisory Boards of the following entities:

- Nada Drobne Popovič, MSc, in Petrol d. d., and
- Lidija Glavina in Telekom d. d.

On 4 December 2014, the Government of the Republic of Slovenia, acting as the General Meeting of SSH, determined the type and amount of income paid to SSH Supervisory Board Members; the said resolution was supplemented on 21 July 2017.

On the basis of the above mentioned Resolution, Supervisory Board Members are eligible to receive session fee in the gross amount of EUR 275 for their attendance of the session, and the session fee for the attendance at sessions held by Supervisory Board Committees amounts to EUR 220 gross. The attendance fee for a meeting by correspondence amounts to 80% of the regular attendance fee.

In addition to session attendance fees, members of the Supervisory Board also receive a payment for the execution of their position, in the gross amount of EUR 1,200 per month for an individual member. The President of the Supervisory Board is eligible to receive the extra monies in the amount of 30% of the basic payment for the performance of the function, while for the Vice President this extra payment amounts to 10% of the basic payment. The members

of the Supervisory Board's commission receive the additional payment for the performance of services which amounts to 25% of the basic payment for the performance of services of the Supervisory Board member. In addition, upon a proposal by the Minister of Finance, the Government of the Republic of Slovenia acting as the General Meeting of the Company may determine additional payment for a Member of Supervisory Board who has special knowledge and experience that have been obtained from carrying out such functions abroad and who has a proven record of successful business performance.

Members of the Supervisory Board and its commissions are also entitled to receive reimbursement of costs associated with their execution of the Supervisory Board member function, specifically, in the form of daily allowances, travel expenses and accommodation costs. Daily allowances and travel expenses are paid in accordance with regulations regulating this topic in the business sector.

Remuneration of Members of the Supervisory Board in 2018

in EUR	Remuneration for carrying out their office (gross)	Attendance fee - gross	Fringe benefit	Travel expenses (gross)	Total
Belič, Damjan	18,720	5,775	33	0	24,528
Bertoncelj, Andrej	4,877	1,870	33	208	6,988
Dietner, Karmen	503	0	0	0	503
Kos, Duško	15,840	5,775	33	181	21,829
Kržan, Igor	14,400	5,775	33	616	20,824
Vipotnik, Janez	14,400	5,720	33	3,644	23,797
Total	68,740	24,915	165	4,649	98,470

Remuneration of Members of the Supervisory Board's Nomination Committee in 2018

in EUR	Compensation for the execution of the function (gross)	Attendance fee - gross	Fringe benefit	Travel expenses (gross)	Total
Belič, Damjan	1,973	2,596	0	0	4,569
Bertoncelj, Andrej	813	1,100	0	56	1,969
Dietner, Karmen	126	0	0	0	126
Kos, Duško	1,973	2,596	0	138	4,707
Kržan, Igor	1,973	2,596	0	633	5,202
Vipotnik, Janez	1,973	2,596	0	330	4,899
Total	8,831	11,484	0	1,157	21,472

Remuneration of Members of the Supervisory Board's Audit Committee in 2018

in EUR	Compensation for the execution of the function (gross)	Attendance fee - gross	Fringe benefit	Travel expenses (gross)	Total
Belič, Damjan	3,600	1,892	0	0	5,492
Kos, Duško	3,600	1,892	0	43	5,535
Virant, Darinka	4,481	1,892	0	143	6,516
Total	11,681	5,676	0	186	17,543

Remuneration of Members of the Supervisory Board Risk's Committee in 2018

in EUR	Compensation for the execution of the function (gross)	Attendance fee - gross	Fringe benefit	Travel expenses (gross)	Total
Bertoncelj, Andrej	1,219	220	0	0	1,439
Kržan, Igor	3,600	440	0	0	4,040
Vipotnik, Janez	2,381	220	0	0	2,601
Virant, Darinka	3,600	220	0	0	3,820
Total	10,800	1,100	0	0	11,900

The composition of the Risk Committee changed during the year; the members regularly attended the Committee's sessions.

Other costs associated with the Supervisory Board and its Committees

in EUR	SSH
	jan. - dec. 2018
Costs in connection with the selection of a Management Board Member (advertisement, HR agency)	12,630
Other (insurance premiums)	167
Total	12,797

15.3.3 Transactions with the Government of the Republic of Slovenia, state authorities and enterprises controlled by the Government or in which its significant influence is exercised

Companies that are related to the state include all companies in which the Republic of Slovenia exercises a significant influence.

in EUR 1,000	Receivables	Income
	31 Dec 18	Jan-Dec 2018
Ministry of Finance	1,589	10,227
Ministry of Economic Development and Technology	283	232
Farmland and forest Fund of RS	59	893
D. S. U.	569	656
Total	2,500	12,008

SSH also carries business with other companies, authorities, bodies and agencies in which the Republic of Slovenia is a majority or a minority shareholder. All transactions with the above mentioned entities are concluded at arm's length, just like with other entities. Since no significant amounts are involved, these pieces of data are not disclosed.

15.4 Operating segments

The SSH Group carries out various tasks which usually do not entail the generation of significant revenues. The main activity leading to SSH's establishment was the determination and the payment of compensation arising from denationalisation (ZDen). For this purpose, SSH had received a portion of a previously socially-owned property, in the form of shares and shareholding registered as revenues upon its receipt. These assets are sold subject to the financial needs and depending on the situation in capital markets. Upon their disposal, the financial income is a difference between the acquisition value and the selling price of an individual financial investment.

SSH carries out the following tasks on behalf of and for the account of the Republic of Slovenia: the payment of compensation to beneficiaries for confiscated property pursuant to the abrogation of the penalty of confiscation of property (ZIOOZP), the payment of compensations to war and post-war violence victims (ZSPOZ), and reimburses investments made into the public telecommunications network (ZVVJTO).

Upon the abolition of the Capital Assets Management Agency of the Republic of Slovenia, SSH/SSH Group has taken over its duties as well as employees. One portion of costs incurred with the management of capital assets are reimbursed to SSH/SSH Group by the Ministry of Finance. In accordance with the agreement, SSH should be reimbursed for all costs incurred in the processes for the sale of capital assets of the Republic of Slovenia.

It has been assessed that requirements for reporting on operating segments as laid down by IFRS 8 have not been met. As a result, the Segment Reporting was not developed. SSH/SSH Group does not sell its services/goods/material to outside customers, the subsidiaries are not consolidated by SSH/SSH Group since they are irrelevant for the presentation.

15.5 Contingent liabilities and contingent assets

In addition to future liabilities for which provisions have been recognized by SSH/SSH Group due to the fact that conditions had been met for their recognition, SSH/SSH Group has also formed contingent liabilities arising from denationalisation in the amount of EUR 54.7 million Administrative units and ministries are known to have additional requests for compensation according to ZDen that have not yet been communicated to SSH. The value of these liabilities has therefore been determined by means of an assessment.

SSH does not hold any contingent assets.

15.6 Events after the balance sheet date

Following the date of Statement of Financial Position no events occurred which might affect the position of assets, profit or loss and other comprehensive income of SSH/SSH Group for year ending on 31 December 2018.

15.6.1 Filling Vacancies on the Management Board

Andrej Božič assumed the position of a Management Board Member on 21 January 2019.

On 31 March 2019, Lidija Glavina's position of the President of the SSH Management Board came to an end and Igor Kržan was appointed the president of the SSH Management Board.

15.6.2 Changes in the Supervisory Board and in Supervisory Board's Committees

On 23 January 2019, Igor Kržan started carrying out the function of the President of the Supervisory Board while Damijan Belič continues his term of office as a Supervisory Board Member. On the same date, Igor Kržan's term of office of the President of the Risk Committee came to an end and Karmen Dietner became the member and the President of the said committee.

Since in 1 April 2019, Igor Kržan started carrying out

the function of the President of the SSH Management Board, his membership in the Supervisory Board and his position of the President of the Supervisory Board was temporarily suspended, while Karmen Dietner became the President of the Supervisory Board. At the same time, her position of the President of the Risk Committee came to an end and since 1 April 2019 Janez Vipotnik took up the position of the President of the Risk Committee.

Ljubljana, 16 April 2019

Igor Kržan,
President of Management Board



Boštjan Koler,
Member of Management
Board



Andrej Božič,
Member of Management
Board



List of acronyms and glossary of terms

ATVP	Securities Market Agency	BAMC	Bad Asset Management Company
AVK	Slovenian Competition Protection Agency	ECB	European Central Bank
BDP	gross domestic product	EDC	electricity distribution company
BDO	BDO revizija d. o. o.	ECESA	Expert Committee for Economic and Social Affairs
d. d. (PLC)	public limited company	EFQM	European Foundation for Quality Management; Business Excellence Model
d.o.o. (Ltd.)	Limited liability company	ETF	Exchange traded fund is a fund traded on Stock Exchange
D. S. U.	Družba za svetovanje in upravljanje	EU	European Union
DARS	Motorway Company of Republic of Slovenia	EUR	Euro currency
VAT	Value added tax	EURIBOR	Euro Interbank Offered Rate
FFE	family-friendly enterprise	FED	American Central Bank
DRI	Družba za razvoj infrastrukture	GEN	GEN energija Group
Company	Slovenian Sovereign holding	GDR	Global depositary receipt

GRI	Global Reporting Initiative; the framework for reporting on sustainable development	MOI	Ministry of Infrastructure
HSE	Holding slovenske elektrarne	NEK	Krško Nuclear Power Plant
IPO	initial public offering of shares	NLB	Nova ljubljanska banka
KAD	Kapitalska družba pokojninskega in invalidskega zavarovanja d. d. (Pension Fund Management)	SB	Supervisory Board
KDD	Central Securities Clearing Corporation	SSH SB	Supervisory Board of Slovenian Sovereign Holding
CA	capital asset	OECD	Organisation for Economic Cooperation and Development
Code	Corporate Governance Code for SOEs	Policy	Asset Management Policy of SSH
Commission	Commission for handling alleged irregularities in SOEs	Preclusion period	it determines a period of time - time bar - during which a procedural action must take place; when this period expires and the action has not taken place, then the issue preclusion occurs after which a party cannot perform this action any more as the right to do so has been lost
CPC	Commission for the Prevention of Corruption	ROA	return on assets
AAMP	Annual Asset Management Plan for capital assets of RS and SSH	ROE	return on equity
MoF	Ministry of Finance	RS	Republic of Slovenia
MEDT	Ministry of Economic Development and Technology.	RS21	symbol of a bond issued by the Republic of Slovenia for the payment of compensation for confiscated property pursuant to the abrogation of the penalty of confiscation of property
BUFP	Blue umbrella pension fund managed by Modra zavarovalnica		
MRA	Master restructuring agreement		
IFRS	International Financial Reporting Standards		

RS39	symbol of a bond issued by the Republic of Slovenia for the payment of compensation for victims of war and post-war violence	ZGD, ZGD-1	Companies Act
RTH	Rudnik Trbovlje-Hrastnik (Trbovlje Hrasntik Mine)	ZIOOZP	Act Regulating the Issuing of Bonds in Compensation for Confiscated Property pursuant to the Abrogation of the Penalty of Confiscation of Property
RŽV	Žirovski vrh Mine	ZPKDPIZ	Act Governing Conversion of the Pension Fund Management and Investment Policy of Pension Fund Management (KAD)
SSH-	Slovenian Sovereign Holding	Zpkri, Zpkri-1	Redressing of Injustices Act
SEO net	Slovenian regulated market	ZJN-3	Public Procurement Act
SSH Group	Slovenian Sovereign Holding Group	ZPVAS	Act on the re-establishment of agricultural communities and the return of their property and rights
SOD	Slovenian Compensation Fund	ZRMK	Building and Civil Engineering Institute ZRMK
SOS2E	the symbol of a bond issued by Slovenian Sovereign Holding for the settlement of liabilities due to beneficiaries in denationalisation proceedings	ZSDH-1	Slovenian Sovereign Holding Act
SSA	Standstill Agreement	ZSOS	Slovenian Compensation Fund Act
Strategy	Capital Assets Management Strategy	ZSPOZ	Act on Payment of Compensation to Victims of War and Post War Violence
SZ, SZ-1	Housing Act of the Republic of Slovenia	ZVVJTO	Reimbursement of Investments in Public Telecommunications Network Act
TEB	Thermoelectric Power Plant Brestanica	ZZLPP0	Law on completion of the privatization and privatization of legal persons owned by the Slovenian Development Corporation
IMAD	Institute of Macroeconomic Analysis and Development	ZZVN	Victims of War Aggression Act
Zden	Denationalisation Act		

