

ANNUAL REPORT -
MANAGEMENT OF
CAPITAL ASSETS
OF RS AND SSH
FOR 2021

SSH'S REPORT TO THE NATIONAL ASSEMBLY OF RS



SLOVENSKI DRŽAVNI HOLDING, d. d.

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

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

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

Reporting to the National Assembly is important for transparency and accountability of the asset manager to the public and is also recommended by OECD guidelines.

Ljubljana, October 2022



SLOVENSKI DRŽAVNI HOLDING, d. d.

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The SSH's fundamental principles for the operation of SOEs include commitments for corporate integrity, transparency and zero tolerance towards corruption, illegal and unethical conduct of employees, the management and of the members of supervisory bodies. This is promoted through the Corporate Governance Code for SOEs and other governance related instruments and governance activities.



INTRODUCTION

1 KEY FINANCIAL AND NON-FINANCIAL HIGHLIGHTS FOR 2021 ON MANAGEMENT OF CAPITAL ASSETS OWNED BY RS AND



4,2%

Expected ROE of the RS and SSH portfolios combined for 2021, as stated in Annual Asset Management Plan

6,1%

ROE of RS and SSH portfolios in 2021 amounted to



EUR 182.8 million

The targeted sum of dividends paid out from RS and SSH Portfolio in 2022 (for FY 2021), as stated in the Annual Asset Management Plan

EUR 182.9 million

The total sum of dividends paid out from RS and SSH Portfolio in 2022 (for FY 2021)



EUR 10.3 billion

Book-value of assets owned by RS and SSH as at 31 December 2021



62

The number of active portfolio companies in which capital assets are held by RS and SSH



73,476

The number of employees in portfolio companies in which capital assets are held by RS and SSH



3,955,092.2

GHG Protocol Scope 1 and Scope 2 carbon footprint for the largest 20 + 2 portfolio companies



F 25.3%

M 74.7%

Gender diversity of supervisory bodies in companies of the RS and SSH portfolio

F 22.5%

M 77.5%

Gender diversity of management bodies in companies of the RS and SSH portfolio

2 LETTER BY THE MANAGEMENT BOARD

The past year, which was still marked by the COVID-19 pandemic, required constant adaptation to the changing environment, both at SSH and in our portfolio companies. SSH actively monitored the impact of the pandemic in individual sectors and carried out a number of corporate governance activities. All companies in the SSH portfolio that manage critical infrastructure were able to ensure the continuity of their operations and provide uninterrupted services at all times. The pandemic had a significant impact on the operations of some companies, in particular, in the tourism and gambling sectors. Due to the effects of the crisis, transport companies and some manufacturing companies have also not yet achieved their pre-pandemic results in 2021.

SSH achieved and even exceeded its 2021 targets set for the management of RS and SSH capital assets. In 2022 (for FY 2021), the dividend income paid out by companies in the SSH asset management portfolio will amount to the total of EUR 182.9 million, of which EUR 123.0 million will be distributed to RS, and 59.9 million to SSH. This sum is significantly higher than in 2021 (for FY 2020) and on a par with the targets set in AAMP.

The largest dividend payers are Zavarovalnica Triglav, Krka, NLB, Telekom, Petrol and Luka Koper which contributed 83% of all dividend income. The return on equity (ROE) of the RS and SSH portfolio is currently estimated at 6.1%, which is 1.8 percentage points higher than achieved in 2020 and 1.9 percentage points above the 2021 target. The general recovery of the Slovenian economy, which exceeded expectations, contributed significantly to these results, while various anti-COVID measures also had an impact. The total book value of the equity holdings managed by SSH amounted to EUR 10.3 billion as of 31 December 2021.

Good corporate governance deals with establishing and putting in place efficient mechanisms which aim to achieve long-term corporate value, financial and sustainable performance as well as other corporate goals. Several projects which aimed at developing corporate governance were implemented in 2021. Based on analyses of the remuneration arrangements and practices pursued by management bodies of selected European countries and a review of the remuneration arrangements and actual remuneration payments made by portfolio companies, SSH had formulated and adopted recommendations entitled Remuneration Policy for Management Bodies. The one-year project ended in March 2022 with the publication of the document, which aims to regulate the remuneration of members of the management bodies of SOEs in a systematic and transparent manner, to address certain human resources risks, to implement current trends and to contribute to more sustainable corporate business through the remuneration system. An analysis of compliance with the Code and the SSH Recommendations and Expectations in state-owned companies was also carried out, which led SSH to prepare major amendments and additions to the Corporate Governance Code this year.

In cooperation with experts from the Centre of Business Excellence of the Faculty of Economics, the University of Ljubljana, and external corporate experts, SSH prepared a guide for supervisory boards of state-owned enterprises on governing corporate culture. The aim is to equip Supervisory Boards with key guidelines and tools to be considered and used when exercising their duties in terms of governing corporate culture. Recognising the role of corporate culture and its inclusion in corporate governance practices contribute to the effectiveness and efficiency of companies' operations.

In the past year, in line with its mandate, SSH implemented the State's commitments to the low-carbon transition in the Annual Asset Management Plan 2022, in which recommendations and actual expectations have been set out for companies in relation to ESG factors.

The global and European economic environment changed significantly over the last year. Inflation is being driven upwards by rising energy and food prices and demand-side pressures. Supply chain bottlenecks and staff shortages continue to constrain economic activity. A significant slowdown in economic growth in Slovenia and the Euro area and the resulting stagnation of the economies is forecast, which entails increased business risks also for SSH portfolio companies.

Uncertainty in the broader business environment requires priorities and challenges to be adjusted both as regards corporate governance and supervision as well as in the area of capital asset management, and in this and the coming year SSH will pay particular attention to the application of crisis management models, the development of risk management systems, and the provision of appropriate compe-

tences at the level of supervisory and management bodies in areas that are important for companies to respond adequately to the new and changed economic circumstances. The portfolio companies need to develop appropriate strategies and plans with clear measures to enable them to respond quickly to any changes in business circumstances, thereby ensuring that their objectives are pursued as steadily and successfully as possible, even in challenging economic circumstances.

The high dependence on fossil fuels is exacerbating further the effects of the crisis, and such circumstances therefore make it the right time to discuss sustainable initiatives and practices in business operations, based of course on the green transition and all related activities. We are convinced that only companies, which will include sustainability in their broader business strategies in an appropriate manner, and thereby they will ensure sustainable and responsible action not only towards their owners and all other stakeholders, but also towards the natural environment and the wider society in which they operate, will be able to survive and thrive in the long term.

Janez Tomšič,
Member of SSH Management Board

Žiga Debeljak,
President of SSH Management Board



As the state asset manager, SSH wants to take the opportunity to encourage the portfolio companies to act in a sustainable manner. For this purpose, SSH organises training sessions and requires the application of SSH Recommendations and Expectations and other governance related instruments.



PETROL

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

3 PRESENTATION OF SLOVENIAN SOVEREIGN HOLDING

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

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

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

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

Company details - significant data



SLOVENSKI DRŽAVNI HOLDING, d. d.

Corporate name:	Slovenski državni holding, d. d.
Registered office:	Ljubljana
Business address:	Mala ulica 5, 1000 Ljubljana
Telephone No.:	++386 1 300 91 13
Web site and e-mail:	www.sdh.si, info@sdh.si
Activity code:	K 64.990
VAT ID:	SI46130373
Registration No.:	5727847000
Transaction Account:	SI56 0291 3001 6492 958, held by NLB, and SI56 0400 1004 8714 068, held by NKBM
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 as of 31 December 2021:	EUR 260,166,917.04 (since 17 March 2022 it amounts to EUR 301,765,982.30)
No. of employees as of 31 December 2021:	54
Membership in other organisations:	Directors' Association of Slovenia, Association of Employers of Slovenia, Chamber of Commerce and Industry of Slovenia, as well as CER (since March 2022)
Management Board:	<p>Žiga Debeljak, President of Management Board (since 1 September 2022), Janez Tomšič, Member of Management Board (since 23 April 2021),</p> <p>In 2021 and 2022, SSH MB also included the following members: Dr Janez Žlak, President of Management Board (from 7 October 2020 to 31 August 2022), Peter Drobež, Member of Management Board (from 1 April 2021 to 31 August 2022), Vanessa Grmek, Member of Management (from 1 February 2021 to 22 April 2021), Boštjan Koler, Member of Management (from 1 December 2018 to 31 January 2021), Boris Medica, Member of Management (from 1 December 2019 to 31 January 2021).</p>

	Karmen Dietner, President, Janez Vipotnik, Deputy President, Ivan Simič, MSc, Member.
Members of Supervisory Board:	In 2021 and 2022, Supervisory Board also included the following members: Dr. Leon Cizelj, Member (from 22 September 2021 to 22 June 2022), Božo Emeršič, Msc, MBA, Member (from 17 July 2020 to 22 June 2022), Igor Kržan, Member (from 20 June 2017 to 5 January 2021).
Members of the SB's Audit Committee:	Ivan Simič, MSc, President, Karmen Dietner, Member, Darinka Virant, External Member.
Members of SB's Risk Committee:	Janez Vipotnik, President, Karmen Dietner, Member, Darinka Virant, External Member.
Members of Nomination Committee:	Samo Roš, President, Urška Podpečan, Deputy President, Vlasta Lenardič, Member.
Members of ECESA:	Zdenko Lorber, President (the Slovenian Union of Alternative Trade Unions of Slovenia), Saša Klara Kumer, Deputy President (the Association of Free Trade Unions of Slovenia), Miroslav Garb (Neodvisnost, the Confederation of new Trade Unions of Slovenia Independence),* Albert Pavlič (Association of Workers Trade Unions of Slovenia – Solidarity), Jakob Počivavšek (Pergam Confederation of Trade Unions), Branimir Štrukelj (Confederation of Slovenian Public Sector Trade Unions), Damjan Volf (Trade Unions Confederation 90 of Slovenia).

* Miroslav Garb resigned as a member of the ESSO on 17 January 2022. The new member is Evelin Vesenjok.

3.1 SSH Vision, mission, and values

Vision

Generating value for the owner from capital assets.

Mission

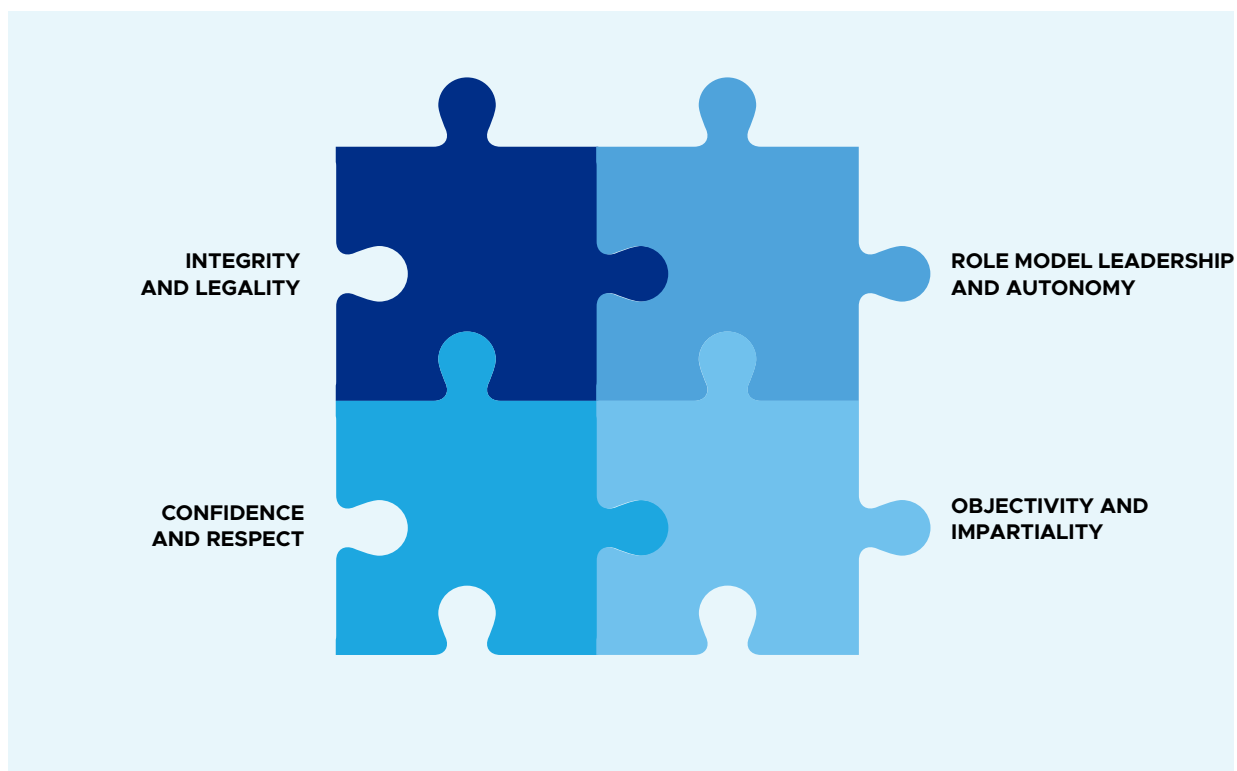
Since RS and SSH are important owners of capital assets held in economic entities in Slovenia, the main duty of SSH is a responsible, professional and active management of these assets. Among other matters, active governance means focusing on creating value for owners, that is, the Republic of Slovenia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

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

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

Our values

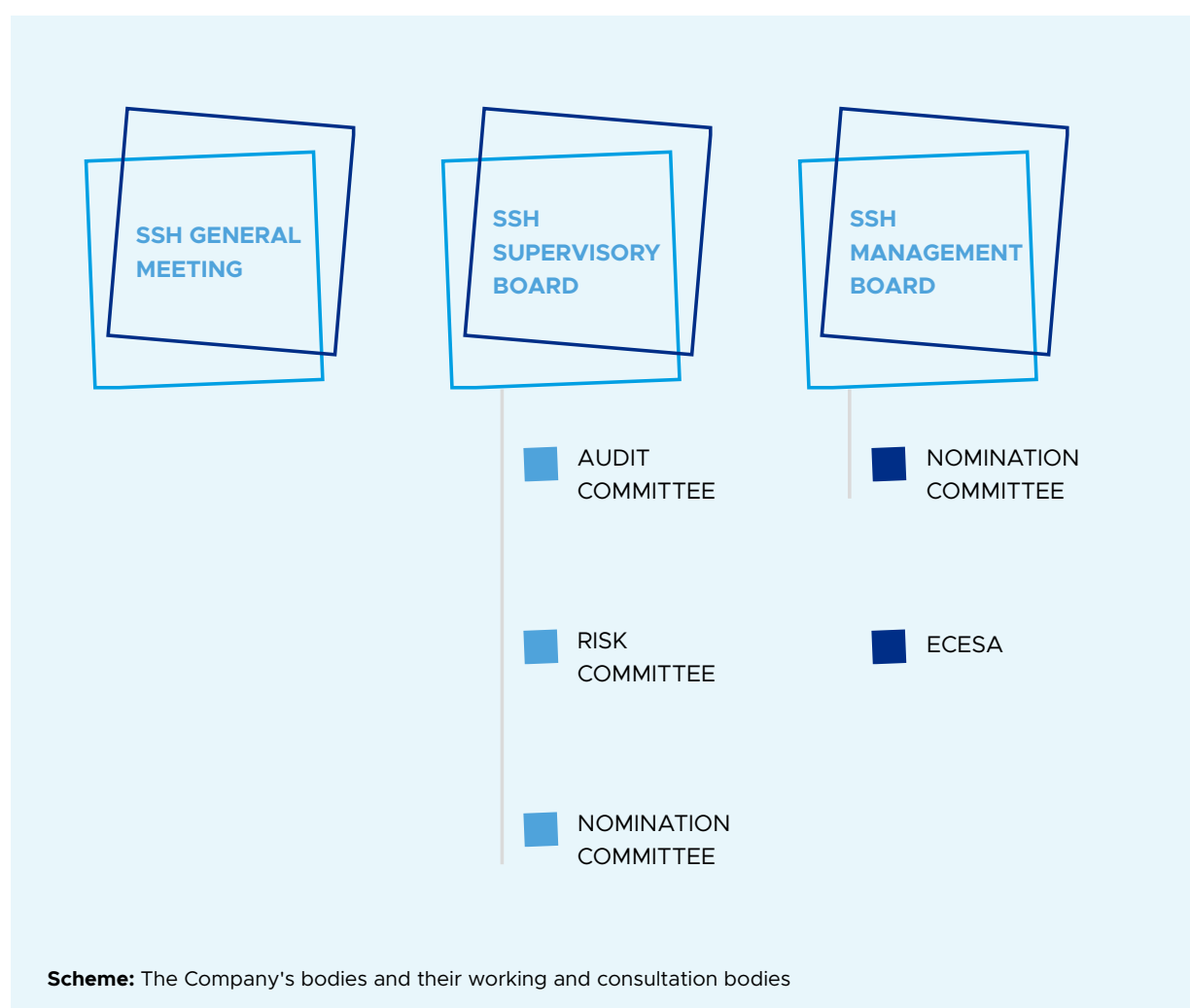
The values underpinning the functioning of SSH are interlinked, giving the basis for activities pursued by SSH.



3.2 The legal form and organisational structure of SSH

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

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



3.3 Purpose of SSH's establishment

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

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

3.4 Internal organisation of SSH

The internal organisation of SDH is set out in the company's organisation chart and is divided into the Management Board, business areas, organisational units and posts.

general affairs; these areas are further divided into organisational units headed by Expert Directors.

The Company is run by the Management Board; the number of members of the Management Board is set out in the ZSDH-1 and the Company's Articles of Association. The Company's business areas are divided into asset management, business economics and legal affairs, human resources and

Outside of the above-mentioned business areas, there are the following separate posts: the Chief Compliance and Integrity Officer, the Internal Audit Organisational Unit and the Management Board's Office, within which the posts of the Adviser to the Management Board, the Corporate Secretary and the Director for Public Relations are categorised.

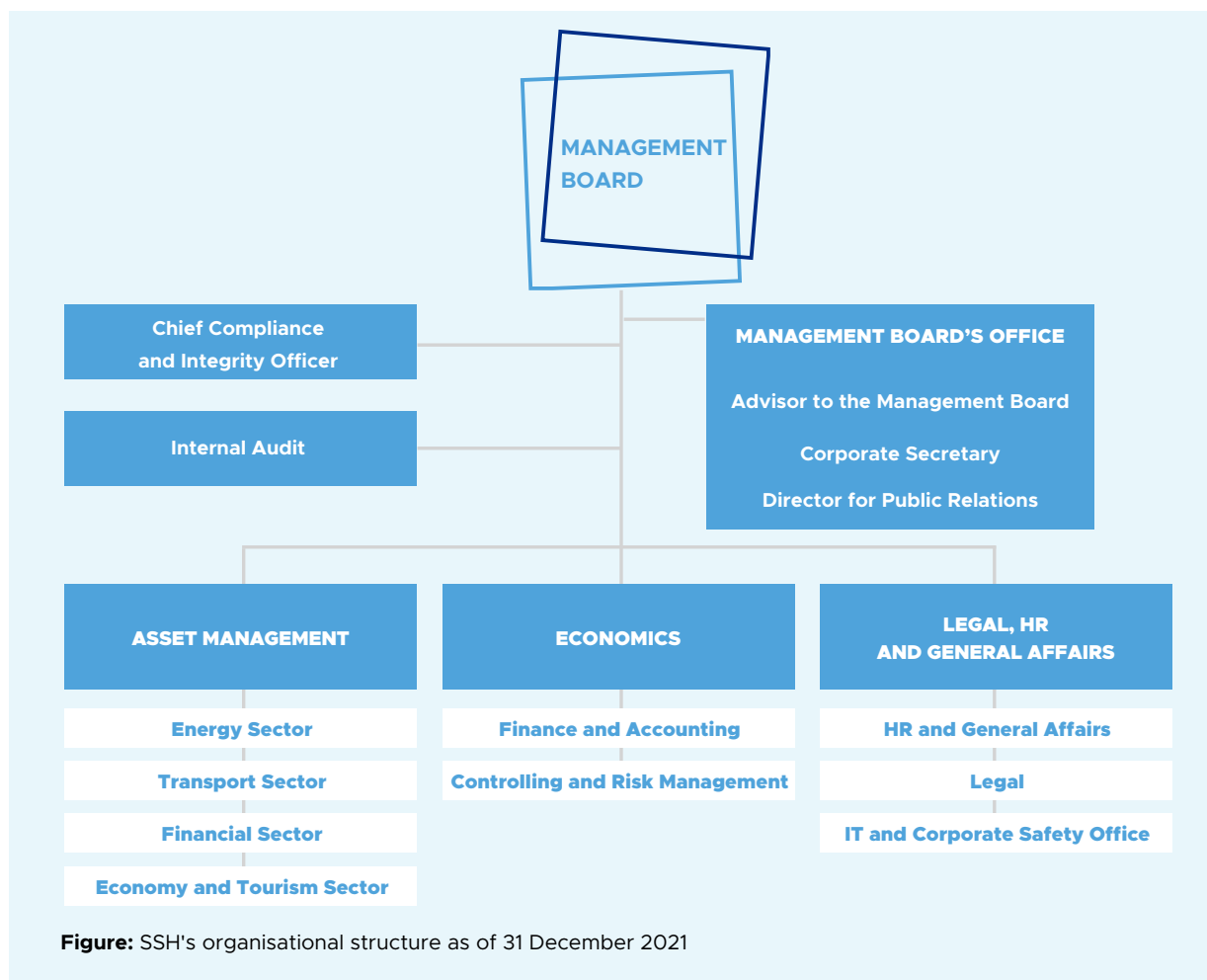
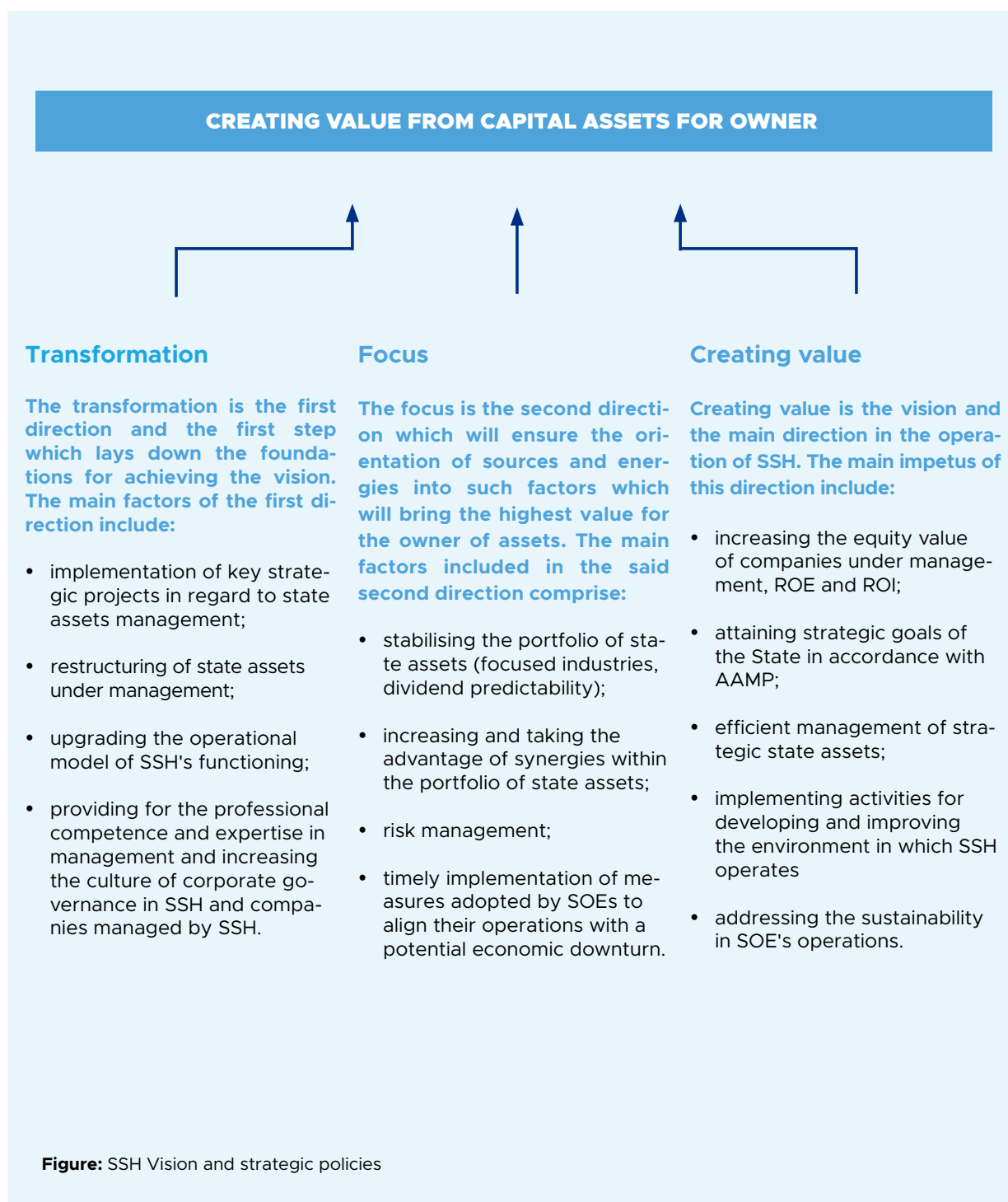


Figure: SSH's organisational structure as of 31 December 2021

3.5 SSH Strategic policies and goals

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

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



3.5.1 Goals

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

The overall objective of state-owned companies managed by SSH is to operate efficiently, profitably and economically, to create value and, in many cases, to effectively implement strategic and development plans, often in the context of individual public services. This must be achieved in a sustainable manner, by taking into account economic, environmental and social considerations.

The key objectives pursued by SSH in managing its capital assets are:

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

Other objectives pursued by SSH as an economic entity are:

- ensuring sufficient liquidity to repay all matured statutory and contractual liabilities due by SSH, including an optimum management of assets in accordance with mid-term and long-term cash requirements;
- ensuring adequate sources of future funding;
- the day-to-day fulfilment of the tasks entrusted to SSH by the public mandates;
- efficient implementation of all support functions within the Company, cost control and process optimisation;
- managing the Company's risks.

4 OPERATIONAL COMPLIANCE, INTEGRITY AND INTERNAL AUDIT

4.1 On compliance

SSH is the only company in RS whose foundations for setting up the compliance and corporate integrity system are laid down by a specific law (ZSDH-1). In SSH, statutory provisions have been upgraded by defining in detail procedures, processes and measures in SSH's corporate documents, by having appointed a Chief Compliance Officer and by providing his/her job description, and by means of employees, the Management Board and the Supervisory Board Members taking an active role in risk

detection and in carrying out measures referred to in the Business Integrity Plan.

By having defined priority goals, which among other goals include SSH's commitment to transparent business and ethical conduct in accordance with the highest expectations and standards, the foundations have been laid and, within the framework of the SSH Corporate Governance Code, policies have been set for all SOEs under SSH's portfolio.

4.1.1 Compliance and corporate integrity

In 2021, particular attention was paid to operational compliance. The SSH Compliance Policy was developed as an additional internal act, building on the existing procedures. It includes more detailed guidelines and provisions on the following issues: compliance with the provisions of the law and internal corporate legal documents, responsibilities of the Company's bodies, organisational units and individuals, identifi-

cation of key areas within the Company for ensuring compliance and a comprehensive risk management system, procedures related to the preparation and updating of the Integrity Plan, the framework content and dynamics of reporting by the Chief Compliance and Integrity Officer to the Company's competent bodies and the manner of ensuring continuous improvement of the compliance system.

The most important activities include the following:

- the preparation of the SSH Compliance Policy;
- regular review and updating of the Integrity Plan at the Company's bodies;
- updating the Company's internal rules and procedures for dealing with whistleblowing, incorporating the provisions of the European Whistleblower Directive;
- the preparation of an analysis on the implementation of the provisions of the Corporate Governance Code as regards compliance, ethics and integrity in SOEs;
- the formal preparation and subsequent implementation of the Chief Compliance and Integrity Officer's annual work plan;
- performing the advisory role of the Chief Compliance and Integrity Officer and drafting opinions in highlighted cases;
- conducting in-house training on compliance and integrity;

- the preparation of the Corporate Security Policy and the Security Risk Register to complement the overall risk management system;
- regular reviews by the Chief Compliance and Integrity Officer of amended and new internal instruments and contracts with a value of more than EUR 10 000 (compliance reviews);
- responsiveness to requests from competent institutions and authorities, cooperation with competent institutions and regular reporting in line with statutory requirements;
- the treatment of suspected irregularities within the Company and in SOEs;
- regular reporting by liable parties and the maintenance of all registers provided for in ZSDH-1.

The Chief Compliance and Integrity Officer received a total of 48 reports under the system for handling reports of suspected irregularities. In accordance with internal processes, reports were categorised into the following categories:

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

Thirty-two (32) of the reports concerned suspicions of irregularities in the operation of SOEs which fall under the SSH's corporate governance. Ten reports were expressions of opinion by whistle-blowers, or they included other matters where no elements of suspected irregularities were detected. Four reports referred to the competences of other institutions and were forwarded to these institutions for their further consideration, while two reports concerned an alleged irregularity in SSH and were dealt with in accordance with internal procedures. The Whistle-blower Protection Programme was not activated, as the content of the reports and the anonymity of the whistle-blowers in each case made it unnecessary to do so.

All reports of alleged irregularities in SOEs were dealt with by a four-member internal irregularities committee in cooperation with the relevant asset manager. On the basis of the information received and gathered, the views of the Committee were formulated and, where necessary, measures were prepared and implemented under the responsibility of SSH.

4.2 Internal Audit

In terms of organisation, the SSH's internal Audit functions as an independent service. The basis for its operation is the Internal Audit Charter. The scope and schedule of Internal Audit's activities are defined in the annual work plan of the Internal Audit organisational unit, which is adopted by the Management Board with the consent of the SSH Supervisory Board. The Internal Audit Service is bound to adhere to the Hierarchy of Rules of Professional Conduct in Internal Auditing.

On the basis of audit reviews of the operations of SSH or reviews of the operations of SSH portfolio companies, Internal Audit provides the SSH Management Board and the SSH Supervisory Board with an impartial assessment of the adequacy and effectiveness of the management of the key risks of SSH and/or of the SSH portfolio companies under review. By conducting audit reviews in portfolio companies, SSH aims to make a positive influence on the regularity and effectiveness and efficiency of operations in SOEs as well as to minimise risks which are important for SSH and for the Republic of Slovenia. The purpose of involving companies, included in the portfolio managed by SSH, in the activities carried out by the SSH's Internal Audit is to reinforce the SSH's oversight and control over their operation, thus also taking important step forward in ensuring good quality management of state assets. The SSH's Internal Audit is involved in the above-mentioned activities within the scope of additional activities planned as an assistance to asset managers in their review of certain transactions or processes where such a review may additionally

contribute to better governance and supervision of an individual portfolio company. The legal basis for SSH's audit reviews in SOEs is the Protocol on exercising the right to audit operations in individual SOEs under SSH's governance. The reviews present suggestions to the SSH portfolio companies to improve their performance and thus further improve their risk management.

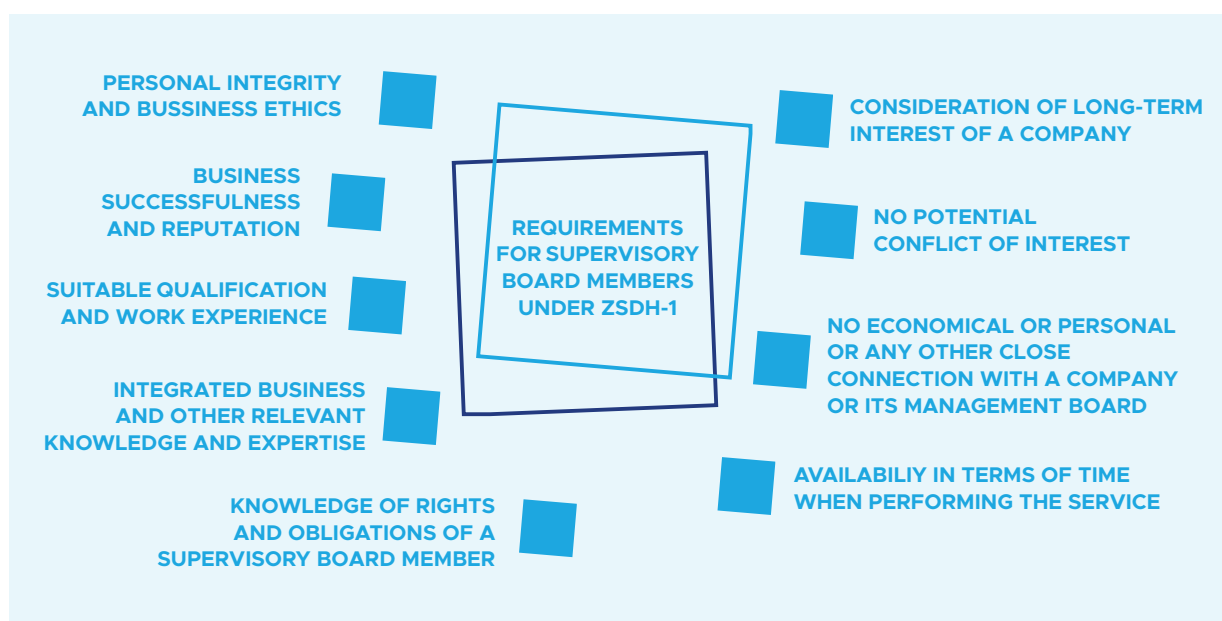
Despite the constraints on its operations due to the COVID-19 crisis, in 2021, the Internal Audit implemented all the mandatory tasks and most of the planned objectives set out in the 2021 Annual Work Plan. It carried out eight audit reviews at SSH and one comprehensive review of the operations of a major company from the portfolio managed by SSH. The most significant audit reviews at SSH concerned the processes for the management and disposal of capital assets, business security, business continuity and the archiving of physical and electronic business documentation, while the audit review carried out in a portfolio company dealt with the human resources processes.

In 2021, the Internal Audit organised a consultation for internal auditors of companies from the portfolio managed by SDH and companies which are majority-owned by the Republic of Slovenia. The topic of the consultation was the preparation of reports for reporting to the management and supervisory bodies. The auditors of companies from the portfolio managed by SSH expressed a strong interest in organising such meetings also in the future.

5 SUPERVISORY BOARDS OF SOEs AND CANDIDACY PROCEDURES

One of the key ownership levers of corporate governance is the right and the duty of owners to appoint independent professionals to the supervisory bodies of companies who oversee the work carried out by management boards of companies in a responsible manner while cooperating with the boards in their governance.

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



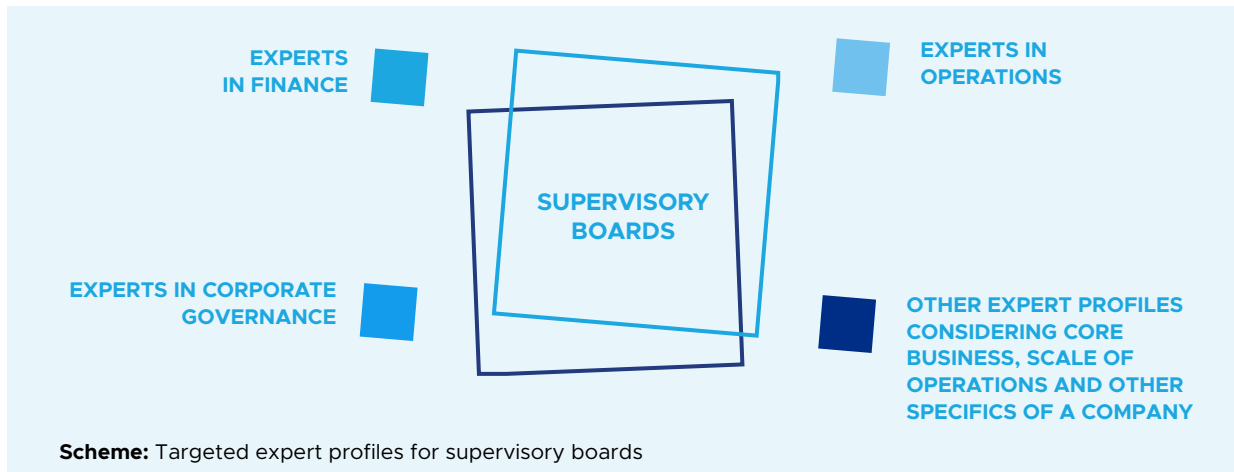
In addition to statutory terms and conditions, members of supervisory bodies must also have the necessary knowledge and skills, such as competence, business credibility, financial and strategic knowledge, knowledge of the basics of business administration, members must be strong team players, understand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

The members of supervisory bodies must have the necessary business experience and business maturity for assessing global business trends and opportunities, benefits and risks which a company is exposed to, full understanding of business cycles and a company's business model, its strategic directions and business policies and the capability of an independent judgement for the benefit of the company. The members of supervisory bodies must

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

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

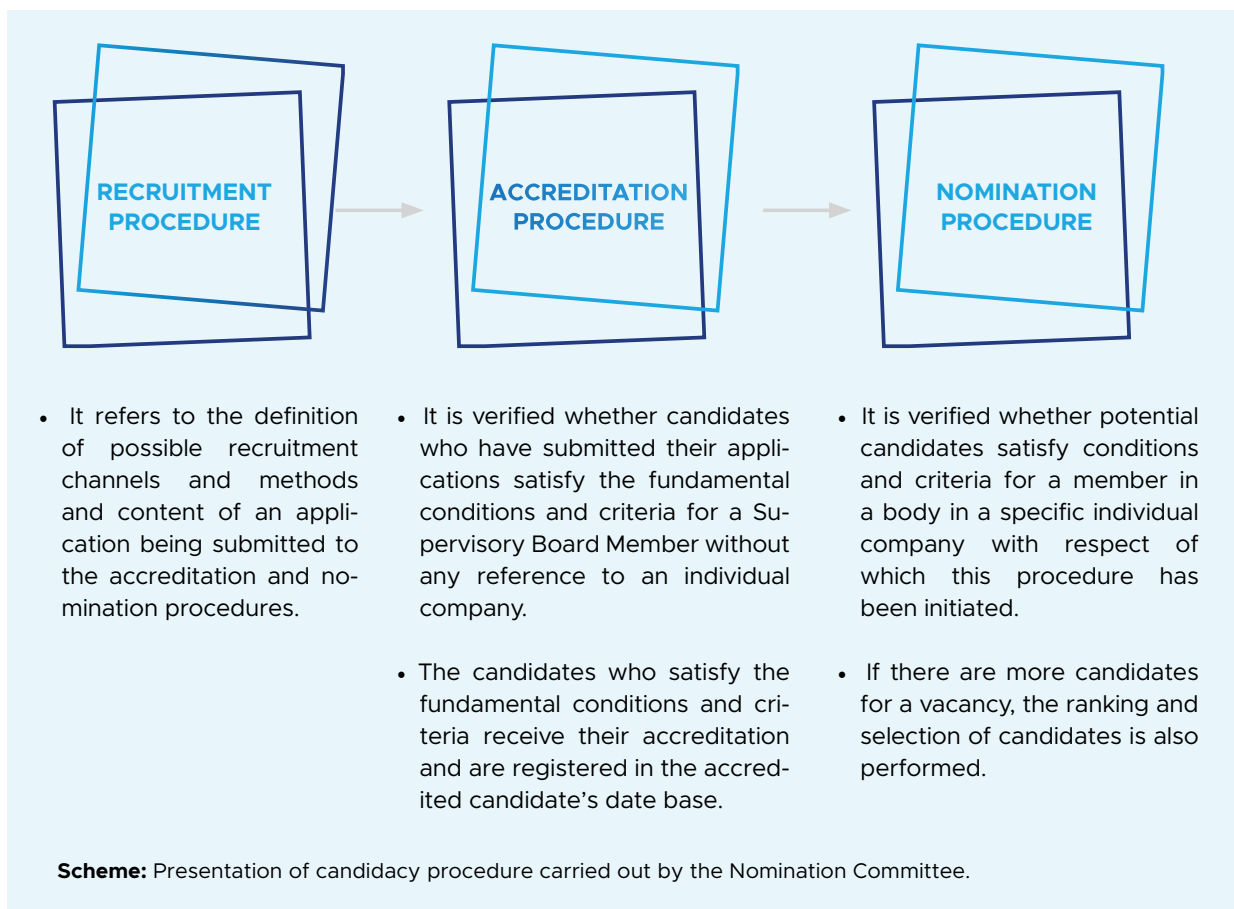
In accordance with Article 21 of ZSDH-1, at General Meetings of companies, SSH must vote so as to appoint experts in finance, corporate governance, operations of an individual company, together with other officers with professional profiles necessary for the efficient supervision over an individual company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



5.1 About SSH's Nomination Committee

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

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



5.2 Work performed by Nomination Committee in 2021

Throughout 2021, the Nomination Committee operated with the following members: Samo Roš, the President of the Nomination Committee, an expert in corporate governance; Urška Podpečan, the Deputy President of the Nomination Committee, an expert in the functioning of Supervisory Boards; and Vlasta Lenardič, an expert in HR Management.

In 2021, 103 members of governing bodies of portfolio companies had their term of office expire, 33 were replaced early.

In 2021, the Nomination Committee held 52 regular and 23 correspondence meetings; at the regular meetings, it considered 178 candidates in the context of 110 nomination procedures for 27 different SOEs, of which 155 were assessed as adequate.

During these procedures, the Nomination Committee considered candidates for members of the supervisory bodies and candidates for the managerial posts, specifically:

- candidates for members of supervisory bodies of the following companies:

Adria, turistično podjetje, d. o. o., Ankaran, Cinkarna Celje, d. d., DTK Murka, družba tveganega kapitala, d. o. o. – in liquidation, Elektro Celje, d. d., Elektro Gorenjska, d. d., Kranj, Elektro Ljubljana, d. d., Elektro Maribor, d. d., Elektro Primorska, d. d., Gen energija, d. o. o., Geoplin, d. o. o., Hit, d. d., Nova Gorica, Holding slovenske elektrarne, d. o. o.,

Infra, Izvajanje investicijske dejavnosti, d. o. o., Kapitalska družba, d. d., Luka Koper, d. d., Koper, NLB, d. d., Plinhold, d. o. o., Plinovodi, Pošta Slovenije, d. o. o., RŽV, Javno podjetje za zapiranje rudnika urana, d. o. o., Sava, d. d., Sava Re, d. d., SIJ, Slovenska industrija jekla, d. d., Telekom Slovenije, d. d., Ljubljana, Terme Olimia, d. d., Podčetrtek, Unior, d. d., Zreče, Uradni list Republike Slovenije, d. o. o., Zavarovalnica Triglav, d. d., Ljubljana;

- candidates for managerial posts of the following companies:

Adria, turistično podjetje, d. o. o., Ankaran, Center za avtohtone sorte semen, d. o. o., EGS RI, d. o. o., Eko-Nafta, proizvodnja naftnih derivatov, d. o. o., Nafta Lendava, d. o. o., Plinhold.



In 2021, the Nomination Committee held its regular meetings mainly by videoconference calls, in line with the anti-Covid measures. The operations of the Nomination Committee are mainly digitalised, and candidates who are interested in becoming members of the supervisory boards of SOEs can register in the register of potential candidates for membership of the supervisory boards of companies digitally on the SSH Nomination Committee Portal at the following web address: <http://kk.sdh.si/>, by submitting an application for accreditation with all required supporting documents.

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

Training programmes for SB members of SOEs and for other decision-makers

SSH organises training sessions in order to improve and update the skills of SB members and to improve the quality of the work carried out by the members of the Supervisory Boards of its portfolio companies. In January 2021, SSH organised a training session entitled “Achieving higher productivity: the contribution of SOEs to Slovenia's key development challenges”. At this educational meeting, the Action Plan for Higher Productivity Growth was presented; the Plan was prepared by experts from the Faculty of Economics at the University of Ljubljana and supported by the Ministry of Economic Development and Technology, at the initiative of the Observatory

of the Managers' Association of Slovenia, and in cooperation with a number of other experts. SSH also supported the two-day Strategic Debate on Raising Productivity event which was held in April 2021; the debate deepened the understanding of the Action Plan and invited all relevant portfolio companies to attend free of charge. In December 2021, SSH also organised a meeting on Successful Integration of ESG Factors and Effective Corporate Sustainability Management.

At the initiative of the Slovenian Directors' Association, SSH also supported the European Corporate Governance Conference 2021 and invited all portfolio companies to attend.

International Fraud Awareness Week

On 23 June 2021, that is, on the World Whistle-blowers' Day, for the third year in a row, a signing ceremony was held as part of the cooperation in the common fight against corruption and fraud; SSH also took part at the ceremony.

As many as 28 partners signed the International Fraud Awareness Week 2021 Cooperation Agreement, its signing means that we to achieve common goal of promoting the exchange of best practices and raising awareness among stakeholders with the aim of reducing the negative effects of fraud, corruption and other forms of economic crime in our local environment.

To this end, a number of events, conferences, lectures and roundtables were organised during the week of 15-19 November 2021, all with the aim of raising awareness among the general public on an issue that affects us all. SSH had invited portfolio companies to attend the events.



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

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

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

5.4.1 Proportion of candidates from the under-represented gender in the register of potential supervisory candidates

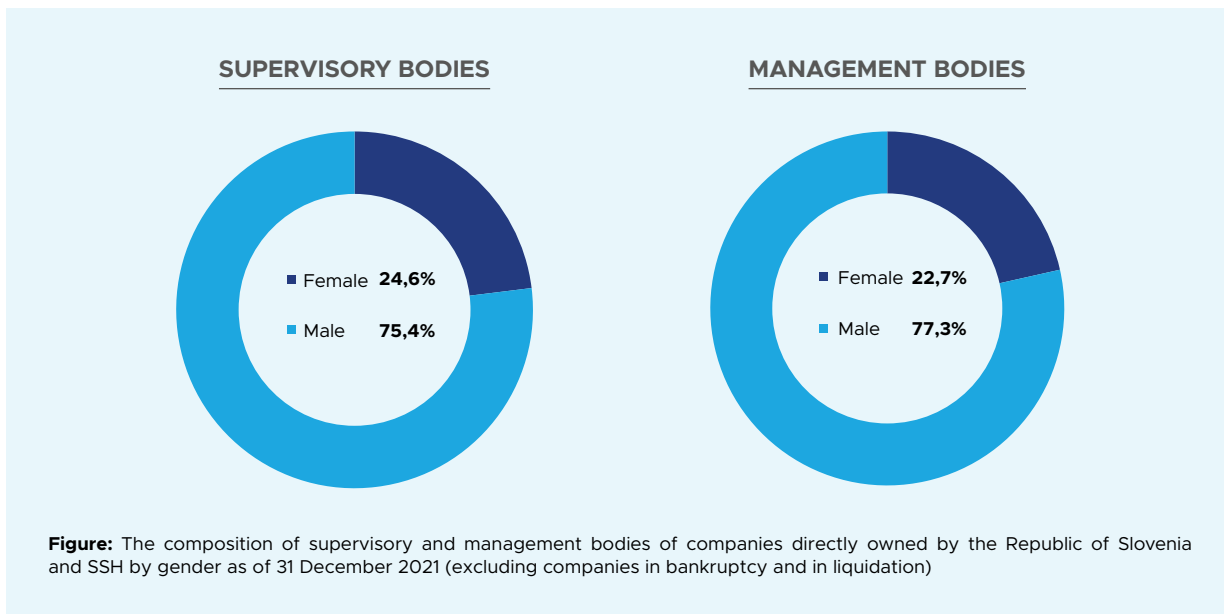
The number of accredited candidates in the Register of potential candidates for the Supervisory Boards of SOEs on the SSH Nomination Committee Portal was 493 as of 31 December 2021, of which just under 18% were women.

The age groups with candidates showing the highest interest in joining supervisory boards are between 41 and 50 years (36%) and between 51 and 60 years (35%), while the candidates from the age group below 40 years show the lowest interest.

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

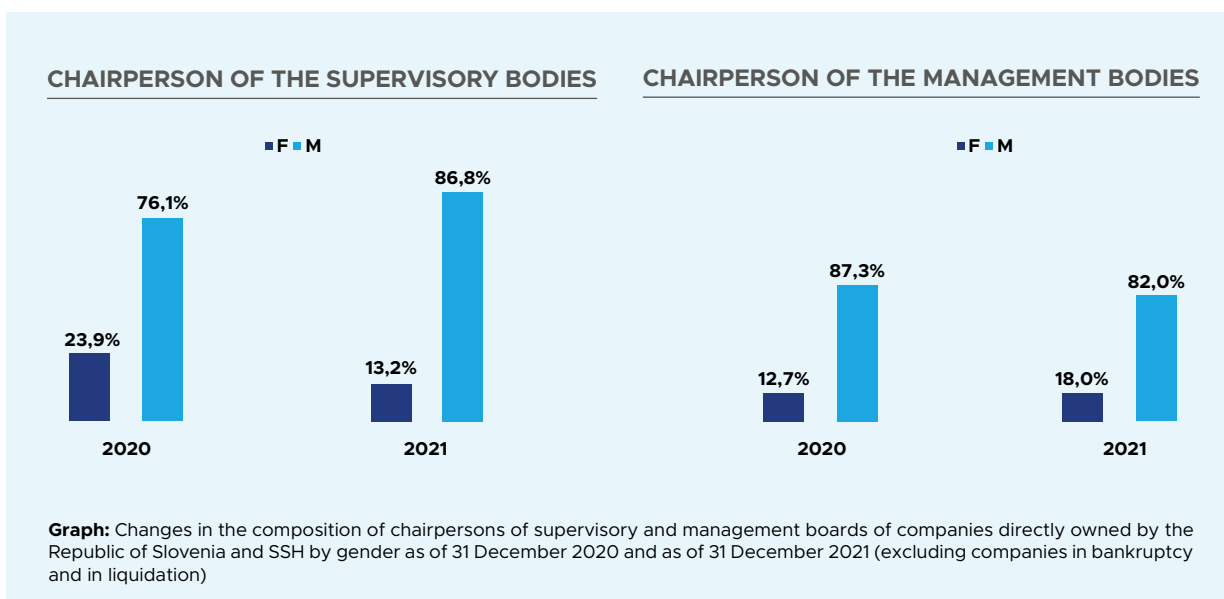
The gender composition of supervisory and management bodies was unbalanced in 2021, as in previous years. Men continue to strongly prevail in Supervisory Boards and Management Boards, which was also evident in 2021. As regards the diversity

of supervisory and management bodies composition in terms of gender balance, it improved in favour of female representatives until 2019, slightly reversed in favour of men in 2020, and slightly improved again in favour of women in 2021.



A disproportion regarding the gender presence on corporate boards was also noticed in **board chair positions**. In 2021, as compared to the situation at the end of 2020, the ratio of participation in board chair positions of supervisory bodies of companies shifted significantly in favour of men, followed by an increase in the participation in board chair position of the management bodies in favour of women.

The supervisory bodies of companies directly owned by the Republic of Slovenia and SSH were chaired by men in 86.8% of cases (as compared to the situation at the end of 2020, the share of women declined from 23.9% to 13.2%) while in 2021, management bodies recorded 82.0% of male chairpersons. The share of female chairpersons in corporate governance bodies increased by only 5.3 percentage points, from 12.7% in 2020 to 18.0% in 2021).



6 LEGAL FRAMEWORK FOR MANAGING CAPITAL ASSETS OF RS AND SSH AND AMENDMENTS OF ASSET MANAGEMENT RELATED DOCUMENTS IN 2021

The main activities for improving the level of corporate governance in SOEs which were implemented in 2021 include the following:

- the adoption of the Annual Assets Management Plan for capital assets held by RS and SSH, the Performance Criteria for State-Owned Enterprises, and within this scope, the adoption of the SSH Recommendations and Expectations for SOEs with regard to the measurement of their carbon footprint under Scope 1 and 2 of the GHG Protocol and the preparation of decarbonisation targets and plans;
- the amendments of the SSH Asset Management Policy;
- the amendments of the Corporate Governance Code for SOEs;
- the adoption of specific Recommendations for the regulation of remuneration for members of supervisory boards of companies which, as SJI (PIEs), have established supervisory boards and audit committees following the entry into force of the amendment to ZGD-1K;
- the adoption of the SSH Premises for Voting on General Meetings of Shareholders in 2021 and
- the analysis of the observance of the Corporate Governance Code for SOEs and SSH Recommendations and Expectations.

6.1 The framework of functioning for SOEs

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

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

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

6.2 The corporate governance system of SOEs – legal bases and documents on asset management and their amendments in 2021

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

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

suming an active asset management approach, SSH continued to ensure that good practice in corporate governance was also implemented in 2021, in order to attain the set asset management goals.

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

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

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

6.2.1 Capital Assets Management Strategy

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

assets), the definition of development guidelines of the State as a shareholder in companies and the definition of individual strategic objectives pursued by the State with strategic assets. In the Asset Management Strategy, the Parliament has given a special emphasis to raising the corporate governance culture, to increasing effectiveness in disposition of assets, to carrying out sound and prudent acquisition of capital assets, to increasing return on equity and to considering listing companies on the regulated market. No amendments to the Strategy were adopted in 2021. In principle, the said document is not implemented directly, and it forms the basis and the guidelines for the preparation of the Annual Assets Management Plan.

6.2.2 Annual Asset Management Plan

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

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

SSH prepared the Annual Asset Management Plan (AAMP) for 2022 in November 2021 to which the RS Government granted its consent on 24 December 2021. The General Section of the AAMP is publicly published, whereas the Special Section is confidential.

6.2.3 Criteria for Measuring Performance of SOEs

Pursuant to Article 17, Paragraph 1 of ZSDH-1, SSH adopted the revised Criteria for Measuring Performance of SOEs (hereinafter referred to as: the "Criteria for Measuring Performance"), to which the Government of the Republic of Slovenia's consent was granted in December 2021. The Criteria for Measuring Performance are an internal document of a shareholder in which the criteria (indicators) are defined for SSH to monitor the performance of

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

6.2.4 SSH Asset Management Policy

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

a special section. One special section of the Asset Management Policy is drawn up in the form of articles and it stipulates rules of conduct in individual situations, specifically, in candidacy procedures, in procedures related to the acquisition and disposition of the State's capital assets, and in some other cases. Both parts of the Asset Management Policy are binding for SSH. The purpose of the Asset Management Policy is to provide for transparency and traceability of decision made by SSH.

In September 2021, SSH adopted amendments and additions to the SSH Asset Management Policy. The amendment of this instrument took into account the recommendations of the Court of Audit regarding better regulation of the nomination procedures for members of the Supervisory Boards and the recommendations of the Commission for

the Prevention of Corruption regarding the recruitment channels. Furthermore, the amendments to this instrument also refer to the improvement arrangement of the procedures for the disposal of capital assets and increased transparency and risk mitigation measures in the processes for the sale of capital assets.

6.2.5 Corporate Governance Code for SOEs

SSH adopted the Corporate Governance Code for SOEs (hereinafter referred to as: the "Code") on 19 December 2014. The Code contains principles and recommendations for good practice in corporate governance of SOEs and is addressed to SOEs. It should also be applied by subsidiaries of a group of which a state-owned enterprise is a parent company. The Code must be used by SSH in a reasonable manner. Some principles are of a general nature and refer to all SOEs, while some recommendations refer to companies with specific legal form and organisational structure, taking into account the ownership structure of the company and whether the company's shares are traded on the regulated market. The Code also includes certain general expectations SSH has in relation to SOEs. The purpose of the Code is to set the standards of governance in and supervision over SOEs and to develop a transparent and understandable system of corporate governance in the above-mentioned companies. The Code is followed by SOEs on a "comply or explain" basis.

The Code has been revised several times so far, most recently in March 2021 and June 2022. The main rea-

son for the revision of the Code in 2021 was to align its principles and recommendations with the amendment to the Companies Act (ZGD-1K). In addition, the revised Code regulates anew the recommendations on additional remuneration for specific tasks of a member or members of the Supervisory Board.



6.2.6 Adoption of specific Recommendations for the regulation of remuneration for members of supervisory boards of companies which, as public interest entities (PIEs), have established supervisory boards and audit committees following the entry into force of the amendment to ZGD-1K.

In accordance with Article 32, Paragraph 4 of ZSDH-1, SSH may also adopt other guidelines (recommendations) and positions for SOEs. In accordance with the above-mentioned mandate, Slovenian Sovereign Holding first adopted the SSH Recommendation and Expectations in 2014; by means of these recommendations and by applying the "comply or explain" principle, SSH expects from SOEs to align their activities in individual narrow areas with SSH's recommendations.

In 2021, SSH also adopted **Recommendations for the regulation of remuneration for members of supervisory boards of companies which, as public interest entities (PIEs), have established supervisory boards and audit committees following the entry into force of the amendment to ZGD-1K**, solely as a result of the amended legislation. For such cases, the SSH Recommendations, following a uniform systemic approach, allow for a downward adjustment of remuneration for members of super-

visory boards and audit committees if the level of complexity and responsibility of the tasks in the specific company is lower than the usual level of complexity and responsibility in a typical company

of a certain size. These recommendations have not been included in the SSH Recommendations and Expectations.

6.2.7 SSH Premises for Voting on General Meetings of Shareholders in 2021

In March 2021, SSH adopted SSH Premises for Voting at AGMs 2021. SSH announced that it would support the extension of the Articles of Association of public limited liability companies with provisions that will provide the basis for the implementation of so-called electronic General Meetings. As a general rule, SSH will also take into account the diversity policies adopted by companies when voting on candidates

for the Supervisory Board. The document is also supplemented in the section relating to the alignment with the new provisions of Article 294a and 294b of ZGD-1. A text has also been added stating that SSH will endeavour to ensure that companies inform the General Meeting of the reasons for proposing the distribution of the balance sheet profit.

6.2.8 Analysis of the observance of the Corporate Governance Code for SOEs and SSH Recommendations and Expectations

In the second half of 2021, a project team was formed to determine the extent to which SOEs comply with the principles and recommendations set out in the Code, and the extent to which these companies comply with the provisions of the SSH Recommendations and Expectations, as well as their reasons for any deviations. The analysis also aimed at comparing the current level of compliance with the provisions of both instruments compared to previous years.

The aim of the analysis was to provide clear information on the state of compliance with the Code and the SSH Recommendations and Expectations, and to propose possible amendments or additions to the above-mentioned instruments which would bring the basic principles closer to the specific legal forms and different business models of companies (the project was completed in the first quarter of 2022, and the two instruments have already been partially completed). At the same time, the lessons learned from the analysis proved to be helpful during the discussions at the periodic meetings held in early 2022; at these meetings, SSH, together with the companies concerned, was able to analyse in much greater detail the main reasons for the deviations, taking into account the relevant explanations, to focus on improvements to the corporate governance system in the target companies, and to agree with the companies on an effective way of addressing the perceived shortcomings and achieving the objectives set for the implementation of good corporate governance practices in the future.

In October 2021, for the purpose of conducting the analysis, SSH sent a questionnaire to portfolio companies which contained selected questions on various areas of the Code and the SSH Recommendations and Expectations. The answers provided a basis for establishing the current state of affairs and the reasons for non-compliance with the individual recommendations (deviations had to be adequately explained by the respondent companies). The level of corporate governance, when the findings of the analysis are compared with those of similar previous projects, certainly shows a general improvement in this area.

6.2.9 Other recommendations, positions and documents issued in 2021 or started in 2021 and completed in 2022

In cooperation with experts from the Centre of Business Excellence of the Faculty of Economics, the University of Ljubljana, and external corporate experts, SSH prepared the **Governing Corporate Culture - Guide for Supervisory Boards of**

State-Owned Enterprises which was published in the beginning of February 2022. The aim is to equip supervisory boards with key guidelines and tools to be considered and used when governing corporate culture. The proper embedding of corporate culture

in corporate governance practices contributes to the effectiveness and efficiency of companies' operations.

Based on analyses of the remuneration arrangements and practices of selected European countries and a review of the remuneration arrangements and actual remuneration payments of the portfolio companies, SSH has formulated and adopted recommendations on a Remuneration Policy for Management Bodies. The one-year project ended in March 2022 with the publication of the document, which aims to regulate the remuneration of members of the management bodies of SOEs in a systematic and transparent manner, to address certain human resources risks, to implement current trends and to contribute to more sustainable corporate business through the remuneration system.

In the first quarter of 2021, SSH relaunched a project to develop recommendations for SOEs on the design of remuneration policies for management bodies by the end of 2021. SSH had already regulated the area of so-called other rights (benefits) for management bodies in autumn 2020 and included the subject matter in the SSH Recommendations and Expectations, so the aim of the project was to regulate recommendations on other categories of remuneration for management bodies (in particular base remuneration, variable remuneration, severance pay and other forms of remuneration).

By the end of November 2021, the project team had completed the analyses needed to take a comprehensive view of the current challenges in remuneration of members of management bodies in SOEs. The analysis consists of five parts, namely (i) an analysis of Slovenian legal sources, both mandato-

ry and autonomous, as well as the literature, (ii) an analysis of the actual arrangements and pay-outs in SOEs, and (iii) an analysis by SSH of the responses submitted by state-owned companies to the questionnaire addressed to them by SSH in May 2021 in the light of issues, challenges and problems encountered with the application of ZPPOGD in practice, including the responses to the amendments of the said questionnaire, and (iv) a review of foreign legal regimes in four selected countries (Austria, Germany, France and Sweden) carried out for SSH by the external contractor, i.e., PWC. PWC provided a final update of the report at the beginning of September 2021. The fifth part of the analysis presents a benchmark of remuneration levels in Slovenian companies against each other and against foreign companies, in particular from Austria and Croatia, where a comparison was reasonable and possible. The project team summarised and synthesised the main findings of all five parts of the analysis into a single document in a way that indicates and demonstrates how best to make recommendations on remuneration policies for SOEs. After internal coordination with the asset management departments, the project team submitted the draft recommendations for the design of remuneration policies for consideration and adoption to the SSH Management Board, which adopted them at the meeting of 15 March 2022. The recommendations were then publicly published on the SSH website and sent to the companies. On 16 March 2022, SSH submitted a proposal to the Government of the Republic of Slovenia to convene a general meeting of SSH to approve the SSH Recommendations and to authorise SSH to vote at general meetings of SOEs to decide on the adoption of a remuneration policy for the management bodies of those companies.

6.2.10 International cooperation of SSH in the field of corporate governance of SOEs

The Slovenian model of corporate governance of State's capital assets has also received attention from other countries in the region. In addition to presentations to international institutions (IMF, OECD), SSH has been contacted by representatives of state-owned asset managers from Kosovo and Montenegro who wanted to gain a more detailed insight into the system of corporate governance of state capital assets pursued in Slovenia. In December 2021, SSH held a meeting with representatives from Kosovo, who were joined by rep-

resentatives from the EBRD, at which the origins of the SSH's functioning were presented (with the establishment of the Capital Assets Management Agency of the Republic of Slovenia), as well as the regulatory framework, the major activities, the SSH development to date, the key tasks pursued by SSH, its role in introducing best practices in corporate governance systems in SOEs, as well as its expectations and plans for the future.

7 MACROECONOMIC ENVIRONMENT AND DEVELOPMENTS IN THE MOST IMPORTANT SECTORS OF PORTFOLIO

7.1 Overview of selected macroeconomic data and of Slovenian and global capital markets

	Forecasts of macroeconomic trends (IMAD)			
	2021	2022	2023	2024
GDP, real growth in %	8.2	5.0	1.4	2.6
Registered unemployment rate, in %	4.7	4.2	4.1	3.9
Inflation (annual average) in %	1.9	8.9	6.0	2.9

Source: IMAD (September 2022)

As part of the recovery from the COVID-19 crisis, which hit economic activity hard in 2020 (GDP contraction of 3.0%), the world economy saw a rebound in 2021, with GDP growing by as much as 6.0%. GDP in the Euro area grew by 5.3% in 2021, in the US by 5.9% and in China by 8.1%. In the Euro area, the GDP level in 2021 thus exceeded the level reached in 2019. The growth levers for the strong upward rebound in economic activity in 2021 were to be found in the strong fiscal measures taken by the world's governments, in the easy and supportive monetary policies of the world's major central banks (FED, ECB, etc.), in the easing of austerity measures and in the adjustments of economic agents to the conditions of the pandemic. In the Euro area, all GDP components recovered in 2021, with private consumption making the largest contribution to growth. Unfortunately, loose monetary policy, combined with the effects of the war in Ukraine, led to an extremely weak inflation situation in 2022, which is also reflected in the inflation forecasts for 2022 and 2023. It should be made clear, however, that inflation in the Euro area was already out of control in the second half of 2021, and the projections at the time, which had predicted that inflation would be only transitory, turned out to be wrong. In fact, the erroneous projections of future inflation trends provided the basis for inaction on interest rates in 2021, which allowed inflation to flare up further in the months that followed.

The crisis caused by COVID-19 was a good lesson for many governments on the necessary reforms which need to be taken in the economy, which is why, in December 2020, the EU Council adopted the Next Generation EU programme (the EU's recovery instrument). It set the programme's period of operation from 2021 to 2026. In addition to re-

pairing the economic and social damage caused by COVID-19, the programme also aims to support the green transition, digital transformation, sustainable job growth, raising education and skills levels, social inclusion, health resilience and the modernisation of the European economy (innovation, research, preparedness, recovery, resilience). In the first half of 2021, European governments introduced additional large aid packages, as they were needed both to support the economy and to cope with new waves of the pandemic. At the beginning of 2021, the negative impacts of the measures of partial or total closure of most of public life and travel restrictions were visible, which of course was also reflected in aggregate demand and supply. In the second and third quarters of 2021, there was a genuine strong growth momentum, fuelled by strong global demand (international trade). In the fourth quarter of 2021, however, the trend in GDP growth eased or moderated slightly, due to firstly, bottlenecks in international logistics (shipping), secondly, the supply of individual components (chips) and thirdly, the rise in energy prices; these factors put constraints on the production in the industrial sector. In 2021, the ECB adjusted the Pandemic Emergency Purchase Programme (PEPP) in terms of the pace of net asset purchases, in line with its assessment of the financial situation and the outlook for the period ahead. In December 2021, in the light of the projections at that time, the Governing Council decided that the ECB would end the PEPP programme in March 2022, while gradually reducing the pace of asset purchases being implemented in other programmes in the coming quarters. The ECB and the FED did not intervene in the level of the base rate in 2021.

The World Bank's World Economic Outlook 2022 warned of a drastic decline in GDP growth rates,

with GDP growth expected to fall from 6.0% (2021 GDP growth) to just 2.9%. The World Bank saw the consequences of the war in Ukraine as the main cause of the cooling of global economic trends. Rising commodity prices, additional bottlenecks and delays in global logistics routes, increasing food supply uncertainties, runaway inflation, tighter capital markets and uncertainties about the future actions (and their effectiveness) of central banks' monetary policies had all contributed to a drastic downward revision of economic growth expectations for 2022. The bottlenecks in international logistics chains, which were already present at the time of the COVID 19 pandemic, had been further exacerbated by the effects of the war in Ukraine. Growth in the advanced economies of the world is therefore expected to stand at 2.6% in 2022 (2.5% in the Euro area) and at 3.4% in the emerging economies. The World Bank does not forecast a significant improvement in global economic activity in 2023, as the economy is also expected to be dampened by a number of negative factors in 2023, especially because of the expected high commodity prices and monetary tightening by the world's central banks in 2023. The World Bank therefore estimates that the world economy will grow by 3.0% in 2023, with growth of only 2.2% in the advanced economies (1.9% in the Euro area) and 4.2% in the emerging economies. Against this background, the World Bank's projections are subject to a number of risks that could have a negative impact on the level of future economic growth, such as the effects of stagflation, rising geopolitical conflicts, growing financial instability, the persistence of bottlenecks in global logistics routes, etc. The World Bank draws attention to the need for a clear global response to the impact of the war in Ukraine and the dangers posed by the new versions of COVID-19. In its June forecast, the World Bank downgraded its forecast for 2022 global economic growth by 1.2 percentage points and by 0.2 percentage points for 2023 global economic growth, compared to its January 2022 forecast. Looking at the historical GDP data and the projections of the expected GDP growth level in the Euro area and in the US, it should be noted that the Euro area economy is largely worse off than the US economy, as in the years of expansion of economic activity, growth in the Euro area was generally lower than in the US, and in 2020, GDP in the Euro area fell more than in the US. GDP growth in 2021 was higher in the US than in the Euro area, and the World Bank projections for 2023 and 2024

point to higher expected GDP growth in the US than in the Euro area. For 2022, the World Bank expects the same GDP growth rate for the US and Euro area economies (2.5%). These facts regarding the weaker performance of the Euro area economy (slower GDP growth rates in the boom period and a larger GDP contraction rate during the 2020 corona crisis) compared to the US economy point to structural problems in the Euro area economy. In the context of the outlook review, it is worth highlighting the legacy of the COVID-19 pandemic (increased government spending which has had an impact on indebtedness), which, combined with high inflation and the withdrawal of central banks' stimulus packages, severely limits the scope for introducing new fiscal measures. This and a number of other factors in 2022 have contributed to the World Bank forecasting global economic growth of only 2.9% in 2022, which (if the forecast materialises) will represent a fall in economic growth of 3.1 percentage point (GDP growth in 2021 was 6.0%). With such a slowdown in the rate of economic growth (in 2022) compared to the recovery (GDP growth in 2021) that followed the recession (in 2020), we will be witnessing a situation which we were faced with more than 80 years ago.

Economic activity in the Republic of Slovenia recorded strong growth in 2021, with GDP increasing by 8.2%. This growth also exceeded the level of GDP achieved by the Slovenian economy in 2019. Growth in labour productivity will also need to be added to the GDP growth, as it is important for the Republic of Slovenia in the process of catching up or trying to reach the EU average standard. Employment reached an all-time high in 2021, but it should be pointed out that employers are facing labour shortages in many occupations, which are also being addressed by recruiting foreign workers. In its Autumn Forecast of Economic Trends 2022, the IMAD estimates that economic growth in the Republic of Slovenia will be 5.0% in 2022, 1.4% in 2023 and 2.6% in 2024. High inflation is an issue, and the IMAD estimates it will reach 8.9% in 2022, 6.0% in 2023 and 2.9% in 2024. The IMAD analysis is based on the assumption that the real demand growth of Slovenia's trading partners will be 4.3% in 2022, 2.0% in 2023 and 3.4% in 2024. The Brent oil price is assumed to be USD 103.1/Bbl in 2022, USD 89.5/Bbl in 2023 and USD 83.9/Bbl in 2024. Non-energy commodity prices are projected by IMAD to decline in dollar terms in 2023 and 2024. IMAD stresses that the projections are subject to considerable uncertainty

stemming from the prices and availability of energy commodities.

Slovenian capital market

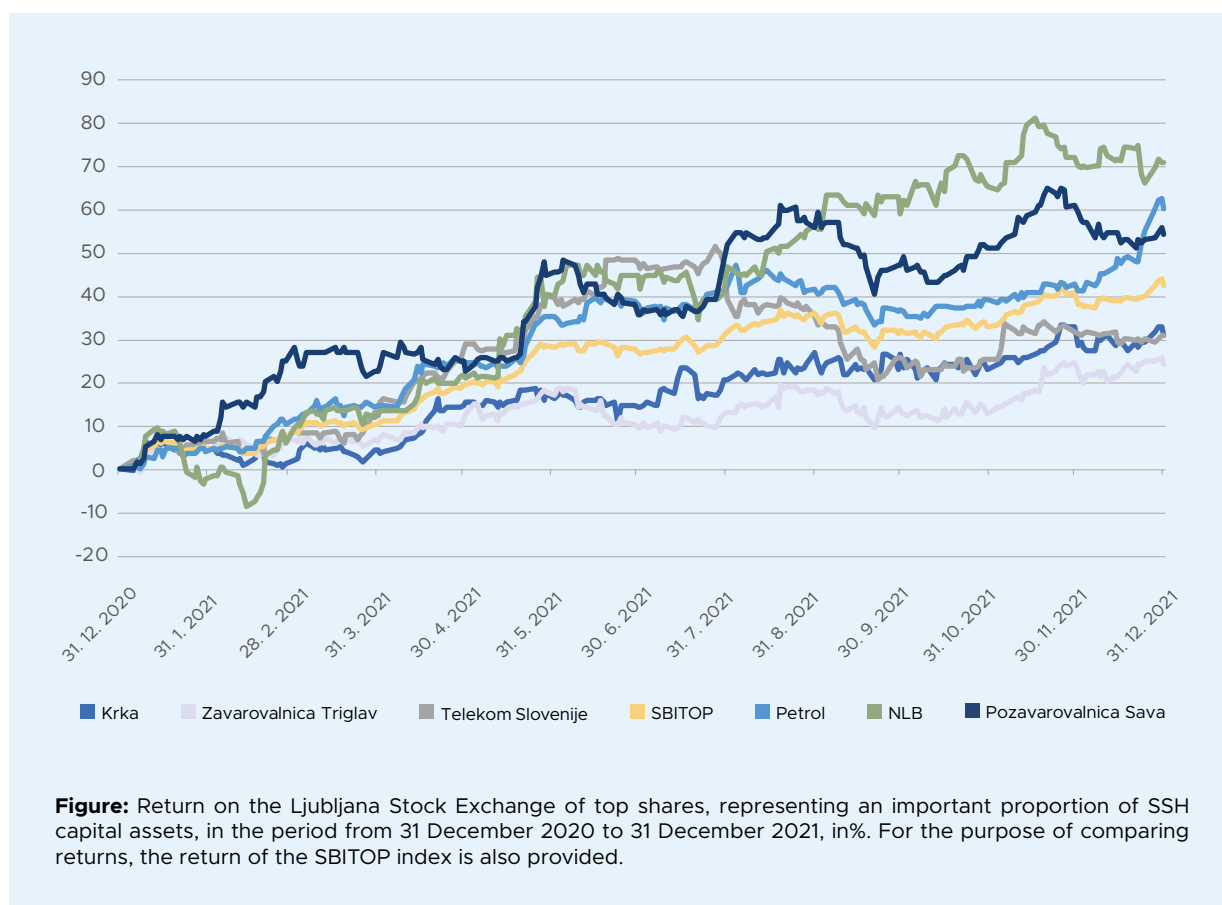
The SBITOP index rewarded investors with an exceptionally high annualised return of 39.81% in 2021, and it should be worth noting that the Index rose almost throughout 2021, with individual months not recording any major local downward revisions. Thus, in 10 out of the 12 months of the year, the Index rewarded investors with positive monthly returns, while in the two months when returns were negative on a monthly basis, investors' capital losses were minimal. SBITOP thus ended 2021 at 1258.80 points. The growth of shares in the SBITOP index in 2021 is significantly higher than the returns on European equity markets.

In 2021, the Ljubljana Stock Exchange recorded a total turnover of EUR 380.0 million, the majority of which was made with securities without block trades. It was again Krka (KRKG) shares that were the most traded ones in 2021 (EUR 148.1 million turnover) and Krka also recorded the largest mar-

ket capitalisation among listed shares at the end of 2021, amounting to EUR 3.9 billion. The runner-up in 2021 was NLB (NLBR) with a turnover of EUR 50.4 million, followed by Petrol share (PETG) with a turnover of EUR 26.7 million. NLB and Petrol also ranked second and third in terms of market capitalisation. These companies and the bank have a significant weight both in the contribution to the ROE of the portfolio of equity investments managed by SSH and in the volume of dividends collected by SSH in the process of its management of capital assets.

In the context of SSH's management of capital assets, it should be mentioned that in 2021, two commercial papers were listed on the Ljubljana Stock Exchange, namely from the issuers SIJ (8th issue) and GEN-I (10th issue); Cinkarna Celje's shares were moved from the Standard Market to the Prime Market, which indirectly confirms that the said company meets the higher standards of the Ljubljana Stock Exchange with regard to the information provided to the interested public groups.

In 2021, the total turnover on the Ljubljana Stock



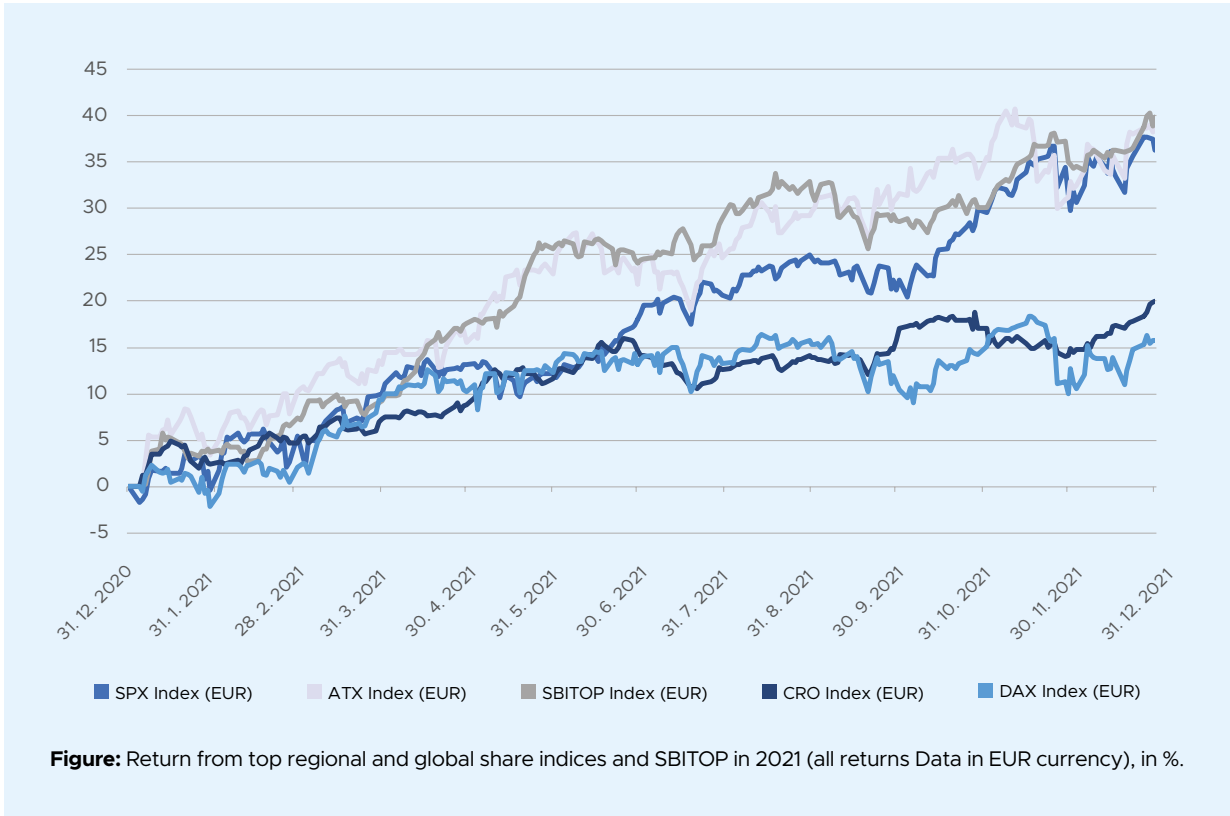
Exchange amounted to EUR 380.0 million and the turnover excluding block trades amounted to EUR 319.3 million, representing a 16% decrease in the total turnover excluding block trades compared to 2020. Most of the turnover, or 99.95% of the total turnover, was in shares, followed by bonds, which accounted for only 0.04% of the total turnover on the Ljubljana Stock Exchange. The favourable price performance (measured by the return generated in 2021) of selected shares in the SSH portfolio and the performance of the SBITOP Index in 2021 are also illustrated in the Figure below. The market capitalisation of the shares increased by 37.5% compared to 2020 and stood at EUR 9,513.5 million at the end of 2021 as a result of the increase in share prices. The market capitalisation of bonds increased by 4.3% in 2021.

Global capital markets

Despite the ongoing pandemic of COVID-19, 2021 was a much kinder year for investors, both in terms of the absence of major shocks (price falls) and in terms of returns on global equity markets. Compared to 2020, 2021 will be remembered as a year of economic resilience, achieved through extensive monetary and fiscal support measures. COVID-19 was present throughout 2021, and investors were encouraged by vaccines and mass vaccinations, and, at the end of the year, by the non-severe omicron variant. The health situation made investors hopeful that the closure of certain sectors of the economy would no longer occur, which made them optimistic about the outlook for the business environment. The VIX index (which measures the volatility of options), also known as the investor fear index, painted a similar picture, with much

lower values in 2021 than in 2020, when investor fear was much higher (due to sector closures and uncertainties about what would happen next). It is worth noting that the rise in commodity and energy prices in 2021 was also reflected in rising inflation, which in the Euro area exceeded the ECB's target in the second half of the year. The oil market in 2021 did not experience the same shocks as in 2020 (oil price falls, strong price movements, intraday trading at negative levels), but both Brent and WTI oil recorded price increases of more than 50% in 2021 (Brent by 50.15% and WTI by 55.01%). The high price growth in 2021 thus pushed oil above the pre-COVID-19 values per barrel in 2019. The world stock market (as measured by the MSCI World index) gained 28.99% (measured in Euros) and 20.14% (measured in US Dollars) in 2021, but it is worth noting that the index rose almost all year and that the drops in value in individual months were not painful for investors, as they were small. Bond markets provided negative returns to investors in 2021: the level of return depended on the investment grade of the bonds invested in and the movement of the bond currency. In some months bond prices fell, in other months they rose, but investors could not ignore the risk of rising inflation and the need to raise interest rates and end stimulus programmes in 2022. These developments therefore contributed to negative returns for bond market investors in 2021.

All global equity indices concerned delivered positive returns to investors in 2021; the calculation of returns is made in EUR (conversion to EUR is made in case of the S&P 500 and the Crobex index, in which case some shares are quoted in foreign currencies).



7.2 Overview of developments by portfolio sectors

Road transport: The impact of the COVID-19 pandemic on road transport was lower in 2021 than in 2020. The improved economic situation and the slightly better epidemiological situation during the peak season were also reflected in increased traffic volumes, in which case it needs to be highlighted that DARS achieved double-digit revenue growth in 2021 compared to 2020 in all three categories directly related to traffic (vignette sales, tolling of goods vehicles, toll for the use of the Karavanke tunnel). 2021 was a landmark year, as DARS started selling the annual e-vignette for 2022 in December, and thus said goodbye to annual vignettes in the form of stickers. DARS carried out work on both new projects and renewal operations in 2021. The Karavanke Tunnel and the construction of the individual stages of the third development axis are the two largest projects. Despite sufficient financial resources, work on individual phases was slowed down or blocked by lengthy procedures for obtaining the relevant permits or by complaints from civic initiatives and unsuccessful bidders. In 2021, DARS renovated 71.19 km of carriageways of sections and connections. In total, 39 bridge structures were rehabilitated; nine viaducts, five bridges and 19 other minor bridge structures were partially rehabilitated as part of the section rehabilitations. One of the key activities of DARS is also debt management, in terms of debt repayment, debt rescheduling, and the implementation of investments dictated by the expected increased traffic volumes on Slovenian motorways in the coming period. The balance of financial resources in the form of deposits in 2021 did not reflect a need for refinancing. In 2021, DARS repaid EUR 183.63 million of principal and EUR 32.3 million of interest. The EUR 90 million loan for the financing of the construction of the second pipe of the Karavanke tunnel, which the company borrowed from the European Investment Bank in 2020, has not yet been drawn down. The Company's total debt decreased to EUR 1,711 million (as of 30 December 2021). Over the last five years, DARS' total indebtedness has decreased by EUR 856 million.

Railway transport: Based on the quarterly data recorded by SURS, it can be noted that in 2021 the number of passengers in domestic and international transport in the Republic of Slovenia increased compared to 2020. The total number of passengers carried in the four quarters of 2021 was 11.86 million, compared to 8.15 million in 2020. According to quarterly data, 541.8 million passenger kilometres were travelled in 2021 and 396.8 million in

2020. When comparing the rail transport volumes (number of passengers, number of passenger kilometres) in the 2021 quarters with the 2020 quarters, the impact of the COVID-19 and measures restricting train travel is clearly visible, as the differences between the number of passengers carried and the number of passenger kilometres travelled over a given period are significant. The relaxation of border measures also had a positive impact on rail passenger transport. In 2021, rail freight transport in the Republic of Slovenia showed a positive trend towards economic recovery, which was reflected in domestic and international transport, with an increase in tonnes of goods transported and in tonne-kilometres travelled compared to 2020. In 2021, based on quarterly data, 20.34 million tonnes of goods were transported, and 4,937.1 million tonne-kilometres were covered in domestic and international transport (19.4 million tonnes of goods were transported and 4,725.9 million tonne-kilometres were covered in 2020). In the broadest sense, the operation of the Slovenian railway system in 2021 was marked by the entry into force of the strategic partnership agreement between SŽ - Freight Transport and EP Logistics International (the joint venture SŽ EP Logistics is thus starting to expand into foreign markets), the start of the upgrade of the Ljubljana-Brezovica railway section (important from the point of view of the Ljubljana railway hub and for freight traffic connected to the Port of Koper), the start of the construction of the second track of the Divača-Koper railway line and the entry into service of Stadler Flirt electric passenger trains (to improve and modernise passenger transport).

Maritime transport: In Slovenia, maritime transport takes place through the only port in Koper, where mainly freight but also passenger traffic takes place. In 2021, the Port of Koper handled a total of 20.82 million tonnes of goods (different cargo groups), which is 7% more than in 2020. The more favourable macroeconomic environment (GDP growth) in 2021 was thus also reflected in higher volumes handled, as international trade in goods was supported by GDP growth in the various countries that use the Port of Koper as an entry or exit point for the transport of goods. It is worth noting that in 2021, the Port of Koper increased its throughput in all commodity groups (general cargo, containers, cars, liquid cargo and bulk and break bulk) compared to 2020 and extended the southern part of Pier 1 by 100 metres, which would

allow for increased container throughput. In 2021, the Port of Koper also carried out other investments and concluded new business agreements, which is also important in view of the investment activity in the two neighbouring ports. In 2021, the Port of Koper saw a return of cruise ships; 11 cruise ships arrived with a total of 4450 passengers. This is a small increase compared to the record year which saw 72 cruise ship arrivals and 115,581 passengers transported, but the outlook for the future is again more optimistic.

Air transport: Air transport is one of the most affected sectors of the economy due to the negative impact of the COVID-19 pandemic. The impact of the pandemic was still present in the first three months of 2021 in particular, followed by a gradual recovery, which was far from the trends realised in 2019. According to the Slovenia Control, 5,052 terminal services were provided in the Republic of Slovenia in 2021 (3,910 in 2020), which was still well below the level of 2019 (12,601). In 2021, 369,971 units of overflight phase services were performed in the airspace under the responsibility of the Slovenia Control (263,994 in 2020), which is still a significant decrease compared to the pre-COVID-19 year of 2019, when 627,329 units of overflight phase services were performed (year-on-year, overflight phase traffic is down by 41%). According to Eurocontrol, 2021 saw a 25.5% increase in average daily traffic compared to 2020, but unfortunately still a 43.8% decrease compared to 2019. The largest drop in the number of flights between 2021 and 2019 (50.6%) was recorded in the intra-Eurocontrol segment, which falls under the category of international flights. COVID-19 has thus had an impact on airline operations and national air traffic control in the EU. Ljubljana Airport recorded 430,943 passengers in 2021, an increase of 47.6% compared to 2020. Cargo traffic increased by 22.6% compared to 2020, with 28,383 tonnes.

Postal transport: The COVID-19 pandemic did not have a significant impact on postal traffic volumes. As regards letter services, although Pošta Slovenije recorded a decline due to measures taken to contain the spread of COVID-19 disease and the switch to e-substitutes, revenue growth was nevertheless achieved thanks to price increases and the introduction of new services. High revenue growth was achieved in the parcel segment, while revenues in other segments are roughly at the same level as in 2020. In 2021, Pošta Slovenije introduced innovations in its operational business. It introduced a change in the area of parcel transmission (split into

document and goods parcels), a change in the area of domestic correspondence transmission (priority and non-priority transmission) and continued the restructuring of the postal network (contract post offices, contract collection points).

In order to ensure smooth postal traffic in the future, Pošta Slovenije signed a new collective agreement with the representatives of the two representative trade unions to address the pressing staffing issue.

Tourism in Slovenia is an important economic activity with numerous multiplier effects in the economy. The sector has achieved very high growth rates in recent years and accounted for 9.9% of Slovenia's GDP in 2019. The growth in foreign tourist arrivals has been disrupted by the COVID-19 pandemic and related measures. The year 2021 was also marked by a sharp decline in arrivals (by 61.03%) and overnight stays (by 57.84%) of foreign visitors compared to the reference year 2019 (the last tourist year without the impact of COVID-19). In 2021, Slovenia's tourism arrivals were again partly boosted by domestic guests (42.12% more arrivals in 2021 than in 2019 and 46.59% more overnight stays), but in aggregate, Slovenia's tourism recorded 35.73% lower arrivals and 28.68% fewer overnight stays by all guests (domestic and foreign) in 2021 than in 2019. However, 2021 showed a positive shift compared to 2020, with a 30.62% increase in total tourist arrivals (domestic and foreign guests) and a 22.24% increase in total overnight stays. Improvements in the economic environment, better health conditions and fewer border crossing rules contributed to 2021 being a more successful tourism year than 2020. In contrast to 2019, 2021 still showed that domestic guests generated more tourist arrivals and overnight stays than foreign guests, largely driven by tourism vouchers. It is important for the Slovenian tourism industry to apply the lessons learned and changes perceived during the COVID-19 pandemic to the future design and marketing of its tourism offer, such as personalisation, individualism, integrated online marketing, business restructuring for sustainability and digital technologies.

On 10 May 2022, pursuant to the Promotion of Tourism Development Act, the RS Government adopted the Slovenian Tourism Strategy 2022 - 2028 (hereinafter referred to as: "the Tourism Strategy"), which constitutes the basic framework for the development of Slovenian tourism over the next seven years.

The Tourism Strategy aims to implement a balanced growth scenario while pursuing the principle of "A little more and a lot better", which foresees a moderate increase in capacities and quantitative indicators, but above all a concentration on higher quality and added value, with a focus on measures to restructure the supply side of Slovenian tourism. It is envisaged to provide the policy conditions and measures to promote sustainable development, a well-maintained environment and a thriving culture, with positive effects on the growth of added value for all stakeholders, that is to say, to have satisfied citizens, motivated employees, enthusiastic visitors and create a positive legacy for the next generation.

Gambling is a regulated and controlled activity. Gambling in the Republic of Slovenia is regulated by the Gambling Act, which was adopted in 1995 and amended several times since then, most recently in 2012. Further changes have been expected for several years, including in the part regulating the ownership structure of special gambling operators. In 2021, after preliminary coordination, the Government of the Republic of Slovenia established the text of the Draft Law on Act Amending the Gaming Act and sent it to the National Assembly for the third reading in March 2022. The amendments were not favoured by the trade union representatives of HIT, and the concessionaires and shareholders of the concessionaires also commented on the proposal.

Loterija Slovenije, which organises traditional gambling games, is classified as a strategic asset managed by SSH. In most Member States of the European Union, the lottery is subject to a system of monopoly companies or sees exclusive rights being granted to state-owned operators, private non-profit operators or operators directly controlled by a public authority. The majority of gambling revenue is therefore generated by the State lottery.

In the first half of 2021, the gaming industry was still under severe pressure from the negative impacts of the COVID-19 pandemic, as gambling and hotel facilities had to be closed for most of the first half of 2021 in accordance with the applicable regulations. They have been opened gradually, subject to a number of restrictive conditions (the recovered-vaccinated-tested requirement; initially operating until 22:00, etc.). The outlook for the sector is uncertain and the risks remain high due to COVID-19. Special gambling operators are faced with adjusting their business to the new security requirements, in addition to changing

consumer habits and the intensification of online gambling and competition. Decisions by regulatory authorities on the level of tax burdens also have a significant impact on business. The age structure of guests is also a major challenge for casinos in the Republic of Slovenia; casinos need to adapt their gaming and ancillary entertainment and hospitality offerings to attract younger guests. In the European gambling market, competition from online gambling and betting providers is strong, as online gambling and betting achieve high annual business growth rates in the individual countries of the European Union. The global gaming and gambling industry is witnessing a trend towards alliances as companies seek synergies to offer the best possible gaming and entertainment experience to their guest.

Slovenian **pharmaceutical companies** operate in the global pharmaceutical market. Krka and Lek (a Sandoz company) are the most recognisable Slovenian companies. Both companies are classified in the generic pharmaceutical segment. The global generic pharmaceuticals market is estimated to be worth USD 245.6 billion in 2021, and analysts forecast the global generic pharmaceuticals market to be worth USD 331.54 billion in 2025, growing at a CAGR of 7.8%. The pharmaceutical industry is also one of the better performing sectors of the economy, having managed to grow its revenues even during the COVID-19 crisis, and has emerged even stronger from the crisis. The pharmaceutical industry has invested heavily in research and development and in the introduction of new complex products with improved safety and quality. The Krka Group is performing well, its performance is assisted by its vertically integrated business model. The Krka Group is increasing sales in all key markets as well as in all product and service groups. The current situation in Ukraine and the Russian Federation requires the company to continuously adapt in different areas of its business. In the current circumstances, it is difficult for Krka to assess the course of future events and their impact on its business on an annual basis. Future results may depend on new circumstances, such as the possible re-emergence of COVID-19 and related measures in individual countries, the rise in raw material and energy prices, the situation in Eastern Europe and the movement of exchange rates of key currencies for Krka's transactions.

European telecom operators launched and expanded 5G networks in 2021. Telekom Slovenije also won the right to deploy 5G technology in

an auction held in April 2021 across the available frequency bands (frequency bands leased in the auction). In addition to Telekom Slovenije, which leased the most frequencies and paid the most for them, A1, Telemach and T-2 also participated in the AKOS auction and leased certain frequencies. Major activities include the continued development of artificial intelligence and improving the reliability of machine learning, growth in cloud platform technologies, the expansion of the IoT (Internet of Things) concept to the Internet of Everything (due to the increase in the installation of IoT devices and the expansion to different sectors, from consumers to infrastructure) and activities related to working from home mode of work. In 2021, there have been some positive shifts in the revenues generated domestically by European Telcos, but it should be noted that the industry has been under strong competitive and regulatory pressure in recent years, which is also reflected in the underperformance of Telcos relative to the stock market as a whole. Thus, in 2021, a further reduced cap on 1 GB of roaming data will come into force. In 2021, the price for 1 GB of data while roaming in EEA countries was set at €3 (€3.5 in 2020) and in 2022 it was set at €2.5. European regulation also sets prices for other mobile services while roaming (calls, text messages, etc.). While European telecommunication companies generally recorded an increase in share prices in 2021, this was lower than that of the European stock market as a whole, with the STOXX Europe 600 index. Even so, investors in the shares of European telecommunication companies cannot be satisfied with the returns generated compared to the trend of the returns of the European stock market as a whole; this points to the severe structural problems of the sector encountered in recent years. As regards future performance, it is crucial that Telekom Slovenije succeeds in justifying its high investments in new technology by developing new services that add value for the user; however, these services must generate higher cash flows when sold on the market than generated by the marketing of online services by Telcos in the past (exploiting the technological opportunities offered by 5G technology).

The **steel market** in 2021 operated in a context of a global economic exit from the contraction of economic activity experienced in 2020. According to the World Steel Association, Member States' pig iron production in 2021 was 1,951 million tonnes, representing a 3.8% growth compared to 2020 production. China was also by far the world's largest producer of pig iron in 2021 with 1,032.8 million

tonnes, but its pig iron production in 2021 decreased slightly compared to 2020 production (1,064.7 million tonnes). The growth of pig iron production in 2021 (3.8%) relative to 2020 production was thus lower than the growth of world GDP in 2021 (6.1%) relative to 2020 GDP. This is due to changes in some important markets, such as the problems in the Chinese real estate sector (construction industry) and the difficulties in new vehicle sales in Europe (automotive industry). China is the largest market for steel due to its population and the size of its economy, and the automotive industry is also one of the largest industries (next to construction and engineering) in terms of iron offtake. Steel prices rose in 2021 compared to 2020. When examining the steel market (import-export aspect), in addition to differences in price levels, it is also necessary to observe the evolution of quotas, tariffs and the burden of carbon footprint costs. In 2021, there were also significant movements in the input prices of steel production, but as the final prices were also high, the profitability of steel production improved significantly in 2021. Sij Group is a niche and small producer in the global steel market in terms of mass production, which makes it easier to adapt to market competition, although its performance is also affected by industry conditions. Market conditions in 2021 were significantly better than in 2020, which is also reflected in Sij Group's operating results. In 2021, Sij Group saw orders return to pre-crisis levels, achieved record high revenues and consolidated its position in key markets.

In the **forging industry** (Unior), it is worth noting the difficulties of the automotive industry (a very important customer of Unior), which continued in 2021. Although global new car sales in 2021, at 58.18 million units, were slightly above those in 2020 (56 million new cars), they were still worse than new car sales in 2018 (68.16 million units) and 2019 (65.50 million units). In 2021, new car sales globally were the lowest since 2013. Although new car sales in 2021 increased in most regions, Europe and Japan experienced a decline compared to sales in 2020. When analysing the European market, which is particularly relevant, it is worth noting the extremely poor new car sales in 2021 (11.77 million units) and 2020 (11.96 million units), especially when compared to the preceding years of 2019, 2018 and 2017, when between 15.62 million and 15.81 million units of new cars were sold each year on the European market. The drop in sales was significantly influenced by the shortage of chips and other assembly components in the assembly of cars, as car manufacturers were

mainly unable to deliver the vehicles already ordered by customers in the second half of the year. This led to the first crisis in the automotive industry, which was not caused by demand but by a reduced supply of new and used vehicles on the market.

Water utility companies render services of general economic interest on the basis of a concession agreements granted in the period from 2019 to 2026. It should be pointed out that VGP Kranj, d. d. did not obtain a concession for this period and therefore experienced a revenue shortfall (for the implementation of the State public water utility service in the Upper Sava River area) and generated loss in 2020 and 2021.

Banks in Slovenia, or the banking system as a whole, maintained a solid capital position in 2021, which may deteriorate in 2022 due to negative external environment. Capital ratios declined mainly for banks which had increased risk-weighted assets more than the regulatory capital (as a result of increased lending to customers). In analysing the future evolution of banks' capital ratios, the evolution of the quality of the credit portfolio (taking into account the heightened situation and the negative consequences of the war in Ukraine) will need to be closely monitored, as this will also have an impact on the level of profits and hence on the level of capital ratios. The overall capital adequacy ratio of the banking system declined slightly in 2021 on an individual basis (by 0.3 percentage points to 20.1%) and increased on a consolidated basis (by 0.1 percentage points to 18.4%). The total capital adequacy ratio on a consolidated basis thus continued to lag behind the Euro area average of 19.1%. The CET1 ratio increased by 0.2 percentage points to 16.9%, higher than the Euro area average (15.8%) but lower than the median of the Euro area countries' CET1 ratios. Most banks increased their CET1 ratio by retaining profits from the previous financial year, and one of them also by carrying out a capital increase. In the 2021 review, it is worth noting that the National Council's Commission for Economy, Trade, Tourism and Finance considered the Draft Law on limitation and distribution of foreign exchange risk between creditors and borrowers concerning loan agreements in Swiss francs. The National Council submitted the Law to the parliamentary procedure and the National Assembly approved it. The law was published in the Official Gazette in February 2022. Nine banks (including NLB) filed a petition to the Constitutional Court to assess the consti-

tutionality of the law. In March 2022, the Constitutional Court suspended the implementation of the law, as its entry into force could have a negative impact on the capital and capital adequacy of the banking system and the formation of provisions for this purpose. It is not known when the law will enter into force, if at all, but the Bank of Slovenia estimates that the capital adequacy of the banking system will not be significantly impaired (but banks that have been very active in issuing loans in Swiss francs or have lower capital surpluses will find it more difficult to cover claims arising from the effects of exchange rate changes). Credit risk in the banking system remains elevated despite the decline in banks' non-performing exposures (NPEs). Overall, NPEs fell further in December 2021, with NPEs of non-financial corporates in particular declining between 2019 and 2021.

However, in certain segments of banks' loan portfolios, signs of deterioration in investment quality started to emerge after the COVID-19 crisis, notably in the form of a reclassification of exposures to the higher credit risk group in some service activities, in consumer loans and, in the last months of 2021, also in manufacturing. The deterioration in credit risk indicators was also reflected in exposures that were granted forbearances during the pandemic, which still represent only 3.8% of the total exposure of the banking system.

In 2021, Slovenian banks faced lawsuits due to non-compliance with negative EURIBOR values in the calculation of credit instalments, the effects of the Decision on macro-prudential restrictions on lending to the population by the Bank of Slovenia (the issue of the increase in the minimum wage) and the decline in the creditworthiness of consumers due to the requirement of the maximum possible amount of a credit instalment in relation to the requirement, the requirement that the consumer must retain 76% of gross salary after the instalment payment) and due to the interest rate structure of deposits in relation to credit (the problem of maturity and negative interest rates). Banks face falling or stagnating net interest income as a result of interest rates in the Euro area. In 2021, the Slovenian banking system generated a pre-tax profit of EUR 562 million, one fifth more than in 2020. In December 2020, the ECB extended the TLTRO III programme to cover the whole of 2021 and half of 2022. The TLTRO programmes maintain banks' favourable financing conditions for household and corporate financing.

Insurance companies that are members of the Slovenian Insurance Association wrote 2% more insurance premiums in 2021, recording growth of 2.70% in the non-life segment and 0.32% in the life segment. With growth significantly lower than the growth of Slovenian GDP in 2021 (8.1%), the share of insurance premiums in GDP fell to 5% (a decrease of 0.5 percentage points), the lowest insurance penetration since 2000. The members of the Slovenian Insurance Association thus accounted for the highest level of total insurance premiums in 2021, in which case it needs to be highlighted that positive growth in the non-life segment was achieved for the seventh consecutive year. In 2021, the average Slovenian resident spent EUR 1,237 on non-life and life insurance. Zavarovalnica Triglav collected the most premiums (EUR 707 million), followed by Generali (EUR 449 million), Zavarovalnica Sava (EUR 434 million) and Vzajemna (EUR 322 million). The loss ratio improved in the property and life segments but deteriorated in the health

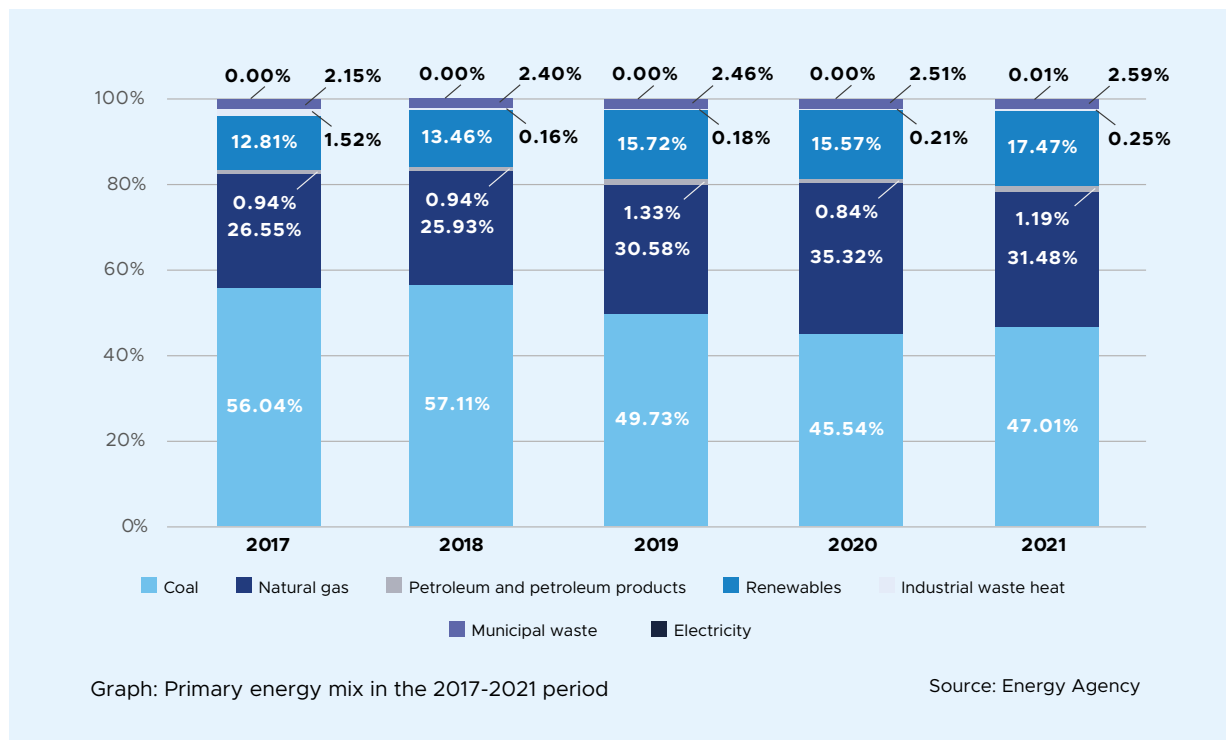
segment. The loss ratio of insurance companies thus improved slightly in 2021, while it deteriorated again for reinsurance companies. The profitability of insurance and reinsurance companies improved significantly in 2021 and their capital adequacy also improved. The median Solvency Capital Ratio (SCR) for insurance companies operating in Slovenia at the end of 2021 was 205.9%, an increase of 16.4% compared to the situation at the end of 2020. The number of insurers with SCR below 200% in 2021 decreased from seven to four (out of thirteen). In 2021, both Triglav Group and Sava Insurance Group increased their premium collection and net profit. When analysing international factors in 2021, it is worth mentioning the issue of still low returns in the investment segment of the insurance companies' business and the issue of natural catastrophe claims coverage, as 2021 was the second most expensive year for the insurance/reinsurance industry worldwide (natural catastrophe claims amounted to USD 120 billion, the issue of climate change).

Energy products market

The total electricity consumption in the Republic of Slovenia (including the consumption of the Avče Pump-Storage Power Plant (PS Avče) in 2021 was 14,173 GWh or 13,336 GWh, excluding losses in the transmission and distribution systems. A comparison with 2020 shows that total consumption in 2021 was higher by 427 GWh or 3.1%. The increased electricity consumption is understandable given the economic growth in 2021 (in 2020, electricity consumption decreased due to the negative effects caused by the COVID-19 pandemic). However, it should be noted that the total elec-

tricity consumption in 2021 was lower than the total electricity consumption in 2019 (14,423 GWh). The business consumption segment records the highest electricity consumption. In 2021, 82.9% of electricity consumption was covered by domestic generation in the Republic of Slovenia, which is a significant drop compared to 2020 (92.6% coverage) and the lowest coverage since 2017.

The primary energy mix shows an increase in the share of coal and renewables in 2021 compared to the share of both energy products in 2020. Renewables show an almost constant upward trend in their share in the primary energy mix.



Following the adoption of the Integrated National Energy and Climate Plan in 2020, the adoption of a strategy on coal phase-out in the Republic of Slovenia was foreseen for 2021. The National Coal Phase-out Strategy was adopted in January 2022 and foresees the decommissioning of TEŠ Unit 6 and lignite mining in the SAŠA region by 2033 at the latest.

In 2021, the price of the CO₂ coupon rose sharply, by 146.15%; prices also rose for other inputs that are important for the economics of power generation in thermal power plants (coal price, gas price). Thus, in 2021, several closures of thermal power plants could be seen to take place for various reasons (use of payments under national fossil fuel phase-out programmes, operational economics, licensing, obsolescence of technology, etc.). The Šoštanj Thermal Power Plant uses lignite as a source of electricity. In 2021, market conditions were extremely volatile, which significantly changed the economics of electricity generation in coal-fired and gas-fired thermal power plants on a monthly basis.

In 2021, the average price of base-load electricity recorded by the Energy Exchange in the Republic of Slovenia increased by 206% compared to 2020 and amounted to EUR 115.03/MWh. This price represents, historically, the highest annual average value and is more than double the ten-year average of the base-load power index recorded on the Slovenian Energy Exchange.

Electricity prices have also risen on other European Energy Exchanges. The Italian GME (NORD) market increased by 231.3% and recorded the highest average price (€125.19/MWh) on the day-ahead market in 2021.

A slightly lower price for base-load power (EUR 100.98/MWh) was recorded on the German energy exchange, but average prices also increased by 231.4% compared to 2020. Prices on the German energy exchanges also had an impact on the rest of the EU markets because of the energy market liquidity. It should be pointed out that the higher prices on the German energy exchange are also due, among other things, to the lower share of electricity generation from renewable sources, if compared to the situation in 2020. Renewables accounted for 46.5% of total electricity generation in Germany on average in 2021, and their electricity generation was 4.8 percentage points lower than in 2020.

Wholesale natural gas prices were rising for most of 2021. They started to rise in the first half of the year, driven by the EU's economic recovery, as supply did not adjust in time to the higher demand for natural gas in industry and electricity generation. There were exceptional gas price spikes, especially in the second half of 2021, and high volatility was also noticed in energy exchange trading, with gas prices rising sharply in some periods and falling sharply in other periods. In 2021, the price of gas increased by more than 200%.

The passage of the COVID-19 pandemic, or the recovery of economies from the COVID-19 crisis, also had an impact on oil prices. With the gradual normalisation of the situation, which in addition to the economic recovery also brought more travel, the price of oil rose in 2021. At the end of 2020, a barrel of Brent oil would cost \$51.80, and at the end of 2021 it would cost \$77.78, an increase of 50.15%. The Brent oil price in 2021 showed a clear trend, and the individual drops in the oil price within each month of 2021 were much smaller than the month-by-month drops in 2020.

8 MANAGEMENT OF SSH AND RS CAPITAL ASSETS IN 2021

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

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

8.1 Fundamental principles of asset management

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

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

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

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

8.2 Active management of RS and SSH assets

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

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

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



CRITERIA

CRITERIA FOR MEASURING PERFORMANCE OF SOEs:
strategic goals, economic and financial goals



MONITORING

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



ANNUAL PLAN

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



AGMs

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



GOOD PRACTICE

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



SUPERVISORY BOARD MEMBERS

SUPERVISORY BOARD MEMBERS:
the selection of suitable Supervisory Board members

*Monthly reporting for companies in 100% RS's ownership was introduced in 2018.

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

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

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

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

In accordance with ZSDH-1 and other key documents related to corporate governance, in 2021, 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 2021;
- during the state of the declared epidemic, SSH closely and constantly monitored their ongoing operations and measures adopted by companies for ensuring their liquidity;
- 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 2021 which was adopted with the consent granted by RS Government on 6 February 2020, 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 at 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 2021, **the total of 109 General Meetings of Shareholders was convened with the adoption of the founder's resolutions;**
- provided for the exercise of other rights of a shareholder, such as the submission of the request for the convocation of General Meetings, the applications for the extension of agenda, filling counterproposals, lodging applications for a court-appointed nomination of members of a supervisory body, lodging applications for special

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

- provided for suitable content-related and legal evaluation of individual activities and decisions taken in the capacity of asset manager;
- carried out all necessary activities for relevant and timely procedure regarding the accreditation, nomination and selection of candidates for members of Supervisory Boards;
- acquired and disposed of individual capital investments in accordance with the applicable legislation and other relevant legal documents;
- submitted its comments and proposals on the amendments to the legislation on corporate governance;
- continuously strived for raising the quality of corporate governance in the companies under SSH management, including its attempts expressed in its communication with companies to raise the compliance of their operations the Corporate Governance Code for SOEs and with the SSH Recommendations and Expectations.

As every year, SSH prepared voting platforms and made them publicly available before the start of the AGMs in 2021. This makes voting by SSH predictable, transparent and compliant with the legal documents on corporate governance. After General Meeting is held, SSH's voting standpoints are publicly published on the following web site: SDH www.sdh.si.

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

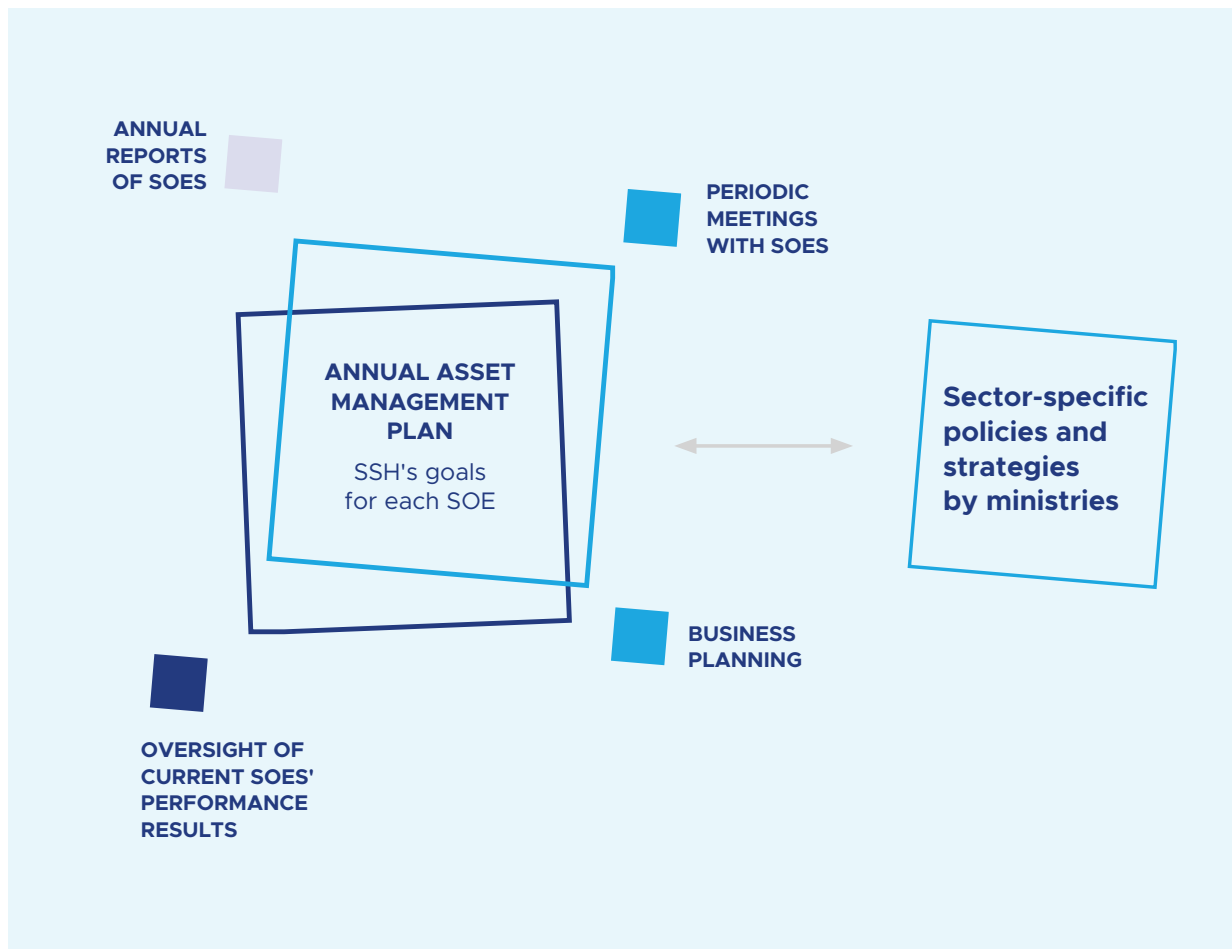
8.4 Monitoring operations of SOEs

As the manager of capital assets held by RS and SSH, 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 key financial and business goals (for example, ROE value and dividend amount), strategic goals and their realisation, aspects of potential optimisation of operations and restructuring measures, adherence to SSH expectations and recommendations and other important activities connected with the operation of an individual company. **The content and particularly the scope of information received at such meetings depends on the legal organisational form of an individual company and the equity holding of RS and SSH in such company.** The intensity of SSH's

monitoring of the activities pursued by individual companies is, among other things, also dependent on the circumstances surrounding the operation of each and every individual company (for example, if a company is carrying out important projects, or if conditions in which a company operates have dramatically changed, or if a company is in distress).

In 2021, at periodic and other meetings, particular attention was paid to the risks identified and the measures taken to manage them, as well as to sustainability and the indicators monitored by the companies in this area.

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



8.4.1 Fundamental goals for managing capital assets and their classification

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

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



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

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

- fundamental guidelines laid down in the Asset Management Strategy;
- fundamental asset management goals on account of which an individual asset has been classified into a certain fundamental group of assets;
- additional goals in asset management which are determined by the Asset Management Strategy;
- as regards SOEs, SSH has at its disposal "only" corporate and legal leverage arising from its capacity of a shareholder;
- when preparing Asset Management Annual Plan, SSH takes into consideration strategies and business plans produced by companies if companies

have informed SSH of their own strategic and planning documents and these plans are compliant with SSH's goals. In SOEs, which are organized as public limited companies, SSH has at its disposal limited access to information since, under the applicable law, the shareholder's right to information is limited.

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

For individual asset, specific goals set on the basis of criteria and indicators set are defined in every AAMP.

For the necessary efficient monitoring of the success in regard to goals set for SOEs in the portfolio managed by SSH, suitable tools are deployed by SSH, together with data available at three levels, specifically:

past dynamics - trends in the reported business results of an individual company which are monitored, together with movements in key performance indicators in an observed period;

benchmarking analyses - the values of key performance indicators and the values of selected financial ratios of an individual company at a certain moment and in the past are compared to the values which have been achieved by previously determined comparable competitors, taking into account the differences in the business environment

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

business plans - results forecasted by an individual company are compared with values which have been determined by SSH on the basis of past analysis, on the basis of the benchmark to competitors' results and on the basis of an assessment of trends in the business environment, and realisation of plans set.

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

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

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

The Strategy also provides a definition of a strategic asset and states the criteria for classifying companies as strategic assets. Of course, in addition to strategic objectives, companies must also set economic and financial objectives for such activities, defined on a case-by-case basis according to the nature of the public service provided by the company. SSH thus

sets annual goals of economic and financial and strategic nature for these companies in AAMP and oversees their realization. The realization of these goals is reported in a respective Annual Report - Management of Capital Assets.

In 2021, when preparing the AAMP for the future period (LNU 2022), SSH also set out the expectations related to sustainability objectives for companies. In the general part of the AAMP, SSH has announced its expectation which envisages the following: (i) SOEs are expected to integrate sustainable operations into their business strategies, and (ii) companies should measure the carbon footprint of Scope 1 and 2 of the GHG Protocol, (iii) set ambitious targets for reducing their carbon footprint, and (iv) ensure the long-term competitiveness of the company and long-term value for the owner through timely green transformation, with the participation and involvement of other stakeholders.

8.5 Risk managements in SOEs

Portfolio companies, which are included in the portfolio of assets under SSH management, are exposed to risks of various types. SSH, acting in the capacity of an asset manager, monitors these risks as part of its regular asset management related activities, and also through the Code of Corporate Governance for SOEs, SSH Recommendations and Expectations, organises training courses to which it invites members of the supervisory boards of SOEs, and takes other measures to ensure that companies manage the risks of their operations in an appropriate manner.

Risk management in SOEs is in the SSH interest as, in the capacity of the asset manager, SSH pursues the goal of attaining suitable financial and performance results. Risk management is one of the important areas for achieving appropriate business results (measured by ROE ratios, level of dividends paid, etc.). In fact, improperly treated risk management in SOEs might jeopardize goals set by SSH in the AAMP. Indeed, poorly managed risks are reflected in the operating result of each company, which affects the value of the ROE indicator of

each company and the management portfolio of SSH as a whole, and ultimately the ability to pay dividends.

SSH monitors risks in companies on a regular basis, by monitoring current business and market developments. It prepares a quarterly report on this subject matter, which is then discussed at the Risk Commission meetings. The companies also regularly report on key risks and their management in the context of regular periodic meetings held by SSH with members of the management and supervisory bodies of the companies.

At the level of SSH, working meetings and Risk Commission meetings are held regularly to monitor and discuss risks within the SSH and risks in the SOEs. In order to improve cooperation and the flow of information in the monitoring of risks within companies and within SSH, a permanent working group has also been appointed which meets regularly on a weekly basis.

In 2021, SSH monitored in particular the risks related to the impact of the COVID-19 pandemic, as well as the actions and preparations taken by companies to manage risks related to disruptions in supply chains and price increases of raw materials, supplies and energy products.

8.6 Main activities in 2021 in regard to asset management by individual companies

The pandemic of a new coronavirus disease, which hit the world and Slovenia in 2020, continued in 2021, while at the end of 2021, companies' operations were also affected by problems in supply chains and the rising cost of raw materials, supplies and energy.

Companies in the tourism and tourism-related industries (e.g. passenger transport) were the most affected by the coronavirus disease. Supply chains were affected.

In addition to managing input and energy costs, most companies in the portfolio faced staff shortages and upward pressure on wages and labour costs.

ECONOMY AND TOURISM PILLAR

Slovenian Tourism Strategy

Among the most important projects led by SSH since 2019 is the implementation of the Tourism Strategy in the area of management of state-owned tourism companies. In 2021, the basis for the implementation of SSH's management activities in this area was the AAMP 2021 and the AAMP Tourism, which was already included in the AAMP 2020 and adopted by the RS Government on 6 February 2020. The AAMP Tourism foresees a number of activities in the area of management of tourism companies with direct or indirect state assets, including additional acquisitions and consolidation of ownership stakes in these companies and the establishment of the Slovenian Tourism Holding (STH). It was foreseen that all planned activities would be implemented within a period of three to four years, with a delay in implementation mainly due to the impact of the COVID-19 pandemic.

While SSH started to implement some activities included in the Tourism Strategy already in 2019 (e.g., the purchase of a 20.87% stake in Terme Olimia), these were successfully completed only in 2021. Thus, in March 2021, the RS acquired a 20.871% stake in Terme Olimia on the basis of an agreement concluded by SSH with Nova KBM in July 2019. On 11 March 2021, a takeover bid was published, and on 9 April 2021, a takeover bid for purchase of the remaining shares of Terme Olimia. The takeover bid was successful, and RS acquired an additional 20,64% of Terme Olimia shares in the takeover procedure. These activities were followed by a squeeze-out of the remaining minority shareholders of Terme Olimia. Following the freeze-out of the minority shareholders, RS acquired all the remaining shares in September 2021, and thus successfully completed the consolidation of the ownership of Terme Olimia by RS and its related parties. RS paid EUR 8,396,163 for the purchase of a total of 305.315 Terme Olimia shares. Together with related parties, RS now holds 100% of Terme Olimia's shares.

Sava, d. d.

Activities were carried out in the area of corporate governance of Sava d. d., both in terms of ownership and management of receivables due from Sava. SSH and York Global Finance Offshore BDH (Luxembourg) (hereinafter referred to as: "York") held non-binding discussions on the purchase of York's exposure in Sava, but no final agreement on the purchase was reached in 2021, mainly due to the pandemic of COVID-19. Indeed, the consequences of the COVID-19 pandemic had a significant impact on the tourism industry, which was one of the hardest hit sectors. The changing situation in this industry also led to changes in the assumptions for the future performance of Sava and thus also in the value assessment, which in turn led to a higher risk for SSH in taking any acquisition-related decision. Notwithstanding the fact that the purchase of York's exposure to Sava was not agreed in 2021, SSH negotiated in parallel with the creditors KAD and York appropriate extensions of the maturity of the claims on Sava by concluding addenda to the SAVA Reprogramming Agreement, most recently by concluding Annex No 4, which extended the maturity of the claims on Sava until 30 June 2022. In this way, SSH ensured the stability of Sava in a period when the refinancing opportunities on the market were weaker due to the COVID-19 pandemic.

At the end of February, as part of the implementation of the Tourism Strategy, SSH exercised its pre-emption right to acquire a 43.226% ownership stake in Sava from York. The pre-emption right for the purchase of York's exposure in Sava was exercised jointly by SSH and KAD. The total purchase price paid into the KDD escrow account upon the exercise of the pre-emption right amounted to EUR 38.000 000,00, of which SSH paid EUR 32.010 989,99 for York's ownership interest in Sava and KAD paid EUR 5.989 010,01 for York's receivables from Sava.

Upon completion of the transaction, SSH will have a 61,914 % ownership interest in Sava, while KAD will have a 28,046 % ownership interest. The combined ownership interest of SSH and KAD in Sava will thus amount to 89,960 % at the closing of the transaction. The financial funds for exercising the pre-emption right for the purchase of the 43,226 % ownership interest in Sava were provided by the Government of the Republic of Slovenia, which on 21 February 2022 adopted a decision on the increase of the share capital of SSH for the purpose of carrying out activities related to the implementation of the Tourism Strategy and in connection with the adopted AAMP 2022. The rights attached to the acquired SAVA Shares will be exercisable once the conditions precedent are fulfilled, and the Slovenian Competition Protection Agency issues a decision that the transaction is compatible with the competition rules.

Studentenheim Korotan GmbH

In cooperation with an external consultant, a Long-term Strategy for the company has been prepared, which outlines three possible development alternatives, but which will require cash resources of up to €1.6 million to maintain and develop the company. In 2021, Korotan's programme of activities were not yet coordinated with the stakeholders (competent ministries), nor had the financial resources been secured to make the necessary investments and to continue the company's operations.

TRANSPORT PILLAR

In 2021, SSH actively worked with the individual directorates of the Ministry of Infrastructure, the line ministry for most of the companies in the transport pillar, to improve governance and to integrate the interests of different stakeholders.

DARS, d. d.

In early 2021, SSH participated in the review of the 2021-2025 strategy and made suggestions and comments on it.

It actively monitored the implementation of the EETS and reminded the Supervisory Board and the Management Board to respect the timeline due to the reminder received by the Republic of Slovenia from the European Commission.

Special attention, which required the information to be provided to the founder at the General Meeting itself, was also focused on the establishment and operation of the Motorway Police on motorways and expressways in the Republic of Slovenia and the scope of its work, as well as on the implementation of the activities in accordance with the concession agreement.

SDH regularly monitored the DARS's major investment projects, such as the construction of the Karavanke Tunnel and the Third Development Axis North and South.

Slovenske železnice, d. o. o

At the beginning of 2021, SSH gave its consent to the Strategic Business Plan of the Slovenske železnice Group for the period 2021-2025.

On the basis of the approved strategic partnership in freight transport and logistics in 2020, SSH, in accordance with its competences, gave its consent to the termination of the contract on control and unified management of the SŽ Group between SŽ, d. o. o. and its subsidiaries SŽ - Tovorni promet, d. o. o. and Feršped, d. o. o.

In addition to the regular corporate governance activities, particular attention was paid to the activities for the acquisition of the bus company, which were completed in 2022.

Pošta Slovenije, d. o. o.

In addition to the regular corporate governance activities, the SSH Management Board, acting in its capacity as the founder, gave its consent to the capital increase in the subsidiary APS Plus, d. o. o., its consent to the amendment of the Strategic Development Programme of the Pošta Slovenije Group from 2020 to 2025, and its consent to additional purchases of Intereuropa shares. As the SŽ Group had grown through the acquisition of Intereuropa, as the revenue structure had changed and as several important strategic projects were underway in the Company, the founder decided to increase the number of members of the Supervisory Board from six to nine. As of 4 March 2021, the new Supervisory Board of nine members was therefore in place, although it was subject to further changes during the year due to resignations and new appointments.

In 2021, SSH monitored the integration of Intereuropa into the Pošta Slovenije Group on a monthly basis.

Javno podjetje Koprška pristaniška pilotaza, d. o. o.

SSH intensively monitored the first full year of operations of KOPP, d. o. o. It participated in the activities to integrate the company into the critical infrastructure, which will continue in 2022.

Slovenia Control

In view of the impact of the coronavirus crisis on air traffic and, consequently, on the Slovenia Control's business, SSH monitored the company's capital adequacy with particular care.

ENERGY PILLAR

In the energy sector, in 2021, SSH carried out a number of corporate governance activities related to the adoption of founder's decisions and proposals for amendments to sectoral legislation, and also actively participated in communication between energy companies and the relevant ministries.

Among other matters, in 2021, SSH submitted substantive comments and proposals for amendments to the following laws: the Law on Energy Policy, the Electricity Supply Act, the Gas Supply Act, the Act Amending the Mining Act and the Act on Amendments to the Act on the Act Regulating the Gradual Closure of the Trbovlje-Hrastnik Mine and the Economic Development Restructuring of the Region.

GEN Group

In 2021, many of the SSH activities were focused on the regulation of corporate relations within the GEN Group, monitoring the implementation of the Development Plan of the Company and the GEN Group for the period 2020-2024, monthly monitoring of the implementation of the Umbrella Action Plan for the optimisation of the company's and the GEN Group's business, monitoring the Group's development and investments, energy trading, expansion of production capacities including nuclear production capacities, familiarisation with commissioned studies and analyses and the status of the NEK2 project. In the context of the expansion of production capacity in 2021, SSH also gave its consent to the merger of MHE Bistrica, d. o. o. into Savske elektrarne Ljubljana, d. o. o.

Petrol, d. d.

As one of the key stakeholders, SSH actively participated in the S&P rating process. At the Annual

General Meeting of Petrol, it also took note of the Report of the Management Board on the activities carried out in connection with the findings of the Special Audit Report to the shareholders.

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

SSH took note of the out-of-court settlement with General Electric in 2021. It actively monitored the resolution of the issues related to the operations of the company's Thermal Division and was involved in their resolution within the scope of its competences. SSH also monitored the implementation of the vertical integration project with the electricity distribution trading companies, in the framework of which it approved the acquisition of a 51 % stake in ECE, d.o.o. and the conclusion of an option agreement for the acquisition of the remaining shares of the company.

Electricity distribution companies (EDPs)

In 2021, SSH actively monitored EDP's activities in the area of investment and development of the electricity grid to enable the green transition. Pursuant to the Directive 2009/72/EC, according to AAMP 2021, and in line with the requirements by the Court of Audit (Audit Report of 3 November 2020), SSH actively monitored processes for the ownership, legal and functional unbundling of networks from activities of electricity generation and supply. In 2021, sales of shares in E3, ECE and Energija plus took place in respect of EDP's electricity trading subsidiaries. SSH monitored the sales processes and integration of these companies. Appropriate strategic links were established between EDP subsidiaries, and the energy pillars owned by the RS. In addition to the above-mentioned activities, SSH prepared the Legal and Economic Study presenting possible models for utility consolidation.

FINANCIAL PILLAR

Liquidation proceedings of venture capital companies and other procedures for disposing of equity investments

Also in 2021, a relatively high level of corporate governance activity was devoted to monitoring the liquidation proceedings of venture capital companies, in the context of which these companies were conducting proceedings for the sale of equity stakes in their portfolio companies (sale of the stake in Celtra Technologies Inc. held by Prvi sklad, d. o. o. - in liquidation, activities for the sale of shares in TMG-BMC, d. o. o., assets of DTK Murka, d. o. o. - in liquidation, and STH Ventures, d. o. o. - in liquidation). Activities will continue in 2022.

Litostroj South project and establishment of the special purpose vehicle CASS, d. o. o.

In 2021, D.S.U., d. o. o. started a project for the construction of office premises for the needs of the Ministry of the Interior, and SSH, as the founder, gave its consent to the investment concept.

In 2021, SSH also continued its activities related to the amortised transfer of the Selection and Testing Centre Ptuj (SPC Ptuj) to the Republic of Slovenia,

which were carried out in accordance with the decision of the Government of the Republic of Slovenia of 11 June 2020 and on the basis of the AAMP 2021. In cooperation with the relevant stakeholders (Ministry of Agriculture, Forestry and Food, Ministry of Finance, the Agricultural Institute of Slovenia - KIS), SSH carried out activities for the establishment of a temporary special purpose vehicle. On 16 December 2021, SSH implemented the decision of the Government of the Republic of Slovenia and established the company Centre for Indigenous Seed Varieties (CASS, d. o. o.), which subsequently bought the SPC Ptuj plant from Semenarna Ljubljana, d. o. o. in the first quarter of 2022 and took over the employees at the plant. On 30 June 2022, on the basis of a decision by the Government of the Republic of Slovenia of 30 May 2022, SSH transferred the assets of the above-mentioned company to the Republic of Slovenia by way of a status transformation in accordance with Articles 640 and 641 of the Companies Act-1, whereby CASS, d. o. o. was dissolved without liquidation. Also on that date, SSH, on behalf of the Republic of Slovenia, concluded an agreement on the free transfer of all movable assets with KIS as the acquirer, and the employees of SPC Ptuj plant were transferred to KIS.

8.7 Disposition of capital investments in 2021 and their acquisition

SSH manages the procedures 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 Plan to which the Government of the Republic of Slovenia gives its consent for each year. The sales processes are run on the basis of the SSH Asset Management Policy, which includes principles, procedures and criteria applied by SSH in carrying out its duties and activities as stipulated by ZSDH-1. In addition to other matters, the Asset Management Policy determines the methods for the sale of state assets, for the communication on disposition and acquisition of state assets, for the course of a process for the sale of state assets, the method for running the sale processes and the method for hiring financial institutions and other advisors engaged in the sales processes.

The Slovenia Sovereign Holding strives for the sales 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 and/or SSH, within the scope of its statutory limitations, SSH strives to also pursue other goals important from the aspect of providing a stable economic growth. These are: the rise in the quality and capacity of public services, further development of companies, new investment opportunities, entering new markets, ensuring competitiveness, and similar goals.

8.7.1 Activities in connection with the disposition of capital investments

In 2021, SSH concluded two contracts for the sale of its capital assets and received a total purchase consideration of EUR 918,642.70.

On 27 September 2021, an agreement was concluded with Pošta Slovenije, d. o. o. for the sale of the 4.73% ownership interest in Intereuropa, d. d., owned by SSH and KAD. On 12 October 2021, SSH, which used to own 1,73% of the shareholding, received a purchase price of EUR 688,642.70 EUR, and KAD the amount of EUR 1,043,930.40 for that shareholding. The Intereuropa shares, held by of SSH and SSH, were transferred to the new owner on 14 October 2021.

In addition, on 29 October 2021, an agreement was concluded for the sale of SSH's 9,74% shareholding in Varnostni Sistemi, d. o. o., which was bought by the company itself. The purchase price of EUR 230,000.00 was paid to SSH on 26 November 2021.

In 2021, SSH also conducted procedures for the sale of RS minority stakes, and sold stakes in RCR, d. o. o., Mercator, d. d., and KD Group, d. d. RS received a total purchase consideration of EUR 3,037.00 for that purpose. In 2021, RS also received a cash consideration for 503 shares in Hram Holding, d. d. and for 826 shares in Larix, d. d., totalling EUR 3,299.44.

8.7.2 Activities in connection with the acquisition of capital investments

The majority of SSH's activities to acquire equity investments in 2021 related to the procedures for the acquisition of shares in tourism companies by the Republic of Slovenia, namely in Terme Olimia and Sava. The acquisition of shares in Terme Olimia was fully completed in 2021 and RS committed a total of EUR 8,396,163. The activities related to the acquisition of the shares of Sava will continue in 2022. More detailed information on the procedures is provided in Chapter 8.7

In 2021, SSH also continued its activities related to the amortised transfer of the Selection and Testing Centre Ptuj (SPC Ptuj) to the Republic of Slovenia, which were carried out in accordance with the decision of the Government of the Republic of Slovenia of 11 June 2020 and AAMP. Activities are presented in detail under Chapter 8.7.

Under the law regulating inheritance, RS received a small number of shares of various companies.

8.8 Expectations in regard to ROE and dividend revenue

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

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

In its voting platforms for the AGMs, SSH provides an explanation which aspects will be taken into account when deciding whether to vote in favour of the proposed distribution of the balance sheet profit.

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

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

When formulating proposals for General Meeting Resolutions and when devising its voting positions in connection with dividend pay-outs, in 2021, SSH continued to advocate the objective of striking the balance between dividend-income and development needs of companies. The realisation of dividend payments is shown in the chapter on performance results.



Indirectly, acting within the limits of its entitlements, and through SSH Recommendations and Expectations, SSH aims to encourage SOEs to prepare a long-term plan, within which these topics will be addressed: specifically, how business models will be compatible with the climate-neutral economy, and how this plan will be included in their long-term strategy. In 2022, SSH expects portfolio companies to measure their carbon footprint under Scope 1 and 2 of the GHG Protocol and prepare decarbonisation plans (2025, 2030 and 2050 ambitions).

9 SUSTAINABLE BUSINESS OF SOEs AND KEY CHALLENGES OF CORPORATE GOVERNANCE

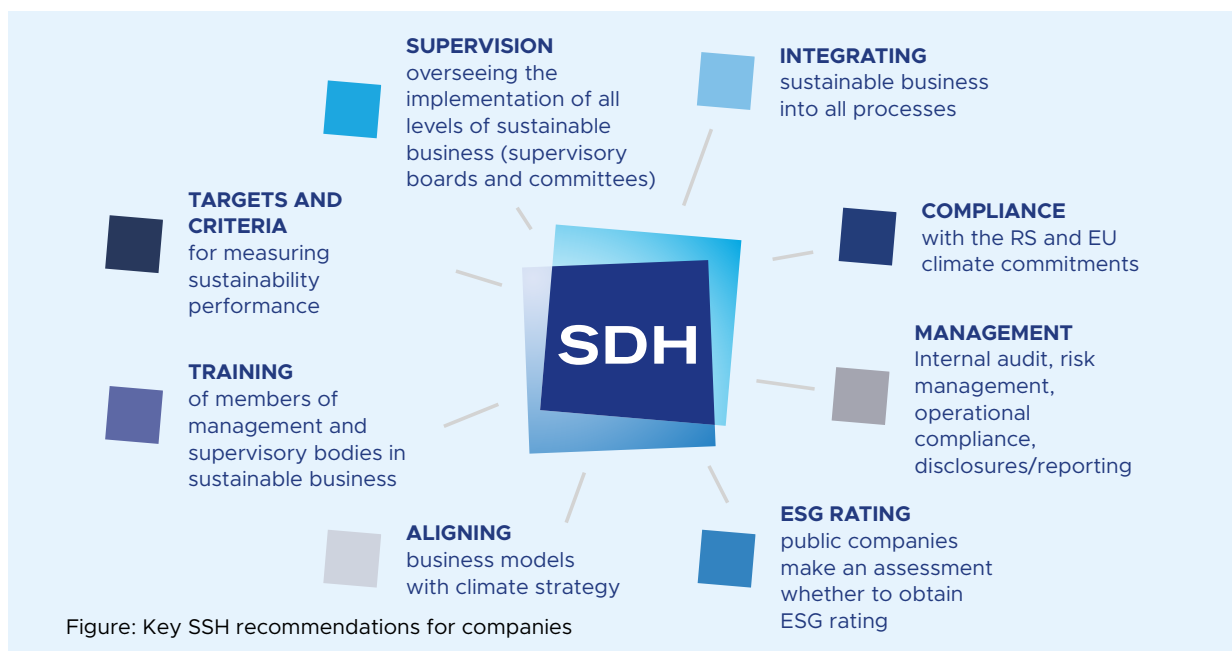
SSH considers success to be achieved when companies deliver the financial performance expected by the owner, while delivering on all three aspects and objectives of sustainable business.

SOEs are an important and a visible stakeholder of the Slovenian economy which is why it is of paramount importance that all aspects of sustainable business (environmental, social and corporate governance, or ESG) are included in their strategic and development plans. Decisions taken at EU and national level, regulatory trends and the shift of capital flows from unsustainable to sustainable companies are encouraging more and more companies to manage sustainability in a responsible and integrated manner. Companies must be aware of both the business opportunities associated with the transition to sustainable business, and particularly to a low-carbon economy as well as the risks which are manifold and not yet visible in the markets.

Accordingly, management and supervisory bodies are responsible for the long-term resilience of the company in the business environment, with climate change being one of the important factors for action. One of their key responsibilities therefore to establish effective management of climate risks and opportunities.

SSH has so far undertaken several activities to promote the sustainable performance of companies:

- it has adopted comprehensive **recommendations on corporate sustainability** and on **observance for human rights in business**, which set higher standards in this area;
- SSH has improved the Governance Code, supplementing it with **non-financial reporting** (reporting on sustainable business which is an upgrade of the statutory requirements);
- the topic of sustainable business has been a particular focus on the agenda of **periodic meetings held with companies** and has also been addressed in several **training sessions**;
- SSH has included **qualitative sustainability targets** in the Annual Asset Management Plan (AAMP) for some individual companies;
- AAMP 2022 sets out expectations for the largest 20 companies to **measure their carbon footprint** under Scopes 1 and 2 of the GHG Protocol, and to develop **targets and plans for corporate decarbonisation** (2025 and 2030 targets and 2050 ambition);
- at the end of 2019, as regards the largest portfolio companies (top 20 companies), SSH started monitoring data referred to in additional **criteria for measuring performance of SOEs** and included a set of additional sustainability indicators;
- SSH has developed **non-financial indicators at portfolio level**, namely carbon footprint, investment in staff development and gender diversity of management and supervisory bodies.



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

Good corporate governance deals with establishing and putting in place efficient mechanisms which aim to achieve long-term corporate value, financial and sustainable performance as well as other corporate objectives. These objectives can be achieved by understanding and considering and balancing the interest between all key stakeholders and involving them both at the strategic level as well as at the operational level of major business decision-making.

- The company's management and supervisory bodies are accountable to shareholders and company members for delivering long-term value to the company. It is their duty to ensure that sustainable business, which today is viewed as "conditio sine qua non" for the long-term viability of a company, is a strategic priority and that it is integrated in all business processes and systems for managing risks and opportunities throughout the organisation.
- There must be a sufficient degree of diversity among the members of management and supervisory bodies, which places a particular emphasis on the relevant competences, to enable them to have effective discussions and to take quality decisions on an informed basis.
- SOEs must identify the most effective way to integrate all aspects of sustainability into their corporate governance system (in which regard, strategy commissions, nomination committees, audit committees, risk committees and other committees functioning within supervisory bodies play an important role).
- It is the duty of supervisory bodies to include criteria for measuring the sustainability performance in the remuneration system to reward management bodies, in addition to performing an assessment of a short, medium and long-term adequacy of sustainability performance management.
- Management and supervisory bodies should ensure that an appropriate incentive system is put in place to enhance long-term sustainable performance of the company.
- It is the responsibility of management and supervisory bodies that important sustainability risks, opportunities and strategic decisions are consistently and transparently disclosed to all stakeholders, especially to investors and regulators. These disclosures are presented in semi-annual, quarterly and annual reports (business reports, financial reports, investor conferences, etc.)
- Transparency and quality reporting are essential to understanding how companies are achieving their objectives and creating sustainable value. It is important that reporting is consistent with selected international reporting frameworks and that information is brief, relevant, balanced, comparable over time and forward-looking.

9.1 GHG emissions of the largest SSH portfolio companies in 2021

The largest companies of the SSH asset management portfolio have provided GHG emissions calculations according to the GHG Protocol, in line with SSH's expectations as expressed in the AAMP 2022. Greenhouse gas emissions are the main driver of increasing global climate change and are therefore a major focus of policies, regulations, business models and technological responses to limit climate change.

The 20 largest companies by book value of capital under management are included in this report, with the addition of two important manufacturing companies. These companies represent 98% of the book value of capital under SSH's management.

All significant greenhouse gases are reported in metric tonnes of CO₂ equivalent (tCO₂e) according to the International Greenhouse Gas Protocol (GHG): Scope 1, Scope 2 and Scope 3. The table shows the GHG emissions (in tCO₂e) for Scope 1: direct emissions from own activities and Scope 2: indirect emissions from energy consumption. Scope 3 is not yet foreseen to be included in the 2021 reporting, but some companies have already provided partial data with regard to Scope 3.

A distinctive feature of the SSH portfolio is that the Energy pillar dominates in terms of emissions, within which the HSE (mainly due to TEŠ) contributed 84.5% of the total emissions of the SSH portfolio in 2021.

The footprint varies considerably across pillars, with large differences due to different activities within the pillars themselves. As this is the first measurement of its kind, it is also important to take into account that the methodology is not (yet) uniform across companies, for some companies the data are estimated on the basis of specific emissions (per unit of products). For this reason, the data in this report are presented at the level of pillars.

In addition to HSE, some manufacturing and electricity distribution companies have a high relative footprint, i.e. footprint in relation to capital under management. Due to HSE and the electricity distribution companies, the vast majority of total emissions are realised in the Energy pillar and, as expected, the least in the Finance pillar.

The absolute total emissions of the largest portfolio companies under the management of SSH were lower in 2021 than in the previous year, due to lower emissions from the Energy pillar, in particular lower emissions from HSE. The Economy and Tourism pillar also recorded lower emissions in 2021, while the other two pillars reported slightly higher emissions.

With the exception of the transport pillar, relative emissions, measured as emissions per EUR 1 million of capital under management, have decreased in the other pillars and at the level of the overall portfolio in 2021.

Table 1: Emissions for 20 largest portfolio companies and 2 significant manufacturing companies, by pillars

PILLAR	Absolute tCO ₂ e emissions, Scope 1 and Scope 2 combined, 2020	Absolute tCO ₂ e emissions, Scope 1 and Scope 2 combined, 2021	Index 2021/2020
TRANSPORT	87,396.8	97,086.6	111.1
ENERGY SECTOR	4,039,502.5	3,733,488.4	92.4
FINANCIAL SECTOR	15,808.8	16,684.1	105.5
ECONOMY AND TOURISM	115,089.1	107,833.1	93.7
TOTAL	4,257,797.2	3,955,092.2	92.9

Table 2: Relative emissions for 20 largest portfolio companies and 2 significant manufacturing companies, by pillars

PILLAR	Emissions tCO ₂ e/mio EUR of capital under management 2020	Emissions tCO ₂ e/mio EUR of capital under management 2021	Index 2021/2020
TRANSPORT	21.7	23.3	107.7
ENERGY SECTOR	1,286.9	1,194.3	92.8
FINANCIAL SECTOR	9.9	9.6	97.2
ECONOMY AND TOURISM	134.2	122.4	91.2
TOTAL	442.1	399.2	90.3



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

10 BUSINESS PERFORMANCE OF COMPANIES OWNED BY RS AND SSH

10.1 Portfolio of RS and SSH capital assets as of 31 December 2021

As of Dec 31, 2021, portfolio of capital assets under SSH's management included 62 active companies (as of 31 December 2020, there were 69 such companies). Of this number, RS held direct ownership stake in 41 companies, while SSH in 10 such companies and both RS and SSH held direct ownership stake in 11 active companies. Pursuant to the entry into force of the Republic of Slovenia Budget for 2018 and 2019 Implementation Act (ZIPRS1819-A), SSH held 11 smaller shareholdings owned by RS (stakes lower than 0.1%) under its management at the end of 2021.

In addition, SSH carried out corporate governance activities for 19 non-active companies (in bankruptcy or in liquidation; there were 26 such companies in the SSH's portfolio as of Dec 31, 2020). Of these companies, RS held direct ownership stake in 13 companies, while SSH only in 5 companies and both RS and SSH held direct ownership stake in one non-active company.

Table: List of active companies in which RS's and SSH's equity interest exceeds 5% and for which the Annual Asset Management Plan is drawn up; as of 31 December 2021*

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

FINANCIAL SECTOR			
D. S. U., d. o. o.	100.00		100.00
DTK MURKA, družba tveganega kapitala, d. o. o.	49.00		49.00
NLB, d. d.	25.00		25.00
SAVA RE, d. d.	13.89	17.68	31.57
SID BANKA, d. d., Ljubljana	99.41		99.41
ZAVAROVALNICA TRIGLAV, d. d.**	34.48	28.09	62.57
TOURISM AND ECONOMY			
ADRIA, d. o. o.		11.74	11.74
A. L. P. PECA, d. o. o.	9.09		9.09
BODOČNOST MARIBOR, d. o. o.	77.52		77.52
CASINO BLEDE, d. d.		33.75	33.75
CASINO Portorož, d. d.		9.46	9.46
CENTER ZA AVTOHTONE SORTE EMEN, d.o.o.	100.00		100.00
CETIS, d. d.		7.47	7.47
CINKARNA Celje, d. d.		11.50	11.50
CSS, d. o. o.	97.96		97.96
ELEKTROOPTIKA, d. d.	0.01	70.48	70.49
HIT, d. d., Nova Gorica		20.00	20.00
KOTO, d. o. o.	66.23		66.23
KRKA, d. d., Novo mesto	7.22	9.00	16.22
LOTERIJA SLOVENIJE, d. d.		15.00	15.00
POMGRAD – VGP, d. d.	25.01		25.01
PS ZA AVTO, d. o. o., Ljubljana		90.00	90.00
SAVA, d. d.		18.69	18.69
SIJ, d. d.	25.00		25.00
STUDENTENHEIM KOROTAN GMBH	100.00		100.00
TELEKOM SLOVENIJE, d. d.	62.54	4.25	66.80
TERME OLIMIA, d. d.	43.26	4.01	47.27
UNIOR, d. d.		39.43	39.43
URADNI LIST REPUBLIKE SLOVENIJE, d. o. o.	100.00		100.00
VGP, d. d.	25.00		25.00
VGP DRAVA Ptuj, d. o. o.	25.00		25.00
VGP Novo mesto, d. d.	25.00		25.00

Note:

*The lists does not include assets acquired in the SSH's ownership pursuant to the Inheritance Act.

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

10.2 Value and structure of portfolio under management

In 2021, the book value of the RS and SSH equity holdings increased slightly to amount to €10.3 billion at the end of the year, up by €0.4 billion from €9.9 billion at the end of 2020. The change in value is mainly due to the ongoing operations of the companies under SSH management, as no significant sales or acquisitions of equity investments took place in 2021.

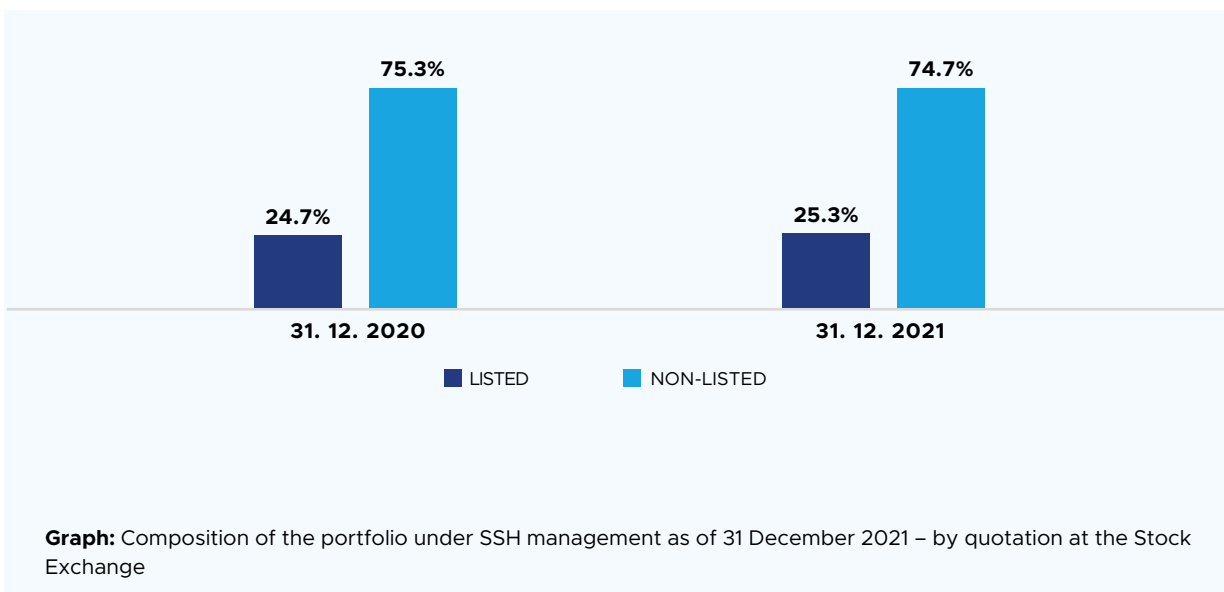
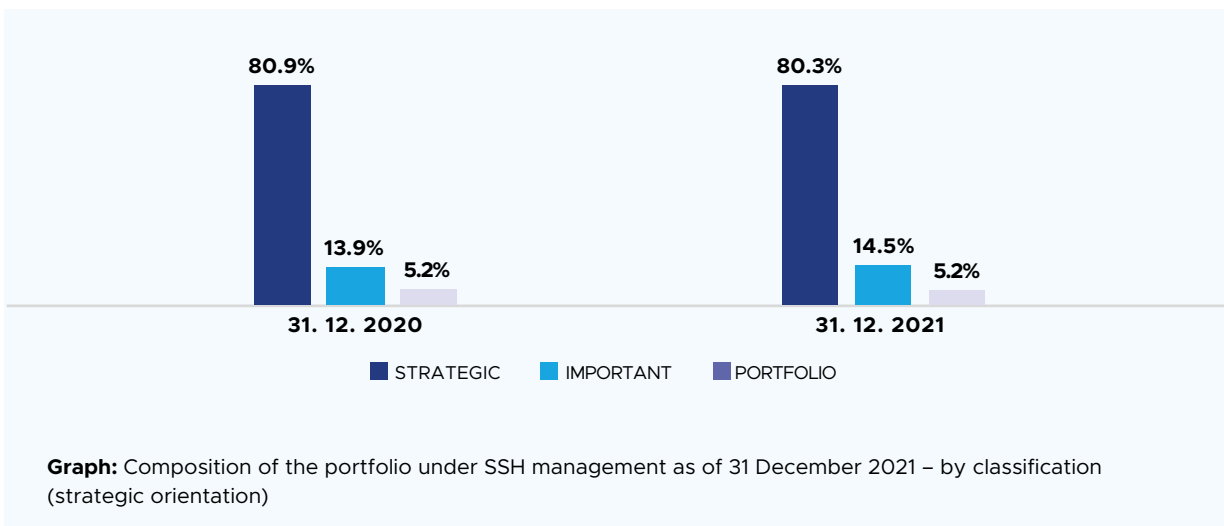
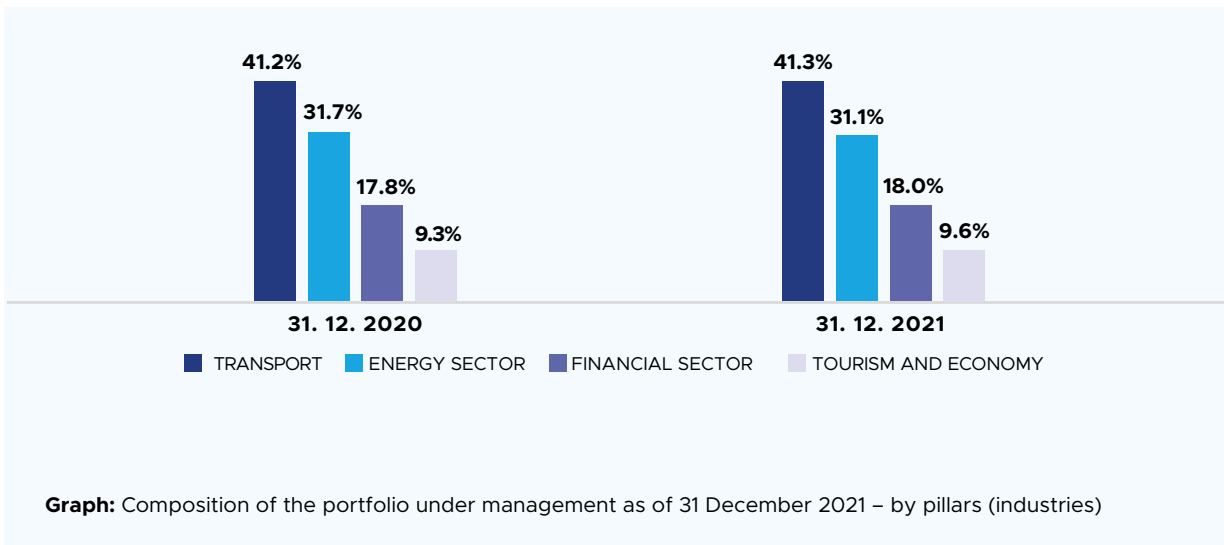
There were no major changes in the order of the size of the companies; among the top ten largest companies under SSH management, Zavarovalnica Triglav overtook Slovenske železnice in terms of the value of its equity holdings.

Table: Top 10 assets held by RS and SSH by book value of equity stake as of 31 December 2021

Company	Pillar	Classification	RS and SSH shareholding as of 31 December 2021	Book-value of assets owned by RS+ SSH as of 31 December 2021 (in EUR million)	Share in total portfolio
DARS, D. D.	TRANSPORT	STRATEGIC	100.00%	3,042	29.5%
GEN GROUP	ENERGY SECTOR	STRATEGIC	100.00%	1,006	9.8%
HSE GROUP	ENERGY SECTOR	STRATEGIC	100.00%	817	7.9%
ZAVAROVALNICA TRIGLAV GROUP	FINANCIAL SECTOR	STRATEGIC	62.57%	584	5.7%
SŽ GROUP	TRANSPORT	STRATEGIC	100.00%	576	5.6%
NLB GROUP	FINANCIAL SECTOR	IMPORTANT	25.00%	554	5.4%
SID BANKA, D. D. (Ljubljana)	FINANCIAL SECTOR	STRATEGIC	99.41%	489	4.7%
TELEKOM SLOVENIJE GROUP	ECONOMY AND TOURISM	PORTFOLIO	66.80%	401	3.9%
POŠTA SLOVENIJE GROUP	TRANSPORT	STRATEGIC	100.00%	341	3.3%
KRKA GROUP	ECONOMY AND TOURISM	IMPORTANT	16.21%	311	3.0%
TOTAL TOP 10				8,120	78.8%
Other				2,179	21.2%
TOTAL PORTFOLIO				10,300	100.0%

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

The Transport and Energy pillars account for the bulk of capital assets, together accounting for more than 72%. The structure by pillar did change significantly in 2021. There were also no significant changes in the structure by classification and listing.



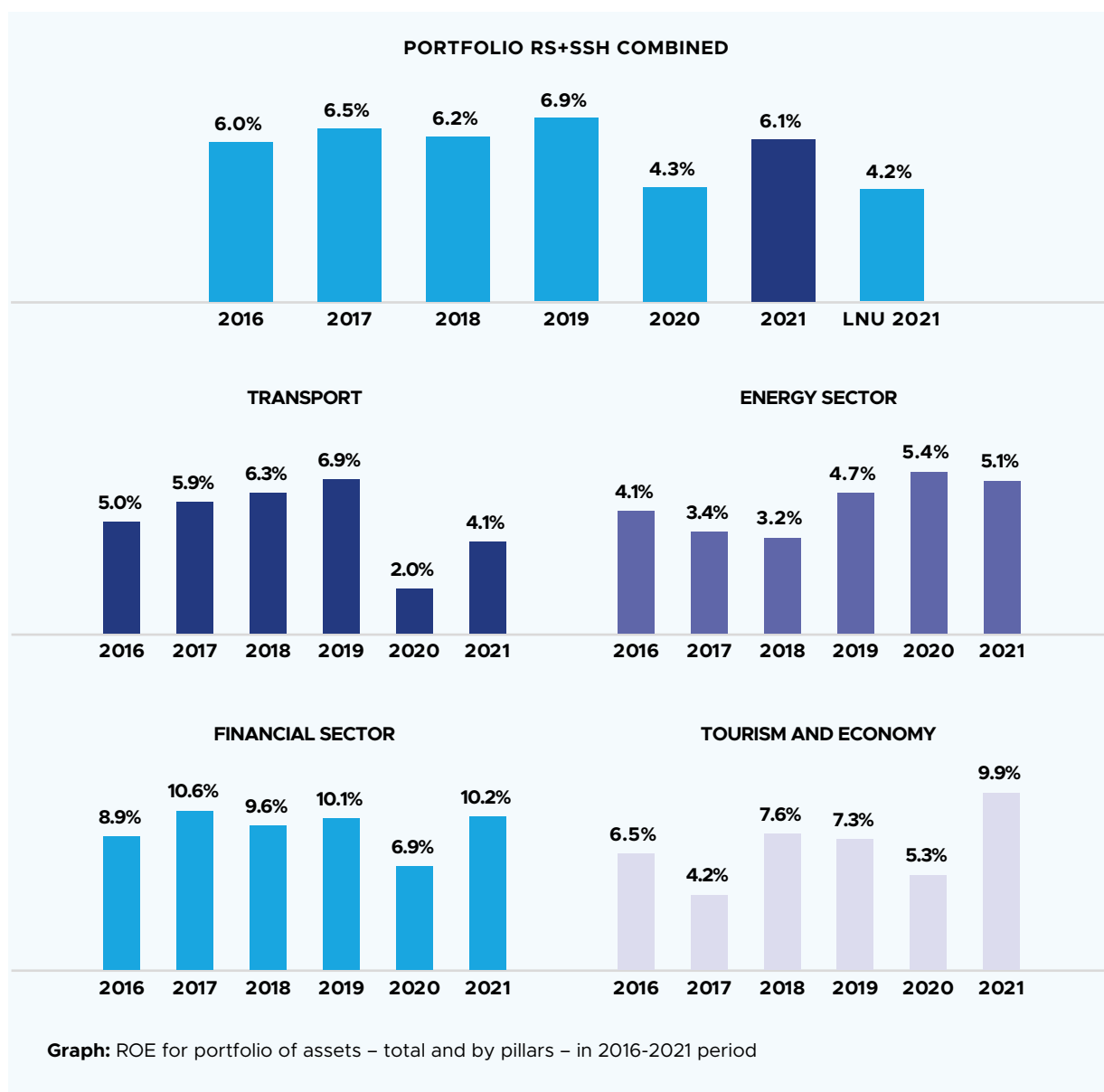
10.3 Business performance of portfolio companies

After a fall in 2020 due to the COVID-19 crisis, the return on equity (ROE) of the total portfolio managed by SSH increased significantly in 2021, and amounted to 6.1%, up by 1.8 percentage points from 4.3% in 2020.

In 2021, also thanks to the various anti-COVID measures, economic activity recovered better than expected, which is reflected in significantly better

results than achieved in the previous year.

Most of the largest companies in the SSH portfolio performed well and above the AAMP targets in 2021. HSE also performed well, mainly due to the impact of the settlement with GE, otherwise HSE would have recorded a negative result in 2021.



¹ The 2021 ROE calculation excludes the one-off impact at HSE on account of the settlement with GE and the impairments in TEŠ due to Premogovnik Velenje (PV), while 2020 calculation excludes the one-off items of exceptional impairments at HSE and the one-off positive effects at NLB due to the acquisition of Komercijalna banka Beograd. Having taken into account the one-off effects mentioned above, ROE would amount to 6.7% in 2021, while it would have amounted to 2.2% in 2020.

All pillars, except **Energy sector**, show a significantly better performance in 2021 than in 2020. The **Transport pillar** shows the biggest relative improvement in 2021, after having been hit the hardest in the previous year by the effects of the COVID-19 crisis.

Despite lower ROE than achieved in the previous year, the results of the 2021 **Energy pillar** can be assessed as favourable, while the results of the **Finance and Tourism & Economy pillars** can be regarded as very good.

Among individual companies or groups, Krka, the two insurance companies, Petrol, NLB and GEN stood out in terms of 2021 results.

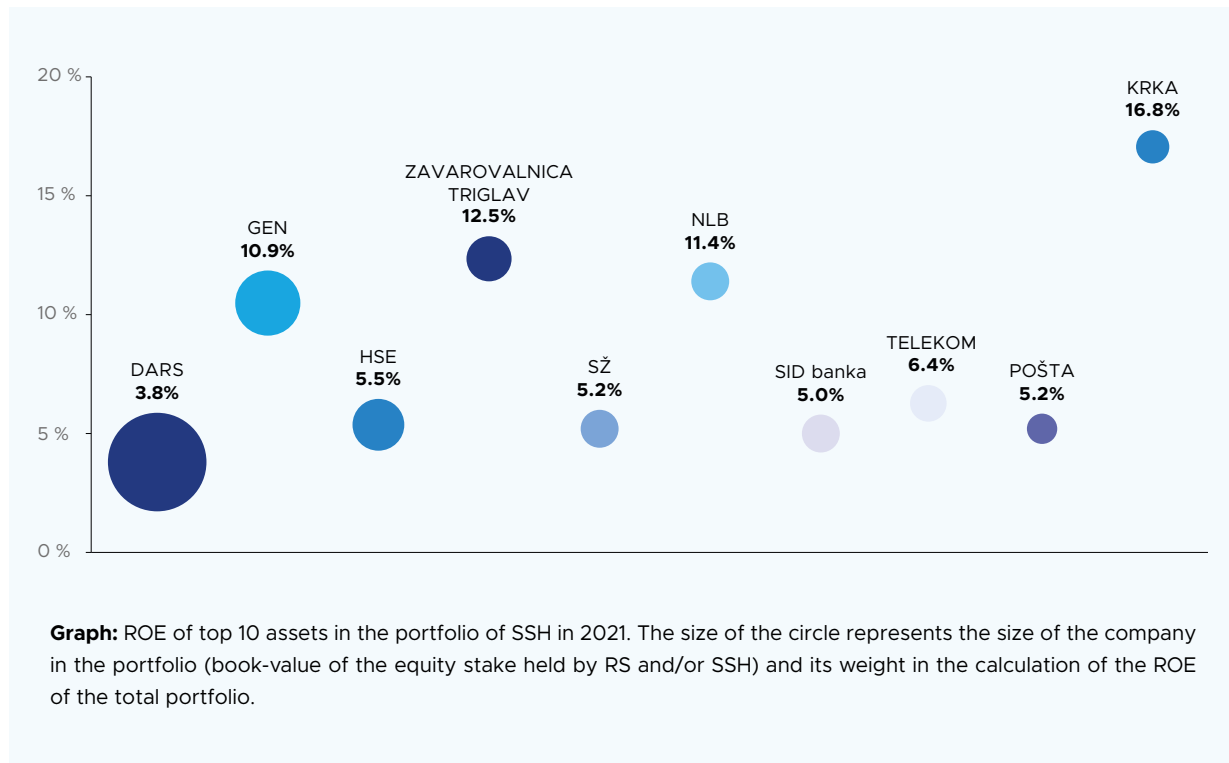


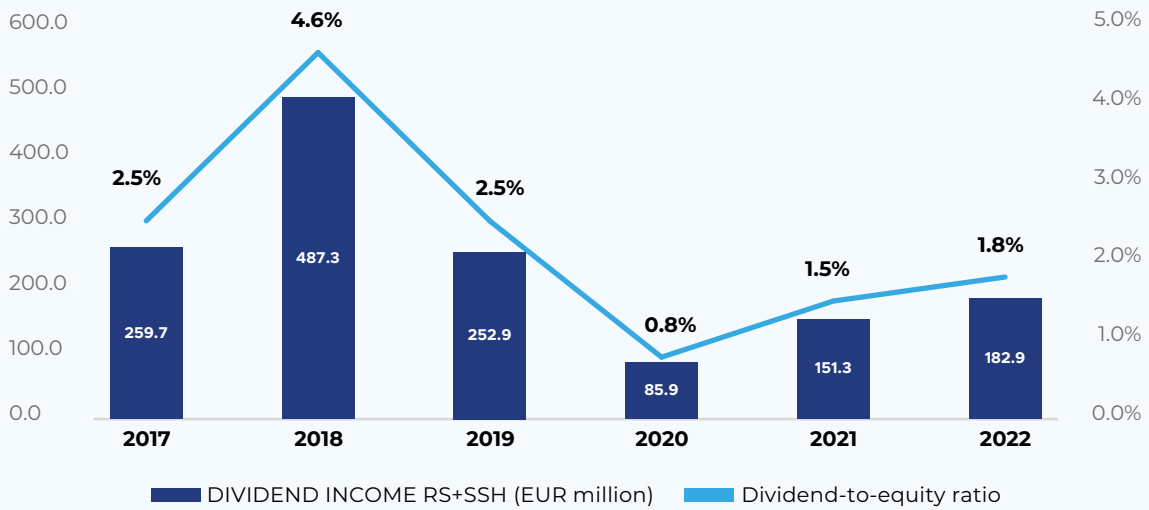
Table: ROE 2021 and dividends paid out for FY 2021 as estimated by 31 October 2022 for five largest companies in an individual pillar of assets under management

Pillar, Company (as of 31 October 2022)	Ownership stake RS+SSH	Book value of stake RS+SSH (EUR)	Share in total portfolio	ROE 2020	ROE 2021	Dividends for RS and SSH for FY 2021 (EUR)
TRANSPORT						
DARS, D. D.	100.00%	3,041,652,197	29.53%	2.06%	3.78%	0
SŽ GROUP	100.00%	576,332,485	5.60%	2.00%	5.21%	0
POŠTA SLOVENIJE GROUP	100.00%	340,658,661	3.31%	1.58%	5.23%	5,000,000
LUKA KOPER GROUP	62.13%	290,114,351	2.82%	7.44%	6.99%	9,915,557
KZPS, D. O. O.	100.00%	4,940,951	0.05%	-78.28%	-85.26%	
TOTAL TOP 5 TRANSPORT		4,253,698,645	41.3%			14,915,557
ENERGY SECTOR						
GEN GROUP	100.00%	1,005,911,231	9.77%	7.24%	10.88%	
HSE GROUP	100.00%	817,033,848	7.93%	-18.75%	5.47%	
ELEKTRO LJUBLJANA, D. D.	79.80%	275,373,034	2.67%	3.41%	4.15%	1,874,915
ELEKTRO MARIBOR GROUP	79.86%	246,052,798	2.39%	3.58%	3.00%	1,597,740
PETROL GROUP	23.50%	213,514,953	2.07%	8.83%	14.35%	14,706,450
TOTAL TOP 5 ENERGY SECTOR		2,557,885,865	24.8%			18,179,105
FINANCIAL SECTOR						
ZAVAROVALNICA TRIGLAV GROUP	62.57%	583,801,605	5.67%	8.90%	12.50%	52,636,803
NLB GROUP	25.00%	554,030,750	5.38%	8.11%	11.42%	25,000,005
SID BANKA, D. D., LJUBLJANA	99.41%	488,860,155	4.75%	1.82%	4.96%	
ZAVAROVALNA SKUPINA SAVA	31.57%	159,139,131	1.55%	13.30%	15.80%	8,154,479
D. S. U., D. O. O.	100.00%	70,867,104	0.69%	4.84%	6.00%	
TOTAL TOP 5 FINANCIAL SECTOR		1,856,698,745	18.0%			85,791,287
ECONOMY AND TOURISM						
TELEKOM SLOVENIJE GROUP	66.80%	401,060,889	3.89%	4.21%	6.36%	19,644,336
KRKA GROUP	16.21%	311,093,274	3.02%	16.90%	16.79%	29,929,063
SIJ GROUP	25.00%	99,999,900	0.97%	-12.47%	7.48%	5,398,300
UNIOR GROUP	39.43%	69,517,342	0.67%	-1.31%	6.54%	
CINKARNA CELJE, D. D., CELJE	11.50%	21,876,673	0.21%	11.01%	18.25%	2,964,176
TOTAL TOP 5 ECONOMY AND TOURISM		903,548,077	8.8%			57,935,875
TOTAL TOP 5 ALL PILLARS		9,571,831,332	92.9%			176,821,823
TOTAL RS+SSH PORTFOLIO		10,299,749,601	100.00%			182,942,021

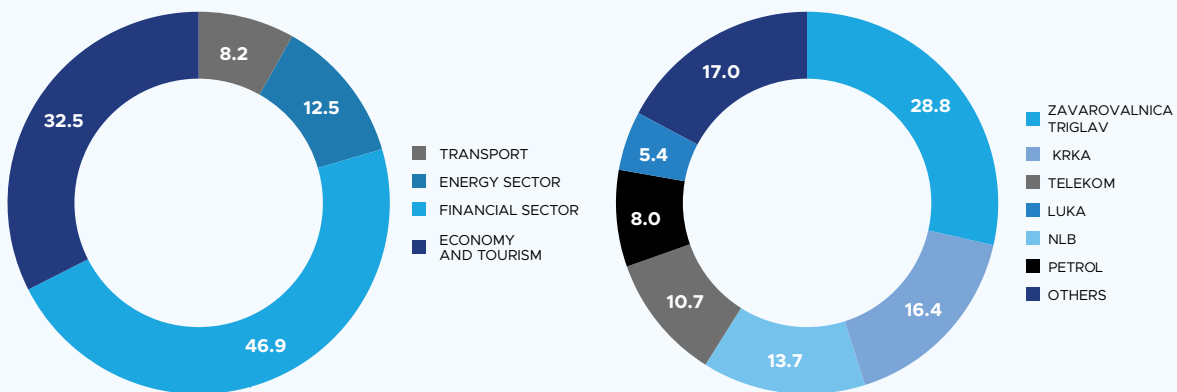
10.4 Dividends

In 2022, the dividend income (FY 2021) will increase significantly and is expected to amount to EUR 182.9 million, which is at the level planned in the AAMP 2021 where it was estimated to amount to EUR 182.8 million. In 2021, dividends paid amounted to EUR 152.3 million. The **Finance pillar** will con-

tribute the highest share of dividends, specifically, 46.9%, followed by the Tourism and Economy pillar with 32.5%, the Energy pillar will contribute 12.5% of total dividend income, and the Transport pillar will contribute 8.2%.



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



Graph: The largest dividend payers from RS and SSH portfolio in 2022 (for FY 2021) - by individual pillars

Graph: The largest dividend payers from RS and SSH portfolio in 2022 (for FY 2021) - by individual companies

Of the individual companies, Zavarovalnica Triglav will pay the largest dividend amount in 2022 (for the financial year 2021), accounting for 28.8% of the total expected dividend income. Zavarovalnica Triglav is followed by Krka, NLB, Telekom, Petrol and Luka Koper. The six largest dividend payers will pay 83% of all dividend pay-outs.

10.5 Summary of criteria for measuring performance of SOEs and information on fulfilment of criteria in 2021

The table below presents an overview of companies which have satisfied two of criteria for measuring performance of SOEs (ROE and EBITDA margin). These criteria were designed at the end of 2020, for FY 2021. As regards companies highlighted in blue, given values re-

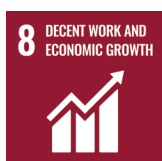
fer to other indicators as explained under the Notes below the Table. The table does not include SOEs for which Annual Asset Management Plan was not prepared (equity stake of minimum value, companies undergoing sale process, etc.).

Table: Attainment of goals on the basis of criteria set (ROE, EBITDA margin) in Annual Asset Management Plan 2021

Pillar, Company	ROE 2021 (in %)		EBITDA margin 2021 (in %)	
	Annual Asset Management Plan	Outcome	Annual Asset Management Plan	Outcome
TRANSPORT				
DARS, d. d.	3.10	3.78	80.30	80.06
KOPP, d. o. o.	0.20	0.32	3.21	2.70
KZPS, d. o. o.	-52.41	-85.26	-5.41	-14.86
LUKA KOPER GROUP	7.10	6.99	27.50	26.23
POŠTA SLOVENIJE GROUP	2.20	5.23	9.50	10.09
SŽ GROUP	5.90	5.21	17.00	16.53
ENERGY SECTOR				
ELEKTRO CELJE GROUP	4.35	4.09	41.17	39.72
ELEKTRO GORENJSKA GROUP	4.22	4.60	47.61	48.25
ELEKTRO LJUBLJANA, d. d.	3.69	4.15	43.77	42.39
ELEKTRO MARIBOR GROUP	4.58	3.00	42.77	39.11
ELEKTRO PRIMORSKA, D. D.	4.12	8.52	44.24	39.12
GEN GROUP	4.94	10.88	4.60	5.17
GEOPLIN GROUP	4.80	11.68	2.20	3.14
HSE GROUP	1.14	5.47	7.56	11.26
NAFTA LENDAVAL GROUP	-2.90	-4.67	2.79	1.06
PETROL GROUP	12.80	14.35	10.20	10.96
PLINHOLD GROUP	1.70	2.16	52.42	40.03
FINANCIAL SECTOR				
D. S. U., d. o. o.	5.05	6.00	64.00	64.65
NLB GROUP	6.00	11.42	60.00	62.28
SID BANKA, d. d.	0.60	4.96	33.00	60.97
SAVA INSURANCE GROUP	12.00	15.80	95.00	88.30
ZAVAROVALNICA TRIGLAV GROUP	9.00	12.50	95.00	88.90
TOURISM AND ECONOMY				
ADRIA, d. o. o.	3.51	5.22	23.85	26.13
BODOČNOST MARIBOR, d. o. o.	4.58	4.93	4.35	4.85
CETIS GROUP	15.50	14.47	15.00	20.98
CINKARNA CELJE, d. d., CELJE	2.55	18.25	11.98	26.28
CSS, d. o. o.	1.00	-0.76	3.00	2.09
HIT GROUP	-11.98	-4.46	8.87	11.87
KOTO, d. o. o.	1.59	8.95	11.83	15.10

KRKA GROUP	12.00	16.79	26.00	29.23
LOTERIJA SLOVENIJE, d. d.	21.50	25.16	6.75	7.42
POMGRAD– VGP, d. d.	2.50	3.08	10.15	7.20
SAVA GROUP	-6.80	2.01	12.50	22.48
SIJ GROUP	0.30	7.48	7.10	10.47
STUDENTENHEIM KOROTAN GMBH	-9.60	-7.08	-8.45	1.74
TELEKOM SLOVENIJE GROUP	5.50	6.36	31.00	33.78
TERME OLIMIA GROUP	5.25	11.71	25.01	33.68
UNIOR GROUP	3.43	6.54	11.37	11.43
URADNI LIST REPUBLIKE SLOVENIJE, d. o. o.	0.10	4.93	1.80	15.63
VGP, d. d.	-9.10	-36.95	1.50	-6.33
VGP DRAVA Ptuj, d. o. o.	17.00	19.67	7.00	6.53
VGP NOVO MESTO, d. d.	7.75	7.96	15.00	17.48

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



SSH's vision foresees it a success when portfolio companies will deliver financial performance as expected by their owner while simultaneously delivering on all three aspects and objectives of sustainable business. This objective is pursued through the recommendations and expectations stated in each year's Annual Asset Management Plan and other governance related instruments.



METHODOLOGICAL, LEGAL AND OTHER NOTES

11 METHODOLOGICAL, LEGAL AND OTHER NOTES

Legal basis

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

Operation performance data for SOEs

For companies, which draw up consolidated statements, data at the Group level have been taken into account., except in cases specifically indicated in Notes to Tables. All audited financial statements have been taken into account where available at the time of writing this Report.

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

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

- companies in bankruptcy or liquidation (a common list of all such companies is published on the SSH's web site);
- companies in which the equity stake of SSH or RS is lower than 1%;
- assets for which a Takeover Bid has been accepted or a Sale and Purchase Agreement has been concluded or any other written agreement has been entered into but it is not yet closed;
- capital assets acquired by the RS exclusively on the basis of the Inheritance Act (the list is published on the SSH website), and

for other companies of less significant importance:

- Savaprojekt d. d., with RS ownership stake amounting to 3.47% and which SSH strives to sell;
- A. L. P. Peca, d. o. o. (micro company), with RS ownership stake amounting to 9.09%; SSH strives to sell its equity interest under management.

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

Definitions regarding main financial indicators used in the Annual Report

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

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

Other Notes

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

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List of acronyms and glossary of terms

5G – In telecommunications, 5G is the fifth-generation technology standard

4G – the fourth generation of mobile broadband technology

ACEA – Agency for Communication Networks and Services of Republic of Slovenia

AVK – Slovenian Competition Protection Agency

GDP – gross domestic product

BON 2020 – a voucher to remedy the effects of the pandemic in tourism (to improve the economic situation of tourism consumption)

BON 2021 – a voucher to remedy the consequences of the pandemic in the hospitality, tourism, sport and culture sectors, with a view to improving the economic situation by stimulating consumption in the hospitality, tourism, sport and culture sectors

BoS – Bank of Slovenia

CAGR – compound annual growth rate

CAPEX – capital expenditures

CB – Central Bank

CET1 – common equity tier 1

CIR – cost-to-income ratio

COVID-19 – a disease caused by SARS-CoV-2 virus

CO2 – carbon dioxide

CROBEX index – Zagreb Stock Exchange Equity Index

PS Avče – Avče Pump-Storage Power Plant

d. d. (PLC) – public limited company

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

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

DARS – Motorway Company of Republic of Slovenia

DEM – Dravske elektrarne Maribor, d. o. o.

DTK – venture capital companies

EBIT – Earnings before interest and taxes

EBITDA – Earnings before Interest, Taxes, Depreciation and Amortisation

EBRD – European Bank for Reconstruction and Development

ECB – European Central Bank

EDC – electricity distribution company

EE – electricity

EGF – European guarantee fund

ERP – Enterprise resource planning

ESG – environment, social and governance criteria

ESM – European Stability Mechanism

ECESA – Expert Committee for Economic and Social Affairs

EU – European Union

EUR – Euro currency

EURIBOR – Euro Interbank Offered Rate (interbank borrowing rate, the basis on which banks set interest rates on loans, deposits and savings)

FED – Federal Reserve System (American Central Bank)

FIHO – Fundacija za financiranje invalidskih in humanitarnih organizacij, or the Foundation for Funding Disability and Humanitarian Organizations

FOS – Freedom of service

FŠO – Fundacija za financiranje športnih organizacij, or the Foundation for Funding Sports Organisations of Slovenia

GB - a unit of measure for the amount of data in computing

GDR – Global Depositary Receipts

GHG – Greenhouse Gas Protocol (standards for the carbon footprint of organisations, products and services and carbon neutrality)

GJS – service of general economic interest

GMBH – Gesellschaft mit beschränkter Haftung / d. o. o., limited liability company

GME – Gestore del Mercato Elettrico s.p.a. (Energy Exchange in Italy)

GWh – Gigawatt hours

HPP – hydro power plant

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

HICP – Harmonised Index of Consumer Prices Dimensions

HSE – Holding slovenske elektrarne

ICT – Information and communication technology

IPTV – Internet Protocol television (the delivery of television content over Internet Protocol (IP) networks) etc. – and similar

ICT – Information and communication technology

NEK2 – the second unit of Krško Nuclear Power Plant

SEE - Southeast Europe

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

KIS – the Agricultural Institute of Slovenia

km – kilometre

Code – Corporate Governance Code for SOEs

KOPP – Javno podjetje Koprška pristaniška pilotaža d. o. o.

KZPS – Kontrola zračnega prometa Slovenije, d. o. o., or Slovenia Control Limited

LLC – Limited liability company Limited liability company)

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

LTE – Long Term Evolution (a standard for mobile telecommunications defined by 3GPP)

MAIFI – Momentary average interruption frequency index (the average frequency parameter of short power interruptions in the system)

MoF – Ministry of Finance

MEDT – Ministry of Economic Development and Technology.

mio – million

MKGP – Ministry of Agriculture, Forestry and Food

MOP – Ministry of the Environment and Spatial Planning.

billion – bn

MR stations – metering and regulation stations

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

MSCI World – an index that tracks and measures the performance of 4,500 companies based in 23 countries, including Australia, the UK, the US, Japan and Hong Kong. The index covers large and medium-sized enterprises, which are described as having a "global" reach

SME – small and medium-sized enterprises

IFRS – International Financial Reporting Standards

MOI – Ministry of Infrastructure

MW – megawatt

MWh – megawatt hour

NEK – Krško Nuclear Power Plant

NECP – National Energy and Climate Plan

NGEU – Next Generation EU

NLB – Nova Ljubljanska banka, d. d.

NPE – nonperforming exposures

NPL – non-performing loan

SB – Supervisory Board

SSH SB – Supervisory Board of Slovenian Sovereign Holding

OE – organisational unit

OECD – Organisation for Economic Cooperation and Development

OPEX – operating expenses

OPS – natural gas transmission system operator

RES – renewable sources of energy

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

PEPP – Pandemic Emergency Purchase Programme

RVT – the recovered-tested-vaccinated rule in the face of the COVID-19 pandemic

Policy – Asset Management Policy of SSH

ROA – Return on assets

ROE – return on equity

RO-RO terminal – roll-on/roll-off (wheeled freight terminal)

RS – Republic of Slovenia

RŽV – Žirovski vrh Mine

SAIDI - the System Average Interruption Duration Index

SAIFI – System average interruption duration index

SARS-CoV-19 – corona virus which causes COVID-19 the coronavirus disease

SAŠA – Savinjsko - šaleška region is part of the Savinjska statistical region

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

SCR – Solvency capital requirement

SSH – Slovenian Sovereign Holding

SIJ - Slovenska industrija jekla d. d.

PIE – public interest entity

SLOP2G – the first Slovenian green hydrogen infrastructure project

SOD – Slovenska odškodninska družba, d. d.

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

SPA – Sale and Purchase Agreement

SPC Ptuj – Selekcijnsko poskusni center Ptuj, or Ptuj Selection and Testing Centre

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

STOXX Europe 600 - benchmark index of European equities from 17 countries, created by STOXX Ltd.

Strategy – State Assets Management Strategy

STH – Slovenian Tourism Holding

SURS – Statistical Office of the Republic of Slovenia

SŽ – Slovenske železnice, d. o. o.

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

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

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

TEŠ – Termoelektrarna Šoštanj, d. o. o.

TLTRO – targeted long term refinancing operations (targeted long-term funding operations; euro system operations financing credit institutions)

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

TWh – TheraWatt hour

IMAD – Institute of Macroeconomic Analysis and Development

VGP – water utility company

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

VOIP – Voice over Internet Protocol

ZBan-2 - Banking Act

USA – the United States of America.

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

ZDTK – Venture Capital Companies Act

ZGD-1 – Companies Act

ZGD-1K - the Act Amending Companies Act

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

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

ZIS – Gaming Act

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

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

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

ZNS – Slovenian Directors' Association

ZPre-1 – Takeovers Act

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

ZPPOGD – the Act Governing the Remuneration of Managers of Companies with Majority Ownership held by the Republic of Slovenia or Self-Governing Local Communities (Official Gazette RS, No. 21/2010)

ZSDH-1 – Slovenian Sovereign Holding Act

ZSOS – Slovenian Compensation Fund Act

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

ZTFI – Financial Instruments Market Act

ZZavar-1 – Insurance Act

Due to the extensive nature of the document, the abbreviated version of the Annual Report - Management of Capital Assets of the Republic of Slovenia and Slovenian Sovereign Holding for 2021 has been translated, excluding the original Chapters 11 - Company Details for 20 Largest SOEs, and Chapter 12 - Company Details of Other Companies with Direct Ownership Stake by the Republic of Slovenia and Slovenian Sovereign Holding. In spite of its abbreviated nature, the English version includes all the most significant highlights and information from the original Annual Report in Slovenian. The original text of this document is written in Slovenian; in case of any doubt or misunderstanding, the Slovenian text shall therefore prevail.

Limitation on Liability

The Annual Report - Management of Capital Assets of RS and SSH in 2021 (hereinafter referred to as; the "Document") is produced in accordance with Article 67, Paragraph 1 of ZSDH-1. The Document is addressed to the National Assembly of the Republic of Slovenia, and in accordance with Article 67, Paragraph 1 of ZSDH-1, the Document is also published on the website of SSH, enabling the Document to be accessed by the general public. The Document was developed in accordance with the principle of conscientiousness and fairness, by applying the necessary expertise and in accordance with the principle of professional diligence. The information on companies and Groups of companies used in the document were obtained from publicly accessible data bases and directly from companies. Any potential indicative value assessments are stated for informational purposes only and are not in any way binding neither they anticipate any action or decision on the part of SSH. The user of the Document agrees not to use the Document as a substitution for an independent and professional research, analysis or financial or expert assessment. Users of information from this Document are advised by SSH to verify the data with other suitable sources and to consult with an expert of a relevant discipline about any investment decision into a company referred to in the document or in regard to any other action. SSH has strived to ensure the accuracy and up-to-date status of data with all necessary prudence, however, it gives no assurances with regard to the completeness, accuracy, regularity, suitability, reliability of data or other assurances with regard to data or with regard to their use; data are such as they are and such as they are accessible. SSH, RS, companies with state capital assets and their employees shall not be held responsible by users for any damage or other consequences arising from this Document.

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SLOVENSKI DRŽAVNI HOLDING, d. d.

**Annual Report - Management of Capital Assets of RS and SSH in 2021
SSH's Report to the National Assembly of RS (Abbreviated version)**

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English translation and proofreading: Maja Vitežnik, David Lillie

Design and lay-out: Publicis Adriatic

Photos: SSH and individual SOEs

Date of issue: Ljubljana, October 2022

