ANNUAL ASSET MANAGEMENT PLAN FOR 2024

27 November 2023

Chapter II - SPECIAL SECTION: STRICTLY CONFIDENTIAL

SLOVENSKI DRŽAVNI HOLDING, d. d.

The Republic of Slovenia is an important owner of enterprises in Slovenia.

As such, it has an extraordinary responsibility to be an active and professional owner.

The overreaching objective of state-owned companies managed by SSH is effective, profitable, economical operation, while creating value. Often, this includes the effective implementation of strategic and development objectives, often carried out within the scope of individual services of general economic interest. These aims must be achieved in a sustainable manner, with a responsible approach towards society and the natural environment, underpinned by responsible governance.

ABBREVIATIONS AND DEFINITIONS

AGENRS: is the Energy Agency.
AVK: is the Slovenian Competition Protection Agency.
ISA: is the Insurance Supervision Agency.
AKOS: is the Agency for Communication Networks and Services of Republic of Slovenia.
BoS: is the Bank of Slovenia.
Borzen: is Borzen, operater trga z elektriko, d. o. o., or in English, the Power Market Operator.
CAGR: is Compound Annual Growth Rate.
CSRD: is the Corporate Sustainability Reporting Directive.
CS3D: is the Corporate Sustainability Due Diligence Directive.
State-owned enterprise (SOE): is a company in which capital assets are directly held by SSH or the Republic of Slovenia, and the manager of these capital assets is SSH. The term SOE must be differentiated from the term “state capital assets” which is defined by ZSDH–1 as a financial asset owned by the Republic of Slovenia, KAD or SSH.
DRSI: is the Slovenian Infrastructure Agency.
DSU: is D. S. U., družba za svetovanje in upravljanje, d. o. o.
DTK: is venture capital company.
DRSV: is the Slovenian Water Agency.
National Assembly of RS: is the National Assembly of the Republic of Slovenia.
EBRD: is the European Bank for Reconstruction and Development.
BAMC: is the Bad Asset Management Company.
ECB: is the European Central Bank.
EDC: is the electricity distribution company.
EE : is electricity.
EPS: is the Electric Power System.
ELES: is ELES, sistemski operater prenosnega elektroenergetskega omrežja, d. o. o.., the Electricity Transmission System Operator.
EIB: is the European Investment Bank.
EC: is the European Commission.
ESG: is Environmental, Social, and Governance factors, or sustainability factors.
ESRS: refers to European Sustainability Reporting Standards.
EU: is the European Union.
FED: is the Federal Reserve Board – American central bank.
GJS : is a service of general economic interest.
IMF: is the International Monetary Fund.
KAD: is the Pension Fund Management.
SSH Code or CGCSOE: is the Corporate Governance Code for SOEs, revised in June 2022.
AAMP: is the Annual Asset Management Plan developed every year by SSH in accordance with Article 30 of ZSDH–1.
Criteria: **is** the Criteria for Measuring Performance of SOEs, the SSH’s legal document which, as a rule, is updated every year simultaneously with AAMP. This document defines the criteria and the indicators for measuring the performance of SOEs.
MLFSAEO: is Ministry of Labour, Family, Social Affairs and Equal Opportunities.
MF: is the Ministry of Finance.
METS: is the Ministry of the Economy, Tourism and Sport.
MPA: is the Ministry of Public Administration.
MAFF: is the Ministry of Agriculture, Forestry and Food.
MC: is the Ministry of Culture.
MNRSP: is the Ministry of Natural Resources and Spatial Planning.
MI: is the Ministry of the Interior.
MECE: is the Ministry of the Environment, Climate, and Energy.
MORS: is the Ministry of Defence of the of Republic of Slovenia.
SME: is small and medium-sized enterprises.
IFRS: is International Financial Reporting Standards.
MHESI: is the Ministry of Higher Education, Science and Innovation.
MFEA is the Ministry of Foreign and European Affairs.
MoI: is the Ministry of Infrastructure.
Assets: the concept covers capital assets, claims and tangible assets.
NECP: is the National Energy Climate Plan.
OECD: is the Organisation for Economic Cooperation and Development.

RES: is the Renewable Sources of Energy.
SSH Asset Management Policy: is the SSH Asset Management Policy adopted in June 2023.
Important assets: are assets whose development function should be kept within the Republic of Slovenia.
Portfolio of Capital Assets or **Capital Assets Portfolio**: the term includes all capital assets held by SSH and RS and managed by SSH.
Portfolio assets: are assets by means of which the Republic of Slovenia strives to attain solely economic goals.
SSH Recommendations and Expectations: is the SSH Recommendations and Expectations adopted in August 2023.
RS: is the Republic of Slovenia.
SODO: is the Electricity Distribution System Operator.
Slovenian Tourism Strategy: is the Slovenian Tourism Strategy 2022 – 2028, adopted by the Government of the Republic of Slovenia on 10 May 2022, based on the Promotion of Tourism Development Act.
State Assets Management Strategy: is the State Assets Management Strategy adopted on 13 July 2015 by the Parliament in the form of the Ordinance On State-Owned Capital Assets Management Strategy (OdSUKND).
Strategic assets: are assets with which the Republic of Slovenia attains strategic and economic goals.
SSH: is Slovenian Sovereign Holding.
RS Group: is RS and its related companies.
SOD: is Slovenska odškodninska družba, d. d., which has been transformed into SSH in accordance with ZSDH–1.
SPS: is the Public Fund of the Republic of Slovenia for Entrepreneurship or shortly, the Slovenian Enterprise Fund.
SURS: is the Statistical Office of Republic of Slovenia.
TEU: is the twenty-foot equivalent unit, a unit for marking the capacity of container ships and container terminals.
MAD: is the Institute of Macroeconomic Analysis and Development.
USD: is American Dollar.
RS Government: is the Government of the Republic of Slovenia.
ZD: is the Inheritance Act (Official Gazette SRS, No. 15/76, et seq.).
USA: is the United States of America.
ZFPPIPP: is the Financial Operations, Insolvency Proceedings, and Compulsory Dissolution Act (Official Gazette of the Republic of Slovenia, No. 13/14, et seq.).
ZGD–1: is the Companies Act (Official Gazette of the Republic of Slovenia, No. 42/06, et seq.).
ZOPNI: is the Confiscation of Assets of Illicit Origin Act (Official Gazette of the Republic of Slovenia, No. 91/11, et seq.).
ZPIZ: is Zavod za pokojninsko in invalidsko zavarovanje, or, in English, Pension and Disability Insurance Institute of Slovenia.
ZPPDFT–2: is the Prevention of Money Laundering and Terrorist Financing Act (Official Gazette of the Republic of Slovenia, No. 48/22, et. seq.).
ZPPSRD: is the Act on the Transfer of Powers, Rights and Liabilities of Slovenian Development Corporation and on the dissolution of Agency of the Republic of Slovenia for Restructuring and Privatisation (Official Gazette of the Republic of Slovenia, No. 50/04).
ZSDH–1: is the Slovenian Sovereign Holding Act (Official Gazette of the Republic of Slovenia, No. 25/14, et seq.).
ZTFI: is the Financial Instruments Market Act (Official Gazette of the Republic of Slovenia, No. 77/18, et seq.).
ZVKSES: is the Protection of Buyers of Apartments and Single Occupancy Buildings Act (Official Gazette of the Republic of Slovenia, No. 18/04, et seq.).
ZZLPPO: is the Act Concluding Ownership Transformation and Privatisation of Legal Entities owned by the Development Corporation of Slovenia (Official Gazette of the Republic of Slovenia, No. 30/98, et. seq.).
ZZNSZP: is the Act on the Provision of Air Navigation Services (Official Gazette of the Republic of Slovenia, No. 101/03, et seq.).
ZZRZI: is the Vocational Rehabilitation and Employment of Persons with Disabilities Act (Official Gazette of the Republic of Slovenia, No. 16/07, et seq.).

INTRODUCTION

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The Annual Asset Management Plan ("AAMP") is composed of the **General Section** and the **Special Section.** The Special Section mainly includes sensitive business data which is why the whole section has been classified as "CONFIDENTIAL", and as such it is not disclosed publicly.

The **General Section of AAMP** briefly introduces the fundamental documents on asset management, in addition to the presentation of legal limitations on asset management, macroeconomic outlook, and industry-specific forecasts. The management of assets concisely details key aspects of the management of: (i) capital assets; (ii) claims; and (iii) tangible assets. The chapter on asset management includes the following elements: (i) the definition of the capital assets portfolio managed by SSH and (ii) a list of capital assets held in companies which are not included in the Special Section of the AAMP. The General Section also outlines (i) fundamental objectives for managing capital assets, gives (ii) a review of achieved and planned return on equity (ROE) of the capital assets managed by SSH, presents (iii) planned cash flows from dividends of capital assets, and (iv) presents key projects, objectives in asset management, and development activities for 2024. As regards the management of claims and tangible assets, fundamental objectives, directions, and asset management activities are presented.

The **Special Section of AAMP** defines the objectives in asset management for 2024 and outlines forecasts for 2025 for selected companies with state capital assets. Key criteria for measuring business performance and SSH's expectations of companies/groups are identified. For all large companies, descriptions of key risks to achieving goals set and their management, as well as ESG objectives, are also included. For some companies, additional management activities by SSH are anticipated (e. g., related to special projects). The Special Section of the AAMP also contains information about planned cash flows from (i) managing capital assets, (ii) managing claims, and (iii) managing tangible assets.

Given the specific nature of the industries in which the companies operate, performance criteria for some companies are highly complex, therefore, the use of the Criteria for Measuring Performance of SOEs in conjunction with this AAMP is recommended for easier understanding.

LIMITATION OF LIABILITY

This Document has been prepared in accordance with the principle of the diligence of a conscientious and fair businessperson (in Slovenian: "*s skrbnostjo vestnega in poštenega gospodarstvenik*a"), and by applying the necessary professional knowledge and expertise. Forecasts included in this document are based on estimates and assumptions made by SSH about the operations of companies. Inside information of listed companies was not available to SSH when preparing this document.

I. GENERAL SECTION

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1. KEY DOCUMENTS ON ASSET MANAGEMENT

The Slovenian Sovereign Holding Act (ZSDH-1) defines four key governance documents for the management of assets owned by SSH and assets of RS which are managed by SSH. They are: (i) the State Assets Management Strategy, (ii) the Annual Asset Management Plan, (iii) the SSH Asset Management Policy and (iv) the Code of Corporate Governance of SOEs (CGCSOE). In addition to these instruments of governance, the following documents are also considered integral parts of asset management as they are closely related in their content: (v) the Criteria for Measuring Performance of SOEs ("the Criteria") and (vi) the SSH Recommendations and Expectations.

The **State Assets Management Strategy**, which was adopted by the National Assembly of the Republic of Slovenia (RS) on 13 July 2015 in accordance with Article 28 of ZSDH-1, specifies the following elements: (i) the definition and classification of assets to individual types of assets in accordance with Article 10 of ZSDH-1; (ii) the definition of development directions of RS in the capacity of a shareholder or a company member; and (iii) individual strategic goals which RS aims to achieve with every asset categorised as strategic asset. The Article 10 of ZSDH–1 classifies all assets of SSH and RS into one of three categories of assets: strategic, important or portfolio assets. When individual asset is not classified into one of the above-mentioned categories, the asset is considered to be a portfolio asset. A new State Assets Management Strategy is being prepared, but at the time of this document's preparation, it had not yet been submitted to the National Assembly of the RS for its approval.

In accordance with Article 30 of ZSDH–1, the **Annual Asset Management Plan (AAMP)** is adopted by the SSH Management Board on the basis of the State Assets Management Strategy. The AAMP becomes effective upon the approval by the SSH Supervisory Board (to be issued not later than by the end of November, for the following calendar year). The AAMP must then be approved by Government of RS, upon the proposal given by MoF.

Another important governance document, which is connected in terms of the content with AAMP, is a document discussing the performance criteria of SOEs, i. e., **the Criteria for Measuring Performance of SOEs,** abbreviated as the **Criteria**. The said document defines a set of indicators used by SSH to monitor the performance of companies with state capital assets. These criteria are not quantified which is why they have to be applied in conjunction with each respective AAMP. As a matter of fact, in AAMP, the performance criteria are selected and quantified as goals for individual companies and represent SSH's expectations from SOEs as regards their future business performance. Retrospectively, they serve as a quantified basis for measuring and evaluating past performance of companies against expectations set by SSH.

The SSH Asset Management Policy is a legal document which presents in detail principles, procedures and criteria which are applied by SSH in carrying out its duties and activities. The said document also species procedures for disposing of and acquiring capital assets. It is adopted by the SSH Management Board and the consent for its adoption is granted by the SSH Supervisory Board. The SSH Asset Management Policy is continuously updated and improved. Its most recent comprehensive revision was made in May 2023 (with some amendments in June 2023), which altered the entire structure of the document to ensure clear and unified management of all three types of assets managed by SSH under ZSDH–1 (capital assets, claims, and tangible assets), considering the new organization of SSH following the merger with BAMC and the transfer of BAMC's assets under SSH's management. The updated SSH Asset Management Policy also establishes the guidelines which are considered by SSH when exercising corporate rights as a company member or shareholder. These guidelines comprise basic rules which are followed by SSH when formulating its voting positions at company General Meetings. These premises are applied *mutatis mutandis* when SSH, acting as the founder, makes decisions for one-member companies. The above-mentioned premises were previously regulated in a separate governance document, i.e., the SSH Premises for Voting at General Meetings of SOEs, which was abolished in 2023 following the transfer of its provisions into the SSH Asset Management Policy.

The SSH Code or CGCSOE contains principles and recommendations for good practice in corporate governance of SOEs. The aim of CGCSOE is as follows: to improve the performance of these companies in the long term, for the benefit of all of its stakeholders by raising the quality of corporate governance in SOEs and in SSH.

The **SSH Recommendations and Expectations**, which is characterized by a predetermined and clear structure and public disclosure, communicates to SOEs some specific recommendations and expectations to SOEs. They especially include recommendations and expectations in regard to business planning, periodic reporting, procurement processes, sponsorship and donation policies, cost optimisation, respect for human rights in business, sustainable business, compliance and integrity, remuneration policy and other rights of members of management and supervisory bodies, and other topics.

In the most recent update of the SSH Recommendations and Expectations, considerable focus was placed on developing a template for a remuneration policy specifically for the management bodies of state-owned enterprises (SOEs). This template is intended to assist the supervisory bodies in formulating their own remuneration policies for SOEs' management bodies, ensuring alignment with SSH's governance documents. Additionally, the remuneration system for the supervisory bodies itself underwent a revision, involving an evaluation and adjustment of the structure and recommended levels of their remuneration.

STATUTORY LIMITATIONS IN ASSET MANAGEMENT

SSH manages assets in accordance with applicable laws and regulations and governance documents on asset management. Certain rules and statutory solutions may be viewed as limitations in managing assets, however, they also have their purpose, usually of a protective nature. In this regard, the following constraints in asset management are highlighted:

- The provision of Article 20, Paragraph 3 of ZSDH–1 stipulates that SSH must not interfere with the independence of the corporate bodies, and especially, it must not intervene with individual business and executive decisions.
- Restrictions in managing assets held in public limited companies are governed by provisions of ZGD-1 which limit the right of a shareholder to access information. In the case of public companies, the provisions of ZTFI must also be taken into consideration.
- SSH must observe provisions of the take-over legislation which force a shareholder to publish a take-over bid for all remaining shares not yet held by the shareholder when the take-over threshold or the additional take-over threshold is reached. As a matter of fact, SSH cannot increase the participation of the State in a target company above the take-over threshold or above the additional take-over threshold when there is no willingness to potentially buy all the remaining shares of the target company and if such a measure is not foreseen in AAMP.
- SSH must observe the provisions of the law which regulates the prevention of the restriction of competition. Among other things, this means that in case of a potential concentration, the responsible authority must be notified of the latter, and activities aimed at its implementation must be suspended until the decision on the compliance of concentration with competition rules has been issued. SSH avoids concentration when it is believed that concentration of undertakings is questionable from the aspect of competition rules and submits to the regulatory body a proposal for certain correction measures or adopts commitments.
- In case of certain measures regarding asset management, SSH must take into account the rules on state-aid. These considerations must also be observed in the processes for the sale of state assets which generally means that, as a rule, a prospective buyer cannot be contractually obliged to satisfy the non-financial commitments. SSH must also comply with state aid rules in the processes for the acquisition of capital assets and in other asset management activities which could breach state aid rules, such as in the increases of share capital or in case of lending.
- SSH must adhere to the State Assets Management Strategy within the scope of which asset management measures are determined in the respective AAMP.
- In accordance with the provisions of the Prevention of Money Laundering and Terrorism Financing Act ("ZPPDFT–2"), SSH is obliged to implement a customer due diligence to carry out some legal transactions and determine a beneficial owner which may impose limitations on transactions with certain potential parties.
- The Article 60 of ZSDH-1 regulates restrictions in transactions with related parties. The SSH Supervisory Board may permit the conclusion of a transaction under certain conditions.

2. MACROECONOMIC OUTLOOK

Table 1: Overview of past data and forecasts for Slovenia, the world, RS, the Euro area and the United States

Indicator (in %)	2019	2020	2021	2022	Outlook 2023	Outlook 2024	Outlook 2025
Real GDP growth; Slovenia (Analysts)	3.5	-4.2	8.2	2.5	1.5	2.3	2.5
IMAD					1.6	2.8	2.5
BoS:					2.0	2.2	2.2
EBRD					1.5	2.3	/
EC					1.2	2.2	/
Average CPI inflation; Slovenia (Analysts)	1.6	-0.1	1.9	8.8	7.0	3.2	2.5
IMAD					7.6	3.9	2.7
BoS (HICP)					7.5	3.6	2.6
EBRD					/	/	/
EC					7.0	3.8	/
Real GDP growth; World (Analysts)	2.8	-2.8	6.3	3.5	2.8	2.6	3.0
Real GDP growth; the Euro area (Analysts)	1.6	-6.1	5.6	3.3	0.5	0.7	1.5
Real GDP growth; USA (Analysts)	2.5	-2.2	5.8	1.9	2.3	1.0	1.8

Note: Source: BoS, Bloomberg, EBRD, EC, IMAD, SURS.

<u>Outlook for Slovenia</u>

The macroeconomic forecasts[1] for the economic situation in Slovenia for 2023 and 2024 are highly problematic. In addition to the troubles and uncertainties plaguing the economies of the Euro area (economic difficulties, intensified conditions in the financial markets), the Slovenian economy and public finances were further affected by the August floods. The damage caused by these floods directly impacted economic facilities and public infrastructure and burdened both, the affected Slovenian companies and public finances (significant expenses for assistance and reconstruction, lost corporate revenues). The current temporary estimate of the flood damage stands at EUR 9.9 billion[2]. Most reputable institutions which monitor economic trends in Slovenia had issued forecasts for 2023 and 2024 regarding the GDP growth before the floods. However, post-flood growth outlooks were published by IMAD and EBRD. Projections for 2023 and 2024 GDP growth rates differ among various institutions, but all of them note significant uncertainty in the economic outlook. Key factors include strained conditions in Europe and the adverse impacts of flooding in certain regions. The Institute of Macroeconomic Analysis and Development (IMAD) predicts a 1.6% GDP growth in 2023 and 2.8% in 2024, while the Bank of Slovenia (BoS) forecasts 2.0% and 2.2%,respectively, and the European Bank for Reconstruction and Development (EBRD) anticipates GDP growth to stand at 1.5% in 2023 and 2.3% in 2024. IMAD attributes the slowdown in economic growth for 2023 to a deceleration in export dynamics, particularly due to the cooling economies of the EU trading partners (with the recession in Germany being a significant factor), and a slowdown in private consumption. However, investment growth in buildings and structures is expected to continue. For 2024 and 2025, IMAD expects slightly higher economic growth in Slovenia, which is to be driven by an increase in foreign demand (exports), improved value-added in manufacturing, and continued growth in service trade. However, there are uncertainties in the projections for 2024, particularly due to speculations regarding the impact of investments related to flood damage on the overall volume of investments. Despite these uncertainties, investment growth is expected (5.5% in 2024), but questions remain regarding the availability of construction capacities and the rise in construction costs. According to IMAD's forecasts, private consumption in Slovenia is expected to increase by 2.3% in 2024, driven by strengthened real income growth. Government spending is projected to rise by 1.9%, due to increased healthcare expenditures and the implementation of activities regarding the long-term care system. Registered survey-based unemployment rate is predicted to be 3.6% in 2023, decreasing to 3.5% in 2024, and further to 3.4% in 2025. In terms of inflation (annual average), it is expected to stand at 7.6% in 2023, 3.9% in 2024, and 2.7% in 2025. The current account balance of the balance of payments is forecasted to be 4.4% of GDP in 2023, and 2.8% of GDP in both 2024 and 2025. In its economic outlook, IMAD highlights significant uncertainty in the environment and, therefore, does not provide alternative scenarios for future economic trends. The Bank of Slovenia (BoS), in its economic forecast for 2024 and 2025, which

[1]Source: EBRD: Economic Prospects for Slovenia, September 2023; IMAD Autumn Forecast of Economic Trends , September 2023; BoS: Economic Developments and Projections, June 2023

[2]Source: the Government of the Republic of Slovenia: Estimate of Direct Flood Damage, 74th regular session of the Government of the Republic of Slovenia, 4 October 2023

was created prior to the August floods, outlines a potential negative scenario. In this scenario, BoS estimates that Slovenia's GDP may fall short of the baseline forecast by an average of 0.35 percentage points annually during the forecast period. BoS has prepared this negative scenario considering the future risk of Slovenian exports becoming less competitive due to inflationary pressures. These pressures could be driven by persistent high domestic inflation and lower inflation in EU countries, fuelled by demands for higher wages and rising prices of services and goods in Slovenia. BoS estimates that due to certain factors, the growth rate of Slovenian exports in 2024 and 2025 could be on average 0.7 percentage points lower than the growth rate projected in their baseline forecast which anticipates an export growth of 4.4% in both 2024 and 2025. The European Bank for Reconstruction and Development (EBRD), in its economic outlook for Slovenia published in September 2023 (post-floods), maintained its growth projection for 2023 at 1.5%, unchanged from its May 2023 forecast. But EBRD emphasizes that this estimate carries significant risks, including the potential realization of a negative scenario in 2023. For 2024, EBRD estimates Slovenia's GDP growth at 2.3%, a figure that remains unchanged from the September update compared to the May 2023 forecast. Additionally, EBRD acknowledges the possibility of an alternative positive scenario. This scenario could materialize if investments are strengthened through the concurrent functioning of European financial mechanisms and other factors, such as successful reconstruction efforts financed by EU financial resources.

Outlook for the World

The International Monetary Fund (IMF), in its baseline scenario[3], forecasts that the global economy will grow by 3.0% in 2023 and 2.9% in 2024, compared to an average GDP growth of 3.8% from 2000 to 2019. In 2022, the world's GDP growth was 3.5%. According to the baseline scenario, the IMF projects a modest growth of only 1.5% in 2023 and 1.4% in 2024 for developed economies. These growth rates are concerning as they represent a significant decline from the rates achieved in 2022 and 2021 (2.6% and 5.6%, respectively), indicating substantial structural issues in these economies. The IMF estimates that economic growth in 2023 will be lower than in 2022 in as many as 90% of developed economies. However, the IMF is more optimistic about developing economies, projecting a GDP growth of 4.0% in both 2023 and 2024 (compared to 4.1% in 2022). The IMF notes regional variations in this growth projections, with acceleration expected only in developing Asian and European regions in 2023, while regions like Latin America, the Middle East, Central Asia, and Sub-Saharan Africa are likely to experience a slowdown. Despite the challenges, developing economies are expected to navigate these uncertain times more successfully than developed ones both in 2023 and 2024. The growth forecast for the Euro area, a critical trading partner for Slovenia, is particularly concerning. The Euro area is projected to grow by only 0.7% in 2023 and 1.2% in 2024, a significant decrease from 3.4% in 2022 and 5.9% in 2021. The Euro area is facing production-related challenges, particularly in Germany, where macroeconomic indicators are notably underperforming. For the United States, the IMF predicts a GDP growth of 2.1% in 2023 and 1.5% in 2024.

Amid uncertain macroeconomic and geostrategic conditions, it is important to acknowledge numerous risks which could impact the achievement of economic growth as forecasted by the IMF's baseline outlook. High inflation, or the long-term entrenchment of inflation expectations, could jeopardize future economic trends. Various factors could maintain inflation at high levels, including depleted labour markets in developed countries, public sector pressures, rising food prices due to the situation in the Black Sea region, natural disasters, and the increase in other raw material costs. Global economic growth could also be threatened by negative trends in capital markets, difficulties faced by certain developed and developing economies in repaying national debts (amid high interest rates), geopolitical tensions (restrictions in international trade), and challenges in China's economic recovery (issues in the real estate sector, domestic consumption, financing of local governments, fiscal tightening, and international exchange). The IMF's analysis also notes the possibility of several alternative developments which could push global economic growth downwards. For a world GDP growth lower than 2.0% (an alternative negative scenario), the IMF assigns a 5% probability in 2023 and a 15% probability in 2024 (global economic growth has been lower than 2.0% only five times since 1970). An additional negative force in the macroeconomic environment is the interest-driven division of the world, clearly evident in conflicts in Ukraine, the Middle East, and the Taiwan Strait. The IMF's October forecast could not capture or evaluate the impacts of potential escalation or the spillover effects of the crisis in the Middle East (effects on the prices of oil and gas, global economic growth).

Outlook for Euro Area

In its baseline scenario[4], the European Central Bank (ECB) forecasts a 0.7% GDP growth for the Euro area in 2023, followed by 1.0% in 2024, and 1.5% in 2025. The slight improvement in the economic growth rate in 2024 is expected to be driven by an increase in private consumption and government spending. A decline in inflation, coupled with income growth from labour and other areas, is anticipated to strengthen individual consumption due to an increase in real income. For 2023, the ECB projects

[3] Source: IMF; World Economic Outlook, October 2023
[4] Source: ECB, ECB staff macroeconomic projections for the euro area, September 2023

the HICP inflation[5] to stand at 5.6% and 3.2% in 2024. This indicates expectations of a gradual decrease in inflation, which, however, is still projected to be above the ECB's target inflation level. The rate of inflation is significant for shaping the ECB's monetary policy. In 2023, the ECB's deposit interest rate reached a record value. Despite signals from the ECB in September 2023 that it may not tighten its monetary policy further in the future, 2024 will require close monitoring of macroeconomic developments (such as the rate of inflation decline and quarterly GDP movements). These developments will influence the ECB's projections and its monetary policy. Analysts are questioning how long the period of high interest rates (which dampens economic dynamics) will last and when in 2024 the moment for reducing interest rates might arrive. For 2023 and 2024, the ECB expects a drastic reduction in the growth rates of exports and imports compared to 2022 (annual growth rates below 2.5%, versus growth above 7% in 2022). This is due to the anticipated impact of weak global demand for European goods and the loss of EU competitiveness in the global market, driven by high energy prices. Import levels will be influenced by tightened economic conditions. The unemployment rate is expected to slightly decrease in 2023 (from 6.7% in 2022 to 6.5% in 2023), but slightly increase in 2024 to 6.7%, due to the expected halt in labour market trends as a result of slowing economic growth. The current account balance of the Euro area is projected to shift from -0.6% of GDP to 1.1% of GDP in 2023 and 1.4% of GDP in 2024. Besides the baseline forecast, the ECB has also prepared an alternative negative macroeconomic scenario due to concerns about the consequences of a deteriorating real estate sector in China. If the situation in China's real estate market worsens, the ECB estimates that numerous effects would spill over into other world economies. The real estate crisis in China would lead to lower economic activity in China, which would result in a drop in oil prices, reduced inflation, and shocks in global capital markets. Under this negative scenario, the ECB estimates that the GDP growth of the Euro area in 2024 and 2025 would be 0.2 percentage points lower. The economic downturn in 2024 would be due to lower exports, while in 2025, due to negative impacts from capital markets. The ECB expects that, under this scenario, the HICP inflation in 2024 and 2025 would be 0.1 percentage points lower. Given all the uncertainties in the Euro area (impact of the Ukrainian war, persistent high inflation, the effect of tightened monetary policy on the real economy) and structural problems it faces (energy issues, labour market situation, loss of international competitiveness), the emergence of a positive economic scenario seems unlikely. This is because the export component of GDP, which has boosted the economy in past recovery periods, cannot be relied upon this time, as prospects for international trade dynamics are poor.

Outlook for the United States of America

For the USA, the Federal Reserve (FED) expects a relatively adequate GDP growth of 2.1% in 2023, considering the situation in the Euro area.[6] In 2024, the growth of the US GDP is projected at 1.5%, and in 2025 at 1.8%. The core PCE inflation[7] is expected to be 3.7% in 2023, 2.6% in 2024, and 2.3% in 2025. Based on projections published, analysts assess that the FED is not concerned about the possibility of a recession in the USA. Consequently, the prevailing opinion in financial markets is that the period of high-interest rates will last for several more months, with the first interest rate cut by the FED anticipated only in the second half of 2024. However, the overall market is not as optimistic, as analysts from private financial institutions foresee a GDP growth rate of only 1.0% in 2024, and certain warning signals of a possible recession are also indicated by the yields on US Treasury securities. Analysts from private financial institutions are concerned about the state of the US economy in 2024, estimating on average a 55% probability of a recession occurring within a year. This concern is not surprising, as with the low estimated GDP growth of 1.0% in 2024, even a single major negative global event could tip the future economic state of the USA from growth into recession. The World Bank has a different view of the US economy for 2023 and 2024, predicting only 1.1% GDP growth in 2023 and a mere 0.8% in 2024. Despite this, it should be noted that there are differing opinions within the FED itself. The range of FED policy-makers' estimates for GDP growth in 2023 varies from 1.8% to 2.6% in 2023, from 0.4% to 2.5% in 2024, and from 1.4% to 2.5% in 2025. There is also a significant division among FED policy-makers regarding the appropriate level of the fundamental interest rate in 2024.

[5]HICP - Harmonised Index of Consumer Prices.

[6]These projections were published in September 2023.

[7]PCE stands for Personal Consumption Expenditure, which measures individual spending. The Core PCE Price Index excludes the more volatile prices of food and energy.

2.1. DEVELOPMENTS IN ENERGY SECTOR IN 2023 AND EXPECTATIONS FOR 2024[8]

INTRODUCTORY PRESENTATION OF EVENTS SIGNIFICANT FOR SLOVENIAN ENERGY COMPANIES

In 2022 and 2023, numerous significant factors in the macroeconomic environment greatly shook the European energy sector, and their impacts will dictate conditions into 2024. The first half of 2023 marked a turning point in European energy sector, as the share of electricity production from fossil fuels dropped to its lowest level in the past two decades. Conversely, the share of electricity production from wind and solar power plants was increasing, with approximately one-third of the EU's electricity produced from these sources for the first time in history. Fourteen countries achieved their smallest production of electricity from fossil fuels during this period, with Austria, Czech Republic, Denmark, Finland, Italy, Poland, and Slovenia recording their lowest output since at least 2000. In Slovenia, the decline in fossil fuel electricity production was partly due to multiple shut-downs of TEŠ 6 (it stopped in March due to boiler evaporator leaks, and again at the end of April for computer equipment replacement and software upgrades, it only restarted in mid-May). The decrease in the share of electricity from fossil fuels was also driven by reduced electricity consumption (due to high prices), high gas prices at the start of the year (making production from gas power plants unprofitable), and a slowdown in economic and industrial activities. The EU coal power production decreased by 23% year-on-year, falling below 10% for the first time in history in May 2023. May and June also saw the lowest coal consumption in history. The EU imports of Russian gas reduced by 75% due to the inactivity of the Nord Stream pipeline, dropping from 50 billion cubic meters in the first half of 2022 to 13 billion in 2023. The shift in the European energy sector towards renewable sources is evident also from the fact that a 13% increase in solar power production and a 5% increase in wind power production in the EU was recorded during the first half of 2023 (compared to the same period last year). The surge in solar power production is attributed to the addition of solar power plants to the electric power systems of the EU countries, with an increase of over 6.5 GW in Germany, over 2.5 GW in Italy, and 2.0 GW in Poland during the first half of 2023. The trend of connecting additional units continues into the autumn period. Lower growth was achieved in the production of electricity from wind farms, partly due to rising costs of this technology.

In Slovenia, there is a need to increase the volume of new renewable energy connections, but it is important to also address the challenges faced by investors interested in these projects. Investors should carry out investments with great care, ensure project documentation incorporates all requirements of the relevant legislation, and to some extent, consider the needs of stakeholders in the environment where the investment is to take place. Projects with documentation which fails to cover broader frameworks are at risk of experiencing delays or possibly facing prevention of implementation. The insufficient capacity of the electricity distribution network in certain areas prevents the connection of individual solar power plants, as a result of which solar community projects will have to be implemented for household solar connections. In the first half of 2023, 17 countries achieved record levels of energy production from renewable sources. Specifically, Greece and Romania exceeded a 50% share of renewables in their energy mix for the first time, while Denmark and Portugal surpassed a 75% share in their electricity generation from renewable sources. Germany, despite being a vocal advocate for renewable energy in the green transition, must be specifically mentioned because of its heavy reliance on coal for the majority of the first half of 2023. It was only in July 2023 that Germany managed to produce 49% of its electricity from renewables for the first time. Furthermore, Germany's role in the nuclear energy sector must also be mentioned. The closure of its last three nuclear power plants in April 2023, coupled with the issues at EDF's nuclear plants in France, contributed to a 3.6% reduction in nuclear power production across the EU. Hydropower production in the EU increased by 11% in the first half of 2023 compared to the same period in 2022, but it is important to note that European hydropower production has been declining and becoming less stable since 2000, particularly due to severe droughts across Europe. Water levels in rivers have also been unstable in Slovenia which experienced drought in 2022 and floods in 2023. Force majeure thus poses a greater risk in planning and operating energy companies, both operationally (producing planned quantities of electricity) and financially (managing obligations from futures contracts). HSE Group faced liquidity issues due to production outages and sharp price increases. Consequently, in December 2022, it received a EUR 492 million capital increase from the Slovenian Government to address these issues. By September 2023, HSE had repaid EUR 242 million in subsequent capital payments and committed to repaying an additional sum of from EUR 60 million to EUR100 million by the end of the year if good business performance continued.

In reviewing the state of EU energy sector in 2023 and guidelines for the green transition in the coming years, it is important to mention the European Commission's decision which confirmed the amended proposal to include nuclear energy and natural gas in the European sustainable taxonomy. **The inclusion of nuclear energy and gas among sustainable energy sources** forms a critical component of the future low-carbon energy mix in European countries. This decision by the European Commission has prompted various environmental organizations to initiate legal proceedings aimed at excluding nuclear energy and gas from the

[8] Source: Bloomberg.

EU taxonomy. Notably, in 2022, Austria filed a lawsuit against the European Commission over the classification of these energy sources as ”green”. In 2023, the European Union successfully navigated the challenge of reducing its energy dependence on Russian gas supplies, as evidenced by a relatively problem-free winter season in 2022/23 and significantly lower gas prices compared to 2022, as reflected in the prices on gas exchanges. The clear commitment to a green transition, along with its stringent commitments, is indirectly demonstrated by the stability of emission trading prices in the first half of 2023, which mirrored the levels observed in the first half of 2022. Extremely high prices for emission allowances, particularly when compared to 2020, pose substantial challenges in the production and sale of electricity on the prompt market for coal-fired (6,000 kcal/kg) and gas-fired power plants, as they have a profound impact on the cost-effectiveness of both production types. The energy crisis, marked by the need for conservation and high energy prices, coupled with the overall economic situation, led to a nearly 5% decrease in electricity demand in the first half of 2023. This decline is noteworthy given expert projections of increasing electricity consumption in the coming years. In addition to efforts to reduce energy consumption, the EU energy market in 2022 and 2023 was characterized by regulation or partial regulation of prices for certain energy sources by national governments. Regarding significant developments in Slovenia's energy sector, it is important to note that the Government of the Republic of Slovenia: submitted a revised proposal for updating its National Energy and Climate Plan (NECP) to the European Commission. This proposal includes more ambitious targets for the required share of renewable energy sources (RES) in total energy consumption by 2030, as it targets 30% to 35% share in RES, an increase from the previous target of 27%. In 2023, Slovenia also conducted a public consultation on the Energy Policy Act, which establishes key principles for national energy policy and outlines the strategic direction for the energy sector. This draft legislation defines the future of Slovenia's energy policy. Considering experiences from the energy crisis, the need for secure electricity supply, projections of increasing electricity consumption, and the EU's clear commitment to decarbonization, Slovenia must accelerate its efforts to boost the share of RES in its self-sufficiency in electricity production. Solar and wind power plants, besides being RES, also offer the advantage of shorter investment execution times (these projects stand out as the most rapidly executable investments within the sector), which is crucial given Slovenia's need to expedite activities in this area for both EU compliance and for ensuring reliable, competitive future electricity supply in the future. Under the RePowerEU plan, EU countries can benefit from both refundable and non-refundable financial resources. However, investments under the Recovery and Resilience Facility must be completed by 2026, posing significant implementation challenges due to lengthy spatial planning processes.

With the amendment of Directive 2003/87/EC in May 2023, Slovenia became eligible for funds from the Modernisation Fund, which is aimed at supporting investments in modernizing energy systems and enhancing energy efficiency. This fund contributes to the goals of the European Green Deal by supporting a green and socially just transition, with the responsibility for its implementation resting with the beneficiary Member States. Slovenia is expected to utilize several hundred million Euros in non-refundable funds from this source by 2030.

COMMODITY MARKET OVERVIEW

In 2022 and 2023, the European Union terminated its reliance on Russian gas, and EU countries started forming new geostrategic partnerships. Notably, in 2023, Algerian gas began flowing into Slovenia via Italy. These developments have significantly altered the dynamics of gas flow into European countries and the modalities of gas delivery to domicile country (the importance of LNG[9] shipments was thus augmented). Despite a decrease from crisis levels in early 2023 (Europe successfully navigated the winter of 2022/23 without major complications), gas prices in the EU remained elevated compared to pre-crisis figures. The average price for a megawatt-hour (MWh) of gas in the EU was EUR 44 in the first half of 2023, more than 50% lower than in the same period last year (EUR 97), yet still 100% higher than in the first half of 2021. Expert forecasts regarding future gas price levels are relatively favourable as for 2024 and 2025 they indicate substantially lower prices (around EUR 50/MWh) compared to the market rates during the energy crisis in the second half of 2022. However, these forecasts for 2024 and 2025 remain significantly higher than pre-crisis levels of 2019. Coal prices (6,000 kcal/kg) on the Rotterdam Exchange averaged USD 134 (EUR 124.91) per ton in the first half of 2023, whereas in the first half of 2022, they stood at USD 275 (EUR 256.34) per ton. Analysts predict that coal prices will remain above USD 100 per ton in 2024 and 2025, which is relatively high considering the last decade's prices, excluding the extreme rates of 2021 and 2022. From a market risk perspective, for various types of thermal electricity production, it is advantageous for a power plant to have its own fuel source (for example, lignite mines). This strategy can mitigate the risk of uneconomical production during volatile periods on energy markets, characterized by high fuel, gas, or coal prices, as the cost of fuel is not subject to fluctuations in global exchanges. In December 2022, the EU banned the import of Russian crude oil (excluding Hungary and Slovakia due to geographical dependencies on Russian oil, permitted to import via pipelines but not to re-export). In February 2023, the EU further prohibited imports of Russian oil derivatives. Oil market prices fluctuate based on supply and demand dynamics, inventory status, individual countries' oil extraction quotas, and other factors. Oil prices significantly influence inflation and government revenues, as taxes, excises, and other levies are linked to the price of motor fuels. Besides the price of crude oil barrels, the prices of motor fuels are significantly influenced by refinery margins, EUR/USD exchange rates, and state

[9]Liquefied Natural Gas (LNG)

regulations. The Brent oil price averaged USD 80 per barrel in the first half of 2023, with experts projecting a price range of USD 80–85 per barrel for 2024 and 2025.

Considering EU legislation, the shift towards a green transition, and technological advancements in alternative energy production, the use of fossil fuels is limited. The objective is to gradually decrease the share of fossil fuels in national energy balances.

CARBON AND ELECTRICITY MARKETS OVERVIEW

The carbon market holds significant importance in the energy sector due to the obligations imposed on thermal power plants which operate on gas, lignite, or coal. Moreover, the structure of the electricity market itself determines the economic viability of each source of production. In 2023, the price of emission allowances surpassed the EUR 100 mark before declining. However, experts, acknowledging the EU's definitive stance on the green transition and viewing the price of emission allowances as an incentive to phase out carbon-intensive production sources, do not anticipate a substantial decrease in allowance prices on exchange market in 2024 and 2025. This is expected not to impact the economics of electricity production in coal-fired (6,000 kcal/kg) or gas-fired power plants. Therefore, analysts expect emission allowance prices to remain high in the upcoming years.

High input energy costs contributed to elevated prices for electricity on the Slovenian energy exchanges. In the first half of 2023, the average price was EUR 116 per MWh, which is 48% lower than in the same period in 2022 when the price was EUR 225/MWh. According to data from the Slovenian Statistical Office, electricity prices for household consumers increased by 7% in the second quarter compared to the first, whereas for non-household consumers, the prices decreased by 4%. When examining electricity exchange markets, it is necessary to highlight the projections and warnings of industry experts. They suggest that the likelihood of encountering significantly reduced electricity prices in the near term, specifically up to the year 2026, appears limited. Given the forecasts for rising electricity consumption in the coming years, Slovenia will need to build new power plants. Due to the price levels in the electricity markets, the Slovenian Government has decided that for 2024, household consumers will have regulated prices for 90% of their actual consumption, with market prices applying to the remaining 10%. The Government's decree on household electricity consumption for 2024, which was approved in October 2023, sets the maximum allowable electricity prices as follows: EUR 118/MWh for the high-rate consumption, EUR 82/MWh for the low-rate consumption, and EUR 98/MWh for the single-rate consumption (regulatory price levels). The Government of the Republic of Slovenia made this decision because the current market conditions as of October 2023 for electricity prices (prices based on exchange contracts for future supply periods exceeded EUR 120/MWh) did not allow retail prices for households in 2024 to be lower than the current capped prices (in 2023, fixed electricity prices applied, specifically, EUR 118/MWh for the high-rate consumption, EUR 82/MWh for the low-rate consumption, and EUR 98/MWh for the single-rate consumption).

PIPELINE INFRASTRUCTURE, NATURAL GAS AND RENEWABLE GASES

In the European Union, which is connected by approximately 220,000 kilometres of natural gas transmission pipelines, a strategic shift away from Russian gas supplies has been observed since the onset of the conflict in Ukraine. The EU has been investing in gas infrastructure in the form of new pipelines (for instance, from Algeria) and LNG terminal facilities. In Slovenia, the length of the natural gas transmission pipelines is just over 1,200 kilometres, and future investments are aimed at strengthening cross-border transmission capacities which reflect the changing geostrategic circumstances. Among the notable planned projects intended for domestic gas usage is the construction of the Ajdovščina–Lucija gas pipeline. The construction of new gas transmission network is being adapted to accommodate alternative and renewable gases of the future, such as hydrogen. These alternatives hold the potential to replace natural gas from both environmental and economic perspectives, subject to technological advancements (ecological and economic aspects of the substitution).

One noteworthy initiative is the Northern Adriatic Hydrogen Valley project, the first European transnational project involving Slovenia, Croatia, and the Friuli-Venezia Giulia region of Italy. This project, led by HSE, aims to establish a dedicated hydrogen valley supported by grants. Key industrial players from all three countries will develop pilot projects for producing over 5,000 tons of green hydrogen annually from renewable energy sources, along with its storage, distribution, and utilization.

In the context of gas infrastructure, it is important to note that the Ukrainian conflict and complications in Russian gas supply to Europe have somewhat altered the position of gas as a transitional energy source in the transformation of the energy sector. This has accelerated demands and expectations for a swifter development and implementation of alternative gas technologies.

In October 2023, the Government of the Republic of Slovenia issued a decree specifying natural gas prices from the gas system. This regulation caps gas prices for household consumers during the heating season from 1 January 2024 to 30 April 2024 at EUR 59.90/MWh. Market conditions for gas prices, which were relatively favourable at that time, allowed the Government of the Republic of Slovenia to set a lower price for gas for four months in 2024 compared to the capped gas price in 2023 (EUR 73/MWh).

This measure was taken by the Government of the Republic of Slovenia due to crisis situations in the Middle East and other geopolitical tensions which could escalate conditions in gas markets. By capping the gas price during the 2024 heating season, the Government of the Republic of Slovenia took preventive action to reduce heating costs for households.

2.2. DEVELOPMENTS IN TRANSPORT SECTOR IN 2023 AND EXPECTATIONS FOR 2024[10]

The Republic of Slovenia holds an important geostrategic position in Central Europe, which makes transportation a significant economic sector. Companies in the portfolio managed by SSH, which operate in the transport sector, generate revenue from market activities and the provision of services of general economic interest. Investments in transportation infrastructure are carried out to meet the demands of domestic transportation connectivity and fluidity, as well as to facilitate the flow of goods to and from foreign markets. These investments address the business requirements of the transport sector, particularly those linked with the sole maritime cargo port in Slovenia. Various models are employed for transportation investments, and ownership and management arrangements vary (infrastructure ownership, infrastructure management, concession). Slovenia has historically been actively developing its motorway network. Currently, the most significant projects are the construction of the Third Development Axis and the second tube of the Karavanke Tunnel. A section of the Third Development Axis is expected to be completed by June 2028, and the second tube of the Karavanke Tunnel is projected to open to traffic in 2025. After the opening of the second tube, the first tube will undergo renovation, and the traffic is expected to flow through both tunnel tubes by 2027. A major investment project in motorways, currently in preparation, involves expanding the Ljubljana Ring Road and its main arterial roads. In recent years, there have been significant changes in the scope of investment in railway infrastructure, including the upgrading of existing lines, tunnel renovations, station upgrades, and new track construction. The completion of the Divača-Koper Second Rail Track project is scheduled for the end of 2025. The Divača-Koper second rail track is essential for increasing the capacity of railway infrastructure which will enable the growth of Slovenian Railways' traffic and maximize the potential for increased cargo throughput at the Port of Koper. As an international cargo port, the Port of Koper carries out investments based on the growing maritime traffic's demands and plans an intensive investment cycle in the coming years, also due to strong competition from other North Adriatic ports. In the transport sector, most companies, in part or entirely, operate within a regulated environment, either with prescribed activities or regulated pricing. Some may encounter both (Slovenia Control, universal postal service provided by Pošta Slovenije, KOPP).

RAIL TRANSPORT AND INFRASTRUCTURE[11]

Railway infrastructure in Slovenia is undergoing intensive modernization, with work being carried out on various projects (new tracks, double-tracking existing lines, station improvements, etc.). Despite updating the rolling stock with the purchase of new passenger trains, the configuration and aging of existing tracks prevent significant reductions in travel times, which places public rail transport in a less competitive position compared to private car travel. To achieve the goal of competitive travel times between distant locations in Slovenia (Koper–Ljubljana–Maribor) until the conclusion of intensive railway infrastructure renovations and especially without building new track sections, significant reductions in travel times cannot be achievable. Additionally, passenger train delays due to numerous construction works on the rail network (slower train speeds in construction zones, passenger transfers to buses, etc.) pose an additional challenge. In the coming years, ensuring accurate, reliable, and competitively timed passenger transport remains a challenge for domestic carriers. SŽ estimates that after the completion of numerous construction projects on the Slovenian rail network (track renovations, station improvements, Emonika construction, etc.), the goal of having 90% of trains with less than one-minute delay can be achieved (presumably after 2026, following the completion of major railway infrastructure projects). After 2030, foreign competition in passenger transport can also be expected on Slovenian tracks. Due to the anticipated increase in both freight and passenger traffic, all stakeholders will need to actively coordinate and work on updating railway infrastructure (double-tracking, new track sections), as railway infrastructure development has not kept pace with the growth in rail traffic so far (especially in freight transport, where more than 80% occupancy on certain track sections causes congestion and delays). With the completion of the Divača–Koper second rail track by the end of 2025, the railway capacity will increase on this section, which will enhance the cargo volume on the remaining rail network, especially with the increased cargo throughput at the Port of Koper.

MOTORWAY INFRASTRUCTURE[12]

Motorway traffic in Slovenia has been under pressure due to the increasing trend in road traffic for several years, which has led to more significant congestion, particularly during critical hours when existing infrastructure no longer ensures satisfactory traffic flow. It is important to highlight the issue of the Ljubljana Ring Road (some sections carry more than 80,000 vehicles per day, on average) and specific sections of the motorway network (e.g., the Štajerska branch, the Primorska branch) where expansion investments are urgently needed to eliminate bottlenecks and ensure traffic flow. The construction of a third lane on motorway entrances to Ljubljana will be influenced by various factors (land acquisition, project documentation preparation, obtaining permits, etc.). The problem of daily congestion or heavy traffic is reflected in low travel speeds, excess carbon footprint, negative

[10]Source: Annual and Interim Reports of companies in the SSH portfolio.
[11]Source: Annual and Interim Reports of SŽ, d. o. o.
[12] Source: Annual and Interim Reports of DARS, d. d.

impacts on traffic safety, and challenges for emergency services. In addition to preparing appropriate investment documentation, the optimal execution of the public procurement process (minimizing appeals against contractor selection) is crucial for the implementation of investments, as this is the only way to carry out the work within the time frames set. At the systemic level, decision-making in connection with the issue of environmental permits must be expedited. Ongoing investment projects on the motorway network are expected to be completed according to the timeline established, although delays are already emerging as a result of the 2023 flooding and flood damage restoration. Planning suitable motorway infrastructure is a complex project, and it requires traffic volume projections to be made for at least the next 20 years. From a financial sustainability perspective, attention must be given to interest rate fluctuations and effective management of rising construction material costs, as toll revenues, which are the source for renovations and investments, are strictly regulated and limited. The trend of traffic growth on the motorway network will continue in the coming years (in 2023, traffic was approximately 4% higher than in the last pre-pandemic year of 2019). This will primarily result from the growth in freight traffic related to cargo throughput at the Port of Koper, limitations in railway traffic, pressure from daily commuters to major Slovenian cities, tourist visits to Croatia during the tourist season, and Schengen area membership. To ensure smoother traffic flow, measures such as speed management on motorways and soft approaches like remote working recommendations, carpooling, etc., will be necessary, in addition to investments. To ensure stability in the field of motorway infrastructure, the Investment Plan for Traffic and Traffic Infrastructure for the 2020–2025 period foresees EUR 2.1 billion in investments by DARS.

POSTAL SERVICES[13]

As regards letter service in the postal industry, it is still crucial to consider the changing consumer habits and predictions regarding the volume of postal traffic (business environment with anticipated low GDP growth rates) and the expected inflation rates when shaping the strategy and implementing operational activities. In 2023 and 2024, the performance of traditional postal services will be influenced by factors such as the volume and quality of service delivery, as well as the prices set by the regulator (the Agency for Communication Networks and Services of the Republic of Slovenia - AKOS) for universal postal services, which is the right of all citizens. In 2024, a global slowdown in the growth of parcel delivery is expected after exceptional growth in 2020 and 2021, which was a result of adjustments made during the COVID-19 pandemic. Besides pricing policies (combating inflationary effects through price surcharge adjustments), postal-logistics companies will need to invest in technology (to increase cost efficiency) and focus on more profitable segments of goods logistics. There is a strong competition in the Slovenian postal service market, especially in parcel deliveries. Given the declining volumes of certain traditional postal services (letter shipments), it is necessary for the broader postal-logistics industry to expand into segments with new business opportunities, such as parcel logistics and B2B logistics. The reduction in the volume of letter services is even more problematic because the prices for regular and priority mail in Slovenia are among the lowest in Europe, while delivery standards are higher. The regulator has not yet recognized the unfair burden represented by the net cost of universal postal service, which is affecting the business of the universal postal service provider. Unlike Slovenia, most European countries finance the provision of this service from public funds. The future and growth prospects lie in parcel-logistics activities, specifically in new market segments or operations that enable providers to offer high-quality and comprehensive parcel-logistics services. Due to strong foreign competition in parcel delivery, it is necessary to actively engage in the B2B[14] and B2C[15] markets (this includes, for example, understanding customer needs, forming competitive offers) to maintain a market share in parcel delivery and achieve a larger market share in logistics. The strong presence of large foreign parcel-logistics systems in Slovenia and the fact that foreign providers are actively developing a globally and regionally connected parcel-logistics network are additional reasons why the domestic parcel-logistics group must expand regionally and capitalize on synergies and economies of scale, which are essential for creating a competitive offer and business growth.

AIR TRANSPORT[16]

In 2023, active discussions were underway in Slovenia regarding the air connectivity with the world, and various actions were taken to improve the situation. It should not be overlooked that, based on available year-round data on airports with up to 5 million passengers annually, the renewal of air traffic in Europe in 2022 reached 89% of the pre-COVID-19 level, while in Slovenia, this share is only 43% (this figure is significantly influenced by the bankruptcy of the Slovenian airline, Adria Airways, which accounted for the majority of arrivals and departures before entering bankruptcy proceedings in 2019). The Ljubljana Jože Pučnik Airport recorded the largest decline in passenger air traffic among all EU members last year. Flights from Ljubljana Airport serve 22 destinations with 19 airlines. In Europe, only Belarus has poorer air connectivity. Therefore, a program of subsidizing airlines has been implemented (several calls for tenders have been published) to open air links with the Ljubljana Jože Pučnik Airport. Additionally, a study on the economic effects of establishing a new national airline (impact study for the Slovenian economy) was

[13] Source: Annual and Interim Reports of Pošta Slovenije, d. o. o.
[14] B2B – Business to business
[15] B2C – *Business to customers*
[16] Source: Annual report of Slovenia Control (KZPS) Forecast of traffic volume by Eurocontrol.

made. The review of air traffic volume in the Slovenian airspace is more encouraging, as in 2023 (until August), air traffic controllers performed more air operations/services (guiding aircraft overflights, guiding aircraft landings) than in the same period in 2019 when air traffic over Slovenia was not yet subject to the negative effects of the COVID-19 crisis. The volume of air traffic in the Slovenian airspace (based on flight overflights) indicates favourable conditions, as confirmed by the record of 1,643 air traffic control operations in one day (the best result in the field of instrumental flight). From the perspective of air traffic volume in the Slovenian airspace, Slovenia has a favourable geostrategic location (air traffic over Slovenian airspace is the main source of air traffic control revenue), and Eurocontrol's forecast for the period up to August 2024 mentions a level of 105% of the 2019 traffic level in the optimistic scenario, 95% in the baseline scenario, and 87% according to the negative scenario. Based on these data, which include forecasts and past data, it can be concluded that the aviation industry is expected to continue to improve in Europe in 2024.

MARITIME TRANSPORT[17]

Freight maritime transport in Slovenia takes place through the Port of Koper, and the future volume of transshipment depends on the general economic situation in the EU, geopolitical conditions in the Middle East, the needs of Central and Eastern European countries for cargo transshipment in Koper due to its geostrategic location, the capacity of the Port of Koper and the Slovenian railway network, decisions of global shipping companies and logistics companies regarding domiciles in the northern Adriatic, and activities of neighbouring ports. Regarding cargo transshipment in Slovenia, containerized cargo is the most important cargo group, and analysts do not foresee significant upward price pressure on shipping rates for containerized cargo transportation in 2023 and 2024, which is good news for the volume of transshipment at ports (no shortage of ships, lower transportation costs). In 2024, the prices for container shipping by sea will be constrained by the growth in shipping capacity (arrival of new large vessels) which will outpace the estimated growth in global demand for this type of maritime export. On the other hand, the weak economic growth in Europe and worldwide will have a negative impact on the volume of transshipment. Considering the trend of increasingly larger container ships, several factors need to be taken into account when planning investments in the Port of Koper (such as, the type of cargo, type of ships, existing port infrastructure and equipment, development of logistics routes and logistics centres, and competitive offerings from neighbouring ports). In 2022, the transshipment of cargo by sea increased, and in the coming years, further growth in cargo transshipment is expected. In addition to its role in freight maritime transport, Slovenia's status as a maritime state also facilitates the provision of passenger transportation services. In Koper, the arrival of the millionth guest was recorded in 2023, which gives hope that after years marked by the pandemic, the growth of maritime passengers will continue, which is also important for Slovenian tourism.

2.3. DEVELOPMENTS IN FINANCIAL SECTOR IN 2023 AND EXPECTATIONS FOR 2024

BANKS[18]

In the European Union (EU), rising interest rates imposed by the European Central Bank (ECB) have led to increased profits of banks. This rate hike has predominantly affected loan interest rates, while deposit interest rates have not kept pace with the same level of increase. Consequently, some EU countries are considering imposing a special higher tax on bank profits for 2023 and 2024. The specific tax rates diverge among the EU Member States, and the type of taxation to be applied to banks also varies. One notable example is Hungary, where banks have the opportunity to lower their profit tax if they increase their holdings of Hungarian government bonds. Additionally, dissatisfaction with low deposit interest rates prevails in many countries of the Euro area. Some have attempted to implement measures in various ways with the aim to incentivise banks to improve their deposit offerings. For instance, the Austrian government authorized consumer associations to take legal action against banks due to significant differences between lending and deposit interest rates. In Belgium, the government offered one-year bonds with a 3.3% yield to savers, applying competitive pressure on banks to raise deposit interest rates. In 2024, several factors will influence the profitability of commercial banks in the EU. These factors include tax rates, developments in the monetary market (a moment of shift in the ECB's interest rate policy), overall economic conditions (projected low GDP growth), and public pressure to raise deposit interest rates. Net interest income also depends on how effectively commercial banks manage deposit costs which are set in line with ECB deposit interest rate fluctuations. Deposit costs or bank interest expenses are influenced by various factors, including deposit maturities, selected reference interest rates for deposit offerings (e.g., 3M EURIBOR), the bank's need for deposits (liquidity aspect), customer loyalty management (offering high deposit interest rates to retain existing clients and attract new ones), and market competition dynamics, to name a few. Banks with a higher proportion of deposits from individual customers (non-professional clients) are generally considered to be more resistant to raising deposit interest rates. With the anticipated shift in ECB's monetary policy in 2024, which may involve lowering the deposit interest rate, European banks will

[17] Source: Annual and Interim Report of the Port of Koper.

[18] Source: BoS (Report on bank performance with commentary), public disclosures by Slovenian banks, and Bloomberg

place greater emphasis on deposit management and net interest margin generation while focusing less on liquidity aspects. Given the surplus liquidity, it is unlikely to see more intense competition among Slovenian banks to attract deposits. Nevertheless, smaller banks in the Slovenian banking market tend to offer higher deposit interest rates (promotional rates) to gain new clients and increase their market share compared to larger banks holding dominant market positions. In anticipation of the expected shift in the ECB's monetary policy in 2024 (which will impact banks' net interest income), it is crucial for banks to have their business strategy prepared to generate revenues across various areas, such as in the retail segment through fees, asset management, insurance services, and more. Despite the turmoil witnessed in the European banking sector in the first quarter of 2023 (liquidity issues and the collapse of Credit Suisse), it is not expected that European banks will engage in serious competition for deposit funds in 2024, as the indicators for Loan-to-Deposit (LTD)[19] ratios are still favourable in the European banking system. The LTD indicator shows an approximate 80% share of loans compared to deposits, which is approximately 60 percentage points below the values recorded during the global financial crisis of 2008. This represents a favourable value for this indicator compared to historical averages. As the expected conclusion of the ECB interest rate hike cycle in 2024 approaches, European banks will need to prioritize digitalization and asset management. Lower net interest income and the possibility of higher loan portfolio losses, amid weak economic prospects, could impact profit levels for the year. The ECB's banking stress test, which was carried out in 2023, highlighted concerns regarding funding for heavily indebted companies. Banks had actively engaged in lending to struggling businesses in previous years when interest rates were low, aiming to achieve higher loan interest rates. The issue of lending to weak businesses raises the risk that, due to anticipated economic challenges in the near future and higher interest rates (which may lead to bankruptcies of several companies), ECB may tighten control processes over commercial banks and raise capital adequacy requirements. From the perspective of banking group acquisition activities, it is important to highlight that banks, faced with the high costs associated with entering a new (foreign) market in order to achieve the desired asset profitability, opt to acquire local banks where they have the potential to gain market share among the top three providers. Alternatively, they may acquire banks in regions that do not use the Euro as their currency or where their economies are in a developmental phase. This process was also observed in Slovenia with Société Generale's divestment of its ownership stake in SKB bank and its acquisition by OTP bank. In 2023, OTP bank obtained the final approval for the acquisition of Nova KBM. Consequently, the OTP bank is commencing the process of merging Nova KBM and SKB bank, thus forming a new major banking group in the Republic of Slovenia. According to experts, this development marks the closing of opportunities for the entry of new major banking groups into the Slovenian market in 2024. It should be noted that due to the impact of the conflict in Ukraine, European commercial banks are not entering into new business deals with Russian companies. Some banks are still exploring ways to exit the Russian and Belarusian markets. However, banks are apprehensive about selling their assets and investments below market value. Therefore, some of them continue to evaluate all the options that these two markets offer. In the absence of willing buyers (for an appropriate price), certain European banks remain exposed to all events (risks) related to the conflict in Ukraine. In the coming years, regulatory obligations and various anticipated taxation measures by EU national governments may affect the dividend yield of bank shares if negative economic shocks occur. For the upcoming years, analysts at major European banks estimate approximately 50% share of profit payouts for dividends, and a dividend yields for shares between 7% and 8%. In Slovenia, investors will consider the impact of the announced tax on the balance sheet of banks when analysing the expected dividend payments in the coming years.

INSURANCE COMPANIES[20]

When reviewing 2023 from an insurance industry perspective, one must highlight the adoption of IFRS 17 on 1 January 2023. This accounting standard introduces a new model for measuring and presenting insurance contracts and significantly differs from the previous model. IFRS 17 will impact the capital, assets, and financial results of insurance companies. The full effects will only become evident upon the release of insurers' annual reports for 2023. It will be interesting to monitor the valuation of the discounted future values of long-term insurance contracts, the sensitivity of fair value changes in investments on profits, and similar matters. Based on known disclosures in European insurers' quarterly reports for 2023 and revised reports for 2022, the effects of IFRS 17 and IFRS 9 cannot be conclusively determined, as some insurers reported a surge in net profit, while others experienced a decline. In addition to new accounting standards, significant shifts in the balance sheet valuations of insurers were caused by volatility and differences in interest rates in valuing insurance-investment products. The impact of the new IFRS standard also creates uncertainty about expectations regarding future dividend amounts and the response of credit rating agencies (the extent of the adjustment in the valuation model or the credit rating determination).

High interest rates are generally favourable for the life insurance segment in terms of profits and solvency ratios, assuming that no economic crisis or recession occurs in 2024. If insurers manage to increase income from their investment segments, it could also serve as a buffer against the negative effects of inflation (increased claims and expenses due to inflation). Inflationary

[19] The LTD indicator measures the relationship between loans granted and deposits received and is used to assess bank liquidity.
[20] Source: AZN, Slovenian Insurance Association, SURS, Swiss RE Institute SIGMA 4/2023 publication, public disclosures by Slovenian insurance companies.

pressures are a significant factor in assessing the profitability of insurance companies in 2023 and 2024. The consistency of policies on insurance policy indexation will determine whether insurers can offset inflationary pressures in claims payouts, including issues related to construction inflation and inflation of automotive parts. The increase in interest rates positively impacts the profitability of new business for insurers and improves the Return on Equity (ROE) metric for insurance companies. Achieving adequate ROE levels is also important in terms of costs of capital. It is essential to highlight that there is a growing need for capital augmentation in the non-life insurance segment due to increasing burdens posed by more frequent and severe natural disasters. Negative events associated with numerous natural catastrophes worldwide in recent years (including the impact of five-hundred-year floods in Slovenia) raise doubts about the reliability of old actuarial models used to calculate insurance premiums, which were based on two-hundred-year flood data. This issue imposes limitations on insurers, requiring them to restrict capacities or efficiently manage capital. This can be achieved through reinsurance, which spreads the risk of catastrophic loss across a wider geographical area. In the realm of reinsurance, it is worth noting that natural disasters such as floods, hailstorms, and fires in the first half of 2023 caused significant damage. Analysts anticipate total losses from global natural disasters in 2023 to reach at least USD 100 billion. This marks the third consecutive year that natural disasters worldwide have caused over USD 100 billion in damages (the ten-year average is USD 81 billion). Additionally, the problem lies in the fact that natural disasters are becoming more severe (with larger hail, more destructive floods, fires, etc.).

Slovenian insurance companies are estimated to have to pay around EUR 370 million for claims related to natural disasters in 2023, which is nearly half of the total claims paid out in the last 15 years. This will significantly impact their business results for 2023, with effects also expected to be reflected in future business performance. In 2023 and 2024, Slovenian insurance companies will face challenges in underwriting new insurance and reinsurance contracts, given the damages caused by natural disasters in Slovenia. Challenges are evident in handling and paying current claims, underwriting new insurance contracts (including coverage from a legal perspective), and entering into new reinsurance contracts abroad. The challenge in 2024 will be to make changes to the insurance product portfolio so as to ensure that the newly introduced insurance policies strike a balance between the affordability for customers while still providing adequate risk coverage and maintaining profitability for insurance companies. Insurance companies must operate in the market on a long-term basis and enjoy the trust of their customers. In this context, it is necessary to highlight the issues related to legal definitions and the scope of coverage (often referred to as the “fine print” in insurance general terms of operation). In 2023, there was disappointment among people who had insurance for water damage but not for floods, as payouts for completely destroyed homes were considerably lower than the actual damage value. In the context of new reinsurance contracts entered into by Slovenian insurance companies, the question arises regarding both the price of the reinsurance renewal premiums and the extent of coverage for which Slovenian insurers seek reinsurance abroad. This prompts the consideration of how much reinsurance should be secured for significant loss events and how much for smaller-scale incidents, given the evident trend of increasing frequency and severity of natural disasters due to climate change, which include a rising occurrence of severe windstorms, hailstorms, storms, catastrophic floods, and wildfires.

In 2024, the Slovenian insurance market (the total market of collected insurance premiums) will see a novelty with the abolition or the transformation of the supplementary health insurance product, which will lead to a redistribution of market shares among insurance companies. In 2023, the Act Amending the Health Care and Health Insurance Act was adopted, which will come into effect on 1 January 2024. In the Slovenian insurance market, there were three providers of supplementary health insurance product in 2023. These providers will have to adapt their operations (due to the new legislation) and offer new insurance services to the market. Therefore, insurers will actively market the existing supplementary health insurance products and develop new health insurance products in the future. Insurance companies offering supplementary health insurance have filed a petition for the review of the constitutionality to the Constitutional Court, challenging the Decree determining maximum prices for supplementary health insurance in 2023 and the Price Control Act.

2.4. DEVELOPMENTS IN TOURISM IN 2023 AND EXPECTATIONS FOR 2024

TOURISM

Based on interim tourism arrival data, the global tourism industry has experienced varying degrees of recovery following the COVID-19 crisis. Notably, Asia lags the most behind in achieving tourist visitation levels seen in 2019, while Europe's tourist arrivals are very close to the 2019 figures. It is worth mentioning that the region of the Southern Mediterranean Europe has even surpassed its foreign tourist arrival levels from 2019, which is encouraging for Slovenia as regards the trend of visits in coastal destinations. Within the tourism sector, substantial disparities persist in the speed of recovery across regions after the COVID-19 pandemic. As of 2023 (based on interim data), some regions have already exceeded or come close to their foreign tourist arrival levels from 2019. In contrast, other regions remain considerably distant from this benchmark. For example, the Asian region, particularly China, faced challenges due to a zero-tolerance risk policy and COVID-19-related restrictions, which were only lifted in 2023. Europe currently holds the title of being the most visited region globally. To assess its tourism industry's performance, it is not only important to keep an eye on tourist arrival numbers but also to closely monitor tourist expenditure and revenue generation, especially when compared to pre-pandemic tourism spending levels in 2019. Because of the unfavourable macroeconomic environment, it is generally expected that, in 2023 and 2024, tourists will primarily opt for destinations which offer the most value for their money, representing the rational tourist segment which aims to get positioned on the market. Consequently, based on interim and temporary data, it is also presumed that, at least in 2023, tourists will continue travelling to foreign destinations which are in proximity to their homes. The World Tourism Organization does not anticipate the global tourism industry to reach the levels of tourist visitation recorded in 2019 (the last year before the impact of COVID-19). The main factors contributing to the global tourism industry falling short of the 2019 levels include the challenging economic environment, increased transportation costs, higher accommodation prices, travel restrictions, uncertainties stemming from the war in Ukraine, low consumer confidence, airport saturation, flight cancellations, and a shortage of tourism workers.[21] Temporary data on tourism visits to Slovenia in 2023 showed an encouraging trend, as tourist arrivals were higher than in the same period in 2022 and at a similar level to the same period in 2019, which was the pre-pandemic era. The Slovenian tourism sector encompasses coastal, alpine, thermal, and urban segments. Based on available year-on-year data, there is evidence of growth in the number of tourist visits and an increase in the prices of accommodation in specific segments. However, in some segments, only one of the two components determining tourism revenues has seen an increase. The limitations in the capacity of tourism facilities (e.g., a short coastal strip that restricts the construction of a large number of hotels) indirectly emphasize the importance of focusing on the price component of tourism offerings (positioning in higher-star tourism). When setting prices, it is essential to consider the overall state of the macroeconomic environment and the pricing policies of neighbouring tourism regions or countries. Currently, various factors contribute to Slovenia receiving predominantly European guests, for various reasons. However, future potential for increasing the number of foreign tourists lies in air travel, provided that favourable conditions for aviation are established in Slovenia. In 2023, the solid recovery of European tourism was also due to a strong trend of Europeans travelling across the European continent. Slovenia is situated within the region of the Mediterranean Europe and given that this region recovered faster than the overall post-COVID tourism recovery in Europe, Slovenia can anticipate better tourism outcomes in 2024 than those projected for the entire European and global tourism, as assessed by the World Tourism Organization. In light of the mentioned factors, it is anticipated that businesses in the Tourism sector will largely meet or exceed their revenue targets for 2023. Additionally, companies operating in the thermal tourism segment in Slovenia have particularly favourable prospects due to an extended season.

2.5. DEVELOPMENTS IN ECONOMY SECTOR IN 2023 AND EXPECTATIONS FOR 2024

GAMING INDUSTRY AND GAMBLING

The global gaming market is highly region-specific, with significant variations in the financial performance of casino operators and their susceptibility to various external factors (such as restrictions on customer credit, COVID-19 limitations, dependence on economic conditions, and the arrival of guests by air, among others). The success of each casino complex is influenced by both regulatory decisions and the structure of their guests or the way they arrive at the selected casino. In Las Vegas, renowned as a global gaming hub, player arrivals are closely linked to the state of the global economy and the possibility of tourists/gamblers arriving by air. In recent times, there have been some merger and acquisition activities in the gaming industry, where gaming acquirers have included targets from the same sector or from complementary and supplementary industries. The situation in the Slovenian gaming market will depend on the strengthening of market shares for individual providers, the introduction of innovations in gaming offerings, attracting new guests, and the competitiveness of casinos compared to those in neighbouring countries (particularly the importance of Italian and Austrian guests). Special attention will also have to be given to alternative competition in the form of various online casinos, which are operated by globally recognized companies (e.g., William Hill). In this context, the segment of younger players and sports betting, tied to sporting events, should not be overlooked. For casinos operating as part of a hotel complex or within the framework of gaming-hotel activities, certain innovations in business processes will be required. These innovations will manifest themselves in enhancing guest entertainment, both in the hotel and the casino, and in the application of various technologies that increase customer satisfaction with the services received (enhancing the level of loyalty to the casino). Ensuring the safety and responsibility of gambling (preventing gambling addiction) is crucial in this regard. European casinos differ in size from those in Las Vegas and Asia (Macao), as they are notably smaller and have fewer gaming tables. The size of European casinos determines the guest structure (nationality, mode of arrival, motives for visiting, and betting amounts). The performance of Slovenian casinos is highly dependent on the arrival of foreign guests. Therefore, a good understanding of the gambling habits and preferences of various nationalities is essential for the future development of the casino industry. Foreign guests from different countries have varying expectations regarding the services that a gaming-hotel

[21] Source: https://www.slovenia.info/sl/poslovne-strani/raziskave-in-analize/turizem-v-stevilkah.

complex can offer. Italian guests are of utmost importance to Slovenian casinos, while there is potential interest from Chinese guests who primarily visit Italy but could potentially be attracted to Slovenian casinos with the right offerings. To attract new foreign guests, the entire gaming offering must be adapted to customer demands (visiting a casino for entertainment or for playing casino games). Addressing financial risks (notably, high-rolling guests demand exceptionally high upper limits for bets) and adapting the types of games (different nationalities prefer various game types) are also key considerations. In addition to addressing direct competition and the age structure of guests, Slovenian casinos must look towards indirect competition and strive to incorporate their activities into their offerings. For instance, online poker is popular in Europe, providing an opportunity to expand the activities of casinos and potentially attract younger players to gaming complexes.

PHARMACEUTICAL INDUSTRY

In the pharmaceutical industry, significant efforts are dedicated to developing increasingly complex drugs, aiming to create therapies and medications for the most challenging illnesses. This provides pharmaceutical companies with new opportunities for revenue growth and maintaining or improving profit margins. Notably, due to the impact of COVID-19, pharmaceutical companies managed to raise their profit margins from 2020 to 2022 compared to the margins achieved in the years prior to that. For European and American pharmaceutical companies with medium to large market capitalization, analysts predict an increase in operating profit margins from 31.5% (estimated for 2023) to 33.5% in 2024. According to analysts, revenues are expected to grow by 6.3% in 2024 compared to the estimates for 2023. It does not make sense to compare financial indicator estimates for 2023 with the actual results from 2022, as these results include the impact of COVID-19 vaccine sales and medications for fever conditions. For the period between 2022 and 2028, analysts forecast a 3% CAGR (Compound Annual Growth Rate) in revenues for these pharmaceutical companies, emphasizing the need for new investments (R&D investments[22] amounting to approximately 18% of sales) and the launch of more complex products that enable higher revenues. The operating profit margin is expected to increase from 34.4% in 2022 to 37.7% in 2028. Sales revenues of own-branded drugs in the USA and the EU are projected to grow by 6% CAGR from 2022 to 2028, excluding the impact of COVID-19 vaccines and therapies for its treatment. For a group of drugs produced under their own brand, intended for the treatment of neurological diseases, sales revenues are expected to grow at a CAGR of 10% until 2028. Pharmaceutical companies have successfully managed inflationary pressures until 2023 (increasing drug prices to offset rising raw material and labour costs). However, in 2024, the uncertainty regarding the profitability of their operations arises from government decisions or actions concerning the growing costs of public healthcare (reviewing drug prices due to adverse economic trends). Large pharmaceutical companies have sufficient liquidity and financial flexibility in their financial statements for acquiring smaller pharmaceutical companies and manufacturers of bio-comparable drugs. The actual number of acquisitions in the industry will depend on the product range of the acquirer and the acquisition target (patent expirations, potential for new drugs), regulatory approvals, licensing agreements, and the financial valuations of acquisition targets. According to analysts, dividend payouts in 2023, 2024, and 2025 are expected to be slightly above 40% of net profit. In the field of generic pharmaceuticals, 2024 will be interesting to monitor the new market conditions after the separation of the Sandoz Group from Novartis, as the synergies in combining an original pharmaceutical company with a generic pharmaceutical company were not satisfactory. The global generic pharmaceutical industry is expected to grow by a 6.4% CAGR by 2026 (it amounted to USD 332.4 billion in 2022 and is projected to reach USD 426.3 billion in 2026). The generic pharmaceutical industry capitalizes on the world's need for affordable medicines of suitable quality or with similar effects to original drugs (generic drugs have a competitive advantage over original drugs in the context of medical inflation). The rise in chronic diseases (long-term treatment and affordable drugs) also represents a growth lever for generic pharmaceutical companies (the World Health Organization predicts a 17% increase in mortality due to chronic diseases in the next ten years).

TELECOMMUNICATIONS

Due to intense competition in the industry, European-level regulation, and partly the lack of compelling paid additional services in recent years, telecommunications do not stand out as an attractive sector. In the second half of 2023, analysts do anticipate some improvement in the profitability of European telecoms, facilitated by an increase in service prices and reduced cost pressures. Positive prospects for 2024 are based on expectations of lower inflation and a faster rate of business growth. These positive expectations are built on the assessment that the European economy's performance will not be as bleak as initially anticipated, with cyclical business segments expected to achieve satisfactory revenue levels (e.g., the IT services segment). The international operations or contributions of units from other countries to the final results of telecommunications groups (units in Eastern Europe, on other continents) are also essential segments for European telecommunications companies. For the selected group of major European telecoms, analysts expect an average revenue growth of 1.6% in 2024 and a slight improvement in EBITDA margin (34.52%) compared to the estimated EBITDA margin in 2023 (34.16%). It is essential to highlight that there are significant differences in EBITDA margins among European telecoms, even up to 30 percentage points. In 2024, certain fees

[22]R&D investments – Research and Development investments.

charged by telecoms to their customers or among themselves will further decrease in the EU (e.g., roaming charges for the transmission of 1 GB of data outside of contracted quantities, charges for incoming calls in the telecommunications operator market). In the telecommunications industry, the development and impact of artificial intelligence will be interesting to observe in the coming years (network management, personalized marketing, customer relations, software development, network security, fraud detection, etc.), both operationally and financially (medium-term increase in operating margins). Mergers and acquisitions in the industry will depend on regulators' decisions on ongoing M&A transactions, the level of interest rates, the attractiveness of valuations for takeover targets, competition levels in individual markets, and the purchasing availability of individual industry players (companies in optics, mobile base stations, etc.). Individual companies in the European telecommunications industry are seeking market consolidation through the purchase of networks or other companies, driven by the challenge of inadequate operating margins and growing capital requirements for the development of new networks. In M&A activities, telecommunications companies (merger notification) face precise assessments by the European Commission (for the sake of competition protection in the market). Uncertainties about the successful completion of M&A activities between telecommunications companies are caused by uncertainties regarding the findings of the European Commission on the future state of competition (the last acceptable number of telecommunications companies in a particular national market after the takeover to maintain competitive market conditions), the acceptability of corrective measures offered by telecommunications companies in exchange for approvals (readiness to divest another unit within the telecommunications group), and the interpretation of the specifics of individual national markets in assessing competitive conditions by regulators (the impact of regulated network prices on a particular segment, the impact on the number of low-cost providers in the market, and the trend of declining telecommunications service prices). Low valuations of telecoms provide interesting potential takeover targets, and within the telecommunications field, there is a growing trend of consolidating optical network infrastructure, with the number of takeover transactions (in addition to regulators' approvals) limited by high interest rates. Efforts to merge and consolidate also extend to mobile networks, where high costs of developing 5G networks are cited as a reason. Reasons for divesting a particular part of a telecommunications group also include reducing debt and assessments of the side (non-core) activity of the unit. In the European telecommunications sector, there are high valuations of companies with own base stations, which have offered an interesting way of monetizing telecommunications groups' portfolios. Various forms of infrastructure monetization are planned, ranging from the sale of minority stakes to stakes in joint ventures. The number of future takeover transactions in the base station sector is determined by high interest rates and the relatively small potential pool of companies still available for sale (numerous takeover transactions in the past years have been completed for base stations).

STEEL INDUSTRY AND ALUMINUM INDUSTRY

In the first half of 2023, the World Steel Association[23] projected that global demand for finished steel products would increase by 2.3% in 2023, reaching 1,822 million tons. The majority of this demand originates from the Asia and Oceania region (1,304 million tons). For 2024, an increase in global steel demand by 1.7% is anticipated, bringing demand to 1,854 million tons. Since this forecast is relatively outdated (from April 2023), a more recent forecast is also provided which was published by Bloomberg in June 2023. This forecast suggests that global steel demand in 2023 will grow by from 1% to 1.5% (compared to a 4.5% decline in 2022) due to demand generated by India, Turkey, and ASEAN countries[24]. Despite China's growth support plan (China is the largest global steel consumer), a mere stabilization or 0.3% growth in steel demand is expected in China in 2023, with 0.5% growth expected in 2024 and 2025 due to poor indicators in the Chinese real estate market. For 2024, Bloomberg estimates that global steel demand will increase by 2.1%, and in 2025, the growth is expected to be 1.6%. The dynamics of steel demand in Europe and the United States will be significantly different in 2023. Bloomberg projects that in 2023, steel demand in Europe will rise by 1.3%, while in the United States, it is expected to decline by 3.9%. Steel demand is anticipated to grow in Europe by 4.1% and 2.6% in 2024 and 2025, respectively. In the United States, the growth is expected to be 3.0% in 2024 and 1.5% in 2025. The growth in steel demand is expected to be driven by the restocking process among customers and the anticipated improvement in the automotive industry (increased production). The situation in the European steel market will also depend on the effectiveness of support programs (such as Next Generation EU), the success of protective measures taken by the EU regarding steel imports from third countries (carbon border tax), and the process of restructuring the European steel industry (moving away from steel production that has a carbon footprint). Steel manufacturers must pay particular attention to safeguarding the market categories of the production process (electricity costs, raw materials, finished steel, etc.) and managing production capacities in line with market conditions.

Bloomberg predicts that in 2023, the growth in global aluminium demand will be 1%, in 2024, it will be 3%, and in 2025, it will be 2%. This growth projection is based on emissions reduction requirements set forth by individual countries and regions. Increased production of electric vehicles and the use of lighter materials in conventional vehicles (such as aluminium, which

[23] Source: World Steel Association; Short Range Outlook April 2023.

[24] The geopolitical and economic organization of ten countries in South-east Asia (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam).

reduces vehicle weight) are expected by Bloomberg to drive the demand for aluminium, which will offset the impact of weak demand in the construction industry. Due to the energy crisis (rising energy costs), final product prices (related to the uneconomical production of primary aluminium), environmental regulations, and competition from third-world countries, prospects for aluminium production in Western and Central Europe are poor in 2023 (with Bloomberg estimating a potential production decline of up to 18%). For 2024 and 2025, Bloomberg anticipates only modest production growth (around 2% or 3%). China holds the largest share (55%) in the global primary aluminium market, and whether there will be a surplus or deficit in supply in the future largely depends on future events in China (such as the restart of temporarily halted capacities, the speed of introducing new capacities to the market, the state of water resources in China in terms of energy supply, and partnerships with other countries, particularly for bauxite supply, etc.). Aluminium manufacturers are grappling with the economics of market conditions by achieving self-sufficiency in production (i.e., owning their electricity generation and bauxite supply) and efficiently organizing the production process (which is suitable for the primary aluminium production segment). Alternatively, they may focus on producing more sophisticated finished products (suitable for manufacturers unable to compete on price but aiming for higher value-added products) and implementing appropriate financial strategies to protect their market positions (such as cost containment for electricity and raw materials).

AUTOMOTIVE INDUSTRY

The European automotive industry is facing uncertainty, as it has been affected by a new crisis in 2023 caused by reduced consumer confidence and rising interest rates, which negatively impact the vehicle sales segment with loans and leases. Due to the extremely poor sales of new vehicles in 2020, 2021, and 2022 (linked to the 2020 crisis or recession), analysts expect an increase in the sale of new vehicles in the United States, Europe, and China in 2023, despite the unfavourable macroeconomic environment. S&P[25], a leading analytical firm, anticipates that global production of light vehicles will reach 85.6 million units in 2023 and 88 million units in 2024 (in 2018, production reached 94.1 million units, and it is expected to return to that level only in 2028). In May 2023, the German Association of the Automotive Industry (VDA)[26] predicted a 7% increase in vehicle sales in the European market to amount to 12.0 million units in 2023 (compared to 15.8 million new vehicles sold in the pre-crisis year of 2019). The U.S. market is expected to grow by 4% in 2023 to 14.3 million units of new light vehicles, while the Chinese market is projected to grow by 3% to 23.9 million units of new personal vehicles. VDA expects that the global market for new personal vehicles will grow by 4% in 2023. For suppliers of automotive parts to the industry, the uncertain and unpromising macroeconomic forecasts for 2023 and 2024 serve as a warning, as automotive manufacturers are expected to focus on price discipline (to maintain their operating margins), which poses a risk of price pressure on the parts they supply. The scenario that could coincide with an improvement in the availability of component parts (without bottlenecks in supply chains) during a recession in some important markets would be even worse for automotive parts suppliers, as automotive manufacturers would be forced to offer additional discounts on the sale of new vehicles (as seen with the global price reductions at Tesla in 2023), leading to even greater pressure on automotive parts suppliers. In general, automotive parts suppliers need to focus on the fact that electric vehicles (EVs) are the future of the automotive industry, and they should closely monitor trends in individual key automotive markets. It will also be important to monitor the commitments of individual automotive manufacturers regarding carbon-neutral production when they will only produce electric vehicles (some manufacturers are targeting 2030 for this transition). Key factors to consider when developing the sales program for automotive parts, setting pricing policies, and choosing automotive plants for which parts are manufactured include the collective market shares of individual automotive plants, their current position in the field of EVs, and the potential for further market share growth in EVs. When making decisions about the sales program, automotive parts manufacturers need to analyse the share of EV sales in the most important markets, the incentives for purchasing EVs (conditions for 100% electric vehicles and hybrid vehicles), the discounts offered by new vehicle sellers in each market, and so on. There are significant differences between global automotive markets in terms of new vehicle sales and development potential. Despite the calming of conditions regarding commodity and energy prices, automotive manufacturers and automotive parts suppliers should not ignore the need for appropriate protection of market input positions in the production process (raw materials and energy commodities traded on global exchanges).

WATER UTILITY COMPANIES

Water utility companies render services of general economic interest on the basis of a concession. Water management in Slovenia is organised in the following manner: MNRSP (prior Ministry of the Environment and Spatial Planning) awards concessions to companies which meet the specified criteria and the requirements through a public tender process. The concession is divided into two parts, the first is related to the provision of services of general economic interest, and the second part covers additional services. Services within the scope of the Concession Agreement include maintenance, security, cleaning, mowing, cutting, the

[25] Source: www.spglobal.com.
[26] Source: www.vda.de.

restoration of weirs, banks, and thresholds, the construction of stone– concrete barriers, retaining walls, and ground thresholds, as well as the cleaning and maintenance of sink-holes and gravel barriers, and the removal of sandbanks and debris. Water utility companies generate part of their income by fulfilling concession obligations and another part through market activities related to the construction of municipal infrastructure, environmental protection facilities, agricultural work, geotechnical work, etc. Due to the floods in August 2023, it is expected that the budget allocated for watercourse maintenance will increase in the coming years, as the consequences of the floods need to be addressed, and adequate flood protection measures must be ensured.

FORESTRY

Forestry involves the management of forests, including forest development, cultivation, and protection, as well as other activities necessary for the ecological and social functions of forests, the construction and maintenance of forest infrastructure, and timber production. The Republic of Slovenia is among the three most forested countries in Europe, with 1.2 million hectares of forests covering over half of the country's territory. Commercial forests dominate, accounting for 90.8% of the forest area, primarily focused on timber production. Protective forests make up 8.4% of the forest area, while forest reserves represent 0.8% of all forests in Slovenia. The forest stock in Slovenia is estimated at 357 million cubic meters or 303 cubic meters per hectare, with deciduous trees accounting for 56% of the tree species. In the Republic of Slovenia, 77% of forests are privately owned, 20% are state-owned, and 3% are owned by municipalities. Forest management is the responsibility of the owner, who manages based on the guidance of the public forestry service. In recent decades, Slovenian forests have been threatened not only by natural disasters but also by insects, mainly spruce bark beetles, which are the most common reason for sanitary felling, ranging from 15% to 70% of the total logging in the last twenty years. A high percentage of sanitary felling negatively affects planned forest management, reducing the ecological stability of forests and the profitability of forest management. For the economic development of forestry and the broader wood industry in the Republic of Slovenia, it is essential to retain as much of the added value as possible through wood processing into various wood products. The use of wood biomass can range from energy production to various final wood products. Different types of wood must be sold to appropriate market segments, where optimal business results can be achieved with the right strategic sales activities. The prices of wood will depend on supply (quantity and quality of wood), demand for a specific type of wood, the state of the industry that purchases wood products (e.g., construction, paper industry), and the general economic situation and the state of existing wood stock. High interest rates and predictions of low economic growth generally do not give good prospects for wood demand in the construction, furniture, or paper industries. Wood is a commodity traded on the international market, and it should be noted that there is a risk of illegal wood imports from Russia and Belarus through third countries into the EU. For the EU, making predictions about future wood prices is challenging due to numerous uncertainties and various segments within the timber market, such as the demand for hardwood for construction and regional preferences for wooden houses across Europe. However, in the event of positive developments in the market (amidst the abundance of already-known negative economic news), a price rebound is not out of the question. In June 2023, the EU adopted legislation to ensure that timber products are not derived from deforestation. This legislation demonstrates the EU's clear commitment to environmental goals, making it the world's first law of its kind for protecting forests. The EU aims to regulate access to the EU market and exports from the EU for goods contributing to deforestation and forest degradation worldwide. The list of goods causing deforestation includes various agricultural and industrial products, such as logging for pasture expansion and rubber plantation areas for rubber production. Wood products are also included in this list due to logging for the production of various wooden products. The main obligations under this legislation will take effect after a transitional period which ends in December 2024. Companies must adapt their business processes to comply with the directive's requirements by the directive's effective date. The adoption of this regulation further expands existing regulations in the field of timber. In the coming years, this legislation will significantly impact the supply and demand for wood (and consequently, prices) in the EU, as it will require the participation of all stakeholders in the timber value chain (wood origin, quantities, compliance with regulations, traceability). The Green Agenda not only poses a threat to wood sales but also offers opportunities to promote wood with positive environmental stories, such as building wooden houses and reducing the carbon footprint in the environment.

PIG FARMING AND MEAT PROCESSING INDUSTRY

In the production of meat, livestock farmers, the meat processing industry, and consumers have faced significant increases in input costs and energy prices, which have been transmitted through the value chain to the prices of final meat products. In 2023, on the reference markets in Europe, pork prices were still elevated, although the prices of input materials had slightly decreased, which improved the profit margins of pork producers. However, there have been no investments for noticeable increase in production due to concerns about structural changes. The balance between supply and demand for pork, export-import activities, disruptions in the market (e.g., swine fever), and new dietary trends, alongside the prices of input factors in pork production, determine the prices of pork and other meat products. Production in the EU, measured by the number of livestock, is declining, and the sector has been affected by various crises in recent years (spread of African swine fever, COVID-19, Russian embargo, etc.), with a decrease in pork production also expected in 2023. Analysts estimate that potential new EU legislation banning the raising of pigs in cages could lead to a nearly 25% reduction in pig production in the EU by 2025 and an almost 50% increase in pork prices. Regardless of the final version of EU legislation regarding pig farming, analysts believe it will include requirements for animal welfare and environmental protection. Due to the currently uncompetitive conditions in pork production in the EU, a decline in the EU's share of the global pork market (a decrease in exports from the EU) is expected, while the share of pork producers from the United States and Brazil is likely to strengthen. To maintain pork consumption, it is crucial for pork producers to operate in compliance with animal welfare regulations, as any negative publicity about animal abuse can further lead to a loss of customers or a decrease in pork demand. Vertical integration in pig farming and meat processing industries can achieve certain synergies on the market to mitigate some of the negative general impacts on the European pork market (business effects through a proven domestic origin of meat and the production of meat products valued by consumers).

In the 2024 business environment, extreme attention should also be given to the risk of African swine fever, as an infection could necessitate the culling of the entire herd. A potential outbreak would be a disaster for pig farms, so all measures to protect the pig herd from the transmission of this virus must be strictly enforced (quarantine of new pigs before housing). Infected animals must be culled, and this has negative effects throughout the meat processing industry. In Serbia, the price of pork increased from EUR 2.3 to EUR 3.3/kg due to the African swine fever outbreak. Serbia enjoys a relatively high level of self-sufficiency in pork, with 87% of its domestic demand met by local production. In contrast, Slovenia has a significantly lower self-sufficiency rate in pork, which stands at just 40%. An outbreak of African swine fever in Slovenia could have an even more significant impact on pork supply and prices locally. Additionally, it is concerning that cases of infection in domestic pigs have been reported in neighbouring countries, including Croatia and Bosnia and Herzegovina. The disease spreads among domestic and wild pigs, and it is worrisome that, since the summer of 2023, numerous new outbreaks have been recorded in Serbia, Bulgaria, and Romania, which are relatively close to Slovenia.

3. MANAGEMENT OF CAPITAL ASSETS

3.1. PORTFOLIO OF CAPITAL ASSETS

3.1.1. LIST OF CAPITAL ASSETS UNDER SSH'S MANAGEMENT

SSH manages capital assets which are owned by SSH and those which are owned by RS but managed by SSH.

As at 31 October 2023, SSH managed assets held in 94 companies, of which capital assets held in 45 companies were owned solely by RS, assets in 33 companies were owned solely by SSH, while capital assets in the remaining 16 companies were owned both by RS and SSH.

As at 31 October 2023, the portfolio of capital assets included nine companies with assets with capital assets acquired by the Republic of Slovenia under the law governing inheritance (ZD) and one under ZOPNI. Assets in eight companies were in the process of liquidation. In accordance with ZSDH-1A, the equity stake in Talum was transferred from Eles to the Republic of Slovenia on 20 September 2023.

Table 2: List of companies with capital assets owned by SSH and/or RS managed by SSH as at 31 October 2023

Lfd. No.	Company	Asset type	RS ownership stake (in %)	SSH ownership stake (in %)
		ENERGY SECTOR		
1	ELEKTRO CELJE, D. D.	STRATEGIC	79.50	0.41
2	ELEKTRO GORENJSKA D. D.	STRATEGIC	79.48	1.51
3	ELEKTRO LJUBLJANA, D. D.	STRATEGIC	79.50	0.77
4	ELEKTRO MARIBOR D. D.	STRATEGIC	79.86	
5	ELEKTRO PRIMORSKA, D. D.	STRATEGIC	79.68	0.36
6	EGS– RI, d. o. o. O.	PORTFOLIO	100.00	
7	GEN ENERGIJA, D. O. O.	STRATEGIC	100.00	
8	GEOPLIN, D. O. O., LJUBLJANA	IMPORTANT	25.01	
9	HSE, D. O. O.	STRATEGIC	100.00	
10	INFRA, D. O. O.	IMPORTANT	100.00	
11	NAFTA LENDAVA, D. O. O.	IMPORTANT	100.00	
12	PETROL, D. D.	IMPORTANT	10.82	12.70
13	PLINHOLD, D. O. O.	STRATEGIC	60.10	0.05
14	RTH, D. O. O. TRBOVLJE - IN LIQUIDATION	PORTFOLIO	100.00	
15	RUDNIK KANIŽARICA V ZAPIRANJU, D. O. O., ČRNOMELJ – IN LIQUIDATION	PORTFOLIO	100.00	
16	RŽV, D. O. O.	PORTFOLIO	100.00	
		FINANCIAL SECTOR		
17	DSU, D. O. O.	IMPORTANT	100.00	
18	KOMPAS RAC, D. D., LJUBLJANA –IN LIQUIDATION	PORTFOLIO	0.01	0.02
19	M1, D. D.*	PORTFOLIO	0.00	
20	NLB, D. D.	IMPORTANT	25.00	
21	PRVI SKLAD, DRUŽBA TVEGANEGA KAPITALA, D. O. O. – IN LIQUIDATION	IMPORTANT	48.90	
22	SAVA RE, d. d.	IMPORTANT	13.89	17.68
23	SID BANKA, D. D.	STRATEGIC	99.41	

24	STH VENTURES, DRUŽBA TVEGANEGA KAPITALA – IN LIQUIDATION	IMPORTANT	49.00

*Note: * Shareholdings are rounded up to two decimal places. When the holding of 0.00% is referred to, this means that there is an ownership stake in the company, but it has been rounded up to 0.005%.*

Lfd. No.	Company	Asset type	RS ownership stake (in %)	SSH ownership stake (in %)
	FINANCIAL SECTOR			
25	TERRA FIRMA, D. D.	PORTFOLIO		0.06
26	ZAVAROVALNICA TRIGLAV, D. D.**	STRATEGIC	34.48	28.09
	ECONOMY			
27	A.L.P. PECA, D. O. O.	PORTFOLIO	9.09	
28	BODOČNOST MARIBOR, D. O. O.	PORTFOLIO	77.52	
29	CETIS, D. D., CELJE	PORTFOLIO		7.47
30	CINKARNA CELJE, D. D., CELJE	PORTFOLIO		24.44
31	CSS, D. O. O.	PORTFOLIO	97.96	
32	ELEKTROOPTIKA, D. D.	PORTFOLIO	0.01	70.48
33	FARME IHAN – KPM, D. O. O.	PORTFOLIO		100.00
34	ILLURIA HOLDINGS LIMITED – IN LIQUIDATION	PORTFOLIO		100.00
35	ISTRABENZ, D. O. O.	PORTFOLIO		100.00
36	KOTO, D. O. O.	PORTFOLIO	66.23	4.42
37	KRKA, D. D.	IMPORTANT	7.22	9.00
38	LOTERIJA SLOVENIJE, D. D.	STRATEGIC		15.00
39	MK ZALOŽBA, D. D.	PORTFOLIO		83.47
40	POMGRAD– VGP, D. D.	IMPORTANT	25.01	
41	PS ZA AVTO, D. O. O., LJUBLJANA	PORTFOLIO		90.00
42	RD, D. D., LJUBLJANA	PORTFOLIO		0.49
43	SALOMON, D. O. O., LJUBLJANA	PORTFOLIO		30.59
44	SAVAPROJEKT, D. D.	PORTFOLIO	3.47	
45	SIDG, D. O. O.	STRATEGIC		100.00
46	SIJ, D. D.	IMPORTANT	25.00	
47	STNA, D. O. O.	PORTFOLIO		100.00
48	STUDENTENHEIM KOROTAN GMBH	PORTFOLIO	100.00	
49	TALUM, D. D., KIDRIČEVO	STRATEGIC	86.25	5.21
50	TELEKOM SLOVENIJE, D. D.	PORTFOLIO	62.54	4.25
51	UNIOR, D. D.	PORTFOLIO		39.43
52	URADNI LIST REPUBLIKE SLOVENIJE, D. O. O.	STRATEGIC	100.00	
53	VGP, D. D.	IMPORTANT	25.00	
54	VGP DRAVA PTUJ, D. O. O.	IMPORTANT	25.00	
55	VGP NOVO MESTO, D. D.	IMPORTANT	25.00	
	TOURISM			
56	ADRIA, D. O. O.	PORTFOLIO		11.74
57	CASINO BLED, D. D.	PORTFOLIO		33.75
58	CASINO PORTOROŽ, D. D.	PORTFOLIO		9.46
59	HIT, D. D., NOVA GORICA	PORTFOLIO		28.54

60	ISTRABENZ TURIZEM, D. D.	PORTFOLIO		100.00
61	SAVA, D. D.	IMPORTANT		61.91
62	TERME OLIMIA, D. D.	IMPORTANT	67.13	8.01
63	THERMANA, D. D.	PORTFOLIO		100.00
Lfd. No.	**Company**	**Asset type**	**RS ownership stake (in %)**	**SSH ownership stake (in %)**
		TRANSPORT		
64	DARS, D. D.	STRATEGIC	100.00	
65	DRI UPRAVLJANJE INVESTICIJ, D. O. O.	STRATEGIC	100.00	
66	KOPP, D. O. O.	STRATEGIC	100.00	
67	KZPS, D. O. O.	STRATEGIC	100.00	
68	LUKA KOPER, D. D.	STRATEGIC	51.00	11.13
69	POŠTA SLOVENIJE, D. O. O.	STRATEGIC	100.00	
70	SŽ, D. O. O.	STRATEGIC	100.00	
		TANGIBLE ASSETS		
71	ARGOLINA, D. O. O.	PORTFOLIO		100.00
72	DUP, D. O. O., SARAJEVO, BIH	PORTFOLIO		100.00
73	DUTB CRNA GORA, D. O. O., MONTENEGRO	PORTFOLIO		100.00
74	FACTOR PROJEKT, D. O. O., CROATIA	PORTFOLIO		100.00
75	FUNDUS, D. O. O., BEOGRAD, SERBIA (IN LIQUIDATIONI)	PORTFOLIO		100.00
		CLAIMS		
76	AVTOTEHNA ZAGREB, D. O. O.	PORTFOLIO		100.00
77	BATRIS, D. O. O., UKRAINE	PORTFOLIO		18.00
78	CONSTANT LEADER XXI, UKRAINE	PORTFOLIO		18.00
79	DS PROJEKT, D. O. O.	PORTFOLIO		74.00
80	HYUNDAI AUTO BEOGRAD, D. O. O., SERBIA	PORTFOLIO		100.00
81	MLM, D. D.	PORTFOLIO		100.00
82	POSLOVNI SISTEM DOMINA, D. O. O., BEOGRAD, SERBIA	PORTFOLIO		55.52
83	PROLEASING RIJEKA, D. O. O., CROATIA (LIQUIDATION)	PORTFOLIO		100.00
84	SKUPINA PRVA, D. D.	PORTFOLIO		0.00

Table 3: List of capital assets of RS acquired under ZD and ZOPNI, as at 31 October 2023

Lfd. No.	Company	RS ownership stake (in %)
1	AGIS TECHNOLOGIES, D. D.	0.00
2	ELBEKO, D. O. O., SEŽANA	100.00
3	IBI KRANJ, D. D. - IN LIQUIDATION	0.00
4	IBT TRBOVLJE, D. D.	0.04
5	KS NALOŽBE, D. D.	0.01
6	LUBRIO, D. O. O.*	100.00
7	NTU, D. D.	0.03
8	POMORSKA DRUŽBA, D. D., PORTOROŽ	0.10
9	TEKOL, D. D.	0.08

10	VIPA HOLDING, D. D.	0.00

Note: Holdings are rounded up to two decimal places. When the holding of 0.00% is referred to, this means that there is an ownership stake in the company, but it has been rounded up to 0.005%.
** Capital assets acquired under ZOPNI.*

Capital assets which are neither included in this AAMP nor in the Special Section of AAMP

The classification of state assets, which is included in the State Assets Management Strategy, also refers to assets which are not managed by SSH and are thus not the subject of this AAMP. They include the following companies with capital assets of RS:

- **for which SSH does not any powers to participate at their General Meeting** (for example, KAD, STA); as a result, SSH cannot enforce any shareholder's entitlements;
- **which are under direct management of RS in accordance with special legislation** (for example, ELES, Borzen, 2TDK).

All of capital assets managed by SSH are included in the Special Section of AAMP with the exception of capital assets in companies which are subject to special circumstances owing to which the preparation of the Special Section of AAMP is not reasonable. These are:

- **capital assets in companies undergoing liquidation (so-called inactive capital assets):** the primary objective of management in companies undergoing liquidation is the successful conclusion of the liquidation process. As an exception, such assets may be included in a special section of AAMP when additional management activities are necessary or envisaged;
- **capital assets in companies for which a Sale and Purchase Agreement with regard to the total stake held by SSH and/or RS has been concluded or any other type of written agreement** has been concluded but not yet finally realised. The management activities undertaken in such companies are minimal. SSH's goal in managing these companies is to successfully carry out activities envisaged to be taken in the period between the signing of the agreement and the closure of the transaction, when such activities are required for a successful closure of the transaction;
- **capital assets in companies in which RS and/or SSH hold only a minor equity holding:** given that the equity holding is low, SSH has a very limited influence on the corporate governance of these companies. Considering the principle of efficiency and its voting influence, SSH will strive to act in the best interest of the RS and/or SSH in managing these assets. The fundamental goal pursued by SSH in the management of these assets is to ensure suitable conditions to sell these assets, in accordance with ZSDH–1;
- **capital assets in companies in companies acquired under ZD**: this includes one non-operating company in which RS holds a 100% ownership stake and has not prepared financial statements for more than two years. Legal basis for deletion from the Business Register will be established for this company. It also includes several companies in which the ownership stake of RS is less than 1%;
- **capital assets in companies for which SSH does not set any economic-financial and strategic objectives**, for example, due to the method of financing, different management responsibilities, non-performance of activities when the sole objective for capital assets in the company is the sale or because the majority of activities are directed towards debt management or the majority of assets represent real property. This applies to companies such as RŽV and Infra, as well as most companies from the claims and tangible assets portfolios.

Table 4: List of assets managed by SSH in companies not included in the Special Section of AAMP, as at 31 October 2023

Lfd. No.	Company	Asset type	RS ownership stake* (%)	SSH ownership stake* (%)	TOTAL ownership stake (in %)
1	A.L.P. PECA, D. O. O.	PORTFOLIO	9.09		9.09
2	AGIS TECHNOLOGIES, D. D.	PORTFOLIO	0.00		0.00
3	ARGOLINA, D. O. O.	PORTFOLIO		100.00	100.00
4	AVTOTEHNA ZAGREB, D. O. O.	PORTFOLIO		100.00	100.00

Lfd. No.	Company	Asset type	RS ownership stake* (%)	SSH ownership stake* (%)	TOTAL ownership stake (in %)
5	BATRIS, LLC, UKRAINE	PORTFOLIO		18.00	18.00
6	CASINO BLED, D. D.	PORTFOLIO		33.75	33.75
7	CASINO PORTOROŽ, D. D.	PORTFOLIO		9.46	9.46
8	CONSTANT LEADER XXI, LLC, UKRAINE	PORTFOLIO		18.00	18.00
9	DS PROJEKT, D. O. O.	PORTFOLIO		74.00	74.00
10	DUP, D. O. O., SARAJEVO	PORTFOLIO		100.00	100.00
11	DUTB CRNA GORA, D. O. O.	PORTFOLIO		100.00	100.00
12	ELBEKO, D.O. O., SEŽEANA	PORTFOLIO	100.00		100.00
13	ELEKTROOPTIKA, D. D.	PORTFOLIO	0.01	70.48	70.49
14	FACTOR PROJEKT, D. O. O., CROATIA	PORTFOLIO		100.00	100.00
15	FUNDUS, D. O. O., BEOGRAD – IN LIQUIDATION	PORTFOLIO		100.00	100.00
16	HYUNDAI AUTO BEOGRAD, D. O. O.	PORTFOLIO		100.00	100.00
17	IBT KRANJ, D. D. - IN LIQUIDATION	PORTFOLIO	0.00		0.00
18	IBT TRBOVLJE, D. D.	PORTFOLIO	0.04		0.04
19	ILLURIA HOLDINGS LIMITED – IN LIQUIDATION	PORTFOLIO		100.00	100.00
20	INFRA, D. O. O.	IMPORTANT	100.00		100.00
21	KOMPAS RAC, D. D., LJUBLJANA – IN LIQUIDATION	PORTFOLIO	0.01		0.01
22	KS NALOŽBE, D. D.	PORTFOLIO	0.01		0.01
23	M1, D. D.	PORTFOLIO	0.00		0.00
24	MLM, D. D.	PORTFOLIO		100.00	100.00
25	NTU, D. D.	PORTFOLIO	0.03		0.03
26	POMORSKA DRUŽBA, D. D.	PORTFOLIO	0.10		0.10
27	POSLOVNI SISTEM DOMINA, D. O. O., BEOGRAD	PORTFOLIO		55.52	55.52
28	PROLEASING RIJEKA, D. O. O. – IN LIQUIDATION	PORTFOLIO		100.00	100.00
29	RD, D. D., LJUBLJANA	PORTFOLIO		0.49	0.49
30	RUDNIK KANIŽARICA V ZAPIRANJU, D. O. O. ČRNOMELJ – IN LIQUIDATION	PORTFOLIO	100.00		100.00
31	RŽV, D. O. O.	PORTFOLIO	100.00		100.00
32	STNA, D. O. O.	PORTFOLIO		100.00	100.00
33	SAVAPROJEKT, D. D.	PORTFOLIO	3.47		3.47
34	SKUPINA PRVA, D. D.	PORTFOLIO		0.00	0.00
35	TEKOL, D. D.	PORTFOLIO	0.08		0.08
36	TERRA FIRMA, D. D.	PORTFOLIO		0.06	0.06
37	VIPA HOLDING, D. D.	PORTFOLIO	0.00		0.00

Note: Shareholdings are rounded up to two decimal places. When the holding of 0.00% is referred to, this means that there is an ownership stake in the company, but it has been rounded up to 0.005%.

3.1.2. STRUCTURE OF CAPITAL ASSETS PORTFOLIO

The portfolio of capital assets which is managed by SSH (assets held by the RS, ZPIZ and SSH) has been gradually concentrated in the past. Currently, the two largest pillars by book value of capital, Energy and Transport, account for approximately 71% of the capital asset portfolio. The four largest companies, which are included in these two pillars, i. e., DARS, GEN, SŽ and HSE, collectively hold a 54.7% share (measured by the book-value of ownership interest under management).

Figure 1: Proportion of pillars in the capital assets portfolio by book-value of equity, in the period from 2018 to September 2023

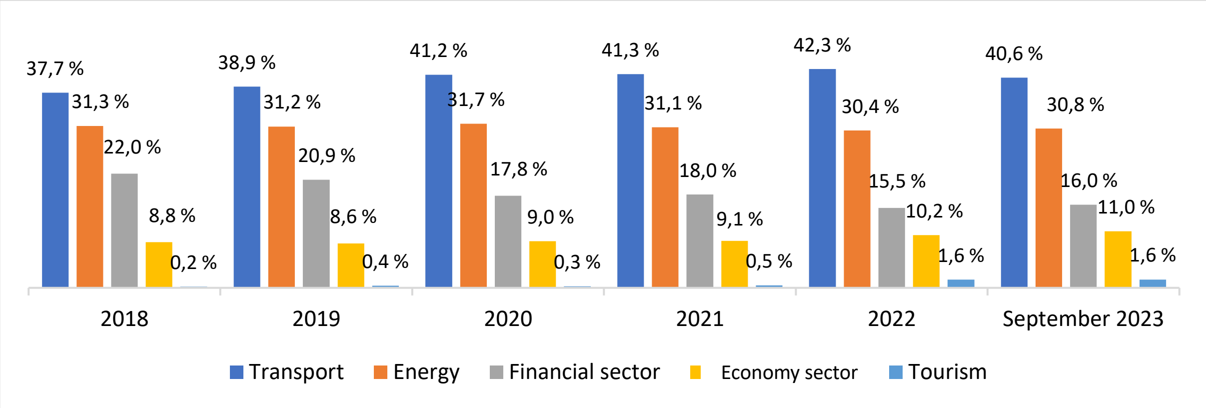
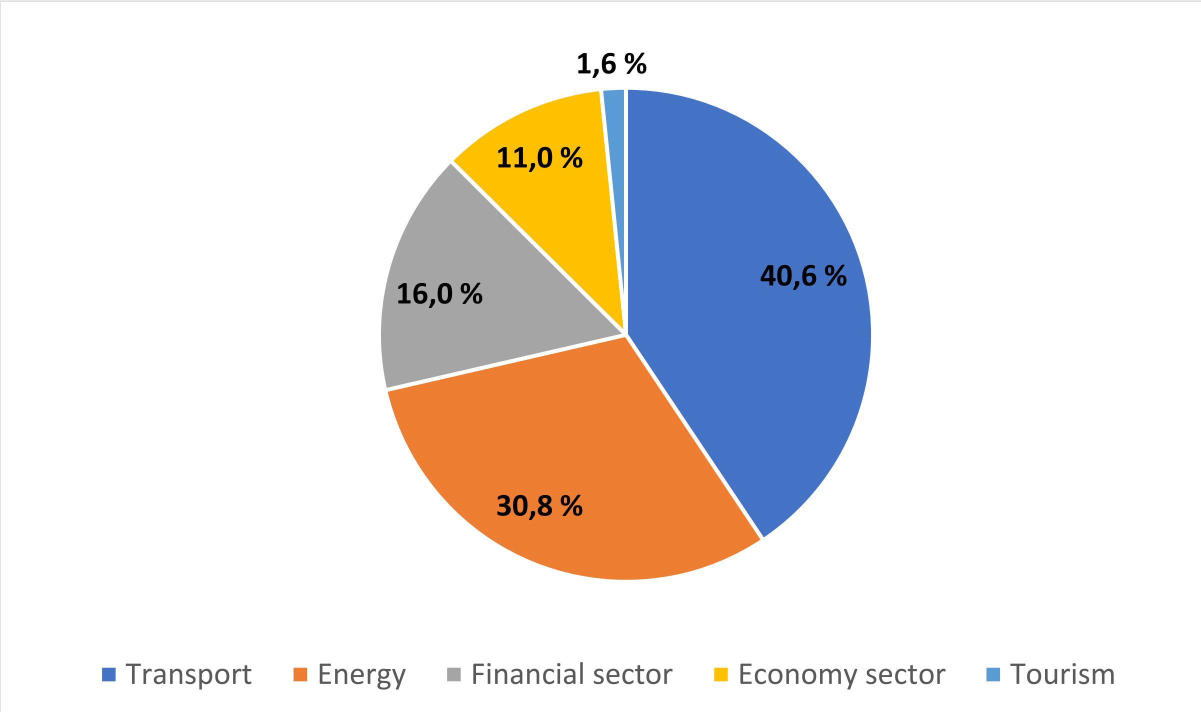


Figure 2: Proportion of pillars in the capital assets portfolio by book-value of equity, September 2023



As a result of past sales, the portfolio of capital assets is becoming more homogeneous in terms of the classification of capital assets. Strategic assets represent almost 80% of the asset management portfolio. The TOP 10 portfolio companies, which in total represent 77.6% of the portfolio, include seven companies with strategic assets, holding a share of 65.4%.

Figure 3: Proportion of pillars in the capital assets portfolio by book-value of equity, in the period from 2018 to September 2023

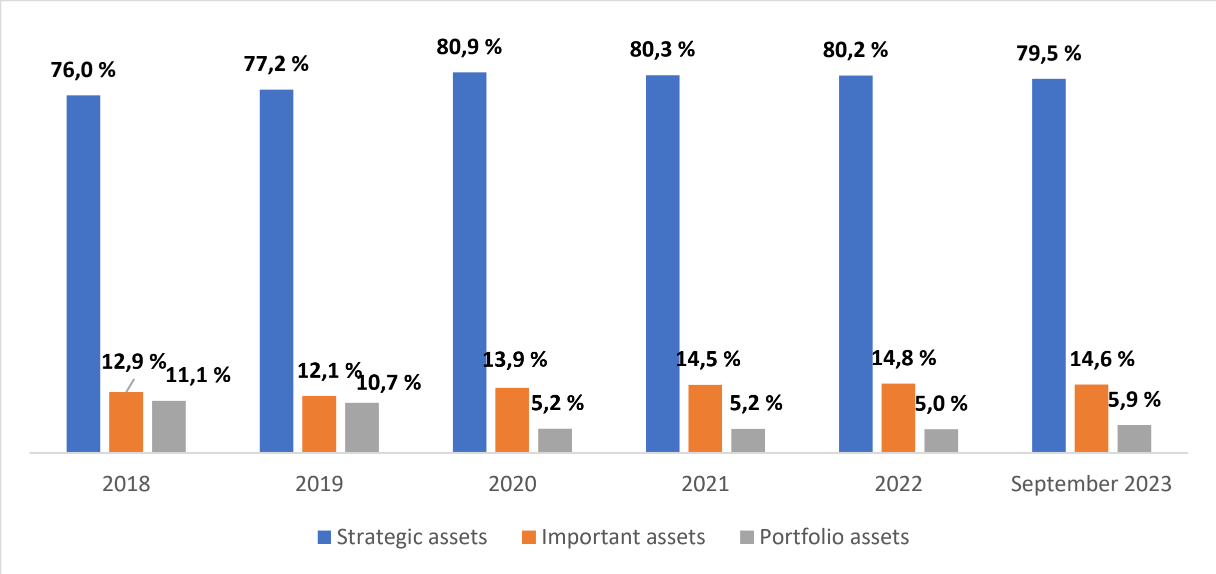
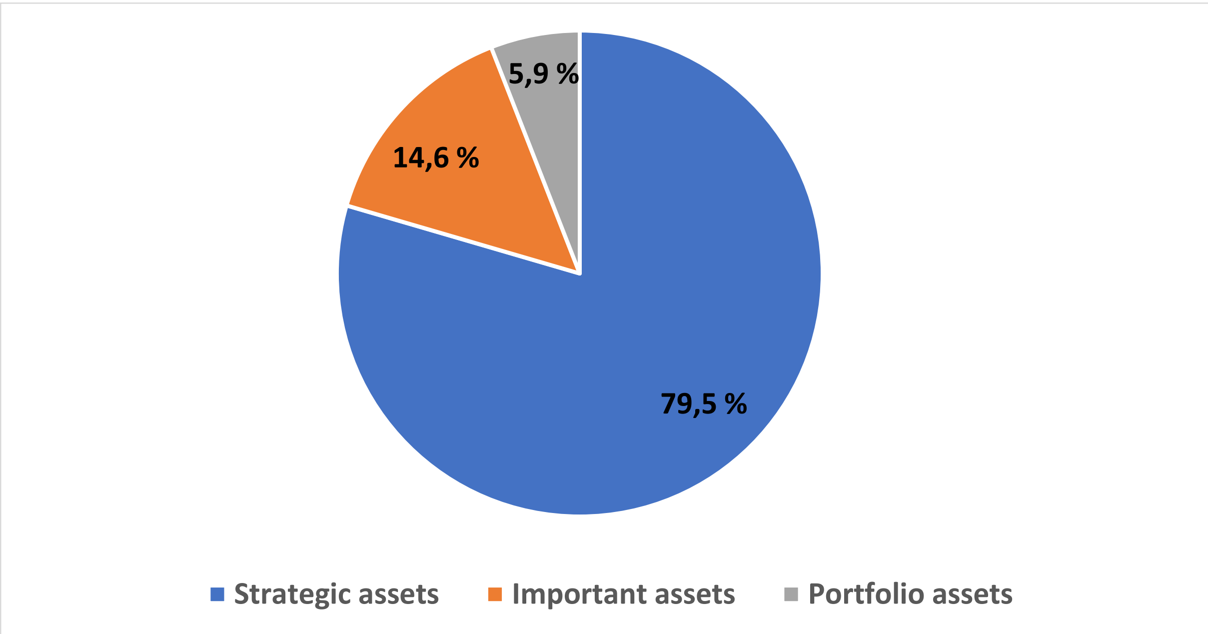


Figure 4: Proportion of classification groups in the capital assets portfolio under SSH's management by book-value of equity, September 2023



The table below presents the largest companies with capital assets by pillars in relation to the share in total portfolio

Table 5: The proportion of five largest companies with capital assets in individual pillar (using the book value as the relevant criterion) in portfolio of capital assets, September 2023, in %.

TRANSPORT	
DARS, D. D.	27.4
SŽ GROUP	7.3
POŠTA SLOVENIJE GROUP	3.0
LUKA KOPER GROUP	2.7
DRI, D. O. O.	0.2
TOTAL	**40.6**
ENERGY SECTOR	
HSE GROUP	10.0
GEN GROUP	9.4
ELEKTRO LJUBLJANA, D. D.	2.3
ELEKTRO MARIBOR, D. O. O.	2.1
PETROL GROUP	1.7
TOTAL	**25.5**
FINANCIAL SECTOR	
NLB GROUP	5.5
ZAVAROVALNICA TRIGLAV GROUP	4.5
SID BANKA, D. D., LJUBLJANA	3.9
SAVA INSURANCE GROUP	1.4
DSU, D. O. O.	0.7
TOTAL	**16.0**
ECONOMY	
TELEKOM SLOVENIJE GROUP	3.6
KRKA GROUP	3.1
SIJ GROUP	1.0
TALUM GROUP	1.0
SIDG, D. O. O.	0.7
TOTAL	**9.4**
TOURISM	
SAVA GROUP	0.6
ISTRABENZ TURIZEM, D. D.	0.3
TERME OLIMIA GROUP	0.3
THERMANA, D. D.	0.2
HIT GROUP	0.2
TOTAL	**1.6**
TOTAL SHARE OF TOP 5 OF EACH PILLAR	**93.1**

3.2. OBJECTIVES OF CAPITAL ASSETS MANAGEMENT

3.2.1. FUNDAMENTAL OBJECTIVES OF CAPITAL ASSETS MANAGEMENT

The general objectives of state-owned companies under the SSH management are effective, profitable, economical operation, creation of value for the owner, and efficient management of services of general economic interest. These objectives must be achieved by means of a balanced, stable, and sustainable operations, with a responsible approach towards society and the natural environment, underpinned by responsible governance.

The asset management objectives must be consistent with the applicable State Assets Management Strategy. A new State Assets Management Strategy is being prepared, and its content may influence the management objectives and planned activities of SSH. Should the new State Assets Management Strategy necessitate significant alterations in the ongoing management activities for individual companies with state capital assets in 2024, SSH will assess the requirement for potential amendments in AAMP.

Key goals pursued by SSH in managing capital assets are as follows:

- efficient, prudent, transparent and responsible management of capital assets, in accordance with the provisions of ZSDH-1;
- achieving strategic, economic-financial, and other goals of companies, as defined in the State Assets Management Strategy;
- thoughtful disposal of capital assets;
- achieving the objectives of companies with capital assets as determined in the current AAMP;
- achieving the objectives set annually for SSH by the Government of the Republic of Slovenia;
- enhancing the corporate governance culture at the company level;
- continuously improving the efficiency of operation of the portfolio companies;
- increasing the value of capital and the return on equity (ROE) of portfolio companies.

Below is a presentation of the management objectives for individual capital assets based on their classification in the State Assets Management Strategy:

Strategic and development goals

Pursuing important societal interests, such as ensuring an adequate level and availability of infrastructure, the provision of public services, security objectives, development objectives and other important societal interests.

STRATEGIC ASSETS (21 companies)

Strategic and **economic goals** are pursued.
Minimum share: **50% + 1 vote**.

Preserving the country's key development assets and pursuing the development priorities and objectives set out in the strategic documents of the Republic of Slovenia.

IMPORTANT ASSETS (17 companies)

Development and **economic goals** are pursued.
Minimum share: **25% + 1 vote**.

Economic goals

Maximising the value of capital assets and ensuring the highest possible return for owners.

PORTFOLIO ASSETS (remaining companies)

Solely economic goals are pursued.

SSH can freely dispose of portfolio assets.

When determining management objectives, management activities pursued by SSH and expectations from portfolio companies, SSH considers the following premises/documents:

- legislation, statutes, and founding acts of individual companies;
- State Assets Management Strategy;
- policies, strategies, and development guidelines adopted at the state level;
- macroeconomic forecasts and forecasts of trends in individual sectors;
- conditions and trends in the business environment, opportunities, key risks, and measures to manage these risks;
- benchmarking assessments of business performance against comparable competitive firms, where feasible.
- strategies and business plans of companies under management, prepared by the companies themselves, if SSH has been informed of these documents and if these plans are consistent with SSH's objectives.

3.2.2. ROE PLANNED FOR CAPITAL ASSETS PORTFOLIO

ROE of the Capital Assets Portfolio by Management Pillar

Table 6: ROE of management pillars in the Capital Assets Portfolio, by year, in %

Pillar	2019	2020	2021	2022	ESTIMATE 2023	AAMP 2023	AAMP 2024	Outlook 2025
TRANSPORT	6.9	2.0	4.1	5.1	4.1	3.4	4.0	4.3
ENERGY SECTOR	4.7	5.4	5.1	-7.8	15.8	12.5	8.6	7.6
FINANCIAL SECTOR	10.1	6.9	10.2	9.7	7.3	8.0	9.0	8.9
ECONOMY SECTOR	6.6	5.5	10.1	12.8	7.8	7.1	8.8	10.1
TOURISM	23.4	-11.4	4.5	7.2	4.4	1.3	5.9	6.5
PORTFOLIO RS+SSH	**6.9**	**4.3**	**6.1**	**2.8**	**8.6**	**7.3**	**6.7**	**6.7**

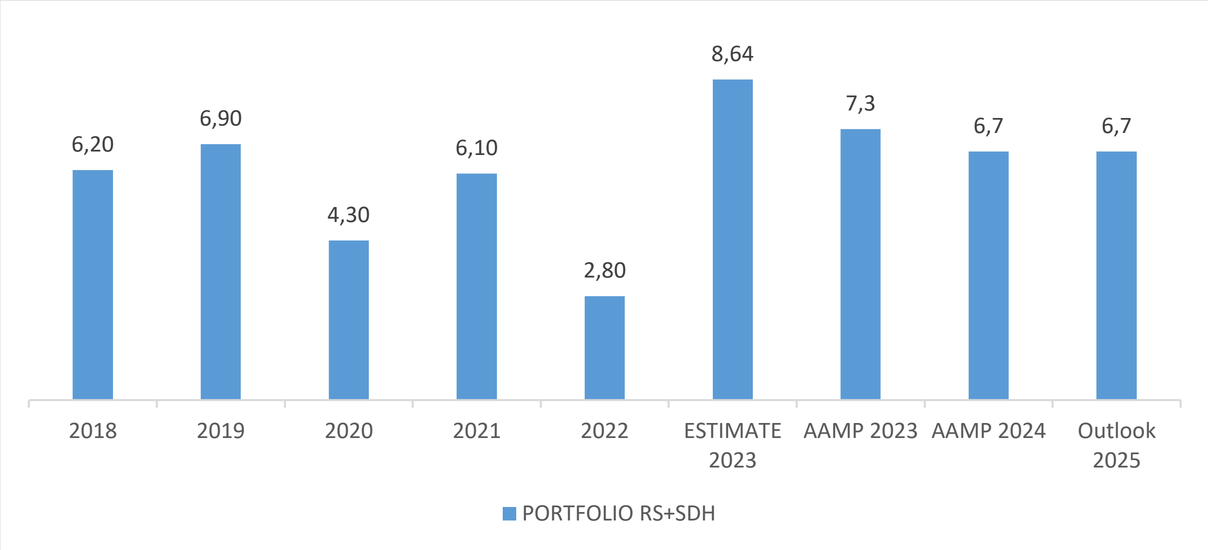
Note: The Economy and Tourism pillars have been combined up to this point. The table shows a separate calculation for both pillars for past years and AAMP 2023. In AAMP 2023, the planned ROE for both pillars together was 6.4%.

In the event of a change in legislation due to the floods in August 2023, which could result in higher tax burdens on companies, there is a risk that the profits of companies under management and the portfolio's return on equity (ROE) will be lower.

Table 7: The book value of the Capital Assets Portfolio by management pillars in EUR million, estimated as at 30 September 2023

Pillar	Book value of shareholdings RS + SSH	Share of the portfolio (in %)
TRANSPORT	4,837	40.6
ENERGY SECTOR	3,664	30.8
FINANCIAL SECTOR	1,910	16.0
ECONOMY SECTOR	1,302	11.0
TOURISM	193	1.6
PORTFOLIO RS+SSH	**11,906**	**100.0**

Figure 5: ROE of the Capital Assets Portfolio, in %



ROE of the Capital Assets Portfolio by classification criteria of assets under management

Table 8: ROE of the Capital Assets Portfolio under SSH's management, by classification of assets, by year, in %

Classification	2019	2020	2021	2022	ESTIMATE 2023	AAMP 2023	AMAP 2024	Outlook 2025
STRATEGIC	6.1	3.7	4.9	0.9	8.3	6.9	5.8	5.7
IMPORTANT	12.7	8.5	12.7	11.3	11.5	9.8	12.0	12.3
PORTFOLIO	6.4	3.1	6.6	7.1	5.1	5.7	6.3	6.9
PORTFOLIO RS+SSH	**6.9**	**4.3**	**6.1**	**2.8**	**8.6**	**7.3**	**6.7**	**6.7**

Table 9: The book value of the Capital Assets Portfolio in EUR million, by classification of assets, estimated as at 30 September 2023

Classification	Book value of shares RS + SSH	Share of the portfolio (in %)
STRATEGIC ASSETS	9,468	79.5
IMPORTANT	1,731	14.6
PORTFOLIO	707	5.9
PORTFOLIO RS+SSH	**11,906**	**100.0**

3.2.3. CASH FLOWS PLANNED FROM DIVIDEND PAYOUTS BY PORTFOLIO COMPANIES

In accordance with ZSDH–1, SSH exercises all powers, responsibilities, rights and obligations held by SOD prior to the company transformation into SSH. In this regard, (i) on behalf of and for the account of RS, SSH is obliged to provide for funds which are necessary for settling liabilities due to beneficiaries under regulations which regulate the denationalisation of property, and (ii) on behalf of and for the account of RS, SSH is obliged to provide for funds which are necessary for settling liabilities due to beneficiaries under the following three Acts: firstly, the Reimbursement of Investments in Public Telecommunications Network Act (ZVVJTO), secondly, the Act regulating the Issuing of Bonds in Compensations for Confiscated Property pursuant to the Abrogation of the Penalty of Confiscation of Property (ZIOOZP), and thirdly, the Act on Payment of Compensation to Victims of War and Post-War Violence (ZSPOZ).

The text below shows the expected cash flows of the RS and SSH arising from dividends paid out by companies with capital asset managed by SSH, while the expected cash flows arising from the management of (i) capital assets, (ii) claims, and (iii) tangible assets are presented separately in the Special Section of AAMP (in the Chapter entitled Forecast Cash Flows Arising from Asset Management).

Cash Flows Planned from Dividends Paid Out by Portfolio Companies

SSH estimates that in 2024, RS will receive EUR 327.5 million in dividends[27] from capital assets owned by RS and managed by SSH, SSH will receive EUR 52.5 million from capital assets in its ownership, and ZPIZ will receive EUR 3.9 million in dividends, totalling EUR 383.9 million. In 2025, RS is expected to receive EUR 197.8 million in dividends, SSH EUR 68.2 million in dividend, and ZPIZ EUR 19.6 million, totalling EUR 285.6 million.

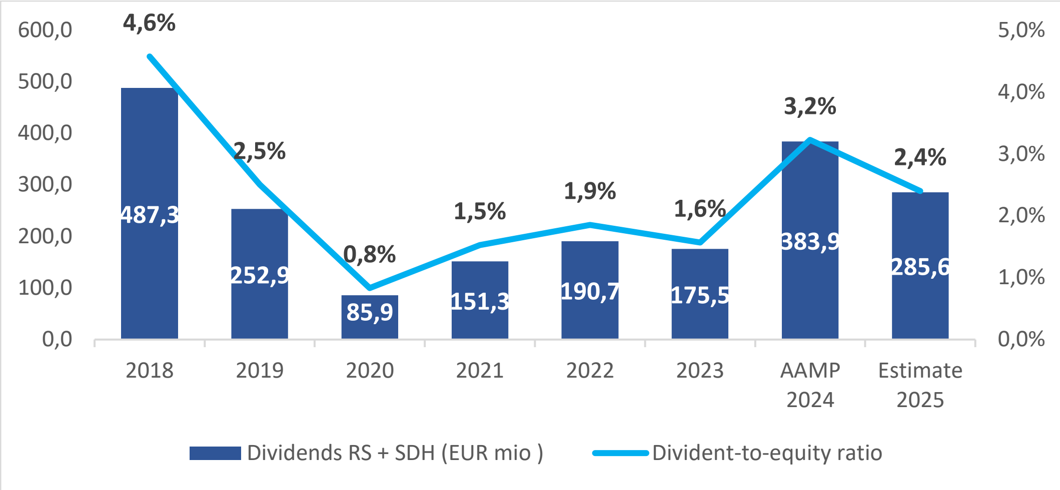
Table 10: Dividend income received by RS, ZPIZ and SSH paid out by SSH portfolio companies, in the period from 2018– 2025, in EUR mio

Year	2018	2019	2020	2021	2022	2023	AAMP 2024	Estimate 2025
RS	427.4	193.2	62.7	98.2	101.7	102.7	327.5	197.8
ZPIZ	19.6	19.6	0	13.3	29.0	19.6	3.9	19.6
Dividends RS and ZPIZ	**447**	**212.8**	**62.7**	**111.5**	**130.7**	**122.3**	**331.4**	**217.4**
Dividends SSH	40.4	40.1	23.2	37.8	59.9	53.2	52.5	68.2
Dividends RS + SSH	**487.3**	**252.9**	**85.9**	**151.3**	**190.7**	**175.5**	**383.9**	**285.6**

Note: Of the total amount of RS dividends received in 2023, EUR 9.8 million was a dividend in kind – i. e., a shareholding in Terme Olimia, d. d.

[27] The amount of dividends planned is based on the assumption that GEN and HSE will distribute a total of EUR 200 million in dividends, which may change in the event of unexpected production disruptions or tightening of circumstances in energy markets (geopolitical risks).

Figure 6: Dividend income received by RS, ZPIZ and SSH, by year, in mio EUR



3.2.4. KEY PROJECTS, MANAGEMENT OBJECTIVES AND DEVELOPMENT ACTIVITIES FOR 2024

In 2024, SSH's key activities in managing capital assets will be focused on the energy, real estate, and tourism sectors. The key projects are presented below.

- Optimization of the execution of services of general economic interest in the case of the electricity distribution operator involves planned management activities which are aimed at consolidating ownership and/or organizational aspect of electricity distribution companies. These activities include a range of strategies: share purchases, squeeze-outs of small shareholders, takeovers, acquisitions, mergers, capital increases involving non-cash contributions, and other potential management activities, without limitation.
- Preparatory management activities related to the potential separation of coal and lignite-based electricity production activities into a separate thermal energy company.
- Completion of a comprehensive analysis (covering business, financial, legal aspects) of possible approaches to forming a unified electricity production pillar. The execution of activities is tied to the new State Assets Management Strategy.
- In case of a change in the classification of capital assets in Geoplin regarding its strategic significance, from significant to portfolio asset, activities will be undertaken to exchange ownership interests between the RS and Petrol in a manner where the RS would exchange its stake in Geoplin for a stake in Plinovodi. The execution of activities is tied to the new State Assets Management Strategy.
- To further optimize the management of real estate owned by SSH and DSU, the synergistic effects of joint development, management, and maintenance of real estate portfolios of DSU and SSH, as well as their disposal, will be explored. If the analyses confirm economic justification, the consolidation of real estate portfolios of SSH and DSU will be executed.
- SSH will carry out all other management activities necessary to achieve potential strategic objectives of RS in the management of real estate (e.g., development and construction of affordable rental housing, etc.) if they are defined in the new State Assets Management Strategy.
- Implementation of additional management activities in tourism-related companies (such as potential changes in legal status, acquisition of assets and their disposal, share or stake transfers, and other measures) which may be necessary to achieve the RS's objectives in the management of tourism-related companies, as defined in the new State Assets Management Strategy.

Within the framework of **regular management activities**, SSH will also pay special attention to (i) implementing the strategies and strategic projects of companies which are 100% owned by RS and/or SSH, (ii) changes in the business environment which could significantly impact increased risks and business performance of companies, and (iii) implementing appropriate dividend policies of companies in the portfolio under SSH's management. SSH will take actions at individual companies in the portfolio to enable financial and business restructuring of companies and the establishment of a sustainable long-term business model.

In accordance with ZSDH-1 and the State Assets Management Strategy, one of the key objectives is also to enhance the corporate governance culture at the company level.

To achieve this goal, SSH plans the following development activities for 2024 in various thematic areas.

Amendment of SSH Instruments of Governance

- Preparation of a sample resolution of the Supervisory Board on the determination of criteria for granting variable remuneration to the management body;
- Defining SSH's stance on remuneration policies of management bodies in accordance with recommendations, depending on SSH's competencies based on the legal organizational form of the company
- Alignment of the Articles of Association of one-member companies with prepared standardized Articles of Association
- Preparation of a compliance review regarding the revised Code for SOEs and updated SSH Recommendations and Expectations with an electronic survey;
- If necessary, alignment of the instruments of governance with the amendment to the Companies Act (regarding gender quotas, sustainability reporting, etc.).

Strengthening All Aspects of Internal Controls in SOEs

SSH is further enhancing the functions of compliance and integrity management, internal audit, and risk management in SOEs through the following instruments and actions: (i) adhering to the CGCSOE and general SSH Recommendations and Expectations, checking compliance with provisions or recommendations; (ii) organizing educational events for members of the supervisory boards and other decision-makers; (iii) engaging with executives in companies; (iv) addressing issues and taking actions during periodic meetings; and (iv) advising companies.

SSH expects that all these internal controls ensure: (i) effective, careful, and successful operations; (ii) identification, measurement, and reduction of all key risks; (iii) reliability of non-financial and financial information for external and internal reporting; (iv) compliance with laws, regulations, and internal company policies, and the highest level of integrity for the company, its officials, and employees. Positions (and their respective officers) in the fields of internal compliance and integrity management, risk management, and internal audit should have appropriate powers, an appropriate hierarchical level in the organizational structure, and sufficient human and other resources to perform their tasks.

The supervisory boards of SOEs, in their roles of supervision and monitoring, should: (i) oversee and monitor decisions made by the management board in these three areas, and company actions, ensuring effective oversight over the operation of all internal controls, including monitoring and reviewing the implementation of the company's strategy and objectives in this area; (ii) regularly evaluate the effectiveness of the company's internal controls and take appropriate measures to address identified deficiencies; (iii) monitor and comprehensively control the management of all key business, financial, and other strategic risks, as well as the development of companies' resilience during economic downturns; (iv) monitor and control compliance and integrity risks and measures to manage these risks; (v) verify that heads of internal control functions can act independently, have access to necessary information for their work, and receive adequate support from the executive management for the development of this field of work; (vi) monitor the implementation of the internal audit plan, compliance and integrity management plan, and risk management plan.

Sustainable Business

SOEs should uphold high standards of operational transparency and disclosure, including the preparation of high-quality accounting and business reports. Reporting by SOEs must be timely, accurate, consistent, concise, and transparent in content and form, and must comply with the law, the CGCSOE, SSH Recommendations and Expectations, and the company's adopted internal policies and regulations.

As regards the strategic topic of sustainability business, SSH will, indirectly through its management entitlements, continue to encourage SOEs to have the following elements put in place:

- an appropriate governance structure;
- a clear strategy integrating sustainability and climate action;
- a framework to manage both risks and opportunities;
- metrics and targets to address the impact of climate change on individual the company; and
- adequate disclosures and reporting in line with ESRS standards, other legal requirements, or best practices.

Companies subject to the CSRD directive must prepare for the implementation of measures in a timely manner, as outlined in the directive, which will be transposed into national law through an amendment to the Companies Act (ZGD–1M).

SSH also promotes sustainable business operations through the following methods: (i) SSH Recommendations and Expectations; (ii) regular inclusion of sustainability topics in periodic meetings with companies; (iii) providing additional general and individual recommendations to specific companies in AAMP; (iv) organizing educational sessions for supervisory boards and other decision-makers of companies.

SSH will monitor potential risks and opportunities in the field of sustainable business operations of companies in a comprehensive manner, using selected indicators/content areas of ESG factors which will be tailored to the specifics of individual companies. SSH outlines its expectations for individual companies in the field of sustainable business operations in a special section of AAMP.

Taking into account the specific characteristics of individual companies and their activities, SSH will focus its monitoring of sustainable business objectives primarily on the following aspects:

- **environmental aspect (E)**: carbon footprint, natural resource consumption, biodiversity, and ecosystems;

- **social aspect (S)**: absenteeism, turnover, investment in employee development, employee safety, socially responsible practices;
- **governance aspect (G)**: quality of corporate governance, diversity in management and supervisory bodies, gender pay equity, inclusion of sustainability indicators in the remuneration of the executive management.

Good corporate governance aims to establish and put in place efficient mechanisms geared towards achieving long-term corporate value, financial and sustainable performance as well as the fulfilment of other corporate objectives. These objectives can be achieved by understanding and considering and balancing the interests between all key stakeholders and involving them both at the strategic level as well as at the operational level of major business decision-making processes.

- Supervisory boards regularly review and assess how a company's Management Board addresses sustainability issues. This includes at least a review of the adequacy of the governance structure, progress in implementing sustainable business operations, policies, procedures, practices, and their effectiveness.
- There must be a s sufficient degree of diversity among the members of management and supervisory bodies, which places a particular emphasis on the gender diversity and relevant competences, to enable them to have effective discussions and to take quality decisions on an informed basis.
- 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-term, medium-term and long-term adequacy of sustainability business management.
- Supervisory Boards monitor the progress of companies in terms of disclosures and reporting by companies subject to European ESRS reporting standards.
- Members of Supervisory Boards of companies appointed or supported by SSH at the company's General Meetings must regularly receive education and enhance their competencies in the field of sustainable business operations and other business areas.

New Technologies

Technological advancements are bringing about profound changes in both the economy and society. New technologies and digitally-driven innovations enable various technologies to perform an increasing number of tasks in a more reliable and efficient manner. There is a need to upskill and reskill the existing workforce, as well as develop new competencies within the workforce to be capable of keeping pace with emerging technological advancements, innovations, and new working methods.

The Government of the Republic of Slovenia has adopted a comprehensive strategy for the digital transformation of the country, known as the Digital Slovenia 2030. This strategy is designed to strategically plan and promote the digital transformation of Slovenia during the development period up to 2030. It outlines directions and specific goals with indicators to address the most significant developmental gaps for accelerating digital transformation across all areas, from gigabit infrastructure and digitalization of the economy to the path towards Smart Society 5.0, cyber security, digital competencies, inclusivity, and related subjects such as supportive environments and green transition. Regarding the economy, the focus is placed on the adoption of advanced digital technologies, particularly in conjunction with **the necessary knowledge and digital competencies, to facilitate the rapid implementation of these technologies into business processes**. Through balanced promotion of all three components of sustainable development (society, environment, governance), the Slovenian Industrial Strategy will ensure the competitiveness of the economy and create conditions for the restructuring of industry by **enhancing knowledge, creativity, and innovation for new and higher-quality jobs with greater added value. This strategy aims for a transition to a green, creative, and smart economy**.

Key takeaways from these strategic documents emphasize that, for accelerated productivity growth, companies must not only expedite the adoption of individual (more demanding) technologies but also embark on comprehensive and ambitious digital and business transformations. This pertains to digitalization, sustainability, and strengthening organizational factors, with a heightened emphasis on insight, creativity, and innovation.

In addition to the adaptation of business processes and the strengthening of technological capabilities, two crucial elements are required to achieve an effective digital transformation of companies. These elements are: **the enhancement of digital competencies among employees for the use of advanced technologies and adapting to the new demands they bring, as well as establishing connections with innovative SMEs and start-ups or expanding companies**.

Technological changes offer opportunities for increased value creation, but they also bring risks that companies must address adequately, such as cyber security, data security, and other risks. On the other hand, the green transition also presents numerous opportunities for developing **new technologies to transition companies and the economy into a circular, green, and digital future**.

SSH expects that companies will place even greater focus on the incorporation of new technologies, such as artificial intelligence (AI), advanced robotics, the Internet of Things (IoT), big data management, and utilize them where appropriate and feasible, to enhance their productivity, efficiency, and facilitate the green transition. Concurrently, they should also ensure a strong corporate culture, employee development, data protection, and proper cybersecurity, which are all key priorities in this domain.

Corporate Culture, Diversity, Human Rights

All three topics—**corporate culture, diversity, and human rights**—are interconnected and can strongly influence a company's business results, each in its own way. Companies that effectively manage these areas of business are more likely to achieve their business goals, meet stakeholder expectations, and uphold their broader social responsibilities.

In May 2023, SSH amended its SSH Recommendations and Expectations and issued two entirely new recommendations—**the Governance of Corporate Culture** and **Diversity, Equity, and Inclusion (DEI).** Additionally, it amended the existing recommendation on **responsible business conduct and respect for human rights in business operations**. In 2022, the proposal for the CS3D directive was published, with the primary aim of establishing a standard for the protection of human rights and the environment. Once implemented into national law, it will become binding for the most significant portfolio companies.

SSH expects companies to comply with recommendations based on the principle of "comply or explain". In the future, these topics will hold a prominent position in monitoring companies' sustainable business operations. SSH has previously provided support for these topics through routine educational initiatives for Supervisory Boards and other decision-makers, and it intends to sustain this support in the future.

Effective Design and Implementation of Investment Projects

SSH believes that implementing best practices in investment execution leads to outcomes which serve the long-term interests of shareholders, stakeholders, and the entire community. Investment governance ensures that investments create value for the company and that investment decisions are prudent and efficiently managed.

Investment governance is part of the broader framework of corporate governance within the company and provides methods for reviewing, assessing, and approving investment activities. It is crucial to consider best practices in governance, which include systems, structures, policies, processes, and resources used to address the investment responsibilities of the company and ensure alignment between the company's strategy, objectives, and the investments themselves. Investment governance bodies should be structured to identify and manage the risks of not achieving the desired investment outcomes while also mitigating the impact of potential investment failures, when necessary.

SSH expects that the components of quality governance of significant investments include as follows: (i) **policies and relevant standards to ensure compliance with business integrity and compliance**: principles, investment governance policy, project management policy, procurement process, risk management framework, etc.; (ii) **roles and responsibilities**: clearly defined roles and responsibilities, including accountability for investment outcomes; (iii) **systems and processes**: investment management process, including controls, regular monitoring, and reporting, a **business case** for individual investments and projects, which includes options for achieving results, identified risks and opportunities, constraints, required resources, budget, and schedule. In preparing the business case, it is essential to clearly define needs, conduct an options analysis (e.g., technical studies, economic assessments, risk analysis), make a cost assessment, and carry out appropriate financial-economic evaluation as a basis for investment decisions.

Effective Procurement and Management of Corruption Risk

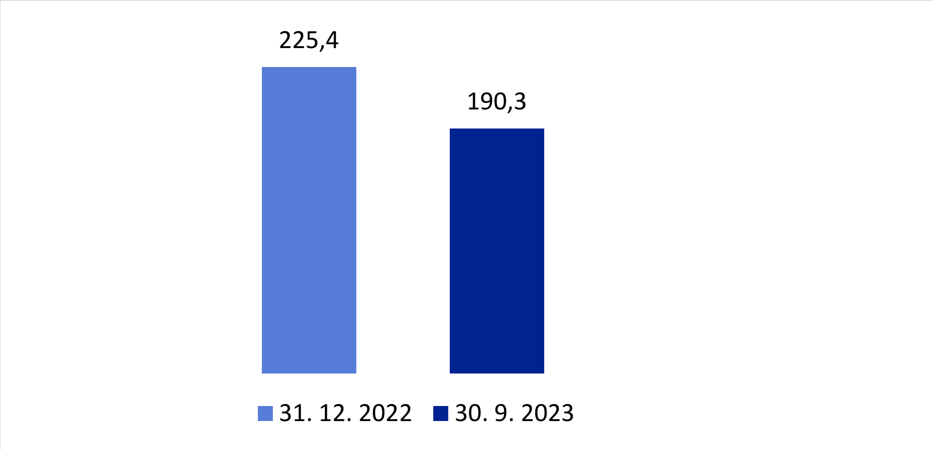
SSH recognizes that efficient procurement directly contributes to the success of individual companies' operations. In companies, while ensuring efficiency, transparency, competitiveness, and legality in procurement procedures, circumstances which could lead to corruption and other risks must also be prevented. This applies to both public procurement and other procurements not covered by the Public Procurement Act (ZJN–3). In this regard, SSH expects companies, among other things, to do as follows: (i) act in accordance with applicable legislation, legally permissible objectives, and ethical codes throughout all procurement phases; ((ii) formulate and award contracts in a manner that maximizes competition among qualified suppliers while enabling the contracting entity to achieve the best market conditions; (iii) ensure transparency in procurement procedures and treat all potential suppliers equally; (iv) establish effective and traceable mechanisms for preventing, detecting, and addressing conflicts of interest throughout all procurement phases; (v) engage individuals with no conflicts of interest in all stages of procurement preparation, award, and execution processes.

Companies should establish and regularly enhance appropriate mechanisms for detecting procurement-related risks and for effectively managing or eliminating risks identified. The Supervisory Boards of companies should be informed about the company's procurement processes, as well as about measures and mechanisms for preventing unlawful and unethical practices, at least once a year.

4. MANAGEMENT OF CLAIMS

As at 30 September 2023, SSH held 264 claims with minor exposures to debtors, and 368 claims with significant exposures to debtors, both in Slovenia and abroad. Claims are managed individually at the level of each debtor, or, where appropriate, at the level of a business group as a whole.

Figure 7: Book value of claims under management (in million EUR)



The primary objective in the management of claims is to maximise the value to SSH, whereby, in case when SSH is both a creditor and an owner of the debtor (has an ownership interest in the debtor), the aim is to maximise the combined value of claims held by SSH as the debtor and the creditor. The claims management also includes the management of selected capital assets for which the primary objective is to repay the SSH's claims.

The claims management process initiates first with a situation analysis. This includes an assessment of (i) the potential for long-term repayment of claims through the debtor's cash flows; (ii) the potential for disinvesting the debtor's assets; (iii) the feasibility of a legal framework enabling maximum repayment of claims; (iv) the debtor's readiness to seek a satisfactory solution; and (v) any other circumstances which may affect repayment of the claims. Based on the analysis of the situation, the appropriate strategy is then selected which has been assessed as delivering the highest value for the creditor. These strategies are as follows:

- the restructuring of claims;
- the recovery (the realisation) of collateral;
- sale of a claim:
- full or partial repayment of claims of debtor/guarantor.

A restructuring strategy is implemented when it is reasonably expected that a debtor will be able to repay more claims than the creditor would be able to recover through the recovery (realisation) of the collateral. As a general rule, the restructuring strategies provide for a higher claim recovery rate than the collateral realisation or sale strategies. Therefore, where economically viable, SSH will strive for the restructuring of as many companies/business groups as possible, as, in addition to higher repayment, this also has a positive impact on the broader socio– economic environment. Not only does this result in a higher recovery rate, but it also preserves or even increases the number of jobs, it can preserve and even strengthen Slovenian brands, and it allows for the further development of the environment in which the debtor/company operates. Certainly, the decision on restructuring must take into account the EU rules on state aid.

The objective in restructuring a company is to ensure the long-term efficiency of the debtor's operations, its liquidity and competitiveness and to maximise the repayment of debts through cash flows from operations and the divestment of unnecessary assets. Financial restructuring measures are often carried out in cooperation with other financial creditors. Financial restructuring measures allow debtors to extend the repayment period, reduce the interest rate, partially deleverage (mainly through the identification and sale of unnecessary assets of the company), improve the capital structure and provide additional liquidity. Claims may also be converted into equity and other claims may be taken over or purchased.

Where a debtor is loss-making entity and it is assessed that financial and operational restructuring measures would not ensure the generation of more value in the future than the value which can be obtained through recovery and realisation of collateral, a creditor opts for a strategy of realising assets pledged and foreclosures on the debtor's free assets. This strategy is also basically applied to companies which are already subject to insolvency proceedings , or on assets , for which enforcement proceedings have been confirmed. On the other hand, the realisation of collateral can also be carried out by agreement with the debtor, without initiating enforcement or insolvency proceedings.

The following directions will be pursued in the management of claims:

- maximising the value of claims through restructuring, where this strategy is assessed to be economically viable;
- providing liquidity to debtors or companies undergoing restructuring process that are not yet in a position to restructure themselves in the market, where this is economically and commercially viable and does not constitute unlawful state aid;
- repaying in full or in part of a debtor’s claim where the restructuring, recovery or sale of the claim will not result in the highest economic value;
- pursuing a strategy to realise the collateral in companies where restructuring is not possible due to the debtor's non-cooperation or inability to cooperate;
- initiating insolvency proceedings against the debtor if the debtor cannot survive as a going concern on the market and if there is no commercially viable offer to purchase or (partially) repay the claims of SSH;
- the sale of a claim or a block of claims in such a way that they are offered for purchase to commercial banks and other interested investors in a competitive and transparent sales procedure;
- taking over collateral for securing claims (real estate, movable property, receivables, equity investments, rights, etc.), if this is deemed economically viable;
- actively managing collateral of SSH’s claims in the insolvency proceedings of debtors, with the aim of ensuring protection and increasing the value of this collateral (in particular real estate given as collateral for claims);
- charging above-market interest rates in a way that encourages debtors to refinance at least part of their debt with cheaper funding on the banking market.

An effective claims management system is in place. Claims management is the task entrusted to qualified professional managers who have in place well-established processes for effective management and possess the necessary competences in debt restructuring, both financially and operationally. Their responsibility is to skilfully manage complex cases and achieve successful resolutions. The already established claims management processes can be upgraded and effectively supported, partly by internal and partly by external solutions.

Claims management will be implemented on the basis of credit decisions relating to debtors' claims. The basis for each credit decision is the claim management plan prepared by the claim manager. Such plan sets out strategies for maximising the value of each claim, as well as presents the details of the debtor, the amount of exposure to the debtor and the reasons that led to the debtor's potential illiquidity or insolvency, and a clear rationale for the proposal to take a credit decision.

SSH's projected cash flows arising from claims management in 2024 are shown in the Special Section of the AAMP (in the Chapter entitled Cash Flow from Claims Management).

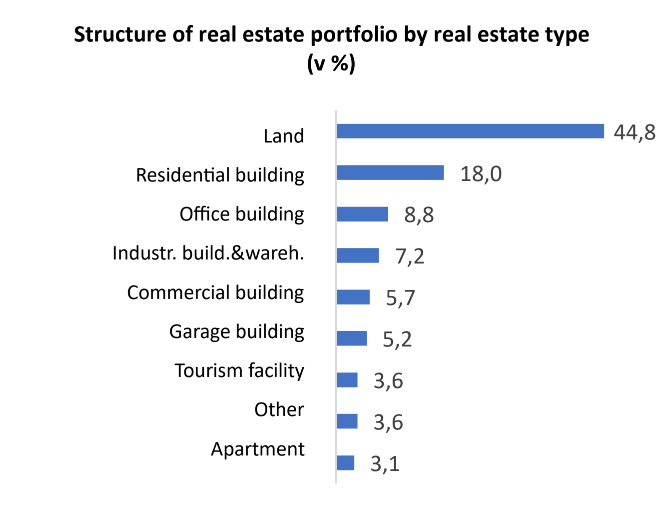
5. MANAGEMENT OF TANGIBLE ASSET

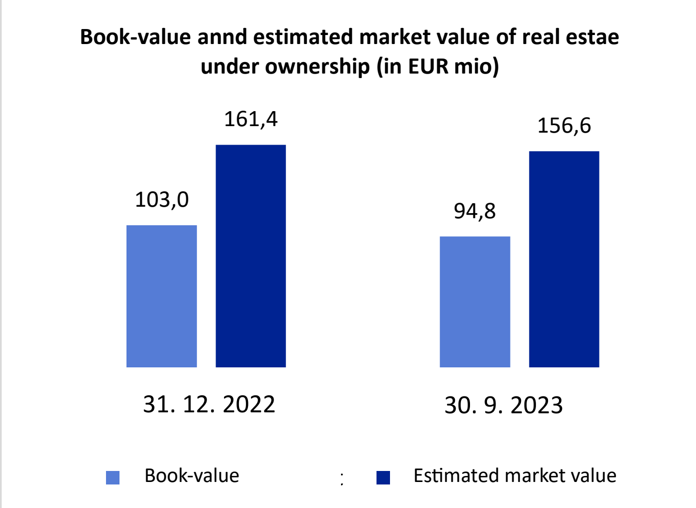
Management of tangible assets involves the disposal of both real estate and movable assets owned by SSH, as well as other forms of management of tangible assets.

The tangible assets of SSH primarily consists of real estate, along with movable assets such as artworks and other miscellaneous property. The management of tangible assets held by SSH also includes the management of selected capital assets, the predominant portion of which includes real estate assets.

SSH primarily acquires its tangible assets through procedures involving collateral realisation in the market, from insolvency administrators and debtors. As at 30 September 2023, SSH held under ownership 194 sets of real estate units[28] with a total book value of EUR 94,8 million. Half of these properties are land, followed by residential, commercial, and industrial buildings. The land is predominantly intended for residential purposes.

Figure 8: Structure of real estate portfolio





INTENDED USE OF TANGIBLE ASSET

The fundamental goal in managing real estate is to achieve maximum value for SSH. To attain this goal for each individual real estate unit or set of real estate units, SSH outlines measures to enhance value (such as consolidating land parcels, updating spatial regulations, changing land use, carrying out investment maintenance work, overseeing investments throughout all phases of the investment process, etc.) in the management plan and actions for effective marketing.

Most of tangible assets are intended for sale, while a portion may also be leased (permanently), for example, when the necessary property development is completed, or the construction is built, or lent (e.g., works of art). Land, which, if used for the property development projects of business, residential and other type of structures, can provide the owner with a higher long-term return (through rent or the sale price of constructed properties) than an immediate sale, is intended for the development and construction of real estate projects.

ACTIVITIES PURSUED IN MANAGEMENT OF TANGIBLE ASSETS

SSH will carry out all necessary management activities, handling cases in a comprehensive manner, to maintain and increase the value of real estate.

As part of management activities, SSH will ensure that real estate is adequately protected (against damage and unauthorized use by third parties) and insured, and that its value is preserved and increased. Regular management activities also include addressing legal and technical deficiencies and errors (obtaining missing documentation and permits, legalization procedures, resolving

[28]A set of real estate units represents a cohesive collection of multiple real estate assets (such as multiple land parcels at the same location, several individual parts of a building within the same structure, etc.).

disputes with neighbours and former contractors, subcontractors, etc.). SSH may also manage real estate, as needed, which has been provided as collateral for claims by debtors.

In accordance with ZVKSES, SSH addresses complaints for newly sold apartments and single-family buildings for two years after the conclusion of the sales contract or ten years after the transfer of common parts of the building to the property manager (for cases related to the quality of construction).

In specific cases, investment work will be carried out as part of management activities. This type of work includes, for example, final construction, artisanal and installation work, purchasing missing parts of land or buildings, developing spatial plans, and full project development, including construction of buildings.

Tangible assets intended for sale will be sold through appropriate advertising in transparent sales processes. In cases of significant interest in purchasing, sales will typically be conducted through electronic auctions.

SSH handles a significant portion of real estate management activities with its own staff. Due to the large number of real estate properties and movable assets, their dispersed locations, and, in some cases, legislative requirements (e.g., the management of buildings), SSH may engage external service providers (e.g., for property management, property security, property maintenance, spatial planning development, construction, artisanal and installation work, tax, technical, legal, and other advisory services, sales intermediation, etc.) as needed in real estate management processes.

ADDITIONAL MANAGEMENT ACTIVITIES PURSUED BY SSH

To further optimize the management of real estate owned by SSH, synergistic effects of joint development, management, and maintenance of real estate portfolios of SSH and DSU, as well as their disposal, are being examined. If the analyses confirm that merging the real estate activities of both companies is economically justified, it is expected that, as of 31 December 2023, the real estate portfolios of SSH and DSU will be merged in a tax and legally optimal manner (such as the transfer of the real estate activity of SSH to DSU as the acquiring company).

SSH or DSU (upon the realization of the transfer of real estate from SSH to the relevant company) will carry out all other management activities necessary to achieve any strategic objectives of the Republic of Slovenia in managing tangible assets, if specified in the new State Assets Management Strategy (such as the development and construction of affordable rental housing, ensuring the general accessibility of artworks to the wider public, preservation of cultural heritage, etc.).

SSH's projected cash flows from tangible assets management in 2024 are shown in the Special Section of the AAMP (in Chapter entitled Cash Flow from Claims Management)