



ANNUAL REPORT  
Management of Capital Assets  
of RS and SSH for 2019

SSH's Report to the National Assembly of RS

# Annual Report

## Management of Capital Assets of RS and SSH

### for 2019

SSH's Report to the National Assembly of RS (Abbreviated version)

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

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

Ljubljana, October 2020

# VSEBINA

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# INTRODUCTION





# 1 KEY HIGHLIGHTS FOR 2019 ON MANAGEMENT OF CAPITAL ASSETS OWNED BY RS AND SSH



Targeted ROE of total RS and SSH  
Portfolio for 2019, as stated in Annual  
Asset Management Plan

6.2 %



**In 2019, ROE of RS and SSH  
Portfolio amounted to**

**6.9 %**



The targeted sum of dividends paid  
out from RS and SSH Portfolio in 2020  
(for FY 2019), as stated in the Annual  
Asset Management Plan

€ 142.4 million



The dividend income for FY 2019 will be known at the end of 2020 when it  
becomes clear whether insurance companies from the SSH's portfolio will  
pay out dividends for 2019 and what their amount will be.



**The value of Share Sale and  
Purchase Agreements concluded  
for the sale of RS's and SSH's  
shareholdings in 2019**

€ 554.1 million



**Book-value of assets owned by RS  
and SSH as at 31 December 2019**

€ 10.3 billion

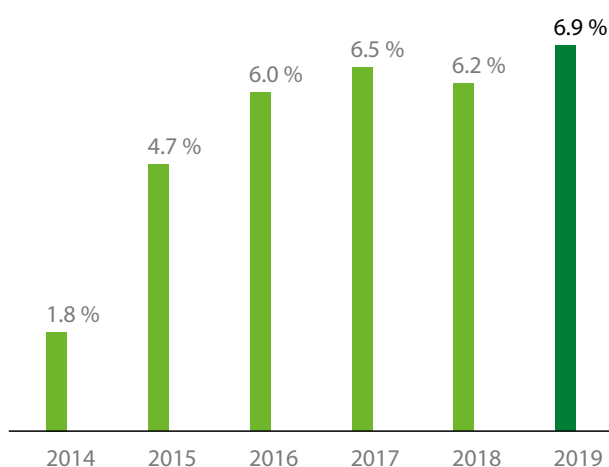
## 1.1 Key highlights for 2019 on management of capital assets owned by RS and SSH

As at 31 December 2019, **72 active** and **24 inactive capital assets** (companies in bankruptcy proceedings or liquidation) were included in the portfolio managed by SSH. The book value of capital assets under management amounted to **EUR 10.3 billion**, which is higher by EUR 0.2 billion year-on-year. The increase in the value of the portfolio is attributed to the growth in the book value of Slovenske železnice's equity after capital increase was carried out in the beginning of 2019, and is also due to good business results of some of more important portfolio companies (Pošta Slovenije, d. o. o., Gen energija, d. o. o., both insurance groups). The sale of additional 10% stake held by RS in NLB, which was carried out in the Q2 2019, had a negative impact on the portfolio's value, as well as the decrease in the share capital of DARS, d. d.

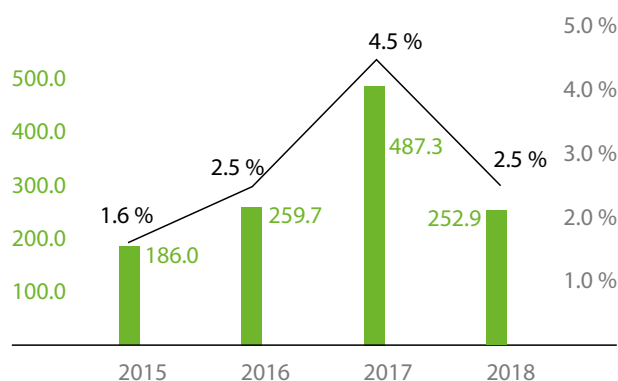
**The concentration of assets** in the portfolio remains high: the 10 largest portfolio companies represented as much as 78% of the portfolio and the 20 largest companies accounted for more than 96% of the portfolio's total book-value; strategic assets represented more than three quarters of the portfolio's book-value (76%).

In 2019, **ROE** of the portfolio under management amounted to **6.9%**, which is by 0.7 percentage points higher than in 2018, and higher than planned for 2019. The performance of the majority of portfolio companies turned out to be aligned with the plan or performed even better, however, there are exceptions, including Telekom Slovenije, d. d., (ROE 0.2%, targeted ROE in AAMP: 8.5%), and HSE (ROE 2.8%, targeted ROE in AAMP: 5.0%). Top 20 portfolio companies achieved ROE higher than 10%: Pošta Slovenije, d. o. o. (23.5%), Krka, d. d. (15.2%), the two banks: NLB, d. d. (11.7%) and Abanka, d. d. (10.5%), and both insurance companies (Pozavarovalnica Sava, d. d.: 13.8%, Zavarovalnica Triglav, d. d.: 10.9%).

Owing to the changed portfolio's structure, **dividend income for 2019** (paid out in 2020) was planned to be significantly lower than in 2018 (EUR 142.4 million) already at the end of 2019, but worsened economic condition in 2020 due to COVID-19 epidemic resulted in additional dividend cuts. It will not be possible to substitute the loss of the dividends planned to be paid out in 2020 in spite of the fact that some companies have increased their dividend pay-outs (Gen energija, Krka, Petrol). The dividend income for FY 2019 will be known at the end of 2020 when it becomes clear whether insurance companies from the SSH's portfolio will pay out dividends for FY 2019 and what their amount will be.



■ ROE of RS+SSH portfolio



■ Dividends RS+SSH (in EUR million)

— Dividend-to-equity ratio of RS+SSH portfolio

# LETTER BY MANAGEMENT BOARD

The centralisation of state-assets management, as established by ZSDH-1, shows a good track record presenting measurable results for the owner and, on the aggregate level, the operation of companies with capital assets held by RS and SSH has improved significantly in the recent years. The governance system, which has been recognised as successful by international institutions (OECD, European Commission), must be subject to continuous improvement process, its future financial support must be ensured as well as suitable sources of long-term financing, in order to provide for a stable and independent operation of SSH for the implement its statutorily-stipulated tasks. This is of particular importance as, on the basis of applicable provisions of ZSOS-C, SSH is obliged to transfer free of charge a great part of its assets held in the largest and top portfolio performers into the ownership of the Republic of Slovenia at the end of 2020. Until now, SSH used dividend income received by these companies to finance the important part of its operations and to satisfy all of its statutory obligations, which will not cease to exist with the enforcement of key provisions of ZSOS-C.

The institution's stability, its development orientation, targeted focus, cases of good practice and the robustness of the state assets' corporate governance system lead to better performance results and long-term sustainability of SOEs. This should be taken into account when planning institutional changes envisioned with the formation of the national demographic funds.

**Sound performance of companies from the RS and SSH portfolio, favourable economic climate and active governance have contributed to successful performance of companies from the RS and SSH portfolio in 2019, exceeding targeted values set in the Annual Asset Management Plan (AAMP).**

Performance results which companies from the portfolio managed by SSH generated in 2019 show that return on equity (ROE) of companies owned by the Republic of Slovenia (RS) and SSH amounted to **a high 6.9% and it will exceed the target value of 6.2% that was set in AAMP 2019**. The above mentioned goal, which was set at the same level as in 2018, has been exceeded in spite of significant changes to the structure of the portfolio under SSH management. As a matter of fact, following the sale of banks, the Financial Pillar of the SSH's portfolio of assets has decreased significantly whereas the proportion of strategic assets has increased; as a rule, strategic assets achieve lower ROE figures as their main goal is realising strategic national objectives (as at 30 June 2020, the portfolio of assets under SSH's management accounted for a solid 81% of strategic assets).

Enterprises included in the asset portfolio managed by SSH are a particularly important employer in Slovenia as more than 71.000 employees were employed with these companies (corporations and financial institutions). Operating revenue generated by companies from the SSH's portfolio stood at EUR 15.5 billion in 2019, thus amounting to 15% of total revenue generated by Slovenian enterprises in 2019; these companies have achieved the same percentage values as regards the total added value. On average, the added value per employee working for companies included in the SSH's portfolio of assets amounted to EUR 61.000 which is by 30% higher than the average amount for all Slovenian companies as recorded in 2019.

The results of many enterprises from the SSH's portfolio which have been generated in the second half of 2020 have already shown the economic impact of the COVID-19 crisis. This means that dividends expected for 2021 will be lower as well as the portfolio's ROE for 2020. The most hit industries include manufacturing, transport, logistics and tourism, whereas some other industries have been



hit to a lesser extent. Regardless, it is during this difficult time that these companies have shown their efficiency as companies managing critical infrastructure and companies rendering some important public services have ensured that the operation of infrastructure has been smooth and stable and that services have been rendered at the greatest possible extent. Because of measures for mitigating the effects of the coronavirus crisis and due to some statutory measures (for example, changes to the legislative act regulating network charges for electricity distribution system), electricity distribution companies have recorded increased outflows in this period of time, while some other companies have suffered from substantial decrease in sales, so the performance results of companies classified as strategic assets will be significantly lower in 2020 as compared to the same period in 2019.

#### **The most important sale processes of past years were closed successfully.**

In February 2020, the last important process for the sale of RS assets closed successfully. Following the conclusion of the Sale and Purchase Agreement to sell a 100% RS's shareholding held in Abanka by and between SSH, acting on behalf of and for the account of RS, and Nova KBM, which took place in June 2019, all conditions precedent from this Agreement were satisfied in February 2020. RS received proceeds from the sale in the amount of EUR 444.2 million, and transferred its 100% ownership of Abanka to the buyer, and thus successfully closed the sale process, in which several bidders competed.

In June 2019, SSH successfully closed the sale of a 10-percent equity stake minus 1 share of NLB. In the sale process, implemented under the method of the accelerated bookbuild process, RS received EUR 109.5 million. Following the completion of the privatisation process, the Republic of Slovenia remains the largest individual shareholder of NLB, holding a 25-percentage ownership stake and one share.

Since 2013, SSH successfully closed 10 processes for the sale of important SOEs. Together with other smaller stakes, the total contractual value of proceeds from sale amounted to EUR 1,657.5 million. There are no significant processes for the sale of assets envisaged for 2020.

#### **Corporate governance activities were very intense in 2019, particularly in tourism industry.**

Among numerous other activities, SSH prepared the Investment Paper for assets in Istrabenz Turizem, in accordance with the Strategy for Sustainable Growth of Slovenian Tourism for 2017-2020 and, the Plan for Consolidation, Governance and Restructuring of state-owned tourism companies, to which the Government of RS granted its consent in the beginning of February 2020. In addition, together with NKBM, SSH signed the agreement for the purchase of shares in Terme Olimia, d. d., which used to be owned by NKBM. The main goals that SSH wishes to achieve by realising the plan for the consolidation and restructuring of state-owned tourism companies are firstly, to increase the value and ROE of state-owned tourism companies, and secondly, to further develop tourism activities, in line with the above mentioned Strategy. Because of the COVID-19 epidemic, the implementation of the Plan for Consolidation, Governance and Restructuring of state-owned tourism companies have slowed down as the selected purchasing activities have to be revalued now; moreover, the regulator's response, which will provide the assessment of compliance with competition rules in one of pending transactions, is still expected.

#### **Enhancing sustainable operation by amending the Corporate Governance Code, the Integrity Plan and the Code of Ethics.**

Good quality corporate governance of SOEs, which represent an important part of the Slovenian economy, contributes immensely to a more sustainable and competitive economy as it assists in having companies adopt strategic measures, which are necessary for developing new technologies, strengthening their business models and improving their efficiency. This consequently improves their risk management practices, increases their competitiveness, and gives them the opportunity to generate new jobs and promote innovation. Slovenian Sovereign Holding endorsed this attitude in July 2020 by adopting additional recommendations for sustainable business with the aim of encouraging portfolio companies in undertaking economic, social and environmental transformation of their business strategies and models. A new set of recommendations for SOEs with respect of rules on other rights for members of a management body has

been adopted. The aim of these recommendations is, firstly, to better unify the regulation of other rights among SOEs, particularly with respect to the rights which may incur additional expenses, secondly, to cast away any doubts on the correct application of ZPPOGD, and, thirdly, that all SOEs interpret the provisions of ZPPOGD in the same manner.

The Corporate Governance Code, addressed to the portfolio companies, was supplemented in 2019. New additions refer to the diversity policy, the succession policy, the adoption of the annual plan of work, and the quality of external reporting; in addition, the revised Code includes the supplemented chapter on corporate integrity and it regulates anew some relations between shareholders and stakeholders.

In 2019, SSH prudently implemented all permanent and one-off measures to mitigate risks having an element of corruptive conduct and illegal and other unethical behaviour as defined in the Integrity Plan. Because of changes in the environment, identification of additional risks, based on experience obtained when handling individual cases and during regular monitoring of developments as regards compliance and integrity, the Plan was amended and suitably updated. Likewise, the SSH's Code of Ethics was amended with commitments concerning leading by example, zero tolerance to corruption, observance of human rights in business, sustainable development and interpersonal relations in the company.

### Coronavirus crisis affects some strategic companies facing substantial investments aimed at achieving sustainable development goals.

The energy transition demands huge investments to be placed in the next decade both in the renewable energy resources and, considering the increased electricity consumption in the future, in more advanced and strong electricity grid in order to enable a reliable and good quality distribution of electricity. Although the SSH's Dividend Policy for energy companies has been aligned with the Slovenia's development needs, this will not be enough. High investments aimed at green transformation will also be needed in transport companies since this sector generates a large share of greenhouse gas emissions. By investing in this industry, Slovenia is getting closer to the standards required by modern infrastructure.

Because of the above stated reasons and considering their fundamental objectives, dividend income generated by strategic companies from the two sectors mentioned above will not be able to solve Slovenia's demographic challenges. The best way these companies can contribute to the general well-being of Slovenia is by effectively and efficiently transform their operations in the direction of sustainable business, by increasing their productivity and added value with strengthened innovation and by efficiently implementing their vision.

Boris Medica, Member of the Management Board



Boštjan Koler, Member of the Management Board



Dr. Janez Žlak, President of the Management Board



# ON MANAGEMENT OF CAPITAL ASSETS HELD BY RS AND SSH



# PRESENTATION OF SLOVENIAN SOVEREIGN HOLDING

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

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

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

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

## Company details - significant data



SLOVENSKI DRŽAVNI HOLDING, d. d.

Corporate name:	Slovenski državni holding, d. d.
Registered office:	Ljubljana
Business address:	Mala ulica 5, 1000 Ljubljana
Telephone No.:	++386 1 300 91 13
Web site and e-mail:	www.sdh.si, info@sdh.si
Activity code:	K 64.990
VAT ID:	SI46130373
Registration No.:	5727847
Transaction Account:	SI56 0291 3001 6492 958 held by NLB
Date of legal entity's establishment:	19 February 1993
Date of SSH's incorporation:	26 April 2014
Date of company transformation from SOD into SSH:	11 June 2014
Registered legal form:	Public limited company registered before Ljubljana District Court, under the Reg. Entry No. 1/21883/00
Share capital:	EUR 260,166,917.04
No. of employees as of 31 December 2019:	68

Membership in other organisations:	Directors' Association of Slovenia, Association of Employers of Slovenia, Chamber of Commerce and Industry of Slovenia
Management Board:	Dr Janez Žlak, President of Management Board (since 7 October 2020) Boštjan Koler, Member of Management Board (since 1 December 2018) Boris Medica, Member of Management Board (since 1 December 2019) <b>In 2019 and 2020, SSH MB also included the following presidents and members:</b> Gabrijel Škof, President of the Management Board (from 1 October 2019 to 1 July 2020) Andrej Božič, Member of Management Board (from 21 January to 1 December 2019) Igor Kržan, President of Management Board (from 1 April to 30 September 2019, and from 2 July 2020 to 6 October 2020) Lidia Glavina, President of the Management Board (until 31 March 2019).
Members of Supervisory Board:	Karmen Dietner, President Ivan Simič, MSc, Deputy President (Member since 17 July 2020, Deputy President since 26 August 2020). Janez Vipotnik, Member Igor Kržan, Member** Ivan Božo Emeršič, MBA, Member (since 17 July 2020). <b>In 2019 and 2020, SSH SB also included the following members:</b> Duško Kos, Deputy President (until 17 July 2020) Damjan Belič, Member (until 17 July 2020).
Members of the SB's Audit Committee:	Ivan Simič, MSc, President, Karmen Dietner, Member Darinka Virant, External Member <b>In 2019 and 2020, SSH's Audit Committee also included the following members:</b> Duško Kos, President (until 17 July 2020) Damjan Belič, Member (until 17 July 2020).
Members of SB's Risk Committee:	Janez Vipotnik, President Ivan Emeršič, MSc, Member Darinka Virant, External Member <b>In 2019 and 2020, SB's Risk Committee also included the following members:</b> Igor Kržan and Karmen Dietner.
Members of Nomination Committee:	Samo Roš, President, Urška Podpečan, Deputy President. Vlasta Lenardič, Member (since 6 April 2020). <b>In 2019 and 2020, Nomination Committee also included the following members:</b> Brigita Vončina, Member (until 5 April 2020).
Members of ECESA:	Zdenko Lorber, President (the Slovenian Union of Alternative Trade Unions of Slovenia) Saša Klara Kumer, Deputy President (the Association of Free Trade Unions of Slovenia) Miroslav Garb (Neodvisnost, the Confederation of new Trade Unions of Slovenia Independence) Albert Pavlič (Association of Workers Trade Unions of Slovenia – Solidarity) Jakob Počivavšek (Pergam Confederation of Trade Unions) Branimir Štrukelj (Confederation of Slovenian Public Sector Trade Unions), Damjan Volf (Trade Unions Confederation 90 of Slovenia)

\*\* His term of office was suspended from 2 July 2019 to 6 October 2020, as well as from 1 April 2019 to 30 September 2019.

## 3.1 SSH Vision, mission, and values

### Vision

Generating value from capital assets for the owner.

### Mission

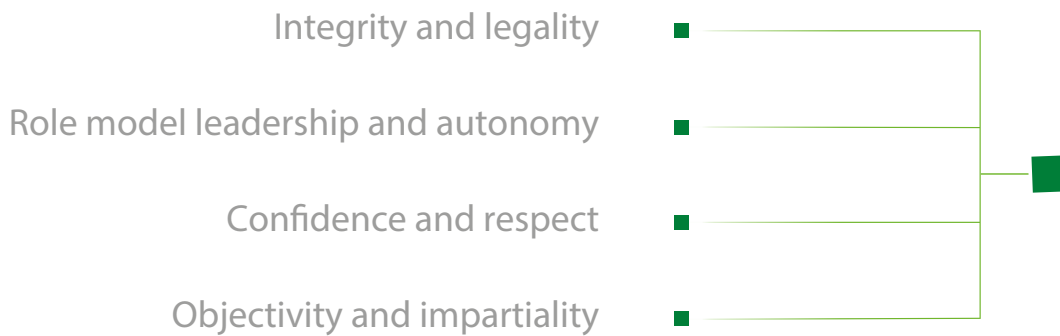
Since RS and SSH are important owners of capital assets held in economic entities in Slovenia, the main duty of SSH is a responsible, professional and active management of these assets. Among other matters, active governance means focusing on creating value for owners, that is the Republic of Slovenia and SSH. The ultimate objective of state-owned enterprises under SSH's management is efficient, effective and economic operation, generation of value, and in many cases, efficient implementation of services of general economic interest.

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

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

### Our values

The values, on which SSH's operation is founded, are inter-related, and are considered as the basis for activities pursued by SSH





## 3.2 The legal form and organisational structure of SSH

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

consultation body of the SSH's Management Board. Its members are appointed by the Slovenia's representative trade unions and confederations who are also members of the Economic and Social Council of the Republic of Slovenia (ECS). Their appointment is approved by the SSH Management Board. There are two committees operating within the SSH Supervisory Board: the Audit Committee and the Risk Committee. The Nomination Committee is formed for the purpose of appointing members of the management boards. The SSH Management Board has two consultation bodies: (a) the Expert Committee for Economic and Social Affairs (ECESA), which has the status of a SSH's corporate body pursuant to an explicit statutory provision and the provision stated in the Articles of Association, and (b) the Nomination Committee.



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

## 3.3 Purpose of SSH's establishment

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

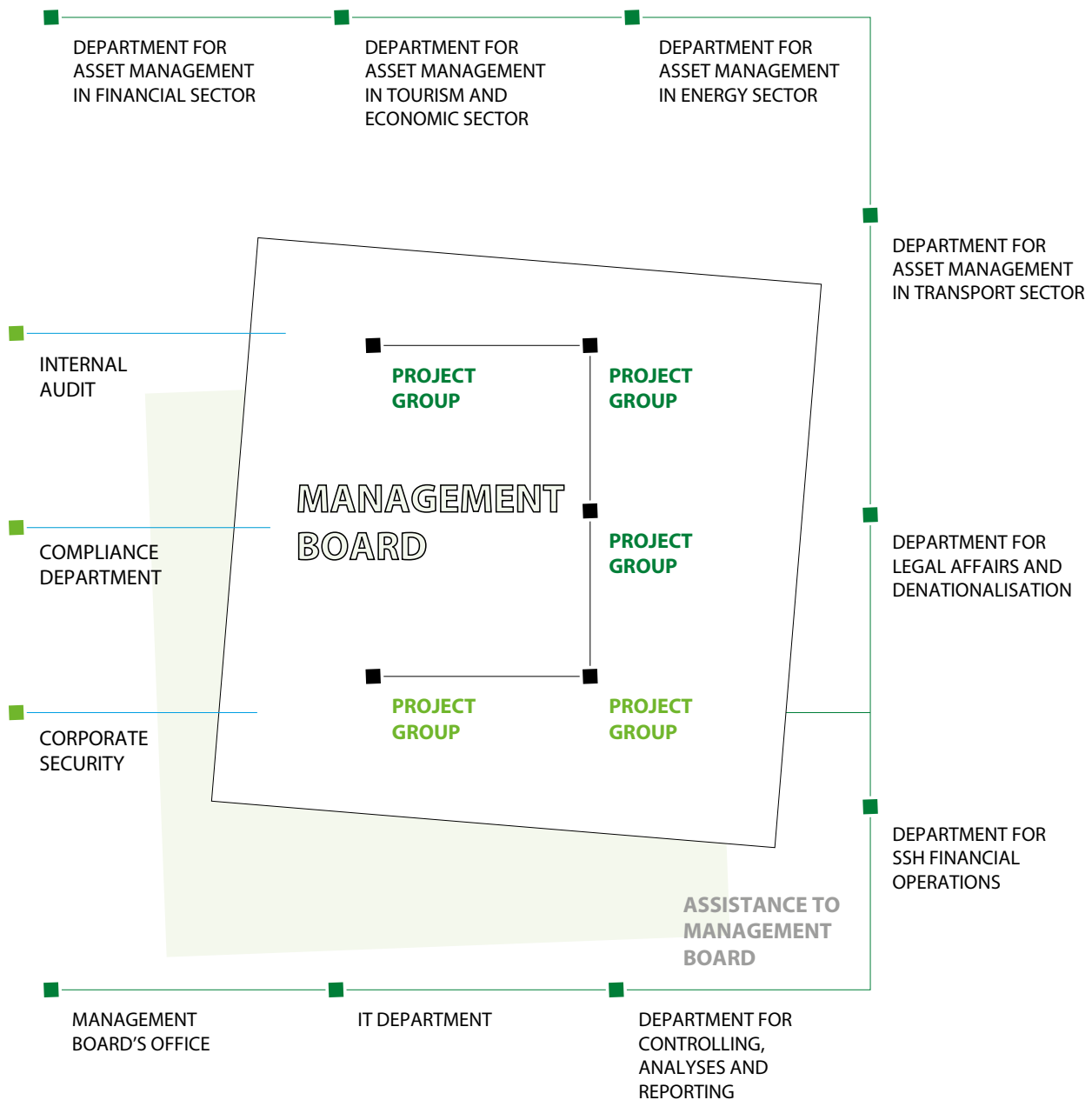
Slovenian Sovereign Holding continues to carry out powers, responsibilities, rights and obligations of Slovenian Compensation Fund - SOD (the settlement of liabilities due to beneficiaries under several laws).

### 3.4 Internal organisation of SSH

In 2019, the organisational structure of SSH did not undergo any changes, however, in Q4, activities for improving current organisational structure were put in place to align the structure with the current leadership style, decision-making methods, responsibilities, work priorities and the wage system. The proposals for amendments to the Organizational Structure Policy and Rules on Job Position Systematisation were prepared and adopted in Q1 2020.

Changes in the payment system, the employee promotion policy and in the career development system are expected to be implemented by the end of 2020.

Organisational units, which are divided into departments and special business functions, are clearly presented in the Organizational Structure shown below. The Corporate Security Unit was not yet established in 2019, but important activities were in place to increase the security of corporate governance.



## 3.5 SSH Strategic policies and goals

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

### Creating Value From Capital Assets For Owner

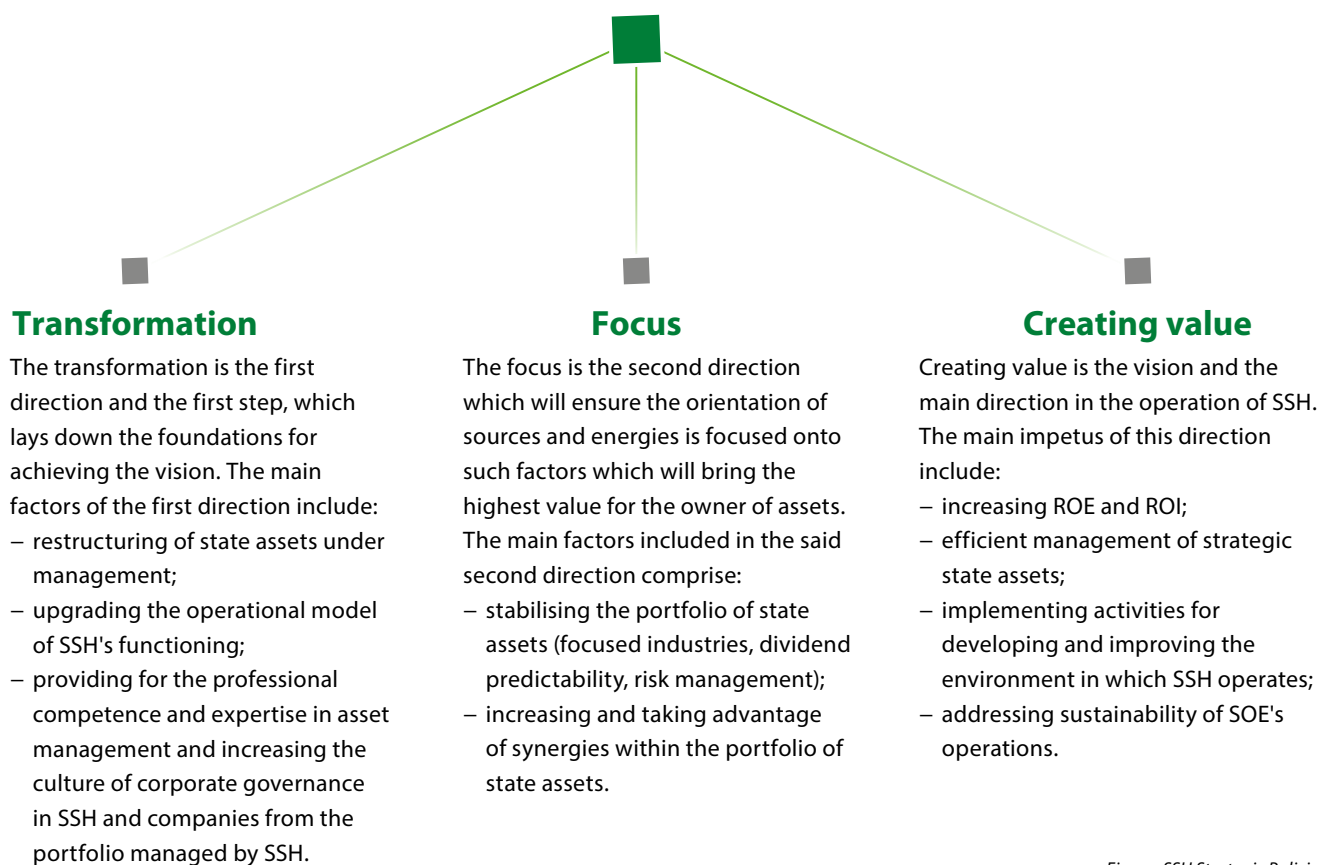


Figure: SSH Strategic Policies

## 3.5.1 Goals

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

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

### **Key goals pursued by SSH within corporate governance of SOEs are:**

- efficient, diligent, transparent and responsible management of capital assets, in accordance with the provisions of ZSDH-1;
- attaining strategic, economic and financial as well as other goals pursued by companies as defined in the State Assets Management Strategy, in every Annual Asset Management Plan, and ultimately, the

- goals which are set for SSH by the RS Government on an annual basis;
- continuous improvement of operations in portfolio companies;
- increasing the value of capital and return on equity.

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

- providing for sufficient liquidity to repay all matured statutory and contractual liabilities due by SSH, including optimum management of assets in accordance with mid-term and long-term needs for funding;
- ensuring suitable sources of financing for the future;
- timely implementation of tasks under public authorizations;
- efficient implementation of all support functions inside the Company, cost management and process optimisation;
- risk management.

A general objective of SOEs from the portfolio of companies managed by SSH is efficient, effective and economic operation, generation of value, and efficient implementation of services of general economic interest, all pursued in a sustainable manner and taking into consideration economic, environmental and social aspects.

## RECOMMENDED PHASES OF SUSTAINABLE BUSINESS

### CURRENT STATE OF AFFAIRS ("AS-IS" ANALYSIS)

### RISK MANAGEMENT AND SUSTAINABLE BUSINESS DEVELOPMENT

### STRATEGIC DIRECTIONS AND GOALS

### DECISION-MAKING PROCESS

### REPORTING

- A company identifies its impacts on the economy, on the environment and on broader society (i.e., positive and negative impacts of its operations, the entire supply chain and impacts caused by its products and/or services).
- A quantitative assessment of such impacts is carried out whenever possible, or qualitative criteria are applied.
- Company's impacts are classified by their significance on the basis of a previously determined criterion.
- In case significant impacts have been identified, a company decides what condition should be assumed as the starting point for its sustainable development.
- A company defines stakeholders which are greatly affected by its business operations and/or whether such stakeholders have a significant impact on the company; it includes them in the process to prepare basis for decision-making.

# 4 COMPLIANCE, INTEGRITY AND INTERNAL AUDIT

## 4.1 On compliance and main activities in 2019

SSH is the only company in RS whose foundations for setting up the compliance and corporate integrity system are laid down by a special act (ZSDH-1). In SSH, statutory provisions are improved in the following manner: by means of having a detailed definition of procedures and measures stated in the corporate documents; by having appointed a Chief Compliance Officer and by having defined his duties; and by means of employees, the Management Board and the Supervisory Board Members taking an active role in risk detection and in carrying out measures referred to in the Integrity Plan.

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

As regards corporate compliance, SSH acted in accordance with the provisions of ZSDH-1 and provisions of internal rules and regulations which define in detail procedures to be followed in individual areas. The Chief Compliance Officer, who is in charge for establishing and implementing the compliance system, pursued activities to upgrade the Integrity Plan and to deal with topics highlighted by the Risk Commission and the Chief Compliance Officer's Committee. Operational implementation of measures and exchange of information was carried out by means of regular communication with employees. The Chief Compliance Officer regularly reported about the implementation of the Integrity

Plan to the SSH Management Board and to the SSH Supervisory Board. The Annual Report was also prepared for the Commission for the Prevention of Corruption.

SSH revised the SSH's Code of Ethics at the end of 2019. The Code of Ethics was amended with commitments in regard to leading by example, zero tolerance to corruption, observance of human rights in business, sustainable development and interpersonal relations in the company. The Code of Ethics was presented to all employees at workshops organised for individual organisations units.

Within the scope of the project to revise the Corporate Governance Code for SOEs, recommendations for SOEs to establish the corporate compliance and integrity system have been prepared and published. Some other key recommendations provide advice on the following issues: the formation of the Chief Compliance Officer's position, the preparation of the Integrity Plan or the Anti-Corruption Programme of an SOE, the identification of corruption risks and the definition of illegal and unethical conduct, the education and further training system for employees, the formation of the system for reporting irregularities, the formation of mechanisms for suitable and efficient action, traceability and keeping of reports register and protection of whistle-blowers, and the system for regular reporting to the management and supervisory bodies on reports of irregularities received and handled, as well as on actions taken.



## 4.2 Implementing Integrity Plan

The Integrity Plan, as an overarching instrument for corporate compliance and integrity system, dedicates special attention to risks in the following areas:

- influences and requests;
- conflict of interest;
- abuses;
- recruitment procedures;
- procurement of goods and services;
- operational functioning of a Chief Compliance Officer;
- conclusion of contracts for advisory services;
- uneconomical practices in handling public funds;
- prevention of money laundering and terrorist financing;
- protection of data and of inside information;
- operations in accordance with applicable regulations and general legal documents of the company;
- ethics and integrity.

Within the scope of each of the above mentioned categories with specific types of risks, individual important risks were identified and suitably quantified. Permanent and additional measures for managing risks were defined and key persons responsible for their implementation were appointed (organisational units or individual employees). Deadlines for implementing newly defined one-off measures have been laid down.

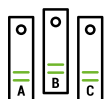
Measures for enhancing corporate integrity and responsibilities and for minimising corruption-associated risks, conflict of interest and abuse of inside information in managing state assets were implemented in a smooth manner in 2019.

A special attention was placed on organising training sessions for representatives of the management and for members of supervisory bodies of SOEs. Topics dealt with included the following: presentation of lobbying practices, reporting about financial situation to the Commission for the Prevention of Corruption, and risk management in regard to compliance, fraud and corruption.

### SSH's main integrity tools



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



Corporate documents (internal rules and regulations), register of gifts and traceability of communication with state bodies



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



Cooperation with supervisory bodies and investigative institutions



Committee for handling irregularities in portfolio companies

## 4.3 The system for handling reports on alleged irregularities

The Chief Compliance Officer received 43 such reports in 2019 within the scope of the system established for addressing suspicions of irregularities, which also includes the protection of whistleblowers. In accordance with internal processes, reports were classified into the following categories:

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

Twenty-seven reports referred to suspicions of irregularities in the functioning of SOEs which fall under the SSH's corporate governance. The Chief Compliance Officer personally handled reports linked to the functioning of SSH. All reports on alleged irregularities in SOEs were dealt with by a special four-member internal Committee, in cooperation with a relevant asset manager. On the basis of additional information received and on the basis of answers clarifying the content of reports, the opinion of the Committee was formulated and, when needed, measures which fall under the authority of SSH, were implemented.

## 4.4 Personal data protection

In 2019, SSH improved internal processes with respect of personal data protection and supplemented the Rules on processes and measures for personal data protection. A new data base for carrying out video surveillance in SSH's premises was designed.

Key activities include the following:

- the establishment of a record about personal data processors under contract which is kept by the Chief Compliance Officer and relevant amendment of contracts;
- supplementing the Risk Register with newly identified risks in regard to personal data protection and designing relevant measures;
- publication of instructions and forms for enforcing individuals' rights on the SSH's website;
- preparing internal instructions for databases administrators and for personal data processors.

## 4.5 Internal Audit

The SSH's Internal Audit functions as an independent department. The basis for its functioning is the Internal Audit Charter which has been approved by the SSH Management Board and the SSH Supervisory Board. The Internal Audit Service is bound to adhere to the hierarchy of rules of professional conduct in internal auditing.

The Internal Audit in SSH is responsible for carrying out permanent and comprehensive supervision over the legality and accuracy of SSH's operations, and for verifying the existence and functioning of internal controls installed within business processes falling under the responsibility of the management at all organisational levels of SSH. The main task of the Internal Audit is to provide the Management and the Supervisory Board an unbiased assessment about the adequacy and efficiency of the SSH's risk management system.

The year of 2019 was particularly important for the SSH Internal Audit's activity: in addition to internal audit assignments carried out in SSH based on the adopted legal documents (i.e., the Protocol for enforcing the right for reviewing operations in individual companies included in the SSH's portfolio

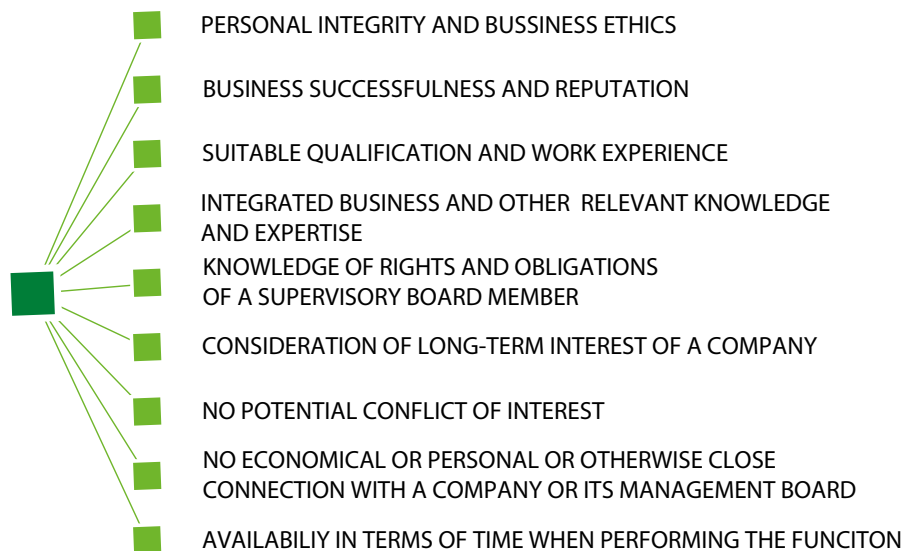
of assets under management), four audit review were also carried in SOEs. The purpose of including companies from the portfolio of assets managed by SSH into the scope of activities carried out by the SSH's Internal Audit is to reinforce the SSH's review and oversight over their operation. The SSH's Internal Audit is involved in the above mentioned activities within the scope of additional activities planned as an assistance to asset managers in their review of certain transactions or processes when such review may additionally contribute to better governance and supervision of an individual company under SSH's governance. The Audit Reports include both the SSH's recommendations (they are connected with the processes for managing capital assets) and proposals for reviewed companies from the portfolio under management; the main purpose of such recommendations and proposals is to ensure better risk management of processes under review. By carrying out audit reviews in SOEs, SSH wishes to make a positive impact on the regularity and performance of SOE's operations as well as reduce risks treated as important by SSH and the Republic of Slovenia. This represents a significant step forward in the management of state capital assets.

# SUPERVISORY BOARDS OF SOEs AND CANDIDACY PROCEDURES

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

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

## Requirements For Supervisory Board Members Under ZSDH-1



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

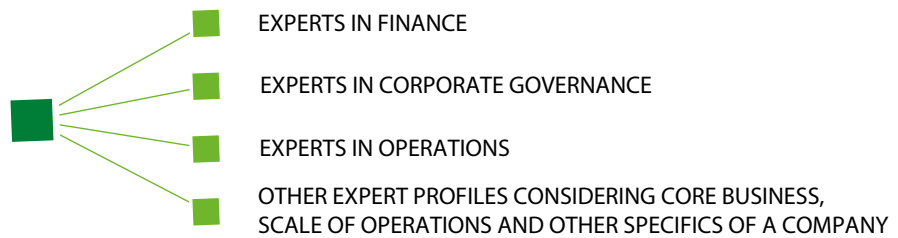
The members of supervisory boards must have the necessary business experience and business maturity for assessing global business trends and opportunities, benefits and risks which a company is exposed to; they should have a full understanding of business cycles and a company's business model, its strategic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

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

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

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

## Supervisory Boards

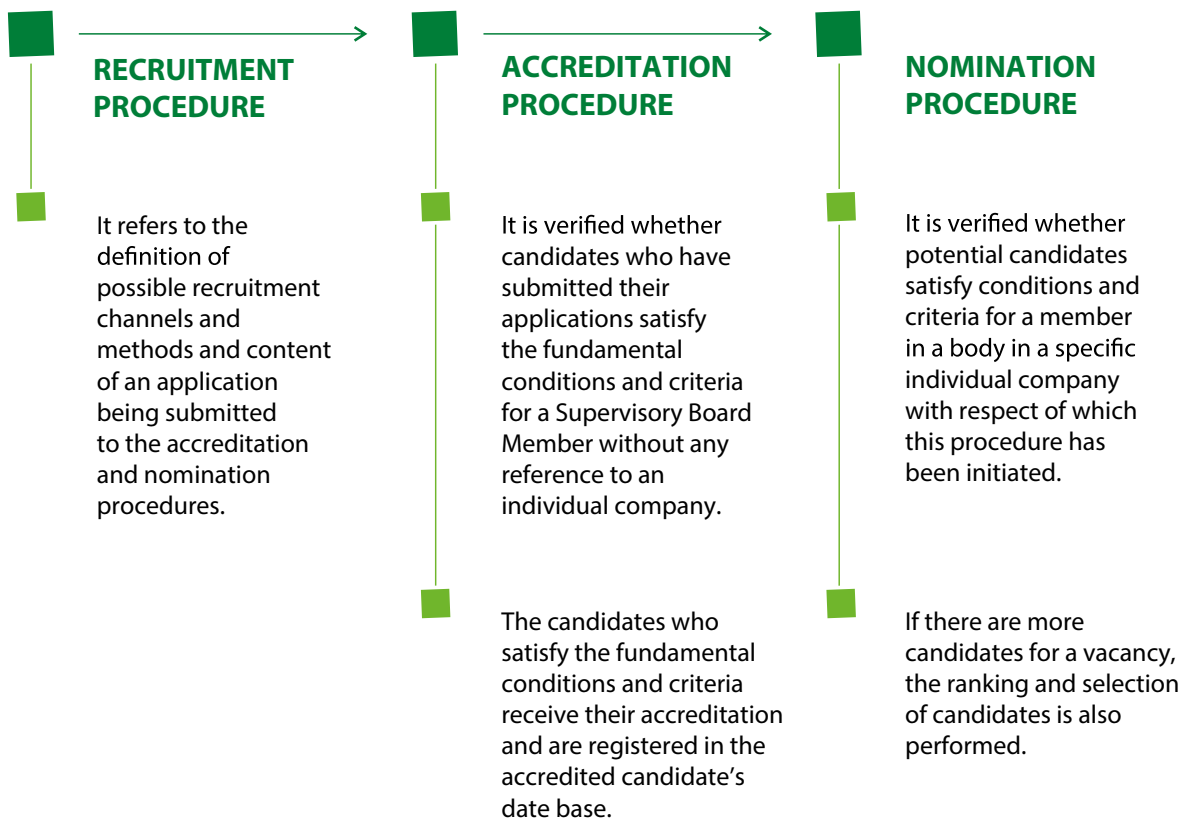


*Scheme: Targeted expert profiles for supervisory boards*

## 5.1 About SSH's Nomination Committee

The members of the Nomination Committee are appointed by the SSH Management Board for a four year term of office, in accordance with the provisions of ZSDH-1. The Nomination Committee is composed of three members: an expert in corporate governance, an expert in HR management and an expert in the functioning of bodies of supervision.

The Nomination Committee is a consultation body of the SSH Management Board, which, pursuant to ZSDH-1 and SSH Asset Management Policy, implements candidacy procedures for members of Supervisory Bodies of SOEs; these procedures comprise recruitment procedure, accreditation procedure and nomination procedure.



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

## 5.2 Work performed by Nomination Committee in 2019

The Nomination Committee was composed of the following members in Q1 2019: Luka Gaberščik, President, Jagoda Vitez, Deputy President, and Brigita Vončina, Member. The four-year term of office for two members, specifically, Luka Gaberščik and Jagoda Vitez, terminated on 31 March 2019. They were replaced by new members, Samo Roš and Urška Podpečan, whose appointment to the position came into effect on 1 April 2019. Brigita Vončina remained the Nomination Committee's Member until 5 April 2020. Samo Roš was elected the President of the Nomination Commission at the Committee's inaugural session.

The Nomination Committee (former composition) held three meetings in Q1 2019 during which it dealt with four applications by portfolio companies to carry out candidacy procedures. Since 1 April 2019, the Nomination Committee met at the total of 24 sessions at which 32 applications for carrying out nomination procedures for candidates for

Supervisory Board's members of 25 SOEs were dealt with, making the total of 27 requests from SOEs being handled by the Nomination Committee. These companies are: Cinkarna Celje, d. d., Sij, slovenska industrija jekla, d. d., Sava, d. d., Krka, d. d., DTK Prvi sklad, d. o. o., DTK Meta Ingenium, d. o. o., DTK Murka, d. o. o., NLB, d. d., Slovenske železnice, d. o. o., Hit, d. d., HSE, d. o. o., Elektro Ljubljana, d. d., Cetis, d. d., Luka Koper, d. d., Telekom Slovenije, d. d., Abanka, d. o. o., DARS, d. d., RTH Trbovlje, d. o. o., v likvidaciji, GEN energija, d. o. o., VGP Novo mesto, d. d., VGP Kranj, d. d., Plinovodi, d. o. o., Pošta Slovenije, d. o. o., KOTO, d. o. o., Varnostni sistemi, d. o. o., DSU, d. o. o., and STH Ventures, d. o. o.

Work performed by the Nomination Committee is mostly digitalized. The registration with the Accredited Candidates Register for the membership of supervisory boards of enterprises managed by SSH is made through the Nomination Committee's Portal found on the web site address: <https://kk.sdh.si/>.

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

In 2019, SSH organised five training sessions for management and supervisory bodies of companies in partial or majority ownership of RS and SSH.

In cooperation with the Commission for the Prevention of Corruption, SSH organised sessions to discuss two topics, i.e. Lobbying and influences on processes, and Reporting to the Commission for the Prevention of Corruption on financial situation.

The issues addressed refer to risk management, operational compliance, fraud, corruption, and expectations of supervisory bodies from internal auditors. Two training sessions were organised to discuss two business topics, firstly, lean organisation as the foundation of profitable operation and secondly, valuation of financial investments for members of supervisory bodies.





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

Ensuring the diversity of membership of supervisory bodies is important to improve the quality of decision-making, for example, in regard to strategies and risks, as it enables wider spectre of perspectives, opinions, experience, perceptions and values. The goal of the Diversity Policy is to achieve better efficiency of a supervisory board and the management as a whole.

In November 2019, within the scope of the project for the revision of the Corporate Governance Code, SSH amended provisions in regard to diversity policy, mostly with the aim to adhere to the Act amending the Companies Act (ZGD-1J). The new recommendation determines in detail the content of the diversity policy, it requires a report to be made on the implementation of the diversity policy and to be included as an integral part of the Governance Statement.

In November 2019, SSH gave its support to an initiative taken by the Slovenian Directors' Association. The SDA's initiative aims from listed companies to voluntarily pursue targeted gender diversity of their leadership bodies by 2026 with the following structure: 40% in case of members of supervisory bodies and the total of 33% for members of supervisory and management bodies in favour of the lower represented gender in publicly traded companies and in SOEs. SSH desires to follow the practice of those countries which have achieved progress without any statutory regulation in this field, and to contribute to the changes in this area. SSH will continue to advocate heterogeneous composition of supervisory bodies and to increase gender diversity in this regard.

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

There were 357 potential candidates applying for members of supervisory bodies of SOEs registered at the Nomination Committee's Portal at the end of 2019.

The analysis showed that the share of women, who had registered by expressing their interest for their candidacy for the membership of supervisory boards of enterprises governed by SSH, is comparable to the

share of actually appointed and active supervisory board members in SOEs (25%). The age groups which are the best represented among the candidates registered at the Nomination Committee's Portal are the 51-60 age group and the 41-50 age group. The age group of over 61 years is less represented and the lowest share is attributed to the age group of candidates under 40 years of age.

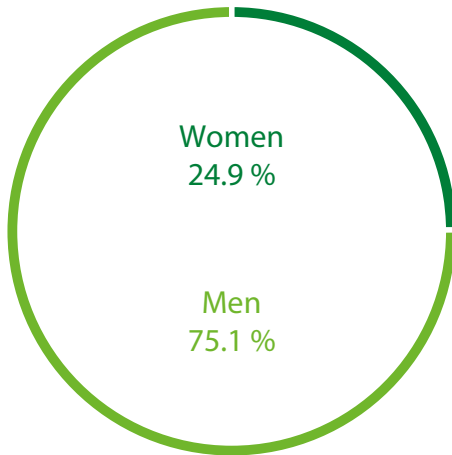
### 5.4.2 The diversified composition of Supervisory and Management Boards of companies owned by the Republic of Slovenia and SSH by gender

In 2019, the composition of Supervisory and Management Boards by gender was similar as in 2018: still imbalanced but, as compared to previous years, the trend is improving. Men continue to strongly prevail in Supervisory and Management Boards, although in 2019, the diversity of boards' composition in terms of gender turned in favour of women. In spite of imbalance between men and women in supervisory and management bodies,

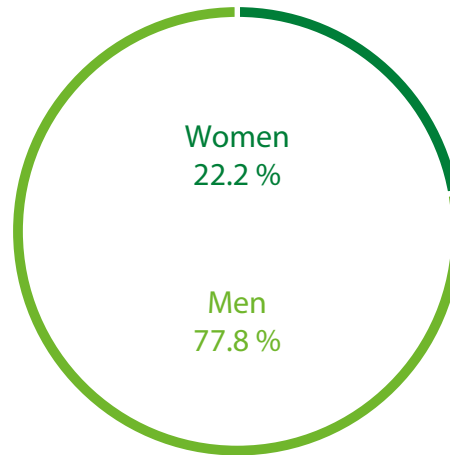
the activities for their heterogeneous composition, taking into account the provisions of the Corporate Governance Code for SOEs and promoting the diversity policy in companies under management, have led to an increase in the number of women present in Supervisory Boards, specifically, from 19.5% in 2016 to 24.9% in 2019, and in Management Boards, from 9.7% in 2016 to 22.2% in 2019.

**Figure:** The composition of Supervisory Boards and Management Boards of companies directly owned by the Republic of Slovenia and SSH by gender as of 31 December 2019 (excluding companies in bankruptcy and in liquidation).

**Supervisory Boards**



**Management Boards**

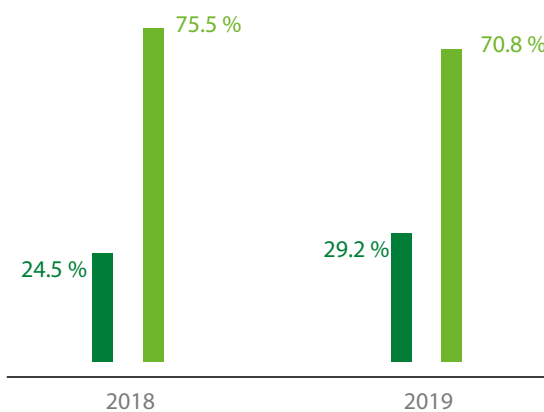


A similar disproportion as regards the gender presence was noted in presidential positions of management and supervisory bodies, however, in 2019, as compared to the end of 2018, the relation in the gender presence and in the presidential position of Supervisory and Management Boards of companies turned in favour of women.

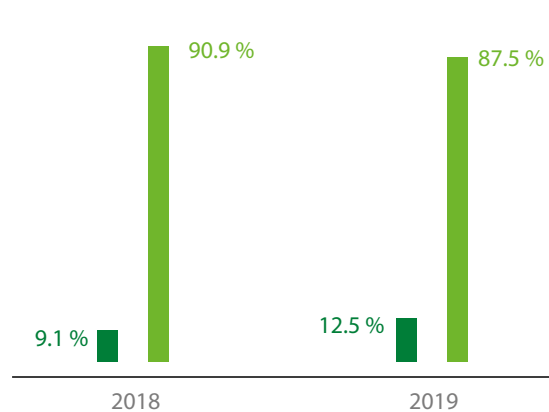
The Supervisory Boards of companies directly owned by the Republic of Slovenia and SSH were presided over by men in 70.8% of cases (as compared to the situation at the end of 2018, the ratio turned in favour of women, i.e. from 24.5% to 29.2%) , while Management Boards had as many as 87.5% of male presidents (the ratio turned in favour of female presidents, i.e., from 9.1% in 2018 to 12.5% in 2019).

**Graph:** Changes in the composition of presidents of supervisory boards and management boards of companies directly owned by the Republic of Slovenia and SSH by gender as of 31 December 2018 and as of 31 December 2019 (excluding companies in bankruptcy and in liquidation)

**Supervisory Board**



**Management Board**



■ Men  
■ Women



A general objective of SOEs from the portfolio of companies managed by SSH is efficient, effective and economic operation, generation of value, and efficient implementation of services of general economic interest, all pursued in a sustainable manner and taking into consideration economic, environmental and social aspects.

## RECOMMENDED PHASES OF SUSTAINABLE BUSINESS

CURRENT STATE OF AFFAIRS ("AS-IS" ANALYSIS)

RISK MANAGEMENT AND  
SUSTAINABLE BUSINESS DEVELOPMENT

STRATEGIC DIRECTIONS AND GOALS

DECISION-MAKING PROCESS

REPORTING

- A company assesses sustainability risks and sets out action plans to tackle identified risks, both for opportunities and threats.
- A company decides which negative impacts will be reduced as a priority (and which positive impacts will be developed) and draws up a time plan for addressing the remaining impacts.

# LEGAL FRAMEWORK FOR MANAGING CAPITAL ASSETS OF RS AND SSH AND AMENDMENTS OF ASSET MANAGEMENT-RELATED DOCUMENTS IN 2019

The main activities for improving the level of corporate governance in SOEs which were implemented in 2019 include the following:

- adopting the Annual Assets Management Plan for capital assets held by RS and SSH and its amendments,
- updating the Criteria for Measuring Effectiveness of SOEs and adopting additional criteria for measuring performance of SSH,
- organising regular monthly training sessions for SOEs,
- updating the SSH Asset Management Policy.

## 6.1 The framework of functioning for SOEs

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

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

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



## 6.2 The corporate governance system of SOEs – legal bases and documents on asset management and their amendments in 2019

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

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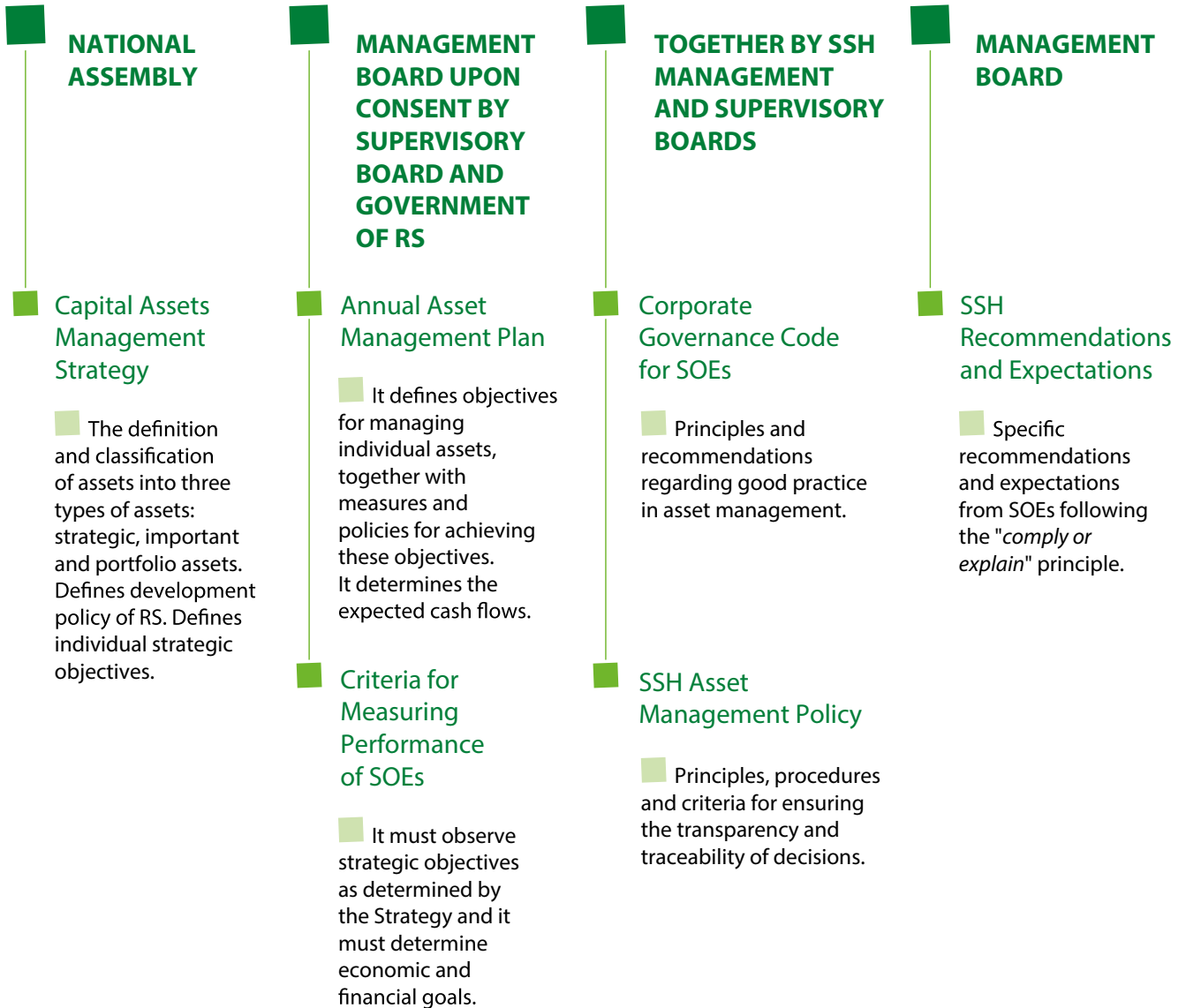
The systemic nature of corporate governance pursued by SSH is shown in adopted asset management-related documents which represent the foundation of corporate governance and are the main condition for ensuring transparency in corporate governance. These documents are: the State Assets Management Strategy,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

active asset management approach, SSH continued to ensure that good practice in corporate governance is being implemented in 2019, in order to attain the set asset management goals.

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

The scheme below provides an overview of key documents and their relevance for and role in corporate governance.

■ Adopted by    ■ Document    ■ Content





## 6.2.1 State Assets Management Strategy

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

development guidelines of the State in the capacity of a shareholder and the definition of individual strategic objectives pursued by the State with respect of strategic assets. In the Asset Management Strategy, the Parliament has given a special emphasis to the following key pursuits: firstly, raising the corporate governance culture, secondly, increasing effectiveness in disposition of assets, thirdly, carrying out sound and prudent acquisition of capital assets, and finally, increasing return on equity and to considering listing companies on the regulated market. No amendments to the Asset Management Strategy were adopted in 2019. In principle, the said document is not implemented directly and it forms the basis and the guidelines for the preparation of the Annual Assets Management Plan.

## 6.2.2 Annual Asset Management Plan

On the basis of the Asset Management Strategy, every year, the Government grants its consent to every Annual Asset Management Plan (AAMP) prepared by SSH. The AAMP defines detailed objectives for the asset management company (SSH) with respect of the management of individual SOEs to be pursued in an individual financial year; they have to be moving within the scope of objectives set out in the Asset Management Strategy. The said document also includes a specific plan (a definition of measures

and policies) for attaining asset management goals, while it also determines expected cash flows to be generated from the management of state capital assets.

SSH prepared the AAMP for 2020 at the end of November 2019 and it was adopted with the consent granted by the RS Government on 6 February 2020, while the AAMP for 2019 was adopted in January 2019.

## 6.2.3 Criteria for Measuring Performance of SOEs

Pursuant to Article 17, Paragraph 1 of ZSDH-1, SSH adopted the revised Criteria for Measuring Performance of SOEs (hereinafter referred to as: the "Criteria for Measuring Performance"), to which the Government of the Republic of Slovenia's consent was granted on 6 February 2020. The Criteria for Measuring Performance are an internal document of a shareholder in which the criteria (indicators) are defined so that SSH can monitor the performance

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

## 6.2.4 SSH Asset Management Policy

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

and disposition of State's capital assets, and in some other cases. Both parts of the Policy are binding on SSH. The purpose of the Policy is to provide for the transparency and traceability of decisions made by SSH.

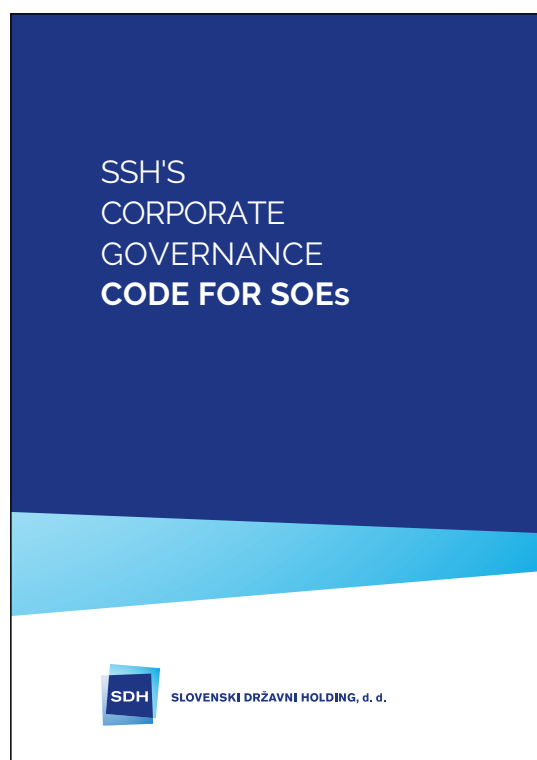
Policy was updated. Among other things, the said Policy was supplemented with a new provision which defines the method for conducting internal procedures in SSH in case when the General Meeting of an SOE decides on the appropriation of distributable profit in a manner that non-financial assets are distributed to owners in the form of shares which are held by an individual SOE in another SOE.

## 6.2.5 Corporate Governance Code for SOEs

SSH adopted the Corporate Governance Code for SOEs (hereinafter referred to as: the "Code") on 19 December 2014. The Code was revised several times, the last revised issue is from November 2019. The Code contains principles and recommendations for good practice in corporate governance of SOEs, and it is addressed to SOEs. It should also be applied by subsidiaries in a group of which a state-owned enterprise is a parent company. By analogy, the Code is also used by SSH for its operation. Some principles are of a general nature and refer to all SOEs, while some recommendations refer to companies with specific legal form and organisational structure, taking into account the ownership structure of the company and whether the company's shares are traded on the regulated market. The Code also includes certain general expectations SSH has in relation to SOEs. The purpose of the Code is to set the standards of governance in and supervision over SOEs and to develop a transparent and understandable system of corporate governance in the above mentioned companies. The Code is addressed to SOEs under the "comply or explain" principle.

### Asset management documents revised in 2019: amendments to the Corporate Governance Code for State-Owned Enterprises

The SSH Management Board adopted a revised **Corporate Governance Code for SOEs** on 19 November 2019, in accordance with Article 32



of ZSDH-1; the SSH Supervisory Board granted its consent to the Code on 27 November 2019. The amended Code is partially connected with amendments in the Slovenian legislation, and partially it follows the trends in corporate governance, and the international practice. Among other things, the renewed Code introduces a recommendation in regard to the succession planning policy for senior management positions in order to train internal staff for them to be ready to assume positions particularly in cases of unforeseen events which dictate changes in staffing. The aforementioned recommendation aims to encourage companies to introduce a talent screening and selection system by way of which talented employees are selected and trained for leadership positions which they will assume after the expiry of the term of office of the current leadership staff, either on occasion of a regular termination or in case of unforeseen circumstances which would require faster changes in the staffing composition of corporate bodies of companies. Secondly, the Code's amendments which refer to the diversity policy, reflect the statutory changes of the amended Companies Act (ZGD-1J): the new recommendation determines in detail the content of a diversity policy, it requires a report on the implementation of the diversity policy to be an integral part of the Governance Statement. Finally, some more important amendments refer to the communication between SSH in the capacity of a central ownership entity and an SOE, in which regard the various forms of organisational structure and shareholder structure of an SOE are taken into account.

Further on, a new recommendation was added advising responsible reporting and gradual development of the quality of external reporting in which regard SOEs may use the established international reporting practices at their own discretion. The principles of good quality reporting have been defined in a more detailed manner. Some recommendations were added with respect of corporate compliance and integrity. They refer to the appointment of a Compliance Officer and they define his/her duties; they also refer to the identification of risks in regard to corruption, illegal conduct or unethical action; and they advise the drawing up of an integrity plan or anti-corruption programme.

### Highlights from the analysis on the adherence to the Corporate Governance Code for SOEs

SSH reformulated a questionnaire addressed to SOEs at the end of 2019 with the aim to review the adherence of selected recommendations from the Code and the SSH Recommendations and Expectations, which are viewed as more important and refer to matters of current interest, as well as recommendations, which were found to be less observed or not observed at all during the 2017 analysis. The analysis also considered individual asset management pillars and produced recommendation proposals for every SOE individually; these recommendations will be used as a supporting document for asset management activities and during periodic meetings held with companies. The questionnaire consisted of 19 questions which referred to the adherence of the Code and nine questions in connection with the adherence to the Recommendations and Expectations. SSH received answers from 84 companies, of which 33 of them are controlling companies and 51 are controlled companies. The Code and Recommendations and Expectations are addressed to SOEs under the "comply or explain" principle. SOEs are thus expected to formally adopt and apply the Code of Corporate Governance for SOEs, however, other Slovenian or foreign Codes may equally be applied. When filling out the questionnaire, SOEs were requested to state which Code's principles and recommendations they had fully adhered to and in case of partial adherence or lack of adherence they should have provided their reasons for deviating from the Code.

The results of the analysis and findings showed what is the level of corporate governance of an SOE and what progress it had achieved since the last analysis which was conducted in 2017. The analysis of answers to questions from the questionnaires showed that the great majority of SOEs adhere to key recommendations of the Code, especially those which refer to the fundamental principles of corporate governance (the diversity policy, the Governance Statement, the authority and the duties of the supervisory bodies, avoidance of the conflict of interest, to name a few); reasons for not adhering to the Code's recommendations, on the other hand, mainly lie in the legal organisational form of an SOE (there is no Supervisory Board) or they are connected with provisions in their incorporation documents (for example in small or micro companies

or in case of controlled companies). More significant deviations have also be identified with respect of the recommendations addressing the following subject matters: the introduction of corporate compliance and integrity system, risk reporting to SSH (especially in those companies in which SSH is not a sole shareholder), the establishment of internal audit department and public announcements on conclusion of contracts for rendering services.

On the basis of the analysis and in line with the findings which will be formulated during periodic meetings held with SOEs, SSH will assess whether individual recommendations from the Code and Recommendations need to be supplemented or amended. The Code will obviously be further improved in line with insights achieved and experience gained during asset management activities and according to the developing practice of good corporate governance.

## 6.2.6 Other recommendations and viewpoints

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

Slovenian Sovereign Holding first adopted the SSH Recommendation and Expectations in 2014, in accordance with the above mentioned authority; by means of these recommendations and by applying the "comply or explain" principle, SSH expects from SOEs to align their activities, which they pursue in individual narrow areas, with SSH's recommendations. The SSH Management Board last revised the said document in August 2020. SSH Recommendations

regulate the following narrow areas of work: three-year business planning; periodic performance planning; transparency of business procedures entailing the closing of business transactions, particularly in regard to companies' expenditures (commissioning of goods and services, sponsorship and donation contracts); cost optimisation; achieving the quality and excellence in operations; and the area which refers to the General Meeting of Shareholders. The revised Recommendations were extended to include recommendations on sustainable business of SOEs and respect of human rights in business as well as recommendations for the adoption of other rights for members of a management body.



A general objective of SOEs from the portfolio of companies managed by SSH is efficient, effective and economic operation, generation of value, and efficient implementation of services of general economic interest, all pursued in a sustainable manner and taking into consideration economic, environmental and social aspects.

## RECOMMENDED PHASES OF SUSTAINABLE BUSINESS

CURRENT STATE OF AFFAIRS ("AS-IS" ANALYSIS)

RISK MANAGEMENT AND  
SUSTAINABLE BUSINESS DEVELOPMENT

STRATEGIC DIRECTIONS AND GOALS

- A company sets strategic directions for sustainable business and measurable goals for all three pillars of sustainability.
- The company's supervisory board is informed of such directions and goals and grants its consent.

DECISION-MAKING PROCESS

REPORTING

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

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

	2019	Autumn forecast (September 2020)		
		2020	2021	2022
GDP, real growth in %	3.2	-6.7	5.1	3.7
Registered unemployment rate in %	7.7	9.1	9.5	8.5
Inflation (annual average) in %	1.6	0.3	1.6	1.9

Source: IMAD; Autumn forecast (September 2020), Statistical office of RS

Global economy grew by 2.9% in 2019, which indicates a lower growth rate than recorded in 2018 (3.6%). The 2020 projections of the International Monetary Fund (IMF) forecast global growth to contract sharply and fall to -4.9% as a result of the negative impact of the COVID-19 pandemic on economic activity; in 2021 global growth is projected to reach 5.4 percent, and in 2022 to stand at 3.6 percent. The countries of the developed world recorded growth of 1.7 percent in 2019 while in developing countries it stood at 3.7 percent; developing countries also experienced a higher GDP growth. Signs pointing to a slowdown were noticeable in 2019 and the outbreak of the coronavirus crisis in China at the end of 2019 worsened the 2020 outlook. The slowing economic activity in 2019 prompted many central banks to pursue accommodative monetary policy stance. Thus, in November 2019, the European Central Bank launched a new quantitative easing (QE) programme (it brought the last one to an end in December 2018), and it decreased the deposit interest rate from -0.4% to -0.5% in September 2019. The European Central Bank strives to provide stimulus to economy, directly and indirectly, by providing favourable financial conditions (asset purchases, pressures on commercial banks to increase corporate lending, and similar measures). The American central bank,

the Federal Reserve (FED), changed its monetary policy in 2019, as, after several hikes in 2018, it cut key interest rate by 25 basis points for three times. At the end of 2019, key interest rate was thus targeted in the range from 1.50% (the lower limit) to 1.75% (the upper limit). The change in the FED's trend to target key interest rate (the period from 2015 to 2018 saw a trend of raising key interest rate, while the last such trend ended years back, precisely, in 2006) indirectly signals there is a danger that economic activity will slow down in individual countries. In a globally-connected economy where negative movements experienced by one individual economy tend to spill over to other economies, central banks have been forced to implement the above mentioned measures to support economic activity in an individual national economy or in an individual economic sector. ECB, governments of individual Member States and the European Commission prepared numerous measures in 2020 which were aimed at supporting the economy in order to overcome negative impacts of COVID-19 crisis (monetary, fiscal measures for safeguarding jobs, providing liquidity for companies with more accessible loans, etc.).



The European economy recorded the seventh consecutive year of growth in 2019; it has to be noted, though, that growth does not depend solely on domestic consumption but also on the movement of the global economic growth, which is particularly important for export-oriented economies. The GDP growth in the European Union member countries thus stood at 1.5% in 2019, while it amounted to 1.3% in the countries of the Euro area. As regards the review of the manufacturing sector performance in 2019, the challenges of the automotive industry have to be pointed out again as the vehicle production output in Germany hit the record low for the first time after 1996 and the sale of new vehicles plummeted as a result of a few-months partial lockdown in 2020. The industries which have been hit hard by coronavirus include automotive industry, tourism and hospitality sector, transport and real estate industry. Trade in goods, which contribute to the growth of world economies at a large extent, suffered under the pressures of the newly applied tariffs and the threat of additional tariffs being imposed on them. The USA are involved in trade disputes with several countries and regions, the most significant include China, the European Union and individual states from the American continent. Goods, which are subject to import duties, higher tariffs or are threatened to be subject to new duties being applied, comprise a wide range of products, from raw products (for example, agricultural products, raw material) to high-tech products (for example, aeroplanes, vehicles, etc.).

The US economy recorded a 2.2 percent growth in GDP in 2019, which was slightly higher than in the Member States of the Euro area. According to FED's projections, the US economy is forecasted to contract by 6.5% in 2020 and to grow by 5.0% in 2021, while ECB estimates show that the fall in GDP in the Member States of the Euro area is to amount to (minus) 8.7 percent in 2020 but GDP is projected to record a 5.2 percent growth in 2021. The economic growth in the Republic of Slovenia stood at 3.2% in 2019, in which case it has to be emphasized that the Slovenian economy experienced economic rise in the 2014-2019 period, but its growth level dropped sharply in 2019 due to influences from the international environment. Slovenia's economic development gap measured against the EU average has been narrowing during recent years and the Institute of Macroeconomic Analysis and Development (IMAD) estimates the development has been generally inclusive during the period of economic upturn.

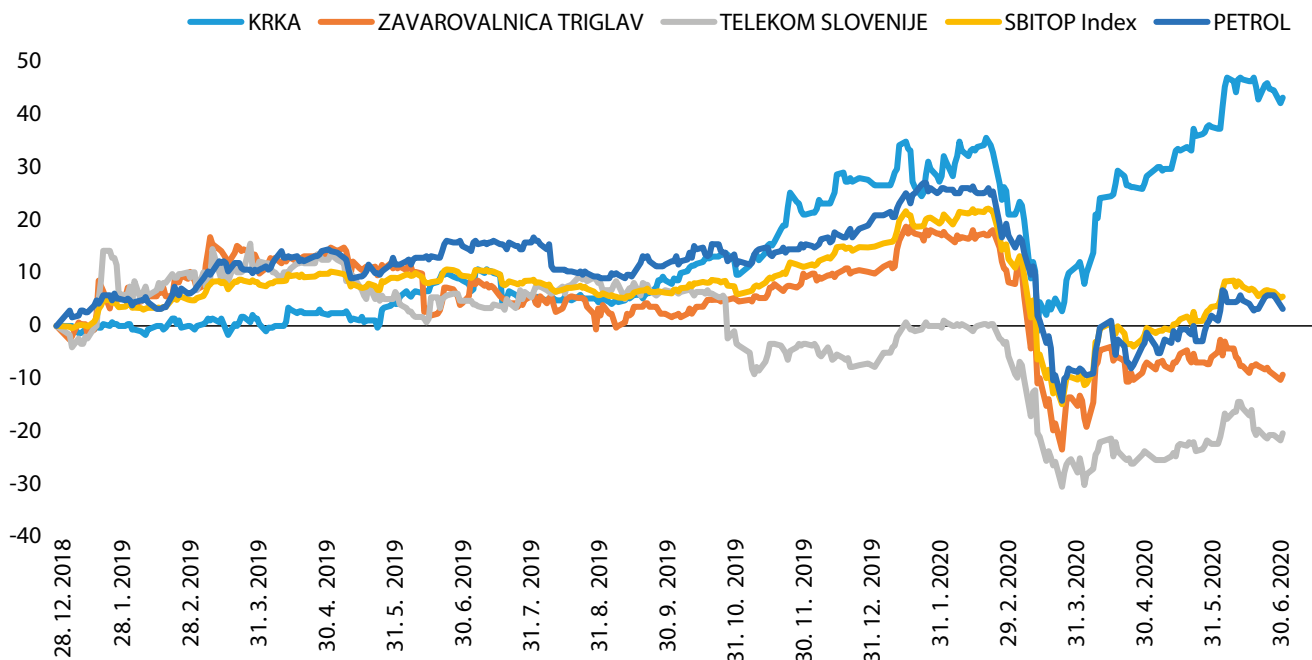
IMAD predicts a 6.7% decline in GDP for 2020 to be recovered in the next two years although it is expected that the economic activity will reach pre-epidemic levels only in 2022.

### Slovenian capital market

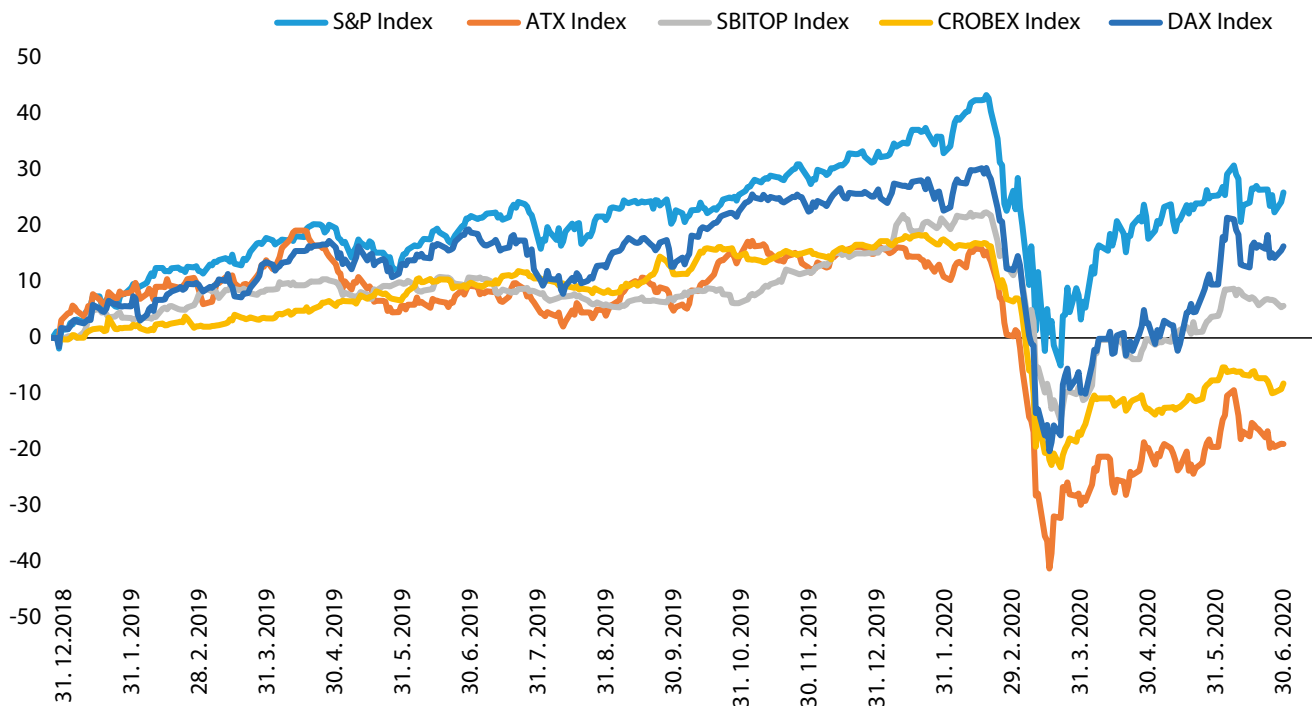
The Slovenia Blue Chip Index, SBITOP, recorded a growth trend in the first six months of 2019, with the most of the increase achieved in the first three months. A rather steady movement was typical for SBITOP Index in the first half of 2019. Its value dropped slightly by the beginning of November 2019 only to be followed by a solid growth of 8.5% by the end of 2020. SBITOP Index thus awarded investors with nice returns in 2019 as its value increased by 15.03%. Share prices of securities trading on Ljubljana Stock Exchange (LJSE) gained some value in the first weeks of 2020 only for their value to be lost fast due to stock market crash triggered by the coronavirus crisis. SBITOP Index thus lost as much as 30.33% of its value in the period from 19 February to 23 March 2020. From its local low point hit on 23 March 2020 (with the value of 684.74 points, SBI TOP stood at the value last recorded in 2016), the Slovenian stock market index rose by 23.97% by 30 June 2020, riding on the winds of optimism also typical for foreign stock exchanges in that period of time.

The LJSE turnover in 2019 was at the level of 2018: the total turnover amounted to EUR 329.5 million while the turnover, excluding block trades, stood at EUR 279.3 million. The most of the turnover was generated by trading with shares (EUR 304.4 million) whereas the turnover from bond trading was significantly lower (EUR 25.1 million). Prime Market shares were the most trading shares as they generated as much as EUR 261.89 million in LJSE turnover. Slovenian listed companies were included in two new regional indices, ADRIAPrime and CEEplus. In 2019, Ljubljana Stock Exchange also gained a market maker which provides market making services for four Prime Market companies. The most frequently traded shares in 2019 included Krka shares which generated EUR 91.9 million of LJSE turnover, excluding block trades, followed by trades with NLB shares which closed for EUR 35.2 million of turnover, excluding block trades. The third share most often involved in trades on LJSE was Zavarovalnica Triglav share which generated EUR 32 million of turnover, excluding block trades. The overall market capitalisation stood at

**Figure:** Return from top shares, representing an important proportion of SSH capital assets, listed on Ljubljana Stock Exchange in the period from the end of 2018 to 30 June 2020, in %



**Figure:** Return from top regional and global share indices and SBI TOP, from the end of 2018 to 30 June 2020 (all returns in EUR currency), in %



EUR 34.9 billion at the end of the year which is 3% higher than in 2018. The overall share market capitalisation stood at EUR 7.1 billion in 2019.

### Global capital markets

The year of 2019 was a favourable year for investors as the majority of large asset classes generated returns which exceeded inflation rates. Investors will remember the year of 2019 as the year when global equity markets generated the highest returns after 2009, the Brent oil market experienced the highest increase in value since 2007 and the year that recorded the highest fall in the value of the VIX index (also known as the "Fear Index) since 2009. The bond market behaved quite positively in 2019, recording a rise in bond's prices, and the favourable

climate was also shown in net issuances of bonds of various classes (government bonds of developed and emerging markets, investment-grade bonds, high-yield bonds). It can be said that 2019 was the year when a decade after the global financial crisis of 2008 and 2009 finished: today, financial markets are stronger than during the said crisis.

All global indices discussed generated negative and positive returns for investors in the period from the end of 2018 to 30 June 2020; the calculation of returns is presented in EUR (conversion to EUR in case of S&P 500 and Crobex indices, in which case some shares are quoted in foreign currencies).

## 7.2 Overview of developments by portfolio sectors

Economic growth in the world and in Slovenia continued to rise in 2019, giving a positive impact on the development of companies and economic indicators. The real growth in gross domestic product (GDP) in 2019 amounted to 3.2% in which case it has to be pointed out that its slowdown was mainly due to external factors. The growth in total business investments slowed down significantly in 2019 while the robust growth in private consumption (as a result of wage growth, employment and favourable financing conditions) continued to stimulate GDP growth.

Macroeconomic conditions in Slovenia and in the EU countries, which are the most important trade partners of Slovenia, and the increased volume of international trade were also reflected in the raised volume of traffic and transportation services in 2019; in this regard, a 6.3-percentage growth recorded in goods transported by motorways and express roads in 2019, according to the criteria of kilometres being toll charged, was the most pronounced.

An international freight train derailed near Hrastovlje in June 2019 which caused 7611 litre of jet fuel kerosene to leak out of cisterns; the cause of the accidents was attributed to a damaged switch. In order to prevent similar accidents, SŽ – Infrastruktura must prepare a list of switches, and classify them

according to their exposure to the risk of a switch failure and align their working cycles for carrying out switch condition monitoring and maintenance processes accordingly. In 2019, Slovenian railway operator, **Slovenske železnice** signed a new contract with Stadler Rail to supply another 26 passenger trainsets; as a result, together with the last year's purchase, Slovenian railway system will receive 52 new trains. The testing of the new Stadler train is to take place in 2020. The testing documentation will have to be submitted to the Public Agency of the Republic of Slovenia for Railway Transport in order to obtain a required train certification. It will also be necessary to invest in the increased capacities of regional railway lines in the future. As regards other ongoing important projects, Emonika (a new bus station) and capital increase carried out in SŽ-Tovorni promet, the Slovenian freight transport and logistics operator, have to be pointed out. The project for the construction of the Second track, a new railway line from Divača to Koper, managed by 2TDK, will bring several new operators to Slovenian railway transport market to find their market share in a competitive battle. In 2019 and 2020, Slovenske železnice also pursued negotiations with Nomago, a bus operator, for acquiring a shareholding in their company. It is planned that Nomago's valuation will be revalued as a result of which the acquisition of Nomago's shareholding has been postponed.

**DARS** started implementing new infrastructural projects in 2019, of which the most significant is the construction of the second tube of the Karavanke motorway tunnel and the third development axis. Nearly all toll stations have been demolished and the DARS GO system, which is in operation since 1 April 2018, has made a contribution to the increased toll revenue, reduction of CO2 emissions and lower fuel consumption, thus addressing financial and environmental objectives. On the existing motorway sections, DARS installed additional devices intended for improving traffic safety (traffic counters identifying incorrect driving direction, IP cameras for video surveillance, information displays). Several large-scale investment projects, which are planned to be realized in the following years, means that DARS's total debt is also expected to increase. In 2019, a total of 65 kilometres of carriageways was reconstructed along with individual structures on motorways and expressways; DARS managed 623.3 kilometres of motorways and 220 kilometres of access, service and other roads.

In Slovenia, **marine traffic** is carried out through the only port located in Koper where most of the revenue is generated by freight transport and only a small portion by the passenger transport. The Port of Koper is the leading port for strategic cargo groups which face fierce competition. It has to be noted, though, that transshipment of cargo fell by 5% in 2019 as compared to 2018 and amounted to 22.8 million tonnes. Nevertheless, net sales revenue increased by 1% as compared to 2018. The drop in cargo throughput is the result of several factors; among these, the slowdown in the global economic growth in 2019 and increasingly tougher competition of the neighbouring North Adriatic Ports (substantial rise in individual segments of maritime transport) have to be emphasized. Luka Koper has expanded its portfolio of port services by implementing its development policies, however, for maintaining the Port's competitive advantage in the future, investments in the construction of the shoreline structures and hinterland infrastructure will play a decisive role, as well as the expansion of the neighbouring North Adriatic Ports and relations with global shipping companies.

**Slovenia Control** received a grant (co-financing project) from the European Commission for its project entitled "Slovenia Wide Area Multilateral System" by way of which Slovenia Control is involved in the

Single European Sky. The project aims to contribute better to aircraft detection in the East of Slovenia and represents an alternative and more cost-effective solution to the purchase of two radar surveillance systems. Cost control is going to gain significant importance in Slovenia Control's operations in 2020 owing to coronavirus crisis which practically stopped air traffic for a certain period of time. As a result, the number of en-route flights in Slovenian airspace dropped sharply and this ended a rising trend in air flights which lasted for several years. During the corona virus crisis, international airports were closed for few weeks which affected the number of arriving and departing flights but after bans on air passenger transport had been lifted, airlines announced they would slowly and gradually restore their air services. The final number of flights will actually depend on economic conditions and health situation (states' entry requirements, the threat of the second wave of the pandemic, etc.).

The executive officers of **Pošta Slovenije** reached an agreement with the negotiation teams of the Pošta Slovenije Trade Union and of Postal Workers Trade Union in 2019 and assessed it as viable in terms of business. Pošta Slovenije acquired the majority shareholding in Intereuropa in 2019; by purchasing shares which were sold by a consortium of banks, Pošta Slovenija now holds a 72.13% stake in Intereuropa. This purchase is considered Pošta Slovenija's largest acquisition in its history enabling the postal services provider to become one of the largest operators in logistics in the Republic of Slovenia. Intereuropa Group and Pošta Slovenije Group are currently found in the process of integrating their business processes, creating synergies with the aim to become the leading provider of integrated logistics services in the wider region of South-East Europe. Based on its take-over bid, Pošta Slovenije increased its stake in Intereuropa to 80.89% in 2020. The year of 2020 is, however, marked with the coronavirus crisis which affected greatly the rendering of postal and logistics services.

**Tourism** in Slovenia is an important economic activity with numerous multiplicative effects. Considering high growth rates which the tourism sector has achieved in recent years it has to be underlined that tourism still has a great potential for further development and growth. A comparison with European average benchmark indirectly points to the significance of Slovenian tourism sector, since

its contribution to total GDP is significantly higher; in addition, tourism supports a very high number of jobs.

In 2019, the industry recorded growth with results hitting record values for the sixth consecutive year. The final annual statistical data by the Statistical Office of the Republic of Slovenia (SURS) for 2019 indicate that 2019 was another extraordinary year for tourism in Slovenia. In 2019, there were more than 6.2 million tourist arrivals registered in tourist accommodation facilities and 15.8 million overnight stays, that is 5% more arrivals and 0.5% more overnight stays than in 2018. Of this number, a solid 11.4 million of overnight stays (72% of the total number) and 4.7 (75.5% of total arrivals) million of arrivals was attributed to foreign tourists, that is 1.7% more overnight stays and 6.3% more arrivals than in 2018. Domestic tourists accounted for 4.4 million of overnight stays and 1.5 million of arrivals, which is by 2.5% fewer over-night stays and by 1.3% more arrivals than in 2018. The tourism industry employs 58.730 people, which represents 6.5% of the total workforce. The highest number of tourist overnight stays recorded in 2019 was registered by municipalities in the mountains (29.4% of all overnight stays); they were followed by municipalities in which spas are located; they held a 21.8-percent share. The highest growth in the number of overnight stays was recorded in mountainous communities (+3.3%). According to World Travel and Tourism Council (WTTC), the proportion of travel and tourism sector accounts for 9.9% share of Slovene BDP (it amounts to 9.1 percent in Europe).

Some more important industry-specific/strategic risks faced by tourism industry include outdated infrastructure and the lack of new investments (a revival of investment activities has been recorded only recently), the lack of suitable personnel and too-low added value. These weaknesses also include poorly targeted tourism destinations, considering the fact that the average length of stay of tourists visiting Slovenia is only 2.5 days. The outlook of the tourism industry was bright and this means there is potential for the development of Slovenian tourism companies. However, because of the coronavirus outbreak, the situation has changed completely; travel restrictions (foreign countries' entry requirements, epidemiological safety of various countries, halted air travel), economic crisis and other negative impacts of COVID-19 pandemic have taken

a heavy toll on the tourism industry making it one of the hardest hit industry in Slovenia.

**Gaming sector** recorded fewer visits in 2019 than in 2018: only 1,382,000 visitors thus visited HIT casinos in 2019, making the visit lower by 2 percentage points year-on-year. Gross income generated by gaming halls (gaming revenue from games of chance and casino entry tickets) was higher in 2019 than in 2018 but the need to further develop Hit's core business and other accompanying services a visitor to a casino expects (additional entertainment activities, gastronomic experiences) should be pointed out. Gaming is one of those sectors which has been under severe pressure due to its dependency on Italian visitors and all negative impacts brought by coronavirus crisis; further worsening of the conditions (a potential second wave of coronavirus) may drastically deteriorate the situation. A general trend in the industry requires new games to be introduced regularly and highlights the importance of online gaming which is indirectly shown in a reduced number of gaming tables and slot machines in HIT in 2019 (optimisation process).

Slovenian **pharmaceutical** enterprises operate on the global market. Sales revenues of the Krka Group increased in 2019 and the company recorded the best business result ever achieved in its 65-year history. Global competition is harsh which is why it is essential for this industry to focus on the following key areas to gain some advantage: investments in the development of markets and new products, actions taken in the right segments of the pharmaceutical industry (generic medicinal products, complex originators, biological medicines, etc.) as well as timely registration of new products. The pharmaceutical industry is a fast developing industry with the biopharmaceutical sector recording the fastest development growth (biological medicinal products and biosimilars). The main players of this sector in Slovenia are Krka and Lek; they are also an important Slovenian employer. As regards market growth levels, they are expected to differ according to individual regions as they depend both on their geopolitical stability, macroeconomic conditions, protectionist economic policies pursued and special conditions which can be found in an individual market. In terms of sales volume, the Krka Group's strategic guidelines up to 2024 project average growth of at least 5% on an annual basis. In 2019, the Krka Group sold by 12% more products and services

than in the preceding year. According to the outlook, the global pharmaceutical market is forecasted to grow significantly, and, because of their size, markets of Brazil, China, India, Indonesia, Mexico, Russia and Turkey will become increasingly more important. According to OECD, health spending, measured as a share of GDP, is expected to increase in the future. The outlook regarding growth of the market for medicines differs from country to country (between 1% and 6% and 8%). It is expected that the lowest growth will be recorded on the Ukrainian pharmaceutical market (by 1%) whereas a 6-percent growth is expected in the markets of the Russian Federation, Romania and Hungary, while the Croatian pharmaceutical market is expected to grow by 7%. Macroeconomic conditions in 2020 are specific due to the coronavirus outbreak, however, the analysis on the pharmaceutical companies' sales potential must take into account their ability to offer consumers the right product mix during the pandemic; in this regard it has to be noted that, in terms of business performance, Q1 2020 was the best quarter for the Krka Group since its establishment. When publishing their quarterly results, the Krka Group issued a statement noting that conditions connected with COVID-19 contributed to the increased demand for Krka products although the demand diminished by the end of the quarter and returned to its planned level.

The **telecommunication** industry is characterised by its highly competitive nature while simultaneously accelerated consolidation is noticed on the markets, both inside individual countries and between countries which additionally intensifies the competition. Users require high quality service at low prices, while markets are becoming increasingly saturated, giving less and less room for acquiring new users. Rendering services in various packages (triple play package, foursome package) in which various promotions are bundled up, additionally tightens price competition between operators in the market. The potential for increasing revenue is further limited by EU regulations: a price cap was introduced in 2019, which applies to all international calls and SMS within the EU, and in 2020, the maximum surcharge was capped for data volumes transfers (for volumes which do not belong to the roaming charges within EU). Telekom Slovenije also manages the greatest fibre optic access network and in 2019 facilitated the connection of 44,000 households to the fibre optic infrastructure bringing the total number of

household connections to more than 345,000. For further development of telecommunication market, it will be necessary for Telekom Slovenije to offer its users new technologies and new services, and the publication of the tender for 5G technology planned for 2020 represents the first step of this process. Implementing a suitable data monetisation strategy (demand for data contents) will be of key importance for telecommunication services providers since planned investments (5G) require high expenditures. Success in integrating with other industries (for example, automotive industry) will indirectly determine the volume of data transfer which users will use with new technologies which have been announced to be introduced. In addition to investments, accelerated digitalisation and process optimisation (including cost-effectiveness aspect) will also be necessary. According to data by Analysys Mason, a consulting and research specialist in telecoms, the revenue from telecommunication services in Central and Eastern Europe are expected to increase up to 2023 as a result of positive economic conditions in the years to come. As regards individual services, the highest growth is expected to be achieved in the following two services: the mobile internet of things which is currently a relatively small market according to the number of connections and revenue volume but will increase significantly, and in the mobile data transmission which remains the key area with growth potential; these two are followed by fixed broadband access and IPTV and business services. Revenues will decrease the most in classical mobile services (calls and text messages) and in fixed-line services. A similar trend in the movement of individual types of telecommunication services up to 2023 is also expected for Slovenia.

The Slovenian **steel industry** realises the majority of its sales in the European markets; recently, the European steel industry has seen its competitive position in the global steel market deteriorate, in spite of its potential and significant efforts for innovation in and modernisation of this sector. In 2019, iron ore production in EU (28) amounted to 158.8 million tonnes which is a decline compared to output produced in 2018 (167.7 million tonnes). The US imposed tariffs on steel and aluminium in 2018 to which the European Commission responded by introducing imports of 25% for 23 steel products. This safeguarding measure was declared permanent in February 2019 in order to prevent serious damage being incurred to European steel industry as a result



of the US tariffs having been applied to steel products. The Slovenian steel industry is a niche player, not having too significant role on the global market, which makes it easier to adapt to its competition. According to the World Steel Association, steel consumption in the European Union dropped from 168 million tonnes (2018) to 158.7 million tonnes in 2019, but it increased globally from 1708.4 million tonnes (2018) to 1767.5 million tonnes in 2019. The said Association estimate global steel demand to fall by 6.4% in 2020 due to the impact of the COVID-19 crises, but it is expected to increase by 3.8% in 2021. The developments in the global economy have a strong impact on the steel industry, its developments are strongly affected by new trends in steel demand and by the occurrence of global protectionism.

The global number of vehicles sold in 2019 decreased by 4% as compared to 2018. The year of 2018 was thus marked with a falling volume of revenues stemming from the sale of new vehicles which was typical for the majority of regions across the world. The global automotive industry has plunged into recession which also affects their suppliers who are faced with reduced number of orders. In 2019, China and India recorded a sharp fall in the sale of new vehicles (-9.5%) and (-12.7%), respectively, and compared to 2018, the falling sales were also recorded in the markets of the USA (-1.4%), Russia and Japan. On the other hand, new car sales increased by 1.2% in the EU and EFTA regions in 2019, and Brazil recorded an 8-percent increase. The German vehicle output hit a 23-year low in 2019 as a result of the falling car exports to markets outside the EU. **Automotive suppliers** face a problem induced by aspirations of some countries (for example, France) to manufacture cars or some of their components at home and thus various forms of protectionism pose a threat to future business cooperation with automotive industry. Due to negative impacts of the coronavirus crisis which caused automotive manufacturing plants to close temporarily and as a result of which car sales plummeted for few months in 2020, car suppliers are under severe pressures both with respect of quantities being ordered and with respect of prices for their components; the fact is that automotive industry is struggling and combines various types of measures by pressing their suppliers to reduce prices.

All **banks** in Slovenia generated profit in 2019 which at the level of the banking system amounted to EUR 597.4 million before taxes (making it the highest

generated profit), which is 12.5% higher than in 2018. Profit after taxes amounted to EUR 534.9 million which is 8% higher than in 2018. Net interest income increased by 1.6% to stand at EUR 682.7 million and non-interest income was 19.1% higher, totalling EUR 573.4 million. Growth in balance sheet total amounted to 6.3% in 2019. The Slovenian banking system's balance sheet total increased by EUR 320 million throughout the last year, rising to EUR 41.2 billion. On the investment side, banks increased assets in balances at the central bank. In November 2019, the Bank of Slovenia changed its recommendation, which advised restrictions on consumer loans, into a binding instrument by way of which it has introduced a cap on maturity of consumer loans and a cap on the ratio of total debt servicing costs to the borrower's net annual income (DSTI). The latter requirement has also been extended to housing loans. The above mentioned measure was received with great disfavour in the general public. The Bank Association of Slovenia estimated that, because of the Bank of Slovenia's Regulation, lending would decline by EUR 600 to 740 million in a year. In January 2020, the Bank Association of Slovenia thus published the information that, following the enactment of the Bank of Slovenia's Regulation on macroprudential restrictions on household loans, the volume of newly approved loans in November and December dropped sharply. The year of 2020 has brought many new challenges to banks among which a completely new economic landscape brought about with the coronavirus crisis has to be particularly emphasized. The above mentioned economic conditions will affect the volume of banking services (new lending and the quality of the credit portfolio) in which regard the legislative act, i.e., the Decree on implementing the Additional Liquidity to Economy to Mitigate the Consequences of the COVID-19 Infectious Disease Epidemic Act, has to be pointed out. The aim of this decree is to provide state-guaranteed liquidity to Slovenian companies. The Act Determining the Intervention Measure of Deferred Payment of Borrower's Liabilities, which was adopted due to the coronavirus crisis, enables borrowers to apply for a deferral of their payments of liabilities for 12 months. Banks in the Republic of Slovenia are in the process of transforming their operations by placing greater focus on e-business which has also been proved by the NLB's intention to close 10 branch offices in 2020. In 2019, OTP Bank completed the acquisition of the Slovenian subsidiary of Societe Generale Group, SKB Banka and its local subsidiaries. Some capital

transactions also took place in 2020 in which regard the following transactions have to be emphasized: the completion of the Abanka's acquisition by NKBM (the Sale and Purchase Agreement was executed in 2019), the sale of NLB Vita and the NLB's acquisition of Komercialna banka Beograd.

The share of insurance premiums in GDP amounting to 5.2% has kept the **insurance business** one of the more important industries. The value of the total insurance premium in Slovenia increased by 7.5%, or by EUR 176.2 million, recording the highest growth since 2008. Both insurance groups, co-owned by the Republic of Slovenia, recorded positive growth, with the non-life insurance market recording higher growth. Average per capita spending on non-life and life insurance was EUR 1.209,7 in Slovenia in 2019, the highest figure to date.

The total of twenty (20) undertakings, including insurance companies, reinsurance companies, pension companies and other companies registered in Slovenia, operated on the Slovenian insurance market in 2019. In addition to the aforementioned companies, the possibility to render direct insurance services was also exploited by seven branches of foreign insurance companies and 833 insurance companies registered abroad. The insurance industry employed 6255 employees in Slovenia at the end of 2019; women accounted for 60% of all employees. The Slovenian Insurance market remains highly concentrated as the largest four insurance companies held a 69.3-percent market share. Zavarovalnica Triglav remains the leading insurer in Slovenia although its market share decreased from 27.8% (2018) to 27.3% in 2019; Zavarovalnica Sava, on the other hand, controlled 16.9% of the total insurance market. Triglav Group (Zavarovalnica Triglav as the parent insurance company, Triglav – Zdravstvena zavarovalnica and Triglav – pension fund) increased its market share by 0.3 percentage points, and stood at 35.5% in 2019. In 2019, Generali zavarovalnica, d. d. received the authorisation from the Insurance Supervision Agency to merge with Adriatic Slovenica (acquired company). The merger took place on 3 January 2020 when the merger was entered into the Companies Register. Generali zavarovalnica also acquired KD Skladi in 2019 and thus further proved the aims of its strategy to increase its market share by providing insurance and financial products. After satisfying conditions precedent, the Sava Group purchased Infond, d. o. o., by way of

which it has enhanced its product portfolio offering insurance and financial products (mutual funds). After obtaining regulators' consents, Triglav Skladi became the owner of Alta Skladi in 2019 and is now, with both management companies acquired, the leading provider of mutual fund's services in the Slovenian market.

### Energy products market

Electricity consumption in EU28 fell by 1% in 2019 as a result of economic downturn experienced by all of the EU major economies, and due to improvements in energy efficiency as well as mild weather with higher temperatures.

Gas prices on spot market recorded significant changes in 2019: from several years low reached in the summer of 2019, spot price bounced up to the average price of 12.6 EUR/MWh (a 23-percent increase as compared to the price in Q3 2019). Nevertheless, it was still down by 49% compared to prices in Q4 2018. Low gas prices are the result of sufficient gas supplies provided through pipelines, vast supply of liquefied natural gas (LNG) and high gas storage levels.

The crude oil Brent prices rose by 12.2% in 2019 and closed the year at 66\$ per barrel but the movements in prices were not so sharp as in 2020 when corona crises caused turmoil on the oil market. Members of the OPEC+ cartel agreed for several oil production cuts in 2019 in response to an increasing oil supplied to the global market by countries which are not members of the aforementioned cartel (for example, the USA).

Coal prices dropped sharply in 2019: it amounted to 86\$ per tonne at the end of 2018 while it stood at only 53\$ per tonne in 2019. The decision of the German exit coal commission, general trends supporting green energy and low China imports determined the movements in coal prices in 2019.

Electricity production generated from coal-fired power stations and from lignite is decreasing and is mostly substituted by renewable electricity generation (wind farms and hydro-power plants), while gas generation provides for only a small share in filling the gap. The Germany's coal exit commission completed its work in 2019 and submitted its report to the German government, giving recommendations to gradually end coal-fired power generation.

The average price for CO<sub>2</sub> coupons was higher year-on-year. Price developments were triggered by the following factors: expectations with respect of effects resulting from amendments to the EU ETS system (Market Stability Reserve Mechanism), expectations associated with Brexit, speculations connected with the withdrawal of German coupons from the market (in view of the proposed phasing out from fossil power source) and expectations surrounding the general economic outlook.


Prices of gas, coal and carbon coupons indirectly affect the intensity of coal-to-gas switching. Towards the end of 2019, the above mentioned switching slowed down on account of falling CO<sub>2</sub> prices and raising gas prices. Lignite-powered thermal power plants are in a slightly better position but they too feel the pressure of CO<sub>2</sub> prices.

The electricity market prices for long-term and short-term products in an individual wholesale market are influenced by the following factors; disposable electricity production stemming from various sources of electricity generation, electricity consumption, regulatory impacts and the availability of cross-border transfer capacities on an individual market. The ever increasing share of renewables in the structure of energy generation mix has an additional and highly significant influence on electricity prices. In 2019, the average price for base-load energy amounted to EUR 48.74/MWh at the Energy Exchange in Slovenia, representing a 4.7 per cent decrease year-on-year while the peak load decreased by 4.8% and amounted to EUR 54.16/MWh. Electricity prices also dropped in the neighbouring markets in which case the influence of the German energy market was most notable as most of German electricity production was generated from wind farms (in contrast to 2018, when the major part of output was produced by brown coal-powered thermal power plants which are exposed to coal expenditures and costs for CO<sub>2</sub> coupons); a fall in electricity prices was also affected by low natural gas prices on the European gas hubs. In addition, economic slowdown in Germany and in some other European countries also had an impact on reduced electricity prices in 2019.

At the beginning of 2019, during the period of lowered renewable electricity production, day-ahead electricity prices were, on average, at their highest levels. The rainfall was low during this period of time as a result of which the volume of hydroelectricity

production was also low but the electricity demand increased due to low temperatures. The highest day-ahead Base price at the Slovenian Energy Exchange was achieved on 2 September 2019 and amounted to EU 133.18/MWh (full cross-border transfer capacities and the temporary shutdown of Šoštanj thermal power plant's Unit 6 between 17 August and 16 September 2019 due to maintenance)

**Water utility companies:** Water management in Slovenia is organised in the following manner: on the basis of the required criteria, the Ministry of the Environment and Spatial Planning grants a concession to entities which satisfy these requirements. The call to apply for a concession in implementing mandatory national services of general economic interest in the field of water management for the period from 2019 to 2026 was published in the autumn of 2018 and closed in the spring of 2019, except for the area of the upper Sava river which used to be managed by VGP Kranj. VGP Kranj failed to obtain the concession for 2019-2026 period which puts a threat to its going concern. In 2020, the Ministry of the Environment and Spatial Planning conferred the concession for managing the upper Sava river to the consortium of the following undertakings: Nivo Eko, d. o. o., HNG Hidrotehnika, d. o. o. and EHO Projekt, d. o. o. The Slovenian Water Agency is responsible for the functioning of the mandatory national services of economic interest in water management. The maintenance of water land and of offshore land is carried out on the basis of the Annual Programme of Work for services of general economic interest rendered by a concession holder selected for a particular area on the basis of a Concession Agreement. Services within the scope of the Concession Agreement comprise maintenance services, cleaning, grass harvesting, felling, restoration of dams, embankments and weirs, the construction of water management control structures, such as stone and concrete barriers, retaining walls and low head dams, cleaning and maintenance of swallow holes and gravel barriers and removal of fine grained river-bed material. Water utility companies obtain one share of revenue generated from rendering concession-related services and one share of revenue by rendering market activities connected with the construction of community infrastructure, the construction of environment protection structures, with agriculture-related services, geotechnical services and similar. The Republic of Slovenia holds a minority shareholding (25%) in the following water utility entities: Pomgrad VGP, d. d., VGP Drava, d. o. o.,



VGP Novo mesto, d. d., and VGP Kranj, d. d. The Slovenian Water Agency and the Ministry of the Environment and Spatial Planning, should provide for efficient implementation of services of general economic interest in terms of finding sources of financing for efficient water management and for new investment activities in water infrastructure in order to provide for flood protection and safety. The provision of funds for maintenance and for the investment activities needed has been insufficient for several consecutive years. In addition, assets allocated for this purpose have been granted in an uneven manner, decreasing the efficiency of operations of water utility companies.



A general objective of SOEs from the portfolio of companies managed by SSH is efficient, effective and economic operation, generation of value, and efficient implementation of services of general economic interest, all pursued in a sustainable manner and taking into consideration economic, environmental and social aspects.

## RECOMMENDED PHASES OF SUSTAINABLE BUSINESS

CURRENT STATE OF AFFAIRS ("AS-IS" ANALYSIS)

RISK MANAGEMENT AND  
SUSTAINABLE BUSINESS DEVELOPMENT

STRATEGIC DIRECTIONS AND GOALS

DECISION-MAKING PROCESS

REPORTING

- A company considers the three pillars of sustainable business during its actual decision-making processes (including the internalization of environmental costs).
- A company encourages innovation for sustainable business (efficient use of resources by the company and by users of its products and/or services, including in the company's internal business processes and its business model).



# MANAGEMENT OF SSH AND RS CAPITAL ASSETS IN 2019

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

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

## 8.1 Fundamental principles of asset management

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

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

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

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



## 8.2 Active management of RS and SSH assets

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

	<b>CRITERIA</b>	Criteria for measuring performance of SOEs: <b>strategic goals, economic and financial goals</b>
	<b>MONITORING</b>	Monitoring of SOEs' operations: <b>quarterly or monthly* financial reports, periodic meetings with Supervisory Boards and/or Management Boards of SOEs, and business planning meetings</b>
	<b>ANNUAL PLAN</b>	AAMP - annual asset management plan for SOEs: <b>strategic and economic and financial goals for all significant companies</b>
	<b>AGMs</b>	Active preparation for annual general meetings of shareholders and exercise of all other shareholder's rights: <b>shareholder rights, property rights</b>
	<b>GOOD PRACTICE</b>	Implementation of good corporate governance practice: <b>Corporate Governance Code for SOEs, SSH Recommendations and Expectations</b>
	<b>SUPERVISORY BOARD MEMBERS</b>	Supervisory board members: <b>the selection of Supervisory Board members with expertise, qualification, responsibility and strong ethical and business integrity</b>

\* Monthly reporting for SOEs was introduced in 2018.

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

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

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

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

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

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

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In accordance with ZSDH-1 and other key documents related to corporate governance, in 2019, in addition to carrying out other tasks, SSH exercised shareholder's rights on its own behalf and on behalf of the Republic of Slovenia, particularly with the following activities:

- SSH regularly monitored the operations of companies under its management and their implementation of the Annual Assets Management Plan 2019;
- SSH defined in detail its goals in managing individual capital assets and measures and policies for their attainment, and defined expected cash flows from the state asset management activity, on the basis of the understanding of the companies' operations and industries in which they operate, including a critical consideration of their development plans stated in the Annual Assets Management Plan 2019 which was adopted with the consent granted by RS Government on 10 January 2019;
- SSH took part at the General Meetings and voted on its own behalf and on behalf of the Republic of Slovenia and passed founder's resolutions in companies managed by SSH; in 2019, the total of 118 General Meetings of Shareholders were held, at which founder's resolutions were adopted;
- SSH provided for the exercise of other rights of a shareholder such as the submission of the request for the convocation of General Meetings, extensions of agenda, lodging applications for a special audit review, an extraordinary audit review

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

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

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

### 8.3.1 SSH Premises for Voting on General Meetings of Shareholders in 2019

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

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

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

- the participation at AGMs,
- the application to attend an AGM;
- the representation at AGMs,
- the convocation of AGMs,
- supplements to the Agenda of an AGM,
- voting at AGMs and the exercise of other shareholder rights,
- counter-proposals,
- the appointment of members of Supervisory Boards of companies,

- the remuneration policy for members of supervisory boards and management bodies of companies managed by SSH,
- the instrument to discharge the management or supervisory board members,
- the appropriation of distributable profit and the dividend pay-out,
- decisions in connection with the authorised capital,
- the acquisition of own shares on the basis of the authorisation by the General Meeting in accordance with the provision of Article 247, indent 8 of ZGD-1,
- a standpoint in regard to the one-tier management system,
- a standpoint in regard to audit reviews,
- the disclosure of decisions made at individual General Meetings of shareholders, the exercise of voting rights at General Meetings of SOEs on behalf and for the account of KAD.

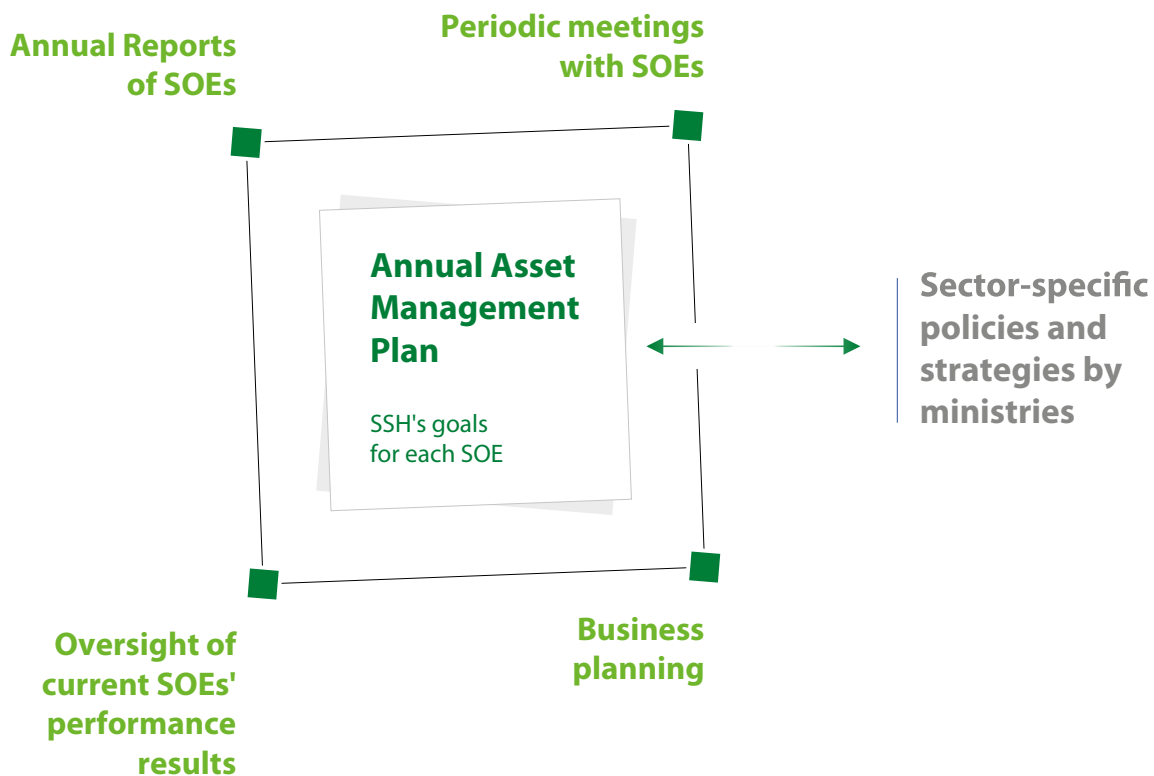
The **SSH Premises for Voting on AGMs for 2019** was also adopted in 2019. By way of this document, prior to the time when General Meetings of SOEs are convened, SSH communicates to SOEs the following information: what is the direction of its decisions to be made at General Meeting, how it will cast its vote, or better, how SSH will make decisions in the capacity of the owner and what its expectations with respect of the General Meeting Agenda are. No significant amendments to the document were adopted with comparison to 2018.

## 8.4 Monitoring operations of SOEs

As the manager of capital assets held by RS and SSH, SSH carries out regular periodic meetings with members of the management and supervisory bodies of SOEs, in accordance with provisions of applicable regulations. Topics discussed at such meetings mainly refer to operational results and business plans, to challenges in the market, strategic outlooks on the company's development, expectations by SSH in regard to key financial and business goals (for example, ROE and dividend amount), strategic goals and the status of their realisation, aspects with respect of potential optimisation of operations and restructuring measures, adherence to SSH expectations and recommendations and other important activities connected with the operation of an individual company.

**The content and particularly the scope of information received at such meetings depends on the legal organisational form of an individual company and the equity holding of RS and SSH in an individual SOE.** The intensity of SSH's monitoring of the activities pursued by individual companies is, among other things, also dependent on the circumstances surrounding the operation of each and every individual company (for example, if a company is carrying out important projects, or if conditions in which a company operates have significantly changed, or if a company is in distress).

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



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

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

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

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

### STRATEGIC AND DEVELOPMENT GOALS

- Realising important social interest such as providing the relevant level and accessibility of infrastructure, rendering public services, ensuring security objectives, development objectives and realising other significant social interest. Retaining key development components in Slovenia and pursuing development priorities and objectives referred to the strategic development documents of the Republic of Slovenia.

### STRATEGIC ASSETS

- Strategic and economic goals are pursued. Under Article 14, paragraph 1 of ZSDH-1, the minimum stake to be kept by the State in companies classified as strategic is 50% plus one vote.

### IMPORTANT ASSETS

- Development and economic goals are pursued. Under Article 14, Paragraph 1 of ZSDH-1, the minimum stake to be kept by the State in companies classified as important is 25% plus one vote.

### ECONOMIC GOALS

- Maximizing the value of assets and generating the highest return possible for the owner.

### PORTFOLIO ASSETS

- Solely economic goals are pursued. SSH may freely dispose of portfolio assets.

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

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

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

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

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

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

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

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

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

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

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In terms of the content, this definition of a strategic asset is defined in the Capital Assets Management Strategy, and it refers to its criterion for classifying

companies into strategic assets. Obviously, in addition to strategic objectives, economic and financial objectives must also be set for companies



carrying out such activities. They are defined with regard to the nature of services rendered by an individual company. SSH thus sets annual goals of economic and financial and strategic nature for these

companies in AAMP and oversees their realization. The realization of these goals is reported in a respective Annual Report - Management of Capital Assets.

## 8.5 Risk managements in SOEs

Companies which are included in the portfolio of assets under SSH management are exposed to risks of various types; these are carefully monitored by SSH in the capacity of an asset manager.

By means of the Corporate Governance Code for SOEs, SSH Recommendations and Expectations, by means of organising training sessions for members of supervisory bodies of SOEs, and by means of other measures, SSH strives for suitable risk management in companies with SSH's and RS's capital assets. Suitable risk management in SOEs is in the SSH interest as, in the capacity of the asset manager, SSH pursues the goal of attaining suitable financial and performance results; as a matter of fact, risk management is one of important aspects for achieving proper performance results (ROE indicator, the amount of dividend payouts, for example). In fact, improperly handed risk management in SOEs might jeopardize goals set by SSH in the AAMP for state capital assets (unmanaged risks are reflected in the performance results of an individual company which affects the value of ROE attained by an individual company and by the asset

portfolio managed by SSH, and consequently, it affects the pay out of dividends).

Risks in companies are regularly monitored by following current operations and developments in the markets. Companies report to SSH about their key risks and about their management within the scope of regular periodic meetings which are organised with members of the management and supervisory bodies.

In 2019, regular working meetings were introduced in SSH to discuss risks within SSH and risks in SOEs. With the aim of ensuring better cooperation and better flow of information in regard to monitoring risk management in SSH and in SOEs, a standing working group was appointed. In March 2020, as a result of the crisis connected with the outbreak of COVID-19, SSH adopted relevant measures for monitoring and managing risk both internally as well as in SOEs. The relevant reporting system, which includes all stakeholders, was established.

## 8.6 Main events in 2019 in regard to asset management

### In October 2019, SSH submitted Annual Report - Management of Capital Assets of RS and SSH in 2018 to the Parliament.

SSH prepared the Annual Report - Management of Capital Assets of RS and SSH in 2018, pursuant to Article 67 of ZSDH-1, which has imposed the task of monitoring business performance of SOEs. SSH took into consideration recommendations regarding the best practice in corporate governance suggested by the OECD Guidelines on Corporate Governance of State-Owned Enterprises. The Report, which presents in detail the system of capital asset management and provides presentations of all companies under management, in addition to results obtained at the level of portfolios, was discussed by the Committee on Finance and Monetary Policy of the RS National Assembly and by the Commission for Economy, Trade, Tourism and Finance of the RS National Council. The said Report was also discussed by the RS National Council.



### Project for developing corporate governance in SSH and in companies under SSH management



In 2019, SSH continued to pursue activities undertaken within the project officially entitled Strengthening the performance and governance of State Owned Enterprises which is carried out under the auspices of the European Commission with the technical assistance rendered by European Bank for Reconstruction and Development (EBRD) and the consulting firm, Deloitte. The goals of the project are to (further) improve corporate governance both in SSH and in state owned companies and to advance techniques in planning, measuring and monitoring of their performance. A report, which was prepared in the first half of 2019, included recommendations and guidelines for improving corporate governance in SSH; a whole-day workshop was organised for the purpose of presenting the report's findings. At the end of 2019, draft recommendations and guidelines for improving corporate governance of SOEs and for planning, measuring and monitoring of their performance were drawn up. Final reports were completed in February 2020 and workshops were organised to present their findings which were attended by representatives of SSH, ministries and of state-owned companies.

### Analytical Centre renovation and further optimisation of asset management

The project for the renovation of the Analytical Centre is of key importance for further optimisation of asset management and of SSH. Within the scope of this project, optimisation and digitalisation of asset management is carried out. Within the scope of this project, data warehouse will be upgraded and advance tools for data management will be introduced.

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

For the third year in a row, SSH organised an annual conference with the aim to present to the stakeholders the performance results of assets from the RS and SSH portfolio for 2018, as well as the SSH's goals and expectations from SOEs for 2019 and 2020. The main topic of the conference was "Governing Corporate Culture: achieving efficiency and creating performance". Including the corporate culture on the Supervisory Board's agenda assists in ensuring that the culture supports business strategy and is therefore of key importance for achieving strategic goals. Management Boards and Supervisory Boards are the guardians of the company's mission, of its values and culture.



### Observance of human rights in business

On 31 May 2019, SSH signed the Commitment to observe Human Rights in Business within the framework of the Slovenian Forum on responsible business operations and human rights in economy, organised by the Ministry of Foreign Affairs together with the Chamber of Commerce and Industry of Slovenia and the Ministry of Economic Development and Technology. By signing this commitment, SSH wishes to be the first among the equals, i.e. portfolio companies, and intends to improve its operation in this regard.

By adopting recommendations on observance of human rights in business in July 2020, SSH has underpinned and further promotes efforts pursued by the Government of the Republic of Slovenia and the Ministry of Foreign Affairs when implementing the National Action Plan of the Republic of Slovenia on Business and Human Rights. SSH thus encourages the portfolio companies to commit to higher business standards in this field.



## 8.7 Main activities in 2019 in regard to asset management by individual companies

The remaining part of the Chapter presents the most important activities undertaken in asset management and events taking place in 2019 by individual companies and industries.

### – Completion of privatisation processes in banks and other processes for disposing capital investments and for their acquisition

Throughout 2019, on behalf of and for the account of RS, SSH intensively pursued activities in connection with the sale of a 10% shareholding minus 1 share of Nova Ljubljanska banka, d. d., and a 100% stake in Abanka d. d.; SSH has thus successfully satisfied commitments given by RS to the European Commission when the state aid was provided in 2013 and 2014. SSH also carried out some other activities in connection with the sale of capital investments of lower value and activities in connection with the acquisition of capital investments (for example in Petrol). All activities carried out by SSH in connection with the processes for the disposition and acquisition of capital investments were carried out in accordance with the provisions of the State Assets Management Strategy and the Annual Asset Management Plan and are presented in detail in the Chapter on "Acquisition and Disposition of Capital Investments in 2019".

### – Slovenian Tourism Strategy

SSH actively pursued activities in the area of tourism industry in 2019, as, in accordance with the Strategy for Sustainable Growth of Slovenian Tourism for 2017-2020, SSH was tasked to implement the restructuring of state-owned hotel operators, which included the preparation of the Asset Investment Plan and the Asset Management Plan.

On the basis of the Government Decision of 14 February 2019, SSH has prepared the Investment Paper for assets held in Istrabenz Turizem which shows firstly, long-term synergies in case of merging this company with other companies operating in tourism industry and secondly, economic benefits of a special vehicle company

to which Istrabenz Turizem is to be transferred. The Investment Paper was prepared by taking into consideration an in-depth financial analysis of state-owned tourism companies; this document was endorsed by the RS Government, acting in the capacity of the SSH's General Meeting, on 30 May 2019.

In accordance with the Tourism Strategy and the amended AAMP 2020, which was approved by the Government of RS on 20 June 2019, on behalf of and for the account of RS, SSH entered into the Agreement for Sale and Purchase of 147,309 Shares held in Terme Olimia. The acquisition process was completed at the time of drawing up this report. More information about this particular process is available in the chapter on the disposition and acquisition of capital investments.

In 2019, SSH also prepared the Plan for the consolidation, management and restructuring of state-owned tourism companies, as envisaged by the Tourism Strategy. The Tourism Strategy also stipulates that the aforementioned document is adopted as one section of the Annual Asset Management Plan, in accordance with Article 30 of ZSDH-1. The Supervisory Board gave its approval to the said Plan on 17 July 2019, but the Government of RS failed to deal with it by the end of 2019 which is why the document was included into the Special Section of AAMP 2020 to which the government consent was granted on 6 February 2020.

### – Sava, d. d. (Sava)

In 2019, SSH, acting as a creditor and shareholder of Sava, actively monitored the implementation of Sava's financial restructuring and oversaw its development in the tourism industry. In 2019, SSH took part in the process aiming at Sava's share capital increase with the amount of EUR 543,378.00. The share capital increase which was carried out on the basis of the General Meeting Resolution adopted in December 2018 was intended for the take-over of Hoteli Bernardin, d. d. As regards claims due to SSH by Sava, a contract to reprogramme claims was concluded by and between the debtors

and Sava on 15 November 2019. By virtue of this contract, the amount of claims due by Sava was consolidated as of the cut-off date of 31 October 2019, and the postponement of the maturity date of collateralised claims was agreed, extending the repayment period to 30 April 2020.

– HSE Group, d. o. o. (HSE) and electricity distribution companies - vertical integration

In line with the AAMP 2019, as regards the management of assets held in HSE Group, SSH dedicated special attention to the full control of electricity production together with the marketing function and the final sale of electricity on the retail market. A similar vertical integration was successfully completed with the concentration of GEN energija, GEN-I and Elektro energija so it is logical from the commercial and economical point of view for other market players to pursue vertical integration strategy. In 2019, the Slovenian Competition Protection Agency (CPA) completed a two-year process to appraise the compatibility of the concentration of HSE, ECE, d. o. o. (ECE) and E3, d. o. o. (E3) with competition rules. On 29 November 2019, CPA issued the Decision by way of which it appraised the intended acquisition of joint control by the undertakings Elektro Primorska, d. d., Elektro Celje, d. d., Elektro Gorenjska, d. d. and HSE, d. o. o. over ECE and E3 as being compatible with competition rules under condition that remedies are satisfied, and that CPA does not oppose it. After two years following the notification, the issue of the Decision by CPA made the concentration of electricity generation and the sale of electricity possible; the aim of this move is to ensure reliable and competitive supply of electricity and to preserve electricity generation in Slovenia. In the said procedure, HSE committed to implement remedies which will ensure access to electricity to the interested market participants in a transparent and non-discriminatory manner. Owing to the slow pace of procedures undertaken by CPA, Elektro Primorska, d. d., kicked off a parallel process for the sale of its controlled company E3 in the second half of 2019.

– DARS, d. d. (DARS)

At the General Meeting of DARS, held in March 2019, SSH supported the proposal to decrease the share capital in DARS in the amount of EUR 235,724,995.56. The reason for supporting the proposal was the transfer of assets not managed

by DARS (non-toll roads) from DARS to RS. The basis for this transfer was the decision adopted by the Government of RS on 4 March 2019 by way of which an agreement was concluded to transfer the above mentioned assets.

In 2019, SSH, together with other stakeholders, checked the possibility of financing large infrastructure projects, specifically the third development axis, in a manner which will not jeopardize the financial stability of DARS. The Ministry of Infrastructure and the Ministry of Finance were informed of the report.

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

In May 2019, the SSH Management Board, in the capacity of the founder and the sole shareholder of Slovenske železnice, granted its consent for the conclusion of the agreement for the purchase of the additional rolling stock for the rail passenger transport. The option clause was activated in accordance with the Agreement for the purchase of rolling stock for rail passenger transport which was concluded on 17 April 2018 by and between SŽ-Potniški promet, d. o. o., and Stadler Consortium.

In line with the instruction by the Court of Audit, the organisation of Slovenske železnice Group was examined. Within the scope of this assessment, the following conclusion was adopted: considering the fact that Slovenske železnice changed its legal organisational status several times, it is possible to conclude that, after examining several concepts of organisation, the organisation of Slovenske železnice as a group is optimal under current circumstances. The Court of Audit and the Ministry of Infrastructure were informed of the findings of this assessment. As a result, a few proposals were submitted to the Ministry to re-examine the possibility to amend the legislation in the following areas: the regulation of (a) the development and investments in public railway infrastructure, (b) the ownership of station buildings, and (c) the integrated public passenger transport.

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

SSH thoroughly monitored the procedure for the purchase of the majority shareholding in Intereuropa, d. d. (Interpeuropa) by Pošta Slovenije in 2019. In February, April and in August, acting in the capacity of a founder and a sole shareholder of Pošta Slovenije, SSH made decisions in connection

with the submission of the binding bid, the content of the Share and Purchase Agreement, and the take-over of subsidiary companies abroad owned by the targeted company. Pošta Slovenije concluded the agreement for the purchase of 72.13-per cent shareholding in Intereuropa in May 2019 and closed the transaction on 13 November 2019, when all conditions precedent were satisfied. In December 2019, the take-over bid was published. In January 2020, Pošta Slovenije became the holder of 80.89% of all issued shares of Intereuropa.

– Activities in connection with the establishment of a public undertaking

In May 2019, in accordance with the Resolution by the company bodies, SSH became involved in activities, which had been started and were coordinated by the Ministry of Infrastructure, to establish a new company performing the service

of general economic interest (marine pilotage). SSH prepared a proposal to supplement the Annual Asset Management Plan 2020 during the final phase of the said activities undertaken in cooperation with the Ministry of Infrastructure. The Government of RS granted its consent to AAMP 2020 on 6 February 2020.

– SIJ, d. d. (Sij)

On 6 September 2019, the majority shareholder of Sij, i.e. Dilon, d. o. o., and RS/SSH concluded the Shareholders' Agreement which regulates the governance of the company, the coordination and consultation activities to be performed between the shareholders in regard to affairs which are important for both shareholders and other important topics connected with the corporate governance of Sij.

## 8.8 Expectations in regard to ROE and dividend income

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

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

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

maximise the market value of an equity unit and thus contributes to the growth in the value of equity for company's owners.

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

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



# SUSTAINABLE BUSINESS OF SOEs AND FACTORS FOR FUTURE SUSTAINABLE PERFORMANCE

The Slovenian Development Strategy 2030 envisages the growth of the Slovenian economy to be inclusive and green and that it should be based on high competitiveness and innovation. This shall enable sustainable development to be more resistant to economic turmoil, also on account of greater balance of all of three pillars. As regards economic growth, greater development of economy is shown in higher

technological structure of economy and in higher added value per employee as a result of technological and non-technological innovation. In this manner, the competitiveness of economy is increased while the supporting environment promotes new and higher-value investments in new jobs of better quality. The shift to a low-carbon economy is therefore a priority development policy for the entire economy.

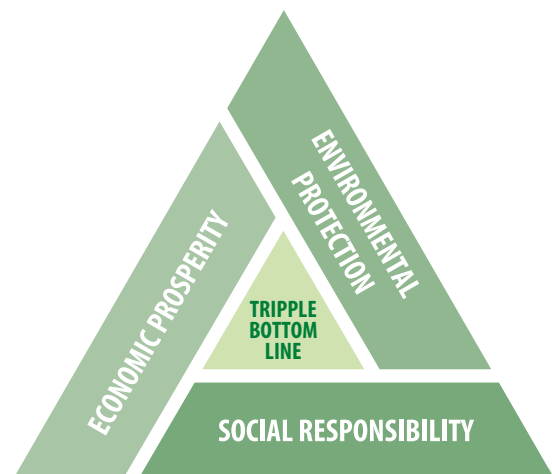
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***The sustainable business entails long-term business direction of SOEs and this includes the practice of making decisions which affect long-term goals and have long-term consequences.***

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SOEs represent an important part of the Slovenian economy which is why it is highly important that these policies are included in their strategic and development plans. In December 2019, SSH adopted additional criteria for measuring performance of SOEs applicable for the top 20 portfolio companies and included a set of additional indicators for measuring sustainable business. The umbrella document was adopted in July 2020, in the form of recommendations on sustainable business of SOEs. SSH expects enterprises to incorporate all three aspects of sustainable operation (economic, social and environmental) into their business strategies and/or into their business models and to define precise measures to be implemented by a controlling company also at the level of a Group of affiliated companies in the pursuit of sustainability. In this process a company is to set up goals, which will be pursued in connection with individual aspects of sustainable business and which have to be determined in a quantitative and/or qualitative manner, as well as individual measures together with a specified time frame for their achievement.

**SSH will consider it a success when SOEs will attain financial performance expected by their owner while simultaneously implementing all three aspects and goals of sustainable business. The ultimate objective of state-owned companies being managed by SSH is effective, profitable,**



**economical operation, creation of value, and in many cases, efficient management of individual assignments in public interest. This must be achieved in a sustainable manner, by taking into account economic, social and environmental aspects.**

The goals for sustainable business must be monitored and have to be significant (according to the type and scope) for the long-term achievement of (fundamental) goals of an enterprise and a Group. Enterprises should put in place processes for identification, management and monitoring

of aspects of operations that (may) significantly contribute to the achievement of goals for sustainable development of the Republic of Slovenia. Positive and negative impacts of the pillars of sustainable business will have to be identified in the process and an SOE will have to define how the recognition of these impacts will affect its processes. Negative impacts also include a potential violation of human rights (of employees, suppliers in the supply chain, customers, users of services and other stakeholders) and a failure to ensure corporate integrity.

Companies should contribute to the generation of value through their business models so that sustainable development is enabled and promoted and they should take advantage of opportunities to create sustainable value and develop new and innovative business models which will contribute to strengthening their competitiveness.

As regards sustainable business, companies with state's capital assets should be a leading example to other companies. This means that they take into account all three pillars of sustainable business (economic sustainability, environmental sustainability and social sustainability). In addition to successful and efficient performance in the long term, a particular focus should be placed on the following aims: reduction of negative environmental impact, cooperation with stakeholders and their inclusion, building the culture of integrity (values, ethical conduct, mechanisms for preventing corruption with the adoption of a zero tolerance standard in this regard, creating a stimulating organisational culture).

These efforts are also pursued internationally, guidelines are particularly found in the 2030 Agenda

for Sustainable Development which has set 17 goals of sustainability; the said Agenda was adopted by world leaders at the SDG Summit in September 2015. Slovenia has fully committed to all 17 goals of the 2030 Agenda. The said Agenda is the most comprehensive call to action so far. Companies should analyse the above mentioned goals and determine their methods by way of which they may contribute to their achievement.

SSH has also adopted recommendations on human rights and thus introduced higher standards as regards observance of human rights in business; human rights represent an important and significant part of sustainable business operations. For more information see the Chapter on key developments in asset management.

### Raising the level of corporate governance as one of objectives of SSH's activities and the basis for achieving long-term value of SOEs

Good corporate governance practice is closely connected with activities for achieving long-term value of enterprises and their financial efficiency and effectiveness.

One of key pillars for strategic focus and for raising the level of corporate governance are providers of ideas, authors of strategies and facilitators of development in companies, i.e., **bodies of management and supervision**. Due to changes on the market and as a result of an increased proportion of distinctly market-oriented services rendered by companies with state capital assets, it is of key importance that bodies of management and supervision comprise highly



qualified, experienced, responsible and motivated members, so that they are equivalent to their rivals in the market. In addition to enhancing the HR function in companies, particularly with regard to key positions, it is necessary to ensure that suitable conditions are in place for professionals to become competent members of bodies of management. This requires a suitable remuneration policy which, when amended, must follow the regularities of the market. In the future, SSH will dedicate its efforts to change the remuneration policy for management bodies; in the opposite case, it is hard to expect SOEs to be in an equivalent competitive position to other rivals in the market; this, in turn, may affect the performance results of SOEs. The remuneration system organising payments for members of supervising bodies must be improved together with the remuneration system organising payments for members of management bodies. From the aspect of corporate governance it is important that, in addition to organising relevant payments by focusing on an individual corporate body, a relevant correlation is achieved between the remuneration systems for both corporate bodies. This means that the relevant ratios between the payments of both corporate bodies are set in a suitable manner. In addition to systemic arrangement of remuneration payments, it is important to organise continued education and supplementary training for members of bodies of management and supervision and to include stakeholder engagement policies. This policy is of key importance for strengthening responsibilities of executives in connection with the SOE's long-term value and confidence placed in an SOE.

Risk management is viewed as a key factor showing good corporate governance at the level of a company, however, it is frequently focused only on the supervision of risk efficiency and effectiveness (ERM). When formulating and implementing a business strategy, an SOE should consider environmental risks which significantly affect their business environment in a short term, medium term and long term, and introduce them into their risk management system. In their transition to low-carbon and circular economy, enterprises face both threats and opportunities which are connected with people, the planet and well-being.

In addition to the above stated, **key success factors for asset management in the future** are:

(a) long-term State Assets Management Strategy, including clear development policies of the State with regard to individual sectors of the portfolio, (b) a stable, predictable and development-oriented dividend policy exercised by companies, (c) constant improvement of corporate governance practice at all levels, specifically by increasing compliance of companies with provisions of Corporate Governance Code and SSH Recommendations and Expectations, (d) further provision of centralised management of state capital assets and professional and financial independence of asset manager, (e) extending the list of the best qualified and motivated candidates with members of bodies of management and supervision who have knowledge in digitalisation, innovation governance, transformation of business models and organisation.

**A general objective of SOEs from the portfolio of companies managed by SSH is efficient, effective and economic operation, generation of value, and efficient implementation of services of general economic interest, all pursued in a sustainable manner and taking into consideration economic, environmental and social aspects.**

## RECOMMENDED PHASES OF SUSTAINABLE BUSINESS

CURRENT STATE OF AFFAIRS ("AS-IS" ANALYSIS)

RISK MANAGEMENT AND  
SUSTAINABLE BUSINESS DEVELOPMENT

STRATEGIC DIRECTIONS AND GOALS

DECISION-MAKING PROCESS

REPORTING

- A company monitors the realization of its sustainability goals and reports about its achievements in its annual reports; it makes the Supervisory Board familiar with its sustainability report.
- It reports on its sustainable business in its annual report.



# DISPOSITION OF CAPITAL INVESTMENTS IN 2019 AND THEIR ACQUISITION

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

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

**The fundamental objective pursued by SSH in sales of shareholdings is the attainment of the highest proceeds from sale. As regards the sale of assets owned by RS and/or SSH, SSH strives to also pursue other goals important from the aspect of providing a stable economic growth within the scope of its statutory limitations.**

**The above mentioned goals are: the rise in the quality and capacity of public services, further development of companies, new investment opportunities, entering new markets, ensuring competitiveness, to name the most important ones.**

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

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

## 10.1 Activities in connection with the sale of state assets

In 2019, the majority of activities carried out by SSH, firstly, in connection with the sale of state assets referred to the sale of 100-percent stake of RS in Abanka, d. d. (Abanka), which, was not yet completed by the end of 2019, and secondly, with the sale of a 10-percent stake of RS in Nova Ljubljanska banka, d. d. (NLB).

RS committed itself to carry out the process for the sale of Abanka during the process which was conducted by the European Commission and in which the State aid provided by RS to the banking sector was assessed. The said process began in 2018 when the preparatory activities were conducted. During this first phase, the financial and legal advisers were selected and the financial, tax, IT and legal due diligence reviews of Abanka were made. The invitation to submit an expression of interest was published in the last quarter of 2018, which marked the official launch of the process for the sale of Abanka. The second phase of the sale process started in 2019. Investors, who had been invited to take part in the next phase of the sales process on the basis of their non-binding offers, carried out due diligence reviews of Abanka and submitted their bidding offers. Their offers were improved in the next phase of the sale process. On 20 June 2019, within the scope of a two-phase sale process, SSH signed the Agreement for Sale of Shares in Abanka (a 100-percentage equity interest) with Nova KBM, d. d. During this sale process, RS received EUR 511 million; specifically, EUR 66.7 million of dividend payouts for FY 2018 (paid out in May 2019), and proceeds from sales in the amount of EUR 444.2 million. The transaction was closed in February 2020.

After the first phase of the sale of Nova Ljubljanska banka was successfully completed in November 2018 by the listing of the NLB Shares on the Ljubljana Stock Exchange and on the London Stock Exchange, the second phase of the sale of the remaining 10 per cent of the Republic of Slovenia's stake in the NLB's share capital minus 1 Share was successfully completed in June 2019. The second phase was implemented by way of an accelerated bookbuild process (ABB). After the completion of the sale process, the Republic of Slovenia remains to be the largest shareholder of NLB, owning the 25 per cent stake plus one share.

Gross proceeds raised from the sale of NLB shares in the ABB process amounted to EUR 109.5 million. Shares subject to sale were attributed with dividends for 2018 in the total amount of EUR 123.8 million. With the said sale, some of the commitments given by the Republic of Slovenia to the European Commission (EC) upon the approval of the state aid given in 2013 have ceased to apply; this will have a positive impact on the further growth and the development of the NLB Group.

Other activities relating to the sale of some other capital investments were carried out in the reporting period; however, they have not been always closed with an exit from the company on sale.

In in the last quarter of 2018, SSH and KAD received an offer for the sale and purchase of shares in Cetis, d. d. (Cetis). They rejected the offer as the bidding price was too low. The process for the sale of Cetis was put to a halt in January 2019.

Within the scope of the published take-over bid for the purchase of shares in Gorenjska banka, d. d. (GB), SSH carried out all the necessary processes for RS to accept the take-over bid. The proceeds from the sale of the 0.310-percentage shareholding held by RS in GB amounted to EUR 357.9 thousand.

In March 2019, Hemiak Investments Limited published a take-over bid for the shares of Perutnina Ptuj, d. d. (Perutnina Ptuj). Considering the fact, that these shares are classified as important assets in the State Assets Management Strategy, SSH, acting on behalf of and for the account of RS, did not accept the said take-over bid (0.0019% shareholding). In the next phase, the Offeror squeezed out the minority shareholders who refused to accept the takeover bid; from this process, RS received the proceeds from sale in the amount of EUR 5.2 thousand.

In June 2019, the invitation was published to submit an expression of interest for the purchase of 48.9% shareholding held by RS in Prvi sklad, družba tveganega kapitala, d. o. o. The invitation did not receive any response by potential investors.



In September 2019, SSH published an advertisement for a public tender for the purchase of minority capital investments received by RS pursuant to the law regulating inheritance. In December 2019, on the basis of this advertisement, SSH signed a contract for the purchase and sale of 217 shares in PUP Velenje, which resulted in the proceeds from sale amounting to EUR 1.3 thousand. The above mentioned advertisement also produced an offer to purchase 205 shares in KD Group which, however, was not accepted as the offering price was too low. Instead, SSH triggered the option clause and, in accordance with the provisions of the Legal Successors of Authorized Investment Companies Act (ZPNPID),

sold the shares for the purchase price of EUR 17.8 thousand to the issuer of shares who acted as the offeror.

In 2019, the process for the squeeze-out of minority shareholders took place in Telemach Pobrežje, d. d.. During this process RS received monetary compensation for five shares of this company in the amount of EUR 200.

Up until the end of 2019, nine companies were sold out of 15 companies envisaged for the sale on the basis of the Parliament's Decision of 2013.

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

In 2019, SSH carried out activities in connection with the acquisition of capital investments on behalf of and for the account of RS. This year saw the completion of the process for the acquisition of shares in Sava, d. d. SSH acquired Sava shares in its own name and for its own account within the process for the share capital increase, as decided by shareholders in 2018.


In 2019, SSH acquired 655,000 Sava Re shares, and increased its shareholding in Sava Re from 10.09% to 13.89%. These shares were acquired on the basis of the General Meeting Resolution of Abanka which paid one part of its dividends in the form of in-kind contributions, in particular case, by transferring 655,000 Sava Re shares to RS.

In accordance with the Tourism Strategy and the amended AAMP, which was approved by the Government of RS on 20 June 2019, SSH took part in the process for the acquisition of 147,309 Shares in Terme Olimia, acting on behalf of and for the account of RS. The Sale and Purchase Agreement was signed with Nova KBM on 18 July 2019. At the time of drawing up this Report, the process for obtaining a consent, which must be granted by the Slovenian Competition Protection Agency (CPA), is underway; such consent is a condition precedent under the above mentioned SPA. Following the completed transfer of shares, RS and its affiliates (within the

meaning of the Takeover Act) will hold the total of 77.6% shares in Terme Olimia, which will provide them with the additional takeover threshold; as a result, SSH, acting on behalf of and for the account of RS, intends to publish a take-over bid after the CPA's consent is granted. These activities are carried out in accordance with the Slovenian Tourism Strategy.

Acting as a buyer on behalf of and for the account of RS, in accordance with Article 10(a) of the Act Regulating Measures of the Republic of Slovenia to Strengthen the Stability of Banks, SSH enforced the pre-emption right to purchase 15,000 shares in Petrol which used to be owned by BAMC. The payment of the proceeds from the sale and the registration of the transferred ownership of shares was carried out on 23 December 2019. Following the closure of this transaction, RS owns 225,699 Petrol shares, which represents a 10.82% stake in Petrol.

In September 2019, SSH signed the Agreement on Cooperation in Submitting Takeover Bids for Intereuropa Shares which regulates issues connected with the submission of a takeover bid, since, in accordance with the provisions of the takeover law, SSH and Pošta Slovenije are treated as acting in concert.



In 2019, the proportion of ownership interest of RS in the three electricity distribution companies increased, specifically, on the basis of the reduction in the share capital by withdrawing shares. The RS's stake has thus increased as follows: in Elektro Maribor, d. d., it has increased from 79.50% to 79.86%, in Elektro Gorenjska, d. d., from 79.42% to 79.48%; and in Elektro Primorska, d. d., from 79.50% to 79.68%.

RS became an owner of 0.09% shareholding in RCR, d. o. o., as a result of the implementation of the decision to liquidate Rudnik Zagorje v zapiranju, d.o.o.

Since the enforcement of the Act Amending Implementation of the Republic of Slovenia's Budget (2018 and 2019) Act, SSH is authorised to manage RS's assets acquired by inheritance. In 2019, RS thus received the following shares: (i) 65 shares in M1, d. d., (ii) 45 shares in KS Naložbe, d. d., (iii) 10 shares in Petrol, d. d., (iv) 187 shares in Elektro Maribor, d. d., (v) 217 shares in PUP Velenje, d. d., (vi) 26 shares in Perutnina Ptuj, d. d., (vii) 44 shares in KD Group, d. d., and (viii) 0,35% equity stake in Kompas Kapital, d. o. o.

# BUSINESS PERFORMANCE OF COMPANIES OWNED BY RS AND SSH



# BUSINESS PERFORMANCE OF COMPANIES OWNED BY RS AND SHS

## 11.1 Portfolio of RS and SSH capital assets as at 31 December 2019

As at 31 December 2019, portfolio of capital assets under SSH's management included 72 active companies (as at 31 December 2018, there were 74 such companies). Of this number, RS held direct ownership stake in 49 companies, while SSH in 13 companies and both RS and SSH held direct ownership stake in 10 active capital assets. Pursuant to the entry into force of the Republic of Slovenia Budget for 2018 and 2019 Implementation Act (ZIPRS1819), SSH held 12 smaller shareholdings

owned by RS (stakes lower than 0.1%) under its management at the end of 2019.

In addition, SSH carried out asset management activities for 24 non-active companies (in bankruptcy or in liquidation; there were 23 such companies in the SSH's portfolio as at 31 December 2018). Of these companies, RS held direct ownership stake in 13 companies, while SSH in 9 companies and both RS and SSH held direct ownership stake in 2 non-active capital assets.

**Table:** List of active companies in which RS's and SSH's equity interest exceeds 5% and the Annual Asset Management Plan is drawn up; as at 31 December 2019

Pillar, capital asset	RS's shareholding (%)	SSH's shareholding (%)	Total (%)
<b>TRANSPORT</b>			
DARS, d. d.	100.00		100.00
KZPS, d. o. o.	100.00		100.00
LUKA KOPER, d. d.	51.00	11.13	62.13
POŠTA SLOVENIJE, d. o. o.	100.00		100.00
SŽ, d. o. o.	100.00		100.00
<b>ENERGY INDUSTRY</b>			
EGS-RI, d. o. o.	100.00		100.00
ELEKTRO CELJE, d. d.	79.50		79.50
ELEKTRO GORENJSKA, d. d.	79.48	0.31	79.79
ELEKTRO LJUBLJANA, d. d.	79.50	0.30	79.80
ELEKTRO MARIBOR, d. d.	79.86		79.86
ELEKTRO PRIMORSKA, d. d.	79.68		79.68
GEN ENERGIJA, d. o. o.	100.00		100.00
GEOPLIN, d. o. o., Ljubljana	25.01		25.01
HSE, d. o. o.	100.00		100.00
INFRA, d. o. o.	100.00		100.00
NAFTA LENDAVALA, d. o. o.	100.00		100.00
PETROL, d. d., Ljubljana	10.82	12.68	23.50

PLINHOLD, d. o. o.	60.10	0.05	60.15
RŽV, d. o. o.	100.00		100.00
<b>FINANCIAL SECTOR</b>			
ABANKA, d. d.*	100.00		100.00
D. S. U., d. o. o.	100.00		100.00
DTK MURKA, družba tveganega kapitala, d. o. o.	49.00		49.00
META INGENIUM, družba tveganega kapitala, d. o. o.	49.00		49.00
NLB, d. d.	25.00		25.00
PRVI SKLAD, družba tveganega kapitala, d. o. o.	48.90		48.90
SAVA RE, d. d.	13.89	17.68	31.57
SID banka, d. d., Ljubljana	99.41		99.41
STH VENTURES, družba tveganega kapitala, d. o. o.	49.00		49.00
ZAVAROVALNICA TRIGLAV, d. d.**	34.48	28.09	62.57
<b>TOURISM AND ECONOMY</b>			
ADRIA, d. o. o.		11.74	11.74
A. L. P. PECA, d. o. o.	9.09		9.09
BODOČNOST MARIBOR, d. o. o.	77.52		77.52
CASINO BLEDE, d. d.		33.75	33.75
CASINO Portorož, d. d.		9.46	9.46
CETIS, d. d.		7.47	7.47
CINKARNA Celje, d. d.		11.50	11.50
CSS, d. o. o.	97.96		97.96
ELEKTROOPTIKA, d. d.	0.01	70.48	70.49
HIT, d. d., Nova Gorica		20.00	20.00
KOTO, d. o. o.	66.23		66.23
KRKA, d. d., Novo mesto	7.21	9.00	16.21
LOTERIJA SLOVENIJE, d. d.		15.00	15.00
POMGRAD – VGP, d. d.	25.01		25.01
PS ZA AVTO, d. o. o., Ljubljana		90.00	90.00
SAVA, d. d.		18.69	18.69
SIJ, d. d.	25.00		25.00
STUDENTENHEIM KOROTAN GMBH	100.00		100.00
TELEKOM SLOVENIJE, d. d.	62.54	4.25	66.80
TERME OLIMIA, d. d.		4.01	4.01
UNIOR, d. d.		39.43	39.43
URADNI LIST REPUBLIKE SLOVENIJE, d. o. o.	100.00		100.00
VARNOST SISTEMI, d. o. o.		9.74	9.74
VGP, d. d.	25.00		25.00
VGP DRAVA Ptuj, d. o. o.	25.00		25.00
VGP Novo mesto, d. d.	25.00		25.00

Note: \*On 20 June 2019, acting on behalf of and for the account of the Republic of Slovenia, SSH signed the Sale and Purchase Agreement with Nova Kreditna Banka Maribor for the purchase and sale of a 100% RS's shareholding in Abanka. The transaction was closed on 5 February 2020.

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

## 11.2 Value and structure of portfolio under management

The value of directly held capital assets of RS and SSH, measured at their book value, amounted to **EUR 10.3 billion** at the end of 2019, higher by 2.2% or by EUR 0.2 billion year-on-year. The main reason for the increase in the portfolio's value lies in the capital increase in Slovenske železnice and good performance results of large companies (groups)

from the portfolio (Pošta Slovenije, Gen energija, Zavarovalnica Triglav, Zavarovalnica Sava). The sale of additional 10% of shareholding held by RS in NLB and the (regular) decrease in share capital of DARS, on the other hand, had a negative impact on the portfolio's value.

**Table:** Top 10 companies in RS and SSH portfolio by book value of equity as at 31 December 2019

Capital asset	Pillar	Ownership stake of RS+SSH as at 31 December 2019	Book value of shareholdings as at 31 December 2019*	Share in total portfolio
DARS, D. D.	TRANSPORT	100.00 %	2,863,136,409	27.70 %
HSE, D. O. O.	ENERGY INDUSTRY	100.00 %	1,064,640,823	10.30 %
GEN ENERGIJA, D. O. O.	ENERGY INDUSTRY	100.00 %	859,934,217	8.32 %
ABANKA, D. D.	FINANCIAL INDUSTRY	100.00 %	578,837,000	5.60 %
SLOVENSKE ŽELEZNICE, D. O. O.	TRANSPORT	100.00 %	541,144,770	5.24 %
ZAVAROVALNICA TRIGLAV, D. D.	FINANCIAL INDUSTRY	62.57 %	495,550,368	4.79 %
SID BANKA, D. D.	FINANCIAL INDUSTRY	99.41 %	461,119,051	4.46 %
NLB, D. D.	FINANCIAL INDUSTRY	25.00 %	432,724,250	4.19 %
TELEKOM SLOVENIJE, D. D.	TOURISM AND ECONOMY	66.80 %	394,679,914	3.82 %
POŠTA SLOVENIJE, D. O. O.	TRANSPORT	100.00 %	329,639,461	3.19 %
<b>TOTAL</b>			<b>8,021,406,264</b>	<b>77.61 %</b>

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

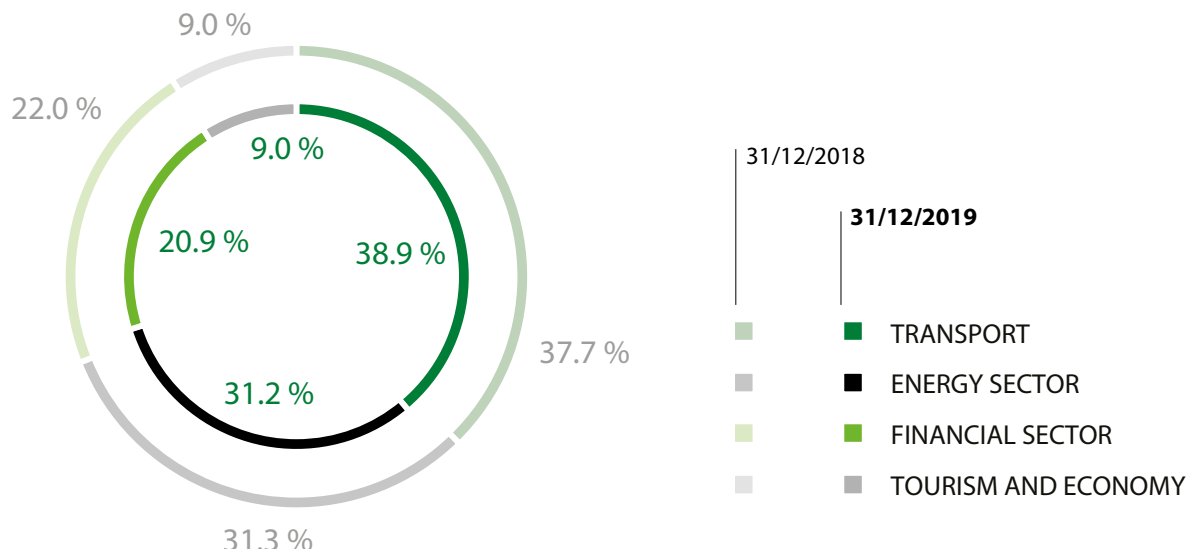
The concentration of assets in the portfolio continues to be rather high – as at 31 December 2019, top 10 assets represented as much as 78% of the portfolio while the 20 largest assets represented more than 96% of the book-value of the entire portfolio. The largest asset in the portfolio, Dars, d. d., characterised by a strongly regulated activity, represents as much as 28% of the portfolio's value and has a significant effect on ROE of the total portfolio.

Similarly as at the end of 2018, a great majority of assets under management operated in transport and energy sector (70.1% of the value of the total portfolio) at 31 December 2019.

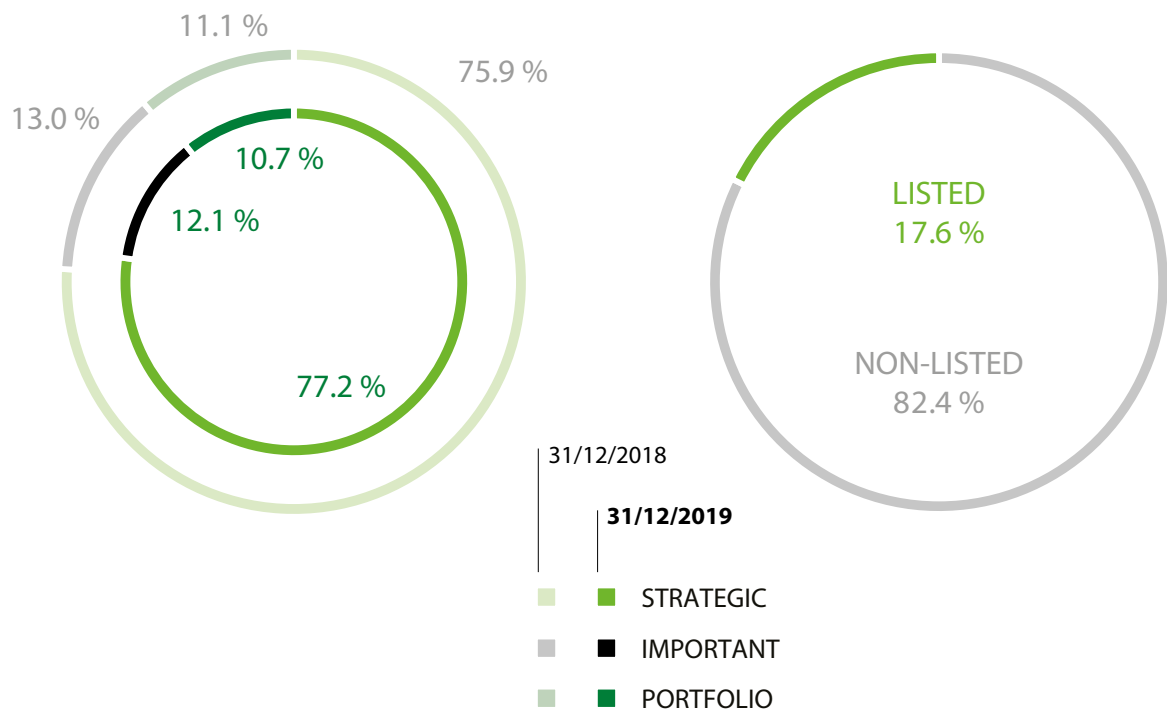
As compared to 2018, the share of the Financial pillar decreased as a result of the 2019 sale of a 10-percent shareholding held in NLB. In addition, the sale also affected the share of important assets which recorded a slight decrease in 2019 (see graph below).



**Graph:** Composition of the portfolio under management as at 31 December 2019 – by pillars (industries)



**Graph:** Composition of the portfolio as at 31 December 2019 – by classification of assets (strategic nature) and by quotation at the Stock Exchange



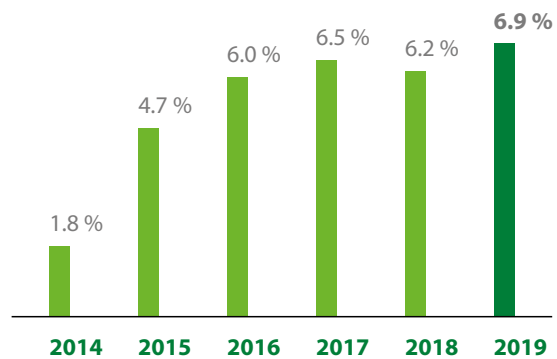
## 11.3 Business performance of portfolio companies

In 2019, ROE of the portfolio under management amounted to **6.9%** which is by 0.7 percentage points higher year-on-year and higher than the goal set in AAMP 2019 (6.2%). The performance of the majority of companies was in accordance with the

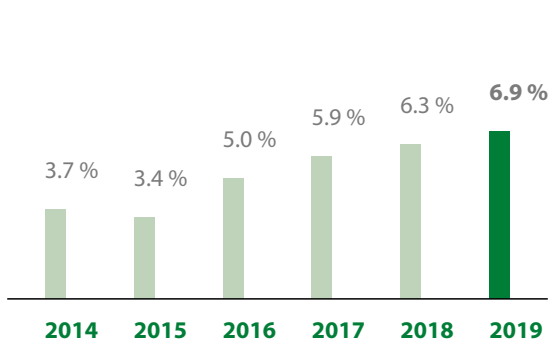
plan or even better, the great majority of companies exceeded performance results obtained in 2018. Improved performance of blue chip companies from both pillars, Transport and Energy, proved to be the key for a relatively high growth of the portfolio's ROE.

**Graph:** Portfolio ROE – total and by pillars – in 2014-2019 period

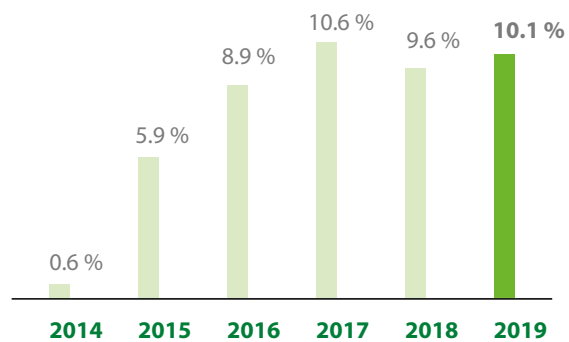
### TOTAL RS+SSH PORTFOLIO



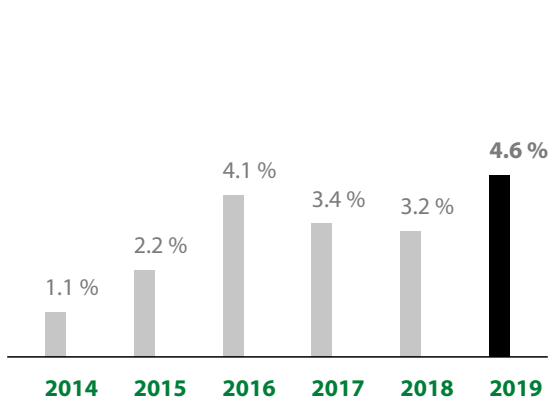
### TRANSPORT



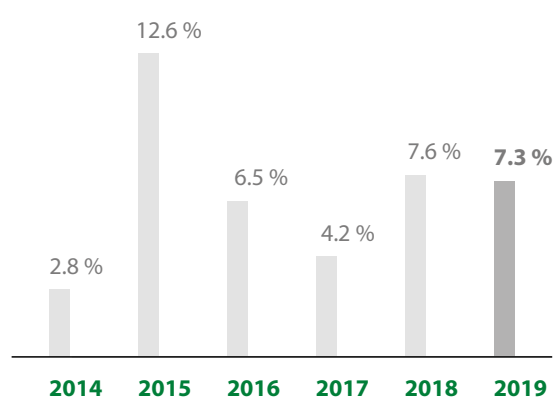
### FINANCIAL SECTOR



### ENERGY SECTOR



### TOURISM AND ECONOMY



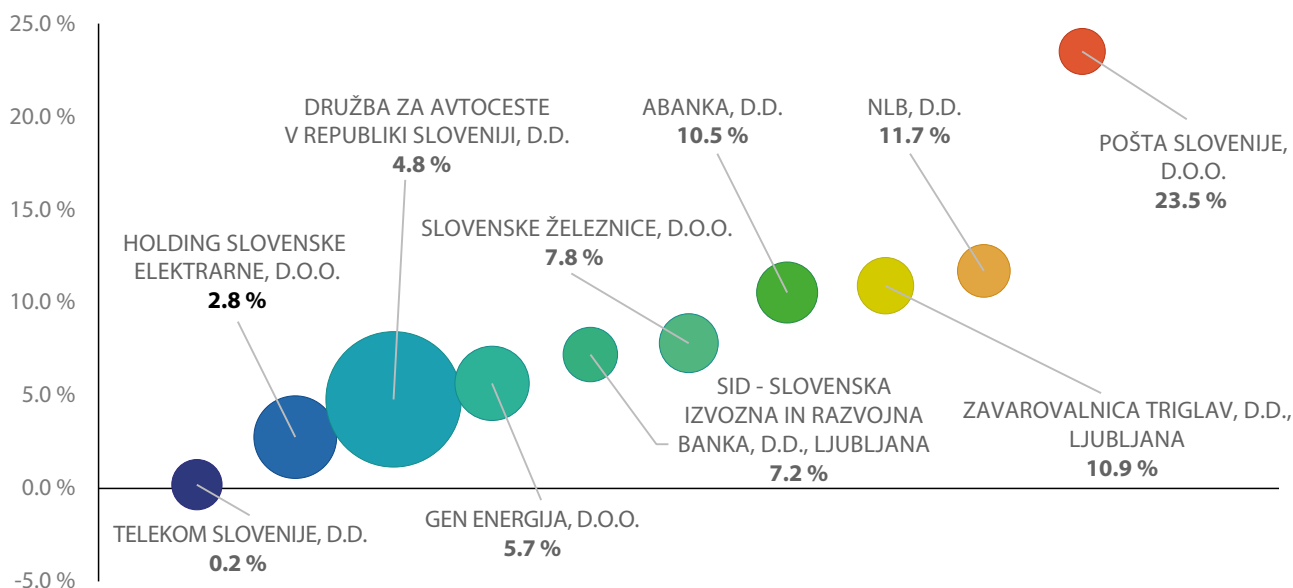
Most of companies from the **Transport pillar** recorded solid yet slightly worse performance results year-on-year (DARS ROE 4.8%, -0.6 percentage points; SŽ ROE 7.8%, -0.7 percentage points), but the main contributor to the higher pillar's ROE was the profitable operations of Pošta Slovenije (ROE 23.5%, +18,9 percentage points), as a result of the merger with Intereuropa.

The largest companies in the **Energy pillar**, HSE and Gen energija, improved their performance results in 2019 as compared to the preceding year. A particularly high increase in ROE was recorded by HSE; the company's ROE amounted to 2.8% in 2019, whereas a loss was recorded in 2018 and its ROE stood at -1.1%.

Similarly as in few previous years, companies from the **Financial pillar** recorded high ROEs (ROE of the largest companies amounted from 10% to 14%) and the rise in the pillar's ROE was mostly attributed by exceptionally high ROE of SID Banka (2019: 7.2%, 2018: 2.8% which had mostly stemmed from the sale of SID – PKZ insurance company in the first half of 2018).

ROE of **Tourism and economy pillar** was marked by a poor performance of Telekom Slovenije, which is the largest company in this pillar (ROE 0.2%), and high profitability achieved by Krka (ROE 15.2%), SIJ – Slovenska industrija jekla (ROE 11.0%) and Sava (ROE 34.9%).

**Graph:** ROE of top 10 assets in the portfolio of RS + SSH in 2019. The size of the circle represents the size of the company in the RS + SSH portfolio (book value of the equity stake) and its significance (weight) in the calculation of the total ROE of the portfolio.



**Table:** ROE 2019 and dividends paid out for FY 2019 by 31 October 2020 by five top companies in an individual pillar of assets under management

<b>Pillar, Capital asset (as of 31 December 2019)</b>	<b>Ownership stake RS+SSH</b>	<b>Book value of stake RS+SSH (EUR)</b>	<b>Share in total portfolio</b>	<b>ROE 2018</b>	<b>ROE 2019</b>	<b>Dividends for RS and SSH for FY 2019 (EUR)</b>
<b>TRANSPORT</b>						
DARS, D. D.	100.00 %	2,863,136,409	27.70 %	5.35 %	4.79 %	
SLOVENSKE ŽELEZNICE, D. O. O.	100.00 %	541,144,770	5.24 %	8.54 %	7.81 %	
POŠTA SLOVENIJE, D. O. O.	100.00 %	329,639,461	3.19 %	4.62 %	23.50 %	
LUKA KOPER, D. D.	62.13 %	260,370,159	2.52 %	16.06 %	9.95 %	9,306,707
KZPS, D. O. O.	100.00 %	24,595,796	0.24 %	15.29 %	19.25 %	
<b>TOTAL TOP 5 TRANSPORT</b>		<b>4,018,886,595</b>	<b>38.89 %</b>			<b>9,306,707</b>
<b>ENERGY SECTOR</b>						
HSE, D. O. O.	100.00 %	1,064,640,823	10.30 %	-1.11 %	2.76 %	
GEN ENERGIJA, D. O. O.	100.00 %	859,934,217	8.32 %	5.07 %	5.65 %	9,500,000
ELEKTRO LJUBLJANA, D. D.	79.80 %	261,891,781	2.53 %	5.40 %	4.29 %	3,437,345
ELEKTRO MARIBOR, D. D.	79.86 %	236,551,103	2.29 %	5.40 %	4.81 %	3,887,779
PETROL, D. D.	23.50 %	190,618,320	1.84 %	12.67 %	13.09 %	10,784,730
<b>TOTAL TOP 5 ENERGY SECTOR</b>		<b>2,613,636,244</b>	<b>25.29 %</b>			<b>27,609,854</b>
<b>FINANCIAL SECTOR</b>						
ABANKA, D. D.	100.00 %	578,837,000	5.60 %	11.39 %	10.54 %	
ZAVAROVALNICA TRIGLAV, D. D.	62.57 %	495,550,368	4.79 %	10.80 %	10.90 %	*
SID BANKA, D. D.	99.41 %	461,119,051	4.46 %	2.80 %	7.20 %	
NLB, D. D.	25.00 %	432,724,250	4.19 %	11.80 %	11.70 %	
POZAVAROVALNICA SAVA, D. D.	31.57 %	121,475,590	1.18 %	13.10 %	13.80 %	*
<b>TOTAL TOP 5 FINANCIAL SECTOR</b>		<b>2,089,706,259</b>	<b>20.22 %</b>			<b>*</b>
<b>TOURISM AND ECONOMY</b>						
TELEKOM SLOVENIJE, D. D.	66.80 %	394,679,914	3.82 %	5.12 %	0.20 %	15,278,928
KRKA, D. D.	16.21 %	270,307,679	2.62 %	11.49 %	15.23 %	22,592,541
SIJ, D. D.	25.00 %	104,732,000	1.01 %	3.62 %	10.98 %	
UNIOR, D. D.	39.43 %	68,166,792	0.66 %	7.48 %	6.15 %	
SAVA, D. D.	18.69 %	22,029,601	0.21 %	10.48 %	34.90 %	
<b>TOTAL TOP 5 TOURISM AND ECONOMY</b>		<b>859,915,986</b>	<b>8.32 %</b>			<b>37,871,469</b>
<b>TOTAL TOP 5 ALL PILLARS</b>		<b>9,582,145,084</b>	<b>92.71 %</b>			<b>*</b>
<b>TOTAL RS+SSH PORTFOLIO</b>		<b>10,335,151,102</b>	<b>100.00%</b>			<b>*</b>

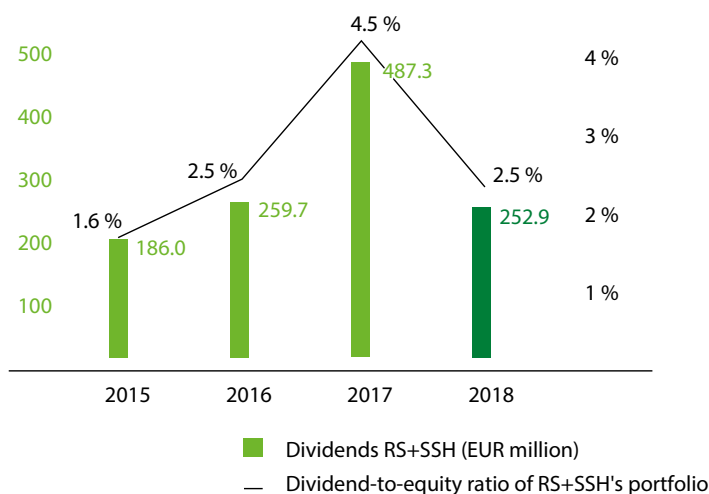
\*Note: At the time of drawing up this Report, dividend income to be paid out by insurance companies are still uncertain due to the regulator's recommendation (i.e., Insurance Supervision Agency) to temporarily suspend dividend payments. The dividend income for FY 2019 will be known at the end of 2020 when it becomes clear whether insurance companies from the SSH's portfolio will pay out dividends for 2019 and what their amount will be.

## 11.4 Dividends

The amount of dividends for FY 2019 will be significantly lower as compared to previous years. When planning dividend pay-outs for FY 2019, it was considered that dividend income would be lower due to the envisaged sale of additional 10-percent RS's stake in NLB and the sale of a 100-percent equity interest held by RS in Abanka. As a matter of fact, these two companies contributed almost one half (46.6%) of total dividend income for RS (including ZPIZ) and SSH in 2018. Dividend income for FY 2019 was thus planned to amount to the total of EUR 142.4 million, but it will be lower mainly due to the economic impact of COVID-19 epidemic. In addition to uncertainty in connection with the dividends

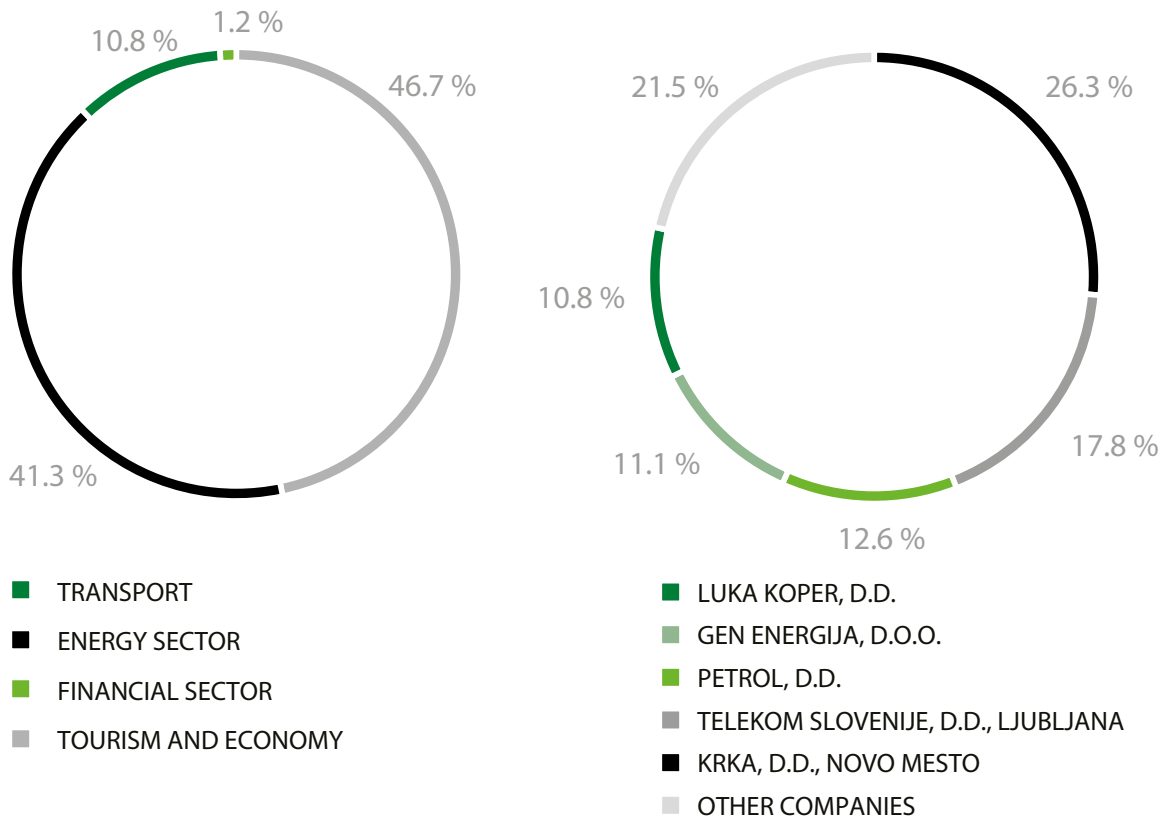
to be paid out by Zavarovalnica Triglav and Sava Re (recommendations issued by the regulator, i.e. the Insurance Supervision Agency), there will be no dividends from NLB, SIJ, Pošta Slovenije neither from some other smaller portfolio companies. Some companies have reduced their dividend pay-outs (Telekom Slovenija, electricity distribution companies) whereas in some exceptional cases (Krka, Gen energija), dividend income is to exceed the plan as a result of very good performance in 2020. The actual dividend income for 2019 will be known at the end of 2020 when it is clear whether insurance companies in the SSH's portfolio will pay out dividends for 2019 and what their amount will be.

**Graph 5:** The amount of dividends paid out to RS and SSH for FYs 2015 - 2018 and dividend-to-equity ratio



*\*Note: At the time of drawing up this Report, dividend income to be paid out by insurance companies are still uncertain due to the regulator's recommendation (i.e., Insurance Supervision Agency) to temporarily suspend dividend payments. The dividend income for FY 2019 will be known at the end of 2020 when it becomes clear whether insurance companies from the SSH's portfolio will pay out dividends for 2019 and what their amount will be.*

**Graph 6:** The highest dividend payers to RS's and SSH's budget for FY 2019 (paid out in 2020) – by pillars under management and by individual companies.



*\*Note: At the time of drawing up this Report, dividend income to be paid out by insurance companies are still uncertain due to the regulator's recommendation (i.e., Insurance Supervision Agency) to temporarily suspend dividend payments. The dividend income for FY 2019 will be known at the end of 2020 when it becomes clear whether insurance companies from the SSH's portfolio will pay out dividends for 2019 and what their amount will be.*

## 11.5 Summary of criteria for measuring performance of SOEs and information on fulfillment of criteria in 2019

The table below presents an overview on how companies satisfied two criteria for measuring performance of SOEs (ROE and EBITDA margin) as they were formulated for FY 2019 at the end of 2018. As regards companies indicated by colour, given

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



**Table 4:** Attainment of goals on the basis of criteria (ROE, EBITDA, margin) set in the Annual Asset Management Plan 2019

Pillar, Capital asset	ROE 2019 (%)		EBITDA margin 2019 (%)	
	Asset Management Annual Plan	Outcome	Asset Management Annual Plan	Outcome
<b>TRANSPORT</b>				
DRUŽBA ZA AVTOCESTE V REPUBLIKI SLOVENIJI (MOTORWAY COMPANY OF THE REPUBLIC OF SLOVENIA) D. D., CELJE	4.55	4.79	80.00	80.84
KONTROLA ZRAČNEGA PROMETA (SLOVENIA CONTROL, LIMITED) D. O. O.	13.00	19.25	17.90	22.04
LUKA KOPER, D. D.	12.00	9.95	43.50	31.28
POŠTA SLOVENIJE, D. O. O.	5.30	23.50	11.50	9.14
SLOVENSKE ŽELEZNICE, D. O. O.	8.60	7.81	14.00	15.32
<b>ENERGY SECTOR</b>				
ELEKTRO CELJE, D. D.	4.30	3.72	40.65	40.90
ELEKTRO GORENJSKA, D. D.	4.74	4.44	48.00	47.90
ELEKTRO LJUBLJANA, D. D.	4.22	4.29	44.00	44.38
ELEKTRO MARIBOR, D. D.	4.61	4.81	41.50	42.15
ELEKTRO PRIMORSKA, D. D.	4.41	4.97	41.80	43.56
GEN ENERGIJA, D. O. O.	5.50	5.65	3.90	4.83
GEOPLIN, D. O. O.	4.10	7.03	1.00	2.64
HOLDING SLOVENSKE ELEKTRARNE, D. O. O.	5.00	2.76	10.84	9.21
PETROL, D. D., LJUBLJANA	12.70	13.09	10.15	10.81
PLINHOLD, D. O. O.	0.70	2.80	60.00	56.47
<b>FINANCIAL SECTOR</b>				
D.S.U., D. O. O.	5.00	5.81	64.00	64.86
NLB, D. D.	11.00	11.70	61.80	58.70
POZAVAROVALNICA SAVA, D. D., LJUBLJANA	11.00	13.80	94.00	93.80
SID BANKA, D. D., LJUBLJANA	4.30	7.20	43.70	25.20
ZAVAROVALNICA TRIGLAV, D. D., LJUBLJANA	9.50	10.90	95.00	91.50
<b>TOURISM AND ECONOMY</b>				
ADRIA, TURISTIČNO PODJETJE, D. O. O., ANKARAN	2.35	2.57	16.00	16.33
BODOČNOST MARIBOR, D. O. O.	5.50	2.76	6.10	3.44
CETIS, D. D., CELJE	12.50	11.91	13.50	13.13
CINKARNA CELJE, D. D.	17.50	12.45	24.00	20.83
CSS, D. O. O.	12.80	1.61	5.20	3.22
HIT, D. D., NOVA GORICA	10.00	13.62	15.90	16.30
JP URADNI LIST REPUBLIKE SLOVENIJE, D. O. O.	2.50	2.47	13.00	12.20
KOTO D. O. O.	0.16	1.71	9.06	9.67

KRKA, D. D.	12.00	15.23	25.00	25.81
LOTERIJA SLOVENIJE, D. D.	16.97	20.28	5.80	6.15
POMGRAD – VODNOGOSPODARSKO PODJETJE, D. D.	2.60	1.22	7.50	9.38
SAVA, D. D.	4.70	34.90	22.00	18.12
SIJ – SLOVENSKA INDUSTRIJA JEKLA, D. D.	6.30	10.98	10.00	7.59
STUDENTENHEIM KOROTAN GMBH	-4.10	-4.36	9.70	8.03
TELEKOM SLOVENIJE, D. D.	8.50	0.20	29.00	30.13
TERME OLIMIA, D. D.	7.54	10.91	26.41	29.76
UNIOR, D. D.	8.20	6.15	13.00	12.20
VARNOST SISTEMI, D. O. O.	12.80	-8.79	24.00	37.12
VODNOGOSPODARSKO PODJETJE DRAVA, D. O. O., PTUJ	18.50	17.56	10.00	7.25
VODNOGOSPODARSKO PODJETJE NOVO MESTO, D. D.	7.00	7.25	13.00	13.43
VODNOGOSPODARSKO PODJETJE, D. D., KRANJ	2.53	19.13	5.00	7.40

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



# METHODOLOGICAL, LEGAL AND OTHER NOTES

## Legal basis

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

## Operational performance data for SOEs

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

Comprehensive company presentations have been developed for top 20 companies using the criteria of the total book value of SSH and RS shareholdings as at 31 December 2019 (in Slovene only).

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

- companies in bankruptcy or liquidation (a common list of all such companies has been made),
- companies in which the equity stake of SSH or RS is lower than 1%;
- companies for which a take-over bid was accepted by SSH or an SPA was concluded which has not yet been realised;
- capital assets which have been transferred under SSH's management on 26 December 2018 as a result of the Act Amending Implementation of the Republic of Slovenia's Budget (2018 and 2019) Act – ZIPRS1819-A (Official Gazette RS, No. 83/18 of 24 December 2018) have been acquired solely through inheritance; and
- for other companies of less significant importance:
  - o Inkos d. o. o. d., Krmelj, with RS's ownership stake amounting to 2.54%.: SSH had attempted to sell the above mentioned shareholding twice in 2016 and 2017, but with no success;
  - o Savaprojekt d. d., with RS ownership stake amounting to 3.47% : SSH strives to sell its equity interest under management;
  - o A. L. P. Peca, d. o. o. (micro company), with RS ownership stake amounting to 9.09% : SSH strives to sell its equity interest under management.

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

Indicator	Formula for calculating an indicator
ROA – return on assets	annual net income after tax/average total assets
ROE – return on equity	annual net income after tax /average shareholders' equity
Average equity (assets) of a financial year	(equity (assets) at the beginning of a financial year + (equity (assets) at the end of a financial year)/2
EBITDA	operating profit and loss + write-offs for the period
EBITDA margin	EBITDA/gross return from operations for the period
EBIT	operating earnings
EBIT margin (operating margin)	EBIT/gross return from operations for the period
Financial debt	Long-term + short term financial liabilities
Net debt/EBITDA	Financial debt – cash or cash equivalents – short-term financial investments/EBITDA

Financial leverage	average total assets /average shareholders' equity
No. of employees	in a Group
No. of employees in SLO	in a Group in SLO
added value per employee	gross return – COGS – other operating expenses/No. of employees
Dividend amount RS/SSH	Gross dividend amounts received by RS /SSH as voted at General Meetings (passed founder's resolution) and paid out in the current year for the previous year
Dividend-to-equity ratio	total dividend pay-out or a current year/average shareholder's equity for a previous year

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

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

#### Other Notes

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

#### Sources

- Financial and Annual Reports of companies held in ownership of RS and SSH
- Bloomberg Information System
- Ordinance On State-Owned Capital Assets Management Strategy (OdSUKND) was adopted by the National Assembly on 13 July 2015
- OECD, Accountability and Transparency: a Guide for State Ownership, 2010
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- Slovenian Sovereign Holding, 2020 SSH Recommendations and Expectations
- Slovenian Sovereign Holding, 2019 Corporate Governance Code for Companies with Capital Assets of the State
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- Slovenian Sovereign Holding, SSH Premises for Voting on General Meetings of Shareholders in 2018 and 2020
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- Slovenia Development Strategy 2030, 2017 Government Office for Development and European Cohesion Policy
- Statistical Office of RS, October 2020, [www.stat.si](http://www.stat.si)
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- Directors' Association of Slovenia, Managers' Association of Slovenia, Ljubljana Stock Exchange, 2016 Corporate Governance Code for Listed Companies



## List of acronyms and glossary of terms

- AAMP** – Annual Asset Management Plan for capital assets of RS and SSH
- ADR** – average daily rate; the indicator shows the average realised room rental per day
- ADRIAPrime Index** – it is Equity Total Return Index which track both the share's capital gains (price return) as well as any cash distributions (dividend yield). AdriaPrime consists of stocks trading on the Leading Market segment of the Ljubljana Stock Exchange and Zagreb Stock exchange. The selection of its constituents is determined by an individual stock exchange.
- ARSO** – Slovenian Environment Agency
- AVK** – Slovenian Competition Protection Agency
- AZN** – Insurance Supervision Agency
- BAMC** – Bad Asset Management Company
- CEEplus index** – is a regional index composed of companies listed on the regulated markets of Bucharest Stock Exchange, Budapest Stock Exchange, Bratislava Stock Exchange, Prague Stock Exchange, Warsaw Stock Exchange, Zagreb Stock Exchange and Ljubljana Stock Exchange. Slovenian companies included in the index are: Krka, d. d., Novo mesto, Petrol d. d., Ljubljana, NLB d. d. in Zavarovalnica Triglav, d. d.
- CIR** – the cost income ratio measuring operating costs as a percentage of operating income
- Code** – Corporate Governance Code for SOEs
- Commission** – Commission for handling alleged irregularities in SOEs
- Company** – Slovenian Sovereign holding d. d.
- COVID – 19** – is an infectious disease caused by a newly discovered severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2)
- CO<sub>2</sub>** – Carbon dioxide (CO<sub>2</sub>)
- CPC** – Commission for the Prevention of Corruption
- CPI** – consumer price index
- d. d. (PLC)** – public limited company
- d.o.o. (Ltd)** – limited liability company
- D. S. U.** – Družba za svetovanje in upravljanje
- DARS** – Motorway Company of Republic of Slovenia
- DarsGo** – electronic toll system in the free traffic flow
- DPN** – national spatial plan
- DTK** – venture capital companies
- EBITDA** – Earnings before Interest, Taxes, Depreciation and Amortisation
- EBRD** – European Bank for Reconstruction and Development
- ECB** – European Central Bank
- ECE** – ECE, energetska družba, d. o. o.
- ECESA** – Expert Committee for Economic and Social Affairs
- EDC** – electricity distribution company
- EE** – electricity
- EFTA** – European Free Trade Association
- ERM** – enterprise risk management
- ERP** – Enterprise resource planning
- EU** – European Union
- EU ETS** – the EU emissions trading scheme
- EUR** – Euro currency
- EURIBOR** – Euro Interbank Offered Rate
- EU28** – European Union of 28 Member States
- FED** – American Central Bank
- GB** – Gorenjska banka, d. d., Kranj
- GDP** – gross domestic product
- GDR** – Global Depositary Receipts



**GJS** – service of general economic interest

**GMBH** – Gesellschaft mit beschränkter Haftung / d. o. o. (limited liability company)

**GWh** – Gigawatt hours

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

**HPP** – hydro power plant

**HSE** – Holding slovenske elektrarne

**HTZ** – HTZ Velenje, I.P., d. o. o.

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

**ICT** – Information and communication technology

**IMAD** – Institute of Macroeconomic Analysis and Development

**IMF** – International Monetary Fund

**IPTV** – is the delivery of television content over Internet Protocol (IP) networks

**IT** – information technology

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

**KK** – Nomination Committee

**KZPS** – Slovenia Control - Slovenian Air Navigation Services, Limited

**LNG** – liquefied natural gas

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

**mHE** – small hydropower plants

**MOL** – Ljubljana City Municipality (City of Ljubljana Administration)

**MWh** – megawatt hour

**NEK** – Krško nuclear power plant

**NKBM** – Nova Kreditna banka Maribor

**NLB** – Nova Ljubljanska banka

**NOMAGO** – NOMAGO, storitve mobilnosti in potovanj, d. o. o.

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

**OPEC** – Organization of the Petroleum Exporting Countries

**OVD** – Environmental Approval

**PCI** – Project of Common Interest

**Policy** – Asset Management Policy of SSH

**PV** – Premogovnik Velenje, d. o. o.

**ROE** – Return on Equity

**RS** – Republic of Slovenia

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

**RŽV** – Žirovski vrh Mine

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

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

**SB** – Supervisory Board

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

**SEE** – South East Europe

**SEL** – Savske elektrarne Ljubljana, d. o. o.

**SES** – Slovenian Entrepreneurial Fund

**SID banka** – Slovenska izvozna in razvoja banka, d. d. Ljubljana

**SIJ** – Slovenian Steel Group

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

**SOD** – Slovenska odškodninska družba, d. d.

**SODO** – Electricity Distribution System Operator

**SPA** – Sale and Purchase Agreement

**SSH** – Slovenian Sovereign Holding

**SSH SB** – Supervisory Board of Slovenian Sovereign Holding  
**Strategy** – State Assets Management Strategy  
**SURS** – Statistical Office of the Republic of Slovenia  
**SŽ** – Slovenske železnice, d. o. o.  
**TEB** – Termoelektrarna Brestanica, d. o. o.  
**TEŠ** – Termoelektrarna Šoštanj, d. o. o.  
**TEU** – the twenty-foot equivalent unit, a unit of cargo capacity used to describe the capacity of container ships and container terminals  
**TWh** – TheraWatt hour  
**USA** – the United States of America  
**WANO** – World Association of Nuclear Operators  
**ZBan-2** – Banking Act  
**ZBS** – the Bank Association of Slovenia  
**ZGD, ZGD-1** – Companies Act  
**ZGD-1J** – the Act Amending Companies Act (ZGD-1J), page 2128  
**ZIOOZP** – Act Regulating the Issuing of Bonds in Compensation for Confiscated Property pursuant to the Abrogation of the Penalty of Confiscation of Property  
**ZIPRS1819-A** – Act Amending Implementation of the Republic of Slovenia’s Budget (2018 and 2019) Act  
**ZPIZ** – Zavod za pokojninsko in invalidsko zavarovanje (Pension and Disability Insurance Institute of Slovenia)  
**ZPNPID** – Legal Successors of Authorized Investment Companies Act  
**ZPPOGD** – the Act Governing the Remuneration of Managers of Companies with Majority Ownership held by the Republic of Slovenia or Self-Governing Local Communities (Official Gazette RS, No. 21/2010)  
**ZPre-1** – Takeovers Act  
**ZSDH-1** – Slovenian Sovereign Holding Act  
**ZSOS** – Slovenian Compensation Fund Act  
**ZSOS-C** – Act Amending the Slovenian Compensation Fund Act  
**ZSPOZ** – Act on Payment of Compensation to Victims of War and Post-War Violence  
**ZTFI** – Financial Instruments Market Act  
**ZVVJTO** – Reimbursement of Investments in Public Telecommunications Network Act  
**ZZavar-1** – Insurance Act

**Annual Report - Management of Capital Assets of RS and SSH for 2019**  
**SSH's Report to the National Assembly of RS (Abbreviated version)**

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Address: Mala ulica 5, 1000 Ljubljana

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

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

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

Text: Slovenski državni holding, d. d.

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Due to the extensive nature of the document, the abbreviated version of the Annual Report - Management of Capital Assets of the Republic of Slovenia and Slovenian Sovereign Holding for 2019 has been translated, excluding the original Chapters 12 - Company Details for 20 Largest SOEs, and Chapter 13 - Company Details of Other Companies with Direct Ownership Stake by the Republic of Slovenia and Slovenian Sovereign Holding. In spite of its abbreviated nature, the English version includes all the most significant highlights and information from the original Annual Report in Slovenian. The original text of this document is written in Slovenian; in case of any doubt or misunderstanding, the Slovenian text shall therefore prevail.

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