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**ANNUAL REPORT -
MANAGEMENT OF ASSETS OF
RS AND SSH FOR 2022**

SSH'S REPORT TO THE NATIONAL ASSEMBLY OF RS



SLOVENSKI DRŽAVNI HOLDING, d. d.

Annual Report - Management of Assets of RS and SSH for 2022

SSH'S REPORT TO THE NATIONAL ASSEMBLY OF RS

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

The ultimate objective of state-owned companies being managed by SSH is effective, profitable, economical operation, creation of value, and in many cases, efficient implementation of strategic and development objectives, often carried out within the scope of individual services of general economic interest. This must be achieved in a sustainable manner, by having a responsible attitude towards society and the natural environment, and through responsible management.

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

Ljubljana, October 2023

TABLES OF CONTENT

INTRODUCTION	7
KEY FINANCIAL AND NON-FINANCIAL HIGHLIGHTS FOR 2022 ON MANAGEMENT OF ASSETS OWNED BY RS AND SSH LETTER BY THE MANAGEMENT BOARD	8
01 PRESENTATION OF SLOVENIAN SOVEREIGN HOLDING	14
1.1 SSH's vision, mission, and values	15
1.2 The legal form and organisational structure of SSH	15
1.3 Purpose of SSH's establishment	16
1.4 Activities of SSH	16
1.5 Internal organisation of SSH	17
1.6 SSH Strategic policies and goals	17
02 SUPERVISORY BOARDS AND CANDIDACY PROCEDURES	19
2.1 About SSH's Nomination Committee	20
2.2 Work performed by Nomination Committee in 2022	20
2.3 Educational and Other Meetings for Supervisors and Decision-Makers of Portfolio Companies and Support for Events Organised by Other Organizers	21
2.4 Gender Diversity and Profiles of Candidates, Members of Supervisory and Management Boards of Portfolio Companies	22
03 LEGAL FRAMEWORK FOR MANAGING CAPITAL ASSETS OF RS AND SSH AND AMENDMENTS TO GOVERNANCE INSTRUMENTS IN 2022	24
3.1 The framework of functioning for SOEs	24
3.2 Corporate Governance System of SOEs – Legal Bases and Governance Instruments and their Changes in 2022	25
3.2.1 State Assets Management Strategy	26
3.2.2 Annual Asset Management Plan	26
3.2.3 Criteria for Measuring Performance of SOEs	26
3.2.4 SSH Asset Management Policy	27
3.2.5 Corporate Governance Code for SOEs and SSH Recommendations and Expectations	27
3.2.6 SSH Premises for Voting on General Meetings of Shareholders in 2022	29
3.2.7 International cooperation of SSH in the field of corporate governance of SOEs	29
04 MACROECONOMIC ENVIRONMENT AND DEVELOPMENTS IN THE MOST IMPORTANT SECTORS OF PORTFOLIO	30
4.1 Overview of selected macroeconomic data and data of Slovenian and global capital markets	30
4.2 Overview of developments by portfolio sectors	33
05 MANAGEMENT OF SSH AND RS CAPITAL ASSETS IN 2022	42
5.1 Management of Capital Assets	42
5.1.1 Fundamental principles of asset management	42
5.1.2 Active management of RS and SSH capital assets	42
5.1.3 Active preparation for Annual General Meetings and exercise of all other shareholder's rights	43
5.1.4 Monitoring operations of SOEs	44
5.1.5 Expectations in regard to ROE and dividend revenue	46
5.1.6 Main activities in 2022 in regard to asset management by individual companies	46
5.1.7 Disposition of capital assets in 2022 and their acquisition	50
5.3 Tangible Assets Management	53
06 STRATEGIC TOPICS AND GOVERNANCE ISSUES	55
6.1 Sustainable business	55
6.1.1 GHG emissions of the largest portfolio companies in 2022	56
6.1.2 Contribution of the top 20 portfolio companies to the 2030 Agenda	57
6.2 Risk management	58
6.3 Compliance, ethics and corporate integrity	59
6.3.1 Business Compliance and Integrity System	59
6.3.2 Advisory services for SOEs	59
6.3.3 Handling of reports on alleged irregularities	60
6.4 Internal Audit	60
6.5 Corporate culture, diversity, human rights	61
07 BUSINESS PERFORMANCE OF COMPANIES OWNED BY RS AND SHS	64
7.1 Portfolio of RS and SSH capital assets as at 31 December 2022	64
7.2 Value and structure of portfolio under management	66
7.2.1 Capital assets	66
7.2.2 Claims	68
7.2.3 Tangible assets	68
7.3 Business performance of asset management	68
7.3.1 Capital assets	68
7.3.2 Claims	70
7.3.3 Tangible assets	70
7.4 Dividends	71
7.5 Summary of criteria for measuring performance of SOEs and information on fulfilment of criteria in 2022	72

08 METHODOLOGICAL, LEGAL AND OTHER NOTES

Legal basis

Operation performance data for SOEs

Other Notes

Sources

List of acronyms and glossary of terms

74

74

74

75

75

76





INTRODUCTION

KEY FINANCIAL AND NON-FINANCIAL HIGHLIGHTS FOR 2022 ON MANAGEMENT OF ASSETS OWNED BY RS AND SSH

– MANAGEMENT OF PORTFOLIO OF CAPITAL ASSETS OWNED BY RS AND SSH



5.0%

Expected ROE of the RS and SSH Portfolio for 2022 as stated in Annual Asset Management Plan

2.8%

ROE of RS and SSH Portfolio in 2022 amounted to (if the Energy Pillar were excluded from the calculation, ROE would have amounted to 7.4%; ROE of the Energy Pillar was negative: -7.8%)



€ 162.6 million

The targeted sum of dividends paid out from RS and SSH Portfolio in 2023 (for FY 2022), as stated in Annual Asset Management Plan

€ 175.5 million

The total sum of dividend income paid to RS (ZPIZ) and SSH in 2023 (for FY 2022)



€ 11.2 billion

Book-value of assets owned by RS and SSH as at 31 December 2022 (as at 31 December 2021, the total book value of assets under SSH management amounted to EUR 10.3 billion)

88

The number of portfolio companies in which capital assets are held by RS and SSH: (companies not in liquidation or bankruptcy)



3,233,397

Absolute emissions in tCO₂e, total for Scope 1 and Scope 2 in 2022 (18.6% reduction compared to 2021)



79,300

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

F 26.1%
M 73.9%

Gender diversity of supervisory bodies in the RS and SSH Portfolio of capital assets (1.5 percentage point improvement in the under-represented gender ratio compared to 2021)

F 24.5%
M 75.5%

Gender diversity of management bodies in the RS and SSH Portfolio (1.8 percentage point improvement in the under-represented gender ratio compared to 2021)

– MANAGEMENT OF PORTFOLIO OF CLAIMS



€ 55.8 million

Inflows from claims management generated in 2022, calculated from the day of the merger with BAMC (1 July 2022)

€ 225.2 million

Fair-value of claims (transferred from BAMC) as at 31 December 2022

– MANGEMENT OF PORTFOLIO OF TANGIBLE FIXED ASSETS



€ 6.5 million

Inflows from the tangible assets management generated in 2022 (transferred from BAMC), calculated from the day of the merger with BAMC (1 July 2022)

€ 103.0 million

Book value of tangible assets (transferred from BAMC) as at 31 December 2022 (the estimated market value amounts to EUR 161.4 million)

LETTER BY THE MANAGEMENT BOARD

The business environment in 2022 faced many intricate risks. The global economy, notably in Europe, faced considerable tightening last year. The war in Ukraine caused disruptions in the supply of energy, food, and raw materials, which, along with demand-side pressures, led to high inflation and rising financing costs. This has resulted in increased uncertainty and deteriorating economic prospects, also impacting the operations of Slovenian Sovereign Holding (SSH), particularly energy companies under its management. To address this issue, SSH strengthened its asset management activities pursued in portfolio companies, especially in the energy sector, where challenging market conditions, particularly in the electricity trading, caused liquidity shortages for some companies. By injecting additional capital from the Republic of Slovenia into HSE, d.o.o., SSH provided stability for the HSE Group during a challenging financial caused by various negative factors, including historically low river levels and the temporary shutdown of operations at the TEŠ Power Plant due to coal excavation issues at Premogovnik Velenje. These challenges were compounded by the overall volatility in the energy markets. As of the end of September 2023, HSE had successfully repaid EUR 242 million of additional capital it received. It anticipates returning an extra sum, ranging from EUR 60 to 100 million by the end of the year, if its positive business performance continues.

In the current year, Slovenia's macroeconomic landscape has been characterised by sustained uncertainty influenced by global factors, recent flooding and inflation trends. Consequently, according to the IMAD's projections, only a modest 1.6% real GDP growth is anticipated.

Facing these challenging circumstances, SSH is adapting its governance priorities and enacting measures, which include strengthened efforts in several key domains: enhancing risk management, focusing on Environmental, Social and Governance aspects, ensuring governance adherence and integrity, and fortifying the competencies of representatives of supervisory bodies within SOEs.

Asset management

The return on equity (ROE) for the entire portfolio of capital assets under management decreased considerably in 2022 as compared to 2021, primarily due to poor results from energy companies; ROE amounted to 2.8% which is 2.2 percentage points lower than planned in the AAMP for 2022 (5.0%). Other asset management pillars showed improved performance compared to the previous year, with ROE for companies excluding the Energy pillar, specifically, those from the pillars of "Transport", "Finance", "Economy and Tourism" - reaching 7.4%. This exceeded the planned rate for these asset groups by 2.4 percentage points (5.0%).

In 2022, dividend payments by the companies in the SSH's management portfolio totalled EUR 190.7 million, of which RS (and ZPIZ) received EUR 130.7 million and SSH received EUR 60.0 million, a total increase of 4.3% over the planned amount (EUR 182.8 million).

In 2023, the sum of dividends paid (for FY 2022) is expected to amount to EUR 175.5 million, which is above the level planned in the Annual Asset Management Plan for 2023 which was estimated to amount to EUR 162.6 million. The companies from the Finance pillar will contribute the highest share of dividends, specifically, 40.9%, and are followed by the companies from the Tourism and Economy pillar with 31.9%; the Transport pillar will contribute 18.5% of total dividend income, and the share of dividend income contributed by the Energy pillar will be 8.8%. The top six dividend payers are set to distribute over 86% of the total dividend pay-outs.

At the end of 2022, the total book value of equity stakes in the SSH's managed portfolio of assets amounted to EUR 11.2 billion, which is an increase of 8.7% compared to the end of 2021 (EUR 10.3 billion). The increase in value is partly due to the growth of the capital of companies as a result of their business results, partly due to capital increases carried out in 2022 (HSE and SŽ), and partly due to the acquisition of new investments (increase in the stake in Sava, assuming asset-management control of DRI and SiDG), acquisition of

companies with RS's capital assets as a result of the merger with BAMC (such as Istrabenz Turizem, Thermana, Farme Ihan, Mladinska knjiga, MLM, Salomon).

Following the merger with BAMC, SSH gained two new activities: claims management and tangible assets management. The aim in managing these assets is to increase their value through appropriate management activities and to achieve the proceeds planned. At the end of 2022, the fair value of financial claims acquired through the merger was EUR 225.2 million, while the book value of tangible assets, mostly consisting of real estate, was EUR 103.0 million, with an estimated market value of EUR 161.4 million.

Enhanced development of corporate governance

Throughout the year, SSH consistently pursued enhancements across its operations and within portfolio companies by supplementing the Code of Governance, SSH Recommendations and Expectations, and formulating the Annual Asset Management Plan. Numerous recommendations and expectations encompass the companies' sustainable business practices, which SSH has further reinforced with additional measures in comprehensive changes made to its core documents in 2023. Changes also include more demanding criteria for selecting members of the supervisory boards of the most important portfolio companies. By the end of 2023, SSH will entirely revise the Corporate Governance Code for SOEs.

Janez Tomšič,
Member of SSH Management Board

The established systemic framework for corporate governance at SSH is complemented with educational events for executive officers and for members of companies' supervisory boards. Experts in various areas also organize professional meetings on topics relating to compliance, integrity, and internal auditing. SSH treats compliance and integrity as vital and is thus striving to establish a dedicated function in an appropriate form within all SOEs, in accordance with the provisions of the Corporate Governance Code for SOEs and SSH Recommendations and Expectations. A visible and responsible function indeed leads to a shift toward a more strategic and inclusive approach by companies towards compliance and integrity. Additionally, the internal audit service must also be a crucial governance pillar in all companies, as it plays several vital roles which contribute to the efficiency, transparency, and compliance of business processes, ultimately having a direct impact on business performance.

Challenging economic conditions, reduced levels of economic activity, consequences of natural disasters, and other factors affect and will continue to affect the operations of some portfolio companies in 2023 and beyond. As a result, both 2023 and 2024 will be demanding years from a governance perspective.

SSH remains firmly committed to continuously improving corporate governance and business performance within portfolio companies. In this regard, SSH will strive to ensure that portfolio companies are well prepared for the future, which includes their fitness in the areas of green transition, resilience to climate change, and major business trends.

Žiga Debeljak, MSc,
President of SSH Management Board



A hand is pointing at a document that features a bar chart and some text. The document is slightly out of focus, and the background is a light blue gradient. The text on the document is partially legible, showing words like 'The following information is provided for your information' and 'The following information is provided for your information'.

ON MANAGEMENT OF ASSETS HELD BY RS AND SSH

01 PRESENTATION OF SLOVENIAN SOVEREIGN HOLDING



TABLE: COMPANY DETAILS - SIGNIFICANT DATA

Corporate name:	Slovenian Sovereign Holding d. d.
Registered office:	Ljubljana
Business address:	Mala ulica 5, 1000 Ljubljana
Telephone No.:	++386 1 300 91 13
Web site and e-mail:	www.sdh.si , info@sdh.si
Activity code of core business:	K 64.990
VAT ID:	SI46130373
Registration No.:	5727847000
Transaction Accounts:	SI56 0291 3001 6492 958, held by NLB SI56 0451 5000 2472 262, held by Nova KBM SI56 2900 0005 1319 162, held by Unicredit Bank
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
Date of merger of BAMC with SSH:	30 December 2022
Registered legal form:	Public limited company registered at the Ljubljana District Court (court register decision no. 1/21883/00)
Share capital as at 31 December 2022:	EUR 301,765,982.30
No. of employees as at 31 December 2022:	136 (as at 29 December 2022: 52 employees)
Membership in other organisations:	Directors' Association of Slovenia, Association of Employers of Slovenia, Chamber of Commerce and Industry of Slovenia, CER
Management Board:	Žiga Debeljak, MSc, President of SSH Management Board, Janez Tomšič, Member of SSH Management Board.
Members of Supervisory Board:	Karmen Dietner, President, Franc Bobinac (hereinafter: Franjo Bobinac), Deputy President, Ivan Simič, MSc, Member, Suzana Bolčič Agostini, Member, Miro Medvešek, Member.
Members of the SB's Audit Committee:	Ivan Simič, MSc, President, Suzana Bolčič Agostini, Member, Darinka Virant, External Member.
Members of the SB's Risk Committee:	Miro Medvešek, President, Franjo Bobinac, Member, Darinka Virant, External Member.
Members of Nomination Committee:	Samo Roš, President, Urška Podpečan, Deputy President, Vlasta Lenardič, Member.
Members of ECESA:	Zdenko Lorber, President (Slovenian Union of Alternative Trade Unions of Slovenia), Saša Klara Kumer, Deputy President (Association of Free Trade Unions of Slovenia), Evelin Vesenjāk (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).

Slovenian Sovereign Holding (hereinafter referred to as: "SSH" or "the Company") is the umbrella manager of capital assets of the State. 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. By acquiring BAMC as at the cut-off date of 30 June 2022 and by registering its acquisition in the Business Register on 30 December 2022, SSH acquired two new activities; i.e., tangible fixed assets management, and claims management.

SSH was established on 26 April 2014 by transforming SOD when the Act entered into force regulating its establishment, status, tasks, asset management related instruments and some other relevant matters (ZSDH-1). SSH continues to exercise all powers, responsibilities, rights and obligations which used to be held by SOD. SSH as a liable party to proceedings takes part in proceedings for determining compensation for nationalised assets and provides for regular settlement of liabilities arising from denationalised assets. In the capacity of the holder of public powers on behalf of and for the account of the Republic of Slovenia, SSH runs procedures for the issue of decisions on the compensation amount and settles liabilities under the following laws: ZSPOZ and ZIOOZP.

The sole founder and shareholder of SSH is the Republic of Slovenia. SSH operates as a public limited company with rights, liabilities and obligations stipulated by ZGD-1, ZSDH-1, ZSOS and other laws, as well as in accordance with the State Assets Management Strategy and Articles of Association of SSH.

1.1 SSH's vision, mission, and values

Vision

Generating value for the owner from capital assets.

Mission

The Slovenian Sovereign Holding was established with the purpose of providing a concerted, transparent, and independent management of the State's capital assets.

SSH also exercises powers, rights, and obligations of SOD, particularly those associated with meeting obligations to beneficiaries under diverse laws. It also oversees and manages assets, particularly real estate and claims, which have been acquired with the merger with BAMC.

SSH Values

The values underpinning the functioning of SSH are interlinked, and provide the basis for activities pursued by SSH:



INTEGRITY AND LEGALITY



TRUST AND RESPECT



ROLE MODEL LEADERSHIP, AUTONOMY

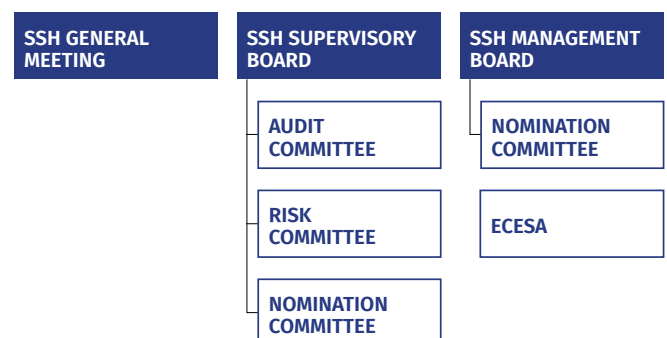


OBJECTIVITY AND IMPARTIALITY

1.2 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. In accordance with ZSDH-1, 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. As per ZSDH-1, the Management Board of SSH is composed of the President of the Management Board and up to two members who are all appointed by the SSH Supervisory Board. The Expert Committee for Economic and Social Affairs is a seven-member consultation body of the SSH Management Board. Its members are appointed by the Slovenia's representative trade unions and confederations who are members of the Economic and Social Council. Their appointment is approved by the SSH Management Board. There are three committees operating within the SSH Supervisory Board: the Audit Committee, the Risk Committee and the Nomination Committee. Within the SSH Management Board, two consultative bodies are in operation: first, ECESA, which holds the status of a SSH body in accordance with an explicit statutory provision and the provision stated in the SSH Articles of Association, and secondly, the Nomination Committee.

SCHEME: SSH'S BODIES AND THEIR WORKING AND CONSULTATION BODIES



1.3 Purpose of SSH's establishment

The Slovenian Sovereign Holding was established with the purpose of providing a concerted, transparent, professional management of the State's capital assets as an activity separated from the daily politics. SSH also continues to exercise

the powers, competences, rights, and obligations of SOD (settling liabilities to beneficiaries under several laws) and, since the acquisition of BAMC, also continues to manage tangible assets and claims.

1.4 Activities of SSH

After the merger with BAMC, the core business activities of Slovenian Sovereign Holding (SSH) are as follow:



MANAGEMENT OF STATE CAPITAL ASSETS

Acquiring and disposing of capital assets in accordance with the Annual Asset Management Plan, as well as exercising shareholder or partner or founder rights.



MANAGEMENT OF CLAIMS

Acquiring and disposing of SSH claims and other forms of their management, including the engagement in restructuring of companies.



MANAGEMENT OF TANGIBLE ASSET

Disposing of real estate and movable property owned by SSH and other forms of their management.



DENATIONALISATION AND SETTLEMENT OF LIABILITIES

Participation in procedures under the Denationalization Act (ZDen) to determine compensation for expropriated property and settling liabilities on behalf of and for the account of SSH.

Settlement of liabilities under the following Acts: ZSPOZ, ZIOOZP and ZVJTO on behalf of and for the account of the Republic of Slovenia.

By merging with the Bank Asset Management Company (BAMC), SSH acquired two new activities: claims management and tangible assets management

BAMC was established by way of the Act Regulating Measures of the Republic of Slovenia to Strengthen the Stability of Banks (hereinafter referred to as: ZUKSB) for a specified period of time. Initially it should have existed until 31 December 2017, but the deadline was later extended by virtue of a legislative amendment which prolonged its operation until 31 December 2022. The Article 36, Paragraph 3 of ZUKSB stipulated the transfer of assets, rights, and obligations of BAMC, including its legal succession, to SSH upon its termination. This legal succession was prescribed to be further regulated by the Government of the Republic of Slovenia through an implementing regulation, following a report submitted to the National Assembly of the Republic of Slovenia.

Through the merger of BAMC with SSH, all assets, rights, and obligations of BAMC were transferred to SSH. SSH entered

into all legal relationships (procedural, contractual, credit, employment, etc.) that existed at BAMC. As at 20 June 2022, the cut-off date for the merger, BAMC had claims in the total amount of EUR 277.7 million net or EUR 2,968,451,277.33 gross, with nine out of ten largest debtors (by gross amount of claims) being in bankruptcy. SSH also took over shares and interests in domestic and foreign companies, as well as numerous properties located primarily in Slovenia but also abroad. This information is presented in more detail in the Chapter which discusses asset management and its performance results in 2022.

On 30 December 2022, 82 employees were transferred to SSH from BAMC. Regarding the transfer of assets, liabilities, and employees from BAMC to SSH, SSH made changes in its internal organization by adding internal organizational units responsible for managing the newly acquired assets. The net balance sheet assets of BAMC which were transferred to SSH amounted to EUR 363.4 million.

1.5 Internal organisation of SSH

The internal organisation of SSH is outlined in the SSH's organisational chart and is divided into the following divisions: the Management Board, business areas, organisational units and posts.

The Company is managed by the Management Board, the number of members of the Management Board is set out in ZSDH-1 and the Company's Articles of Association.

The following business areas are organised in SSH:

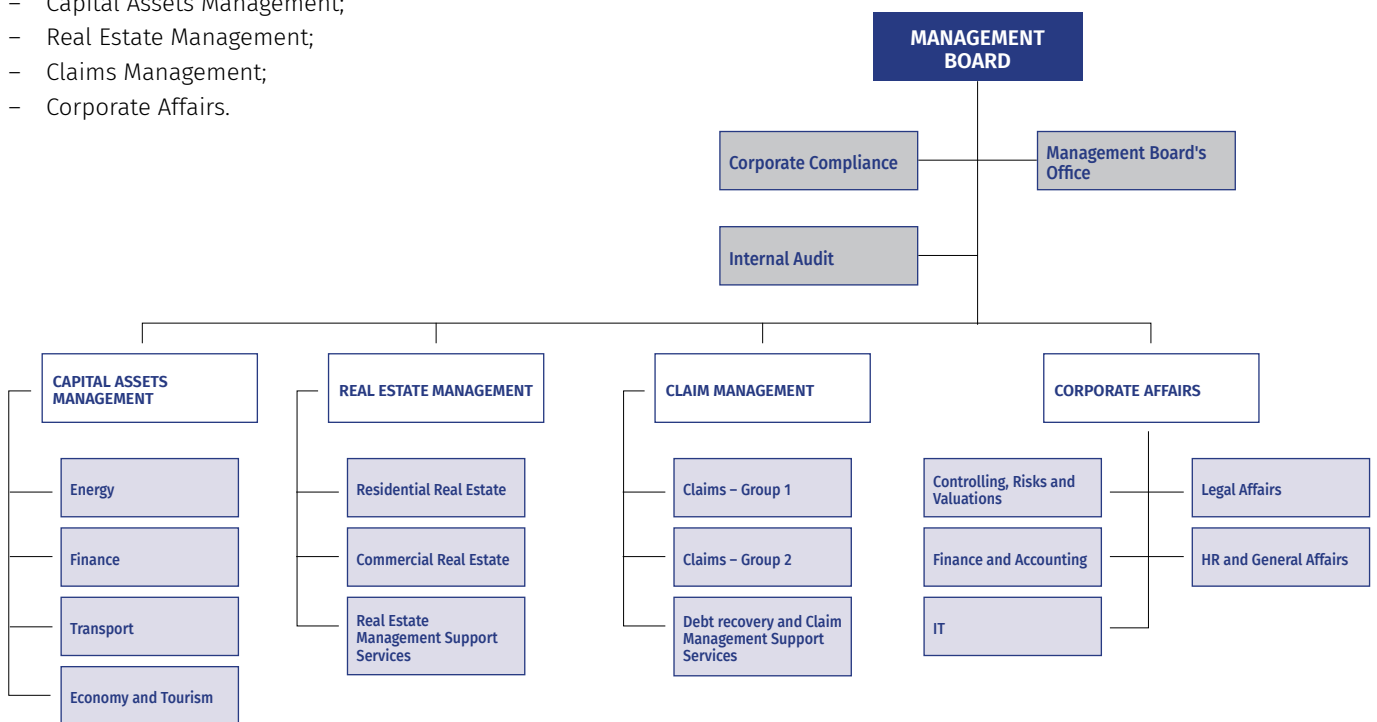
- Capital Assets Management;
- Real Estate Management;
- Claims Management;
- Corporate Affairs.

Outside these areas, the following departments are also organized:

- Management Board's Office;
- Corporate Compliance;
- Internal Audit.

Since the beginning of 2023, a new organizational structure has been put in place, which reflects the fact that SSH has acquired two new activities with the merger of BAMC, i.e., claims management and management of tangible assets.

FIGURE: SSH'S ORGANISATIONAL STRUCTURE AS AT 1 JANUARY 2023

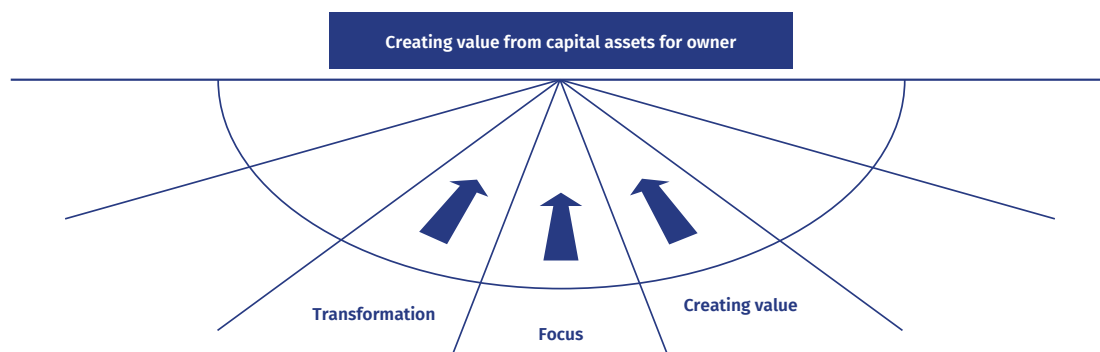


1.6 SSH Strategic policies and goals

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

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

FIGURE: SSH VISION AND STRATEGIC POLICIES



Transformation

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

- implementation of key strategic projects in regard to state assets management;
- proactive restructuring of state assets under management;
- implementing measures which enable the maximization of asset value for SSH as a creditor in claims management and the maximization of value for SSH as an owner in real estate management;
- upgrading the operational model of SSH's functioning;
- providing for the professional competence and expertise in management and increasing the culture of corporate governance in SSH and companies managed by SSH.

Focus

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

- stabilising the portfolio of state assets (focused industries, dividend predictability) ;
- increasing and taking the advantage of synergies within the portfolio of state assets;
- selling claims, equity stakes and tangible assets at the highest possible price;
- risk management;
- timely execution of adjustment measures to ensure the resilience of companies in changing economic conditions or during a recession.

Creating value

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

- increasing the value of equity, ROE and ROI, while considering all three aspects of sustainable business,
- attaining strategic goals of the State in accordance with AAMP;
- efficient management of strategic state assets;
- Increasing the value of claims and tangible assets;
- implementing activities for developing and improving the environment in which SSH operates;
- addressing the sustainability issues in the operations of SOEs.

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

The ultimate objective of state-owned companies under the SSH management is effective, profitable, economical operation, creation of value, and efficient management of services of general economic interest, as well as attaining other strategic goals defined in the State Assets Management Strategy. To achieve this, all three aspects of sustainable business must be simultaneously implemented: a responsible engagement with the society and the natural environment, alongside responsible governance.

Key goals pursued by SSH within corporate governance of SOEs are as follows:

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

Key goals pursued by SSH in managing claims and tangible fixed assets are as follows:

- increasing the value of claims through appropriate management activities and achieving proceeds planned;
- increasing the value of tangible assets through appropriate management activities and achieving proceeds planned.

02

SUPERVISORY BOARDS AND CANDIDACY PROCEDURES

One of the key shareholder levers of corporate governance is the right and the duty of owners to appoint independent professionals to the supervisory bodies of companies. These professionals should responsibly oversee the work conducted by company management boards while collaborating with them in matters of governance.

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



In addition to **the statutorily stipulated conditions** (in addition to conditions stipulated by ZSDH-1, conditions specified in ZGD-1 and ZIntPK) which all potential candidates for supervisory board membership must meet to be accredited/nominated successfully, SSH has also determined **additional criteria** (some of these criteria provide a more detailed specification of legal requirements). These criteria are defined in publicly available internal rules and regulations, and include as follows:

- formal education;
- experience in corporate governance (supervisory, managerial, and administrative experience, specific experiences);
- professional competencies (specified professional competencies by area); and
- personal integrity (adequate assessment by the Nomination Committee).

In May 2023, SSH revised its SSH Asset Management Policy and adopted the new Rules on the Assessment of Potential Candidates for Members of Supervisory and Management Boards of SOEs, which tightens the candidacy requirements for supervisors in more complex business systems.

The revised Rules define in detail the requirements, criteria, and procedures for evaluating and determining the suitability of potential candidates for members of supervisory and management bodies of SOEs, in accordance with the provisions of the Slovenia Sovereign Holding Act (ZSDH-1) and the SSH Asset Management Policy. These Rules, together with the revised SSH Asset Management Policy, represents an important step towards a more transparent regulation of personnel procedures, which are now clearly defined, and enforce stricter nomination requirements, especially for candidates for supervisory boards of companies classified as “complex systems” in terms of corporate governance (public companies,

banks, insurance companies, and larger economic groups of companies).

One of the responsibilities of SSH is to ensure that **the composition of supervisory boards is heterogeneous** and to provide for a good quality supervision over the work carried out by supervisory boards of SOEs. Increasingly, SSH's concern is also directed towards the appropriate representation of both genders in supervisory bodies, which will be further strengthened in light of the new legislation.

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

The revised concept of accreditation and nomination of candidates for bodies of supervision will contribute to strengthening the quality of corporate governance.

SCHEME: TARGETED EXPERT PROFILES FOR SUPERVISORY BOARDS



2.1 About SSH's Nomination Committee

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

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

2.2 Work performed by Nomination Committee in 2022

In 2022, the SSH Nomination Committee was composed of the following members: Samo Roš, the President of the Nomination Committee, an expert in corporate governance; Urška Podpečan, the Deputy President of the Nomination Committee, an expert in the functioning of supervisory boards; and Vlasta Lenardič, Member of the Nomination Committee, an expert in HR Management.

In 2022, 37 members of governing bodies of portfolio companies had their term of office expire, 33 were replaced early.

The SSH Nomination Committee conducted 44 regular and 13 correspondence sessions in 2022. At regular meetings, it considered 144 candidates in the context of 72 nomination procedures for 33 different SOEs, of which 113 were assessed as adequate.

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

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

Bodočnost Maribor, d. o. o., Casino Bled, d. d., Casino Portorož, d. d., Cetis, d. d., D.S.U., d. o. o., DARS, d. d., Elektro Ljubljana, d. d., Elektro Maribor, d. d., GEN energija, d. o. o., HIT, d. d., HSE, d. o. o., KAD, d. d., Koto, d. o. o., Krka, d. d., KZPS, d. o. o., Loterija Slovenije, d. d., Luka Koper, d. d., Petrol, d. d., Plinhold, d. o. o., Plinovodi, d. o. o., Pošta Slovenije, d. o. o., Sava, d. d., SIJ, d. d., Slovenske železnice, d. o. o., Športna loterija, d. d., Telekom, d. d., Unior, d. d., Uradni list Republike Slovenije, d. o. o., Zavarovalnica Triglav, d. d.;

- candidates for managerial posts of the following companies:

Adria, turistično podjetje, d. o. o., Ankaran, EGS RI, d. o. o., Lubrio, d. o. o., and RTH, d. o. o. – in liquidation.



In 2022, the regular sessions of the SSH Nomination Committee were mainly conducted via video conference calls. The operations of the SSH Nomination Committee are significantly digitized. Candidates who are interested in becoming a member of the supervisory and management bodies of SOEs can register and submit their accreditation application with all the documents required through the SSH Nomination Committee's Portal at <http://kk.sdh.si/>,

2.3 Educational and Other Meetings for Supervisors and Decision-Makers of Portfolio Companies and Support for Events Organised by Other Organizers



As part of its activities aimed at updating knowledge and improving the quality of work of supervisory board members, in 2022, SSH focused on two strategic topics, which were reinforced with educational meetings: corporate culture governance and sustainable business management. In cooperation with experts from the Centre of Business Excellence of the Faculty of Economics, the University of Ljubljana, SSH prepared a guide for supervisory boards of state-owned enterprises on governing corporate culture, and organized a workshop on this topic. Two events were organised on the topic of sustainability: the first one was focused on the Company's carbon footprint and the other presented a comprehensive view of transitioning to a carbon-neutral company. All four events were well attended.

In 2022, SSH initiated the organization of meetings for compliance and integrity officers of SOEs.

The goal of these meetings is to exchange professional experiences and best practices, address common or important general topics, strengthen SSH's advisory role, and organize joint education on compliance and integrity. The theme of the first meeting in September 2022 was related to discussions on provisions of ZSDH-1 and the Corporate Governance Code, presentations on the organizational placement of compliance officers in companies, the content of their work, and the procedures for receiving and handling reports of suspected irregularities in light of the implementation of the European directive and the draft of the Reporting Persons Protection Act.

For the fourth consecutive year, SSH supported the International Fraud Awareness Week.



Throughout this week in November, a series of events took place, and SSH invited all SOEs to participate. This showcased both its support for these topics and the significance it places on them.

2.4 Gender Diversity and Profiles of Candidates, Members of Supervisory and Management Boards of Portfolio Companies

Ensuring diversity of membership of supervisory bodies is important to improve the quality of decision-making, as it enables a broader range of perspectives, opinions, experience, perceptions and values. The goal of a diversity policy is to achieve better efficiency of the bodies of supervision and management as a whole.

In proposing and appointing candidates for supervisory board members in companies managed by SSH, SSH aims to pursue diversity in the composition of the supervisory body, emphasizing the aspects of education, age, and gender diversity, while also ensuring the provision of requisite professional competencies.

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

The number of accredited candidates in the Register of potential candidates for the Supervisory Boards of SOEs on the

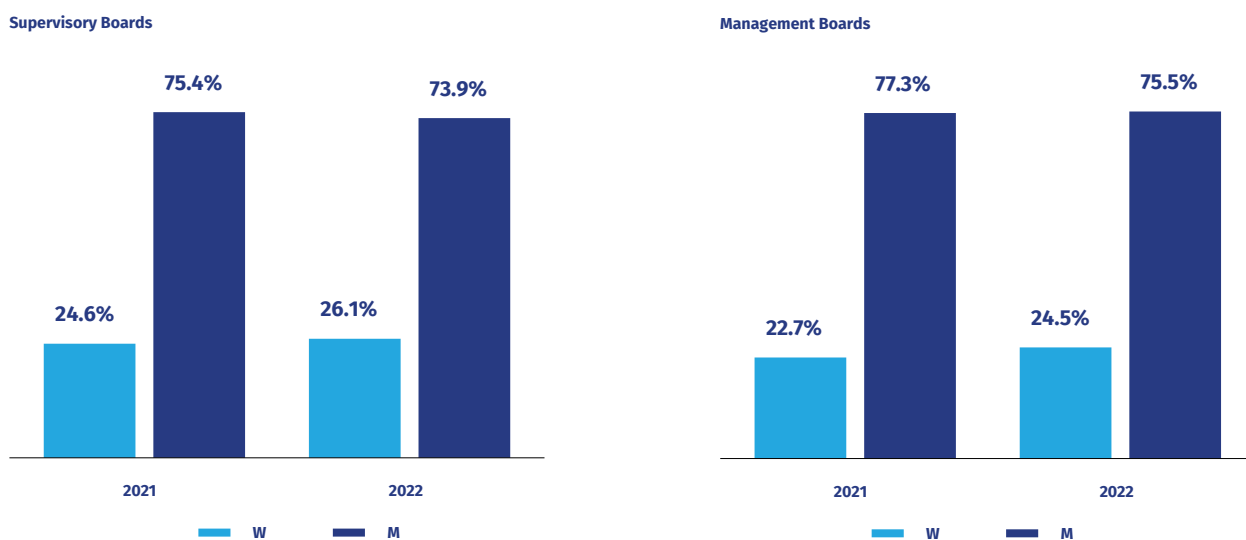
SSH Nomination Committee Portal was 651 as at 31 December 2021, of which 21% were women.

The age groups with candidates showing the highest interest in supervisory and management bodies came from age groups between 51 and 60 years (39%) and between 41 and 50 years (36%), while the candidates from the age group below 40 years showed the lowest interest (8%).

The diversified composition of Supervisory and Management Boards of companies owned by RS and SSH by gender

The gender composition of supervisory and management bodies was unbalanced in 2022, as in previous years. Men predominantly dominated these boards, but the proportion of female members in both groups improved in 2022 compared to 2021.

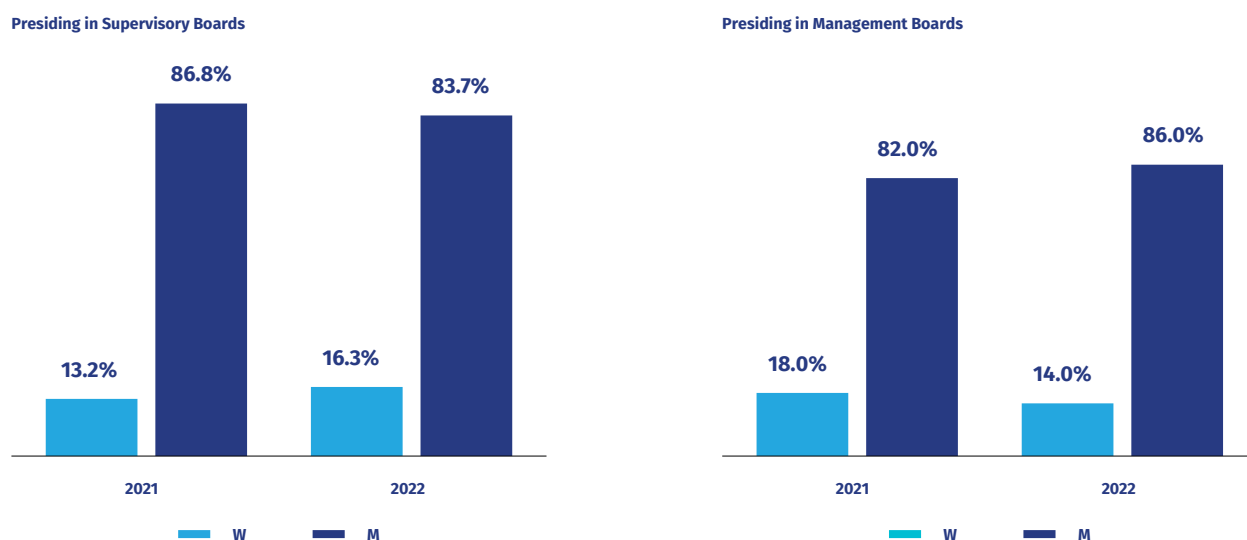
GRAPH: CHANGES IN THE COMPOSITION OF SUPERVISORY AND MANAGEMENT BOARDS OF SOES BY GENDER COMPARED TO THE SITUATION AT THE END OF 2021 AND 2022



The supervisory bodies of SOEs were presided over by men in 83.7% of cases (as compared to the situation at the end of 2021, the share of women increased from 23.9% to 16.3%)

while in 2022, management bodies recorded 86% of male presidents. The share of female chairpersons in management bodies decreased from 18.0% in 2021 to 14.0% in 2022.

GRAPH: CHANGES IN THE COMPOSITION OF SUPERVISORY AND MANAGEMENT BOARDS OF SOES BY GENDER COMPARED TO THE SITUATION AT THE END OF 2021 AND 2022



The diversified composition of Supervisory and Management Boards of 20 largest companies owned by RS and SSH by gender as at 30 June 2023

The aggregate displays presented above for 2021 and 2022, and the graphs below are complemented with the current data of the most important 20 portfolio companies, as at 30 June 2023.

The largest companies of the SSH Portfolio	Gender diversity of Supervisory Boards		Gender diversity of Management Boards	
	Men (in %)	Women (in %)	Men (in %)	Women (in %)
Elektro Celje	100	0	100	0
Elektro Gorenjska	100	0	100	0
Elektro Ljubljana	83.3	16.7	100	0
Elektro Maribor	83.3	16.7	100	0
Elektro Primorska	83.3	16.7	100	0
HSE	77.9	22.2	100	0
Gen energija	57.1	42.9	100	0
Petrol	88.9	11.1	80	20
Plinhold	66.7	33.3	100	0
Dars	77.8	22.2	80	20
Luka Koper	88.9	11.1	66.7	33.3
Pošta Slovenije	44.4	55.6	66.7	33.3
Slovenske železnice	77.8	22.2	66.7	33.3
NLB	62.5	37.5	83.3	16.7
Sava RE	83.3	16.7	75	25
SID banka	100	0	50	50
Zavarovalnica Triglav	83.3	16.7	80	20
Krka	66.7	33.3	80	20
SIJ	71.4	28.6	100	0
Telekom Slovenije	66.7	33.3	40	60

03

LEGAL FRAMEWORK FOR MANAGING CAPITAL ASSETS OF RS AND SSH AND AMENDMENTS TO GOVERNANCE INSTRUMENTS IN 2022

The main activities for improving the level of corporate governance in SOEs which were implemented in 2022 include the following:

- the adoption of the Annual Assets Management Plan for capital assets held by RS and SSH, and the adoption of the Criteria for Measuring Performance of SOEs;
- the amendments of the SSH Asset Management Policy;
- the amendments of the Corporate Governance Code for SOEs;
- the amendment of the SSH Recommendations and Expectations for SOEs (with a focus on recommendations for the design of remuneration policies for management bodies);
- the adoption of the SSH Premises for Voting on General Meetings of Shareholders in 2022; and
- the publication of the manual for Supervisory Boards of State-Owned Enterprises (entitled “Governing Corporate Culture”)².

3.1 The framework of functioning for SOEs

	Publicly traded SOEs	Non-publicly traded SOEs	Single-person companies
LEGAL FRAMEWORK FOR THE ORGANISATION OF THE CORPORATE STRUCTURE (AS A CONDITION FOR CONDUCTING BUSINESS ACTIVITIES)	ZGD-1, ZBan-3 (banks), ZZavar-1 (insurance companies) Articles of Association	ZGD-1, special legislation, Articles of Association, Partnership Agreement	ZGD-1, special legislation, Articles of Incorporation (or Articles of Association in the case of d. d)
RELEVANT CORPORATE GOVERNANCE CODES	Corporate Governance Code for SOEs Corporate Governance Code for Listed Companies	Corporate Governance Code for SOEs Corporate Governance Code for Non-Publicly Traded Companies (for companies liable to carry out audit review)	Corporate Governance Code for SOEs
GOALS AND TASKS	increasing the return and value of a company in the long term	increasing the return and value of a company in the long term carrying out other tasks and duties stipulated by the law and Articles of Association or Partnership Agreement	increasing the return and value of a company in the long term other tasks and duties stipulated by the law and Articles of Incorporation

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

Depending on their legal organisation, Articles of Association, type of activities, size, number of employees, whether their securities are listed on a stock exchange, presence on international markets, etc., companies are also obliged to comply with all other relevant laws and European legislation when conducting their businesses.

3.2 Corporate Governance System of SOEs – Legal Bases and Governance Instruments and their Changes in 2022

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

The main legal instrument, which governs the management of state capital assets by SSH, is the Slovenian Sovereign Holding Act (ZSDH-1). The systemic nature of the management of state capital assets is also reflected in the SSH's governance documents, which define the foundations of the corporate governance system and ensure its transparency. The main legal act, i.e. ZSDH-1, in its third chapter, defines and regulates the procedure for adopting the four fundamental governance documents: the State Assets Management Strategy, the Annual Asset Management Plan (AAMP), the Asset

Management Policy, and the Corporate Governance Code for SOEs.

The law also provides the legal basis for preparing and adopting an internal SSH regulation, published under the title "SSH Criteria for Measuring the Performance of SOEs, and for determining the criteria, procedure for assessing the suitability of candidates, and operation of SSH's Nomination Committee". SSH is thus mandated to adopt and publish a special governance document ("Rules on conditions, criteria, and procedure for evaluating, assessing suitability, and selecting potential candidates for the members of supervisory boards of SOEs").³

In 2022, through an active management approach, SSH ensured that good corporate governance practices were implemented in line with the governance objectives set. Acting at its own initiative, SSH also issues a special governance document, which is entitled "SSH Recommendations and Expectations". This document serves as an operational instrument to accompany the recommendations of the Corporate Governance Code for SOEs.

TABULAR PRESENTATION OF KEY CORPORATE GOVERNANCE INSTRUMENTS:

ADOPTED BY	GOVERNANCE INSTRUMENT	CONTENT
PARLIAMENT	State Capital Assets Management Strategy	The definition and classification of assets into three types of assets: strategic, important and portfolio assets. It defines development policy of RS Defines individual strategic objectives.
MANAGEMENT BOARD UPON CONSENT BY SUPERVISORY BOARD AND RS GOVERNMENT	Annual Asset Management Plan	It defines objectives for managing individual assets, together with measures and policies for achieving these objectives. It determines the expected cash flows.
	Criteria for Measuring Performance of SOEs	It must observe strategic objectives as determined by the Strategy and it must determine economic and financial goals.
TOGETHER BY SSH MANAGEMENT AND SUPERVISORY BOARDS	Corporate Governance Code for SOEs	Principles and recommendations regarding good practice in asset management.
	SSH Asset Management Policy	Principles, procedures and criteria for ensuring the transparency and traceability of decisions.
MANAGEMENT BOARD	SSH Recommendations and Expectations for SOEs	Specific recommendations and expectations from SOEs are followed on a "comply or explain" basis.
	Rules on Assessment of Potential Candidates for Members of Supervisory and Management Bodies of SOEs	Rules on conditions, criteria, and procedure for evaluating, assessing suitability, and selecting potential candidates for the members of supervisory boards of SOEs in accordance with ZSDH-1 and SSH Asset Management Policy.

³ The Rules did not undergo any changes or amendments in 2022 but underwent a more comprehensive revision in May 2023. The title of the revised documents reads as follows: "Rules on Assessment of Potential Candidates for Members of Supervisory and Management Bodies of SOEs".

3.2.1 State Assets Management Strategy

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 National Assembly of the Republic of Slovenia adopted the State Assets Management Strategy on 17 July 2015, by way of the Ordinance On State-Owned Capital Assets Management Strategy (OdSUKND, Official Gazette RS, No. 53/15 of 17 (hereinafter referred to as: "the Strategy"). By the law, the Strategy is envisaged as a principal asset management document by way of which the Parliament communicates the state ownership policy regarding SOEs to the asset management company (SSH), the Government, investors, citizens and other interested public groups. The content of the Asset Management Strategy refers to the definition and classification of state assets to individual types of assets (strategic, important and portfolio assets), the definition of development guidelines of the State as a shareholder in companies and the definition of individual strategic objectives pursued by the State with strategic assets. In the Asset Management Strategy, the Parliament has given a special emphasis to raising the corporate governance culture, to increasing effectiveness in disposition of assets, to carrying out sound and prudent acquisition of capital assets, to increasing return on equity and to considering listing companies on the regulated market. State Assets Management Strategy forms the basis and the guidelines for the preparation of the Annual Assets Management Plan.

The process for preparing, adopting, and amending the state capital asset management strategy is governed by ZSDH-1. The strategy is adopted by the National Assembly upon the government's proposal and remains in effect until the adoption of a new strategy. The National Assembly can annul or modify the strategy only by adopting a new one. The proposal for a (new) strategy, along with an explanation, is prepared by the government upon the proposal of the ministry responsible for finance. This ministry may request from SSH to provide opinions or guiding principles for preparing the strategy. SSH can also, on its initiative, submit a proposal for changes to the strategy to the ministry if altered economic conditions or actual circumstances related to capital assets under management necessitate such changes.

Since its enactment in 2015, the state assets management strategy has not undergone any amendments. In 2022, the amended act, i.e. ZSDH-1A, was adopted which stipulates that, pursuant to Articles 28 and 29 of the said Act, the Government

of the Republic of Slovenia must submit the asset management strategy to the National Assembly within six months of the law's enactment.

3.2.2 Annual Asset Management Plan



On the basis of the State Asset Management Strategy, every year, the Government of the Republic of Slovenia grants its consent to Annual Asset Management Plan which is prepared by SSH. The Annual Asset Management Plan (AAMP) defines in detail the goals of the asset manager (SSH) pursued with the strategy. It also includes a specific plan (defining measures and directions) to achieve goals in managing individual capital assets for each business year, which must be aligned within the framework of the objectives set for the asset management activities. The AAMP also specifies the expected cash flows from managing the state capital assets.

By the end of 2022, SSH had prepared the AAMP for 2023, to which the Government of RS granted its approval at the session held on 16 February 2023. The 2023 AAMP also refers to the assets of BAMC which were merged with SSH at the end of 2022, and to new capital assets taken over by SSH under ZSDH-1A.

While the General Section of the Annual Asset Management Plan is publicly disclosed, the Specific Section remains a confidential document.

3.2.3 Criteria for Measuring Performance of SOEs

The Criteria for Measuring Performance of SOEs (hereinafter referred to as: the "Performance Criteria") are an internal document of a shareholder in which the criteria (indi-

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

The criteria must be formulated according to the type of capital asset. The criteria for measuring the performance of SOEs, which held assets classified as strategic, must align with strategic objectives as determined by the Strategy. They should also determine economic and financial goals. For evaluating the performance of important assets and portfolio assets, the criteria may comprise financial and economic indicators as well as those which assess the corporate social responsibility practices of the companies.

These criteria are established by internal rules and regulations of SSH. The draft criteria are prepared by the SSH Management Board and approved by the SSH Supervisory Board. They become effective upon approval by the Government of RS which acts as the General Meeting of SSH. The current criteria were adopted by the Government of RS in February 2023.

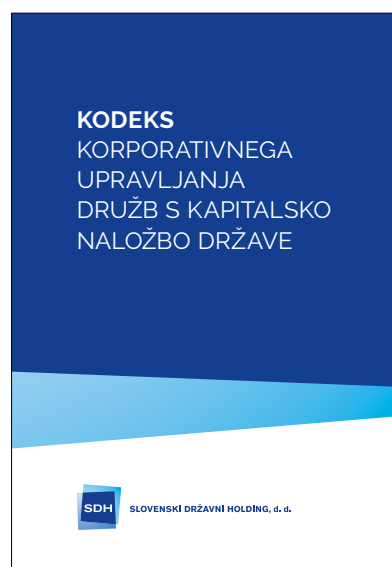
3.2.4 SSH Asset Management Policy

The Asset Management Policy of Slovenian Sovereign holding (hereinafter referred to as: the "Asset Management Policy") is a legal document which presents principles, procedures and criteria which are applied by SSH in carrying out its duties and activities in accordance with ZSDH-1. The Asset Management Policy is divided into two parts: the General Section encompasses the fundamental framework of the SSH's operation, and some fundamental guidelines for SSH in performing its duties, and the Special Section. The Special Section of the Asset Management Policy is structured in the form of articles, and it stipulates rules of conduct in specific circumstances, particularly as regards the candidacy procedures, governance procedures, the procedures for the acquisition and disposition of state capital assets, and in certain other cases. Both sections of the Asset Management Policy are binding for SSH. The purpose of the Asset Management Policy is to ensure the transparency and traceability of decisions made by SSH.

By the end of 2022, it was necessary to conduct a more comprehensive revision of the SSH Asset management Policy and regulate certain issues differently than before due to the takeover of assets from BAMC, especially the portfolios of real es-

tate and claims, and in light of the amendments to ZSDH-1 (ZSDH-1A). The definition of investments has been significantly expanded, so that in addition to capital assets it also covers claims and tangible assets (real estate and movable property), as a result of the merger with BAMC. Consequently, this act also specifies SSH's goals and objectives related to managing these two types of assets. Their management will be either portfolio-oriented (aiming to maximize the value or profit), or SSH will align its tasks in managing these investments with non-commercial objectives, which generally ensure general societal interests when managing the State's assets (especially on the basis of the State Assets Management Strategy). Hence, new chapters were added to the Asset Management Policy which govern the disposition of claims, real estate, the takeover of real estate, and disposition of movable property (primarily valuable artworks). The revised SSH Asset Management Policy came into effect on 1 January 2023.⁴

3.2.5 Corporate Governance Code for SOEs and SSH Recommendations and Expectations

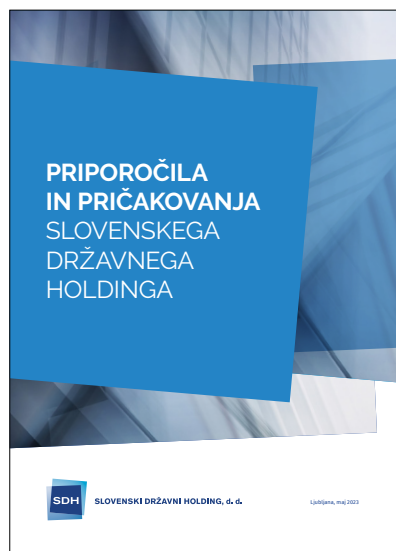


SSH adopted the **Corporate Governance Code for SOEs** (hereinafter referred to as: the "Code") on 19 December 2014. The Code contains principles and recommendations for good practice in corporate governance of SOEs and is addressed to SOEs. It should also be applied by subsidiaries of a group of which a state-owned enterprise is a parent company. The Code must also be used by SSH in a reasonable manner. Some principles are of a general nature and refer to all SOEs, while some recommendations refer to companies with specific legal form and organisational structure, taking into account the ownership structure of the company and whether

⁴ At the beginning of 2023, SSH embarked on a project to comprehensively refresh its core asset-management related documents, including the Asset Management Policy itself, even though it had been renewed by the end of 2022. The current SSH Asset Management Policy has thus undergone significant amendments and updates in May and June 2023 and is available in Slovenian and English versions on the SSH website.

the company's shares are traded on a regulated market. The purpose of the Code is to set the standards of governance and supervision in SOEs and to develop a transparent and understandable system of corporate governance in the above mentioned companies. It is adopted by the SSH Management Board with its approval granted by the SSH Supervisory Board. SOEs are obliged to apply the Code following the “*comply or explain*” principle.

SSH Recommendations and Expectations is a special governance instrument which is adopted by the SSH Management Board. It is addressed to the same companies as addressed by the Code and it also requires the companies apply it following the “*comply or explain*” principle. Unlike the Code, which is a statutory regulated document on asset management which inherently requires stability and therefore less frequent alteration of its comprehensive content, the SSH Recommendations and Expectations are a dynamic and often more specific tool of asset management. The updating of this document occurs more frequently, and its provisions are more operational and, at times, individually oriented.



Since its establishment, SSH has periodically (usually every two years) sent a questionnaire to SOEs regarding their compliance with the Code and SSH Recommendations and Expectations. This questionnaire represents an enhancement of the classic reporting principle of “*comply or explain*”, which is already a part of the companies’ annual reports. It delves deeper, inquiring companies how each recommendation has been implemented within their organization or business operations. SSH then analyses the responses to identify any deviations from the provisions of both asset management governance documents and to understand the reasons behind them. Based on the findings from the analysis of completed

questionnaires, which were sent to portfolio companies at the end of 2021, (in these questionnaires, more emphasis was put on areas relevant for the recent period), SSH initiated the revision of both the Code and SSH Recommendations and Expectations in 2022. The renovation process is outlined below.

In June 2022, SSH made notable changes and additions to the **SSH Corporate Governance Code for SOEs**. The most important substantive amendments which were added to the Code, include in particular the amendment referred to in 6.1.1, which recommends to a supervisory board (and its Nomination Committee, if it has one) to draw up a competency profile for the executive management members before the selection process begins. The supervisory board should pay a particular attention to the provisions of the Integrity and Prevention of Corruption Act regarding the incompatibility of individual positions and to the political impartiality of the management candidates. A new point, 6.5a, was added to the Code; the said point explicitly expects all basic legal conditions (ZGD-1, ZSDH-1) to be met by a supervisory board member throughout their mandate, not just during their candidacy phase (later, in November 2022, the duty to fulfil these conditions for the entire duration of the mandate was also legally stipulated with the new seventh paragraph of Article 21 of the amended ZSDH-1). The Code also introduced a legal basis which expressly allows the supervisory board to establish a special committee for IT systems when necessary for effective control of the system’s reliability and performance.

SSH Recommendations and Expectations were updated twice in 2022, first in March and then in June. The most significant update was made to Chapter 9 entitled “Remuneration Policy for Management Bodies” which now comprises 61 distinct recommendations (from point 9.1 to 9.61). This extensive update aims to establish a unified framework and guidelines for forming management body remuneration policies and basic principles for contracting with management body members. The purpose is to promote rewarding long-term company success and advance corporate governance practices at the system level, particularly focusing on sustainable business and motivating management to align with the commitments of a low-carbon economy. A new Chapter 10 was introduced, which focuses on recommendations related to the obligation of companies to establish supervisory board remuneration policies. Taking into consideration the ECESA’s proposals, the SSH Recommendations and Expectations was also revised in Chapter 8, which refers to sustainability aspects of operations. A specific point, i.e. 8.3, was added, which requires SOEs to respect labour legislation, valid collective agreements, engage in respectful social dialogue with representative unions

and representatives in the Employees' or Works Councils, and provide timely information to them as required by law or other company commitments.

3.2.6 SSH Premises for Voting on General Meetings of Shareholders in 2022

In March 2022, SSH adopted and published the **“Platform of SSH for Voting at AGMs”**⁵ where its stance on voting at general meetings of SOEs and the exercise of other SSH's management entitlements in the context of state capital assets for 2022 was defined in advance. The document particularly emphasized gender diversity expectations in appointments to supervisory boards, which were further elaborated in the Annual Asset Management Plan for 2022.

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

SSH is also active on the international stage and collaborates with various international institutions. In August, SSH presented to representatives from the OECD its achievements in managing companies with state assets. In December 2022, representatives from SSH participated in a panel organized by the United Nations Development Programme aimed at presenting the implementation of OECD governance standards, corporate practices in individual countries within the region, integrity-related risks, and challenges in this field to colleagues in Bosnia and Herzegovina.

⁵ During the project to refresh the overarching asset management governance instruments in the first half of 2023, it was decided that voting guidelines for company general meetings would no longer be published as a separate document. Instead, they will be included as a specific section within the Asset Management Policy, as their nature generally does not require annual review and updating. However, should specific circumstances or other ad hoc reasons necessitate the publication of general voting positions regarding specific typical resolutions during a certain period of time, these will be posted on the website in the form of notifications.

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

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

	Forecasts of macroeconomic trends (IMAD)			
	2022	2023	2024	2025
GDP, real growth in %	2.5	1.6	2.8	2.5
Registered survey-based unemployment rate in %	4.0	3.6	3.5	3.4
Inflation (annual average) in %	8.8	7.6	3.9	2.7

Source: The Institute of Macroeconomic Analysis and Development (September 2023).

In the first half of 2022, positive effects of the post-COVID-19 pandemic reopening of the economy, accumulated savings, and favourable financing conditions were evident. However, in the second half of 2022, these conditions weakened, and compounded by high inflationary pressures and overall uncertainty, they led to a slowdown in economic growth in the second half of 2022. **Consequently, GDP growth in 2022 stood at 2.5%, which is considerably lower than the Euro zone's GDP growth (3.3%).** In the context of Slovenia's GDP growth, a notable concern arises from the 0.4% decline in real labour productivity (GDP per employee) observed in 2022. Various sectors contributed differently to Slovenia's GDP growth in 2022. Particularly noteworthy is the real decrease of 3.3% in value added in manufacturing sector compared to 2021. Additionally, the foreign trade balance negatively affected GDP by 1 percentage point. The strong dependency of Slovenia's economy on the German market has raised concerns among Slovenian business leaders in 2023, given the economic trends in Germany (technical recession or predictions of a decline in Germany's GDP in 2023).

The energy crisis resulting from the conflict in Ukraine and inadequate, too simplistic strategic energy models of certain EU countries led to significant price hikes of specific energy products. This situation heavily affected business operations and energy companies, which were unprepared for the energy crisis. Companies responded differently to the energy crisis; some achieved record profits (companies that had concluded favourable energy contracts before the crisis), while others had to adjust their production volumes. Some even

received various forms of government aid.

In 2022, the ECB began decisively tightening its monetary policy, signalling the end of the long period of low-interest rates by increasing the base interest rate. The ECB continued to raise the base interest rate in 2023, making funding more expensive for both companies and individual countries, impacting the servicing of public debt. During the second half of 2022 and the first half of 2023, the ECB raised the base interest rate to its highest level in its history within a 12-month period.

However, these monetary policy measures implemented by the ECB to combat significantly high inflation do not contribute to accelerating the economic activity. Inflation in the Euro zone reached 8.4% in 2022, and in Slovenia, it reached 8.8% (average annual inflation rates). Analysts continue to forecast a high inflation rate for 2023.

The ongoing war in Ukraine, which shows no signs of ending in the second half of 2023, poses risks. Many European countries, due to past crises (COVID-19-related and energy-related), were compelled to increase their intervention spending. Similar activities might be more challenging in the future, considering that required yields on Euro zone government bonds significantly increased in 2022. Covering budget deficits resulting from new crises or intervention measures will be more challenging for countries relying on international borrowing. In 2022, the government sector debt, expressed as a percentage of GDP, was at 69.9% in Slovenia.

According to the Autumn Forecast of Economic Trends 2023 issued by IMAD, a continuation of the moderation of economic activity is expected in 2023, especially in the export sector. Private consumption growth is also expected to be lower than last year, while investment in buildings and facilities continues to grow. **A 1.6% real GDP growth is anticipated for 2023.**

However, real movements are notably affected by an economic slowdown in the most important trading partners, which was more pronounced than expected in the spring of this year. Currently, analysts are forecasting only a 0.5% GDP growth for the Euro zone in 2023. Forecasts for GDP movement are also influenced by changes in the real growth of certain aggregates, particularly private consumption and value added in manufacturing and construction, as indicated in the first annual estimate for the previous year.

Slovenian capital market and its impact on portfolio companies

The SBITOP index ended 2022 with a return of -16.89%. This was primarily due to the war in Ukraine and the associated energy crisis, coupled with the decisive tightening of monetary policies by major global central banks (ECB, FED, BoE), which significantly increased benchmark interest rates in 2022. In 2022, the ECB (the most influential central bank for capital assets, given Slovenia's place in the Euro zone) initiated a significant increase in the benchmark interest rate, continuing this trend throughout the first half of 2023. This development is crucial for numerous companies with capital assets managed by SSH. Companies within the Financial pillar, particularly those in banking and insurance, face direct and indirect impacts based on decisions made by the ECB regarding monetary policy. The ECB's determinations, especially concerning the benchmark interest rate, have reverberations across money markets, bond markets, and stock markets. The raising of benchmark interest rates also impacts other sectors of companies with capital assets managed by SSH (energy, transportation, economy, and tourism), as these sectors involve portfolio companies for which debt management is critical. A restrictive monetary policy (through increased ECB benchmark interest rates) naturally acts as a constraint on the economy (slowing economic growth or hindering new business transactions). Investor apprehension about a potential recession due to the energy crisis in Europe negatively affected the stock prices of companies with assets managed by SSH. The losses incurred by the SBITOP index at the beginning of 2022 (due to the start of the Ukraine conflict) were not recovered by investors by the end of 2022, with the index closing at a value of 1,046.13 points.

In 2022, the Ljubljana Stock Exchange recorded a total turnover of EUR 430.9 million, the majority of which was made

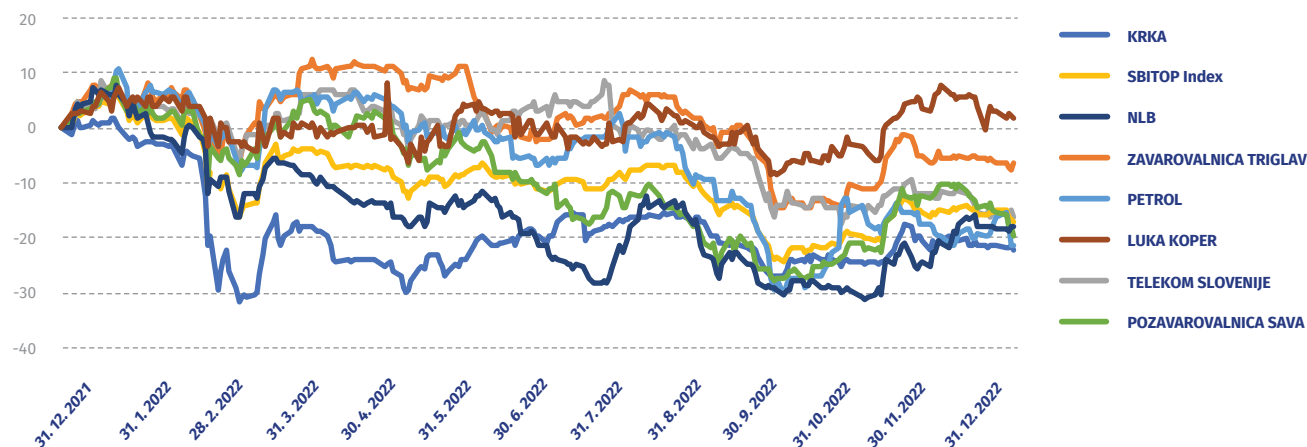
with securities without block trades (EUR 386.6 million). It was again Krka (KRRG) shares that were the most traded ones in 2022 (EUR 171.7 million turnover). Krka also recorded the largest market capitalisation among listed shares at the end of 2022, amounting to EUR 3.0 billion. The runner-up in 2022 was NLB (NLBR) with a turnover of EUR 75.1 million, followed by Petrol shares (PETG) with EUR of 39.5 million EUR in turnover. NLB and Petrol also ranked second and third in terms of market capitalisation. These two companies and the bank have a significant weight both in the contribution to the ROE of the portfolio of capital assets managed by SSH and in the volume of dividends collected by SSH in the process of its management of capital assets.

In 2022, 18 shares saw a decline in their prices, while seven experienced an increase. The shares of companies, which hold capital assets owned and managed by SSH, that experienced the greatest decline in price, also include Krka. The reason for that lies in the fact that Russia and Ukraine are crucial export markets for the Krka Group (investor concerns about Krka's future operations in Russia and significant fluctuations in the EUR/RUB exchange rate). In 2022, the Petrol's share was one of the most negatively affected shares on the Ljubljana Stock Exchange, which is not surprising due to the negative impacts of the war in Ukraine and the energy crisis in Europe on the Petrol's operations. Among the shares that saw an increase in value in 2022, Cetus emerged as the winner, as it experienced substantial growth in the second half of 2022.

The Slovenian capital market is highly illiquid and shallow, and thus it does not adequately meet the needs of Slovenian companies, which largely rely on bank financing. While there are exceptions, with some companies issuing bonds listed on the Ljubljana Stock Exchange, the market remains quite small. NLB stands out from the group of companies with capital assets managed by SSH. In 2022, NLB issued three bonds, and in 2023, it introduced a green bond to support environmentally friendly projects. Given that the investors' interest in the green bond was greater than the volume of funds being raised, this could serve as an encouraging sign for similar future projects. SSH's capital assets need to leverage all favourable project financing sources available in the market and should not overly rely on bank loans. A more proactive approach will enable capturing opportunities akin to European companies which utilize green bonds in their efforts for energy transition.

The price performance (measured by the return generated in 2022) of selected shares in the SSH Portfolio and the performance of the SBITOP Index in 2022 (measured by the return generated in 2022) are illustrated in the Figure below.

FIGURE: THE RETURN FROM BLUE CHIP SHARES TRADED ON LJUBLJANA STOCK EXCHANGE, REPRESENTING AN IMPORTANT SHARE OF SSH EQUITY INVESTMENTS, IN 2022, IN %



Source: Bloomberg.

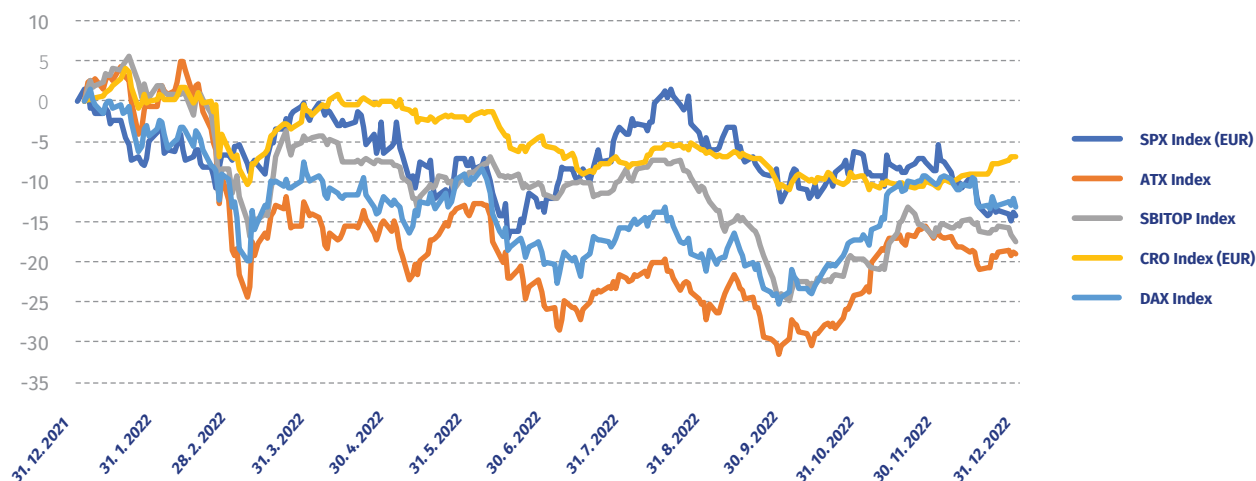
Global capital markets

In 2022, the Slovenian stock market recorded a mostly negative return compared to the selected benchmark equity indices after the conversion into the Euro currency is made. Among the indices under consideration, the Austrian ATX index stood out with a comparatively greater negative return. This outcome is explicable due to the strong linkage of Austrian enterprises with Eastern Europe, an area profoundly affected by the Ukrainian conflict in 2022. Broadly speaking, global stock markets presented unfavourable returns to investors throughout 2022. This outcome aligns with the performance of the MSCI All Country World Index, which registered a - 14.74% return after converting to Euros. This trend is not surprising given the prevalence of adverse information which influenced stock trading dynamics. Similarly, the MSCI Index, which measures returns

solely in developed stock markets, reflects a -14.39% return for investors in 2022 when calculated in EUR. When examining global capital markets in 2022, it is essential to note the significant surge in prices of exchange-traded energy products and commodities, which caught some stakeholders, who were unprepared for such a scenario, off guard. In the first half of 2023, capital markets experienced declines in commodity prices and a rise in stock market indices. Nonetheless, investors remain vigilant about the developments in monetary policy (prolonged high inflation) and economic activity (growth or recession).

The chart below illustrates the negative returns of selected equity indices in 2022 (after converting to Euros).

FIGURE: RETURNS OF TOP REGIONAL AND GLOBAL STOCK INDICES AND SBITOP IN 2022 (%).



Source: Bloomberg.

4.2 Overview of developments by portfolio sectors

The **banks** in Slovenia, or the Slovenian banking system, showed moderate resilience in terms of solvency and profitability at the end of 2022. The growth in bank revenues stemming from the rapid strengthening of net interest income enhanced the resilience of banks, and gave rise to expectations for additional positive effects on profitability from this source in 2023. The pre-tax profit of Slovenian banks decreased by 3.3% in 2022 based on unaudited data, and amounted to EUR 543 million, while the return on equity before taxation remained comparable to previous years. The favourable trends in the profitability of banks in 2022 were reflected in the Total Capital Adequacy Ratio (TCAR), which increased by the end of 2022. This increase was contributed to by retained profits and additional issuances of capital instruments.

The Total Capital Adequacy Ratio on a consolidated basis increased by 0.2 percentage points to 18.5% over the entire year of 2022, while the Common Equity Tier 1 ratio (CET1) decreased by 1 percentage point to 15.9%. In comparison to the Euro zone, in the fourth quarter of 2022, the TCAR ratio of Slovenian banks was higher by 0.07 percentage points, and the CET1 ratio was higher by 0.8 percentage points. On an individual basis, in the Slovenian banking sector, the TCAR ratio increased by 0.2 percentage points to 20.3%, while the CET1 ratio decreased by 1.2 percentage points to 17.1% in 2022. If credit growth were to slow down in the second half of 2023 (due to more expensive loans) while bank profitability continued to rise (maintaining 0% interest rates on deposits, increasing interest margins), this could positively impact future movements in capital adequacy ratios. The ECB decisions regarding the movement of the benchmark interest rate (how long inflation will drive rate hikes and when the first cut will occur), economic conditions (loan demand, potential deterioration in the loan portfolio), and the duration for which individual banks will continue to offer 0% interest rates to depositors will be crucial for bank operations and the management of their future profits, potentially creating differences between lending and deposit interest rate.

When writing a review of 2022, the Act on Limitation and Distribution of Foreign Currency Risk between Lenders and Borrowers of Loans in Swiss Francs (ZOPVTKK) published in the Official Gazette in February 2022 should be noted. Nine banks (including NLB) filed a petition to the Constitutional Court to assess the constitutionality of the law. In March 2022, the Constitutional Court temporarily halted the implementation of the law, and in December 2022, it invalidated the law.

Commercial banks and the Bank of Slovenia also had different views on the calculation of individual creditworthiness in 2022. A legislative change in 2023 allowed the Bank of Slovenia, with revised conclusions effective from 1 July 2023, to increase accessibility to loans for individuals earning salaries between the minimum and average wage. Previously, the Bank of Slovenia's conclusion on macroprudential limitations on consumer lending contained problematic provisions linked to the minimum gross salary and the related creditworthiness of consumers (requirements on the maximum possible credit instalment amount, Article 6 of ZOPVTKK).

The indicators regarding the quality of the credit portfolio were generally favourable for most of 2022, but in the last few months, signs of deterioration appeared in specific smaller parts of the portfolio. Non-performing exposures of banks (NPEs) increased in the last months of the year in activities which were affected the most by the COVID-19 pandemic. Manufacturing activities, those which are mainly dependent on slowing foreign demand and are more sensitive to rising energy and other prices, appeared among the riskier portfolios. NPEs remained historically low at 1.1% throughout the entire second half of 2022 and were small and stable in the major segments of the banks' portfolios. In the largest customer segments (non-financial corporations and the population), NPEs stabilized between 1.8% and 1.7%. It is worth noting that borrowers' repayment ability in the future might decrease due to high inflation, rising interest rates, or the onset of an economic crisis (recession in specific EU countries).

After numerous years of expansive monetary policy, the ECB adjusted the terms of operations of the targeted longer-term refinancing operations (TLTRO) program in October 2022, which reduced the positive effects on bank lending. As a result, commercial banks voluntarily began to return borrowed funds on a larger scale. In December 2022, the ECB decided to start tapering the asset purchase program (APP) in March 2023 (a reduction by EUR 15 billion per month), and to cease to reinvest in the matured principal securities in July 2023. This decision is expected to significantly impact debt management (e.g., state bonds) as issuers would be forced to seek private investors.

The **insurance companies** which are members of the Slovenian Insurance Association (SIA) reported a 7.1% increase in insurance premiums in 2022 compared to the previous year. Moreover, within this, the non-life insurance segment witnessed growth of 8.5%, while life insurance grew by 3.5%.

The non-life insurance share within the total insurance premiums reached a record high of 72.4%. However, the share of insurance premiums in GDP fell to 4.7%, which marked the lowest insurance penetration rate since 2000. Despite this, the insurance sector remains one of the key industries in the Republic of Slovenia. In 2022, the SIA members reported the highest level of total insurance premiums, with positive growth in non-life insurance segment achieved for the eighth consecutive year. On average, a resident of Slovenia spent EUR 1,329 on property and life insurance in 2022. Among the SIA members, Zavarovalnica Triglav collected the highest premiums (EUR 783 million), followed by Generali (EUR 487 million), Zavarovalnica Sava (EUR 463 million), Vzajemna (EUR 339 million), and Triglav Health Insurance (EUR 204 million).

The insurance and reinsurance claims ratio worsened in 2022 compared to 2021 due to increased claims values, primarily stemming from high inflation. Specifically, in 2022, the insurance claims ratio increased by 2.2 percentage points to 65.3% year-on-year. In property insurance, it rose by 1.4 percentage points to amount to 48.4%, while in life insurance, it improved by 9.8 percentage points to stand at 70.4%. However, the health insurance claims ratio significantly deteriorated by 9.7 percentage points and amounted to 95.4%. In 2022, reinsurers saw an improvement of 2.6 percentage points in the gross claims ratio, which reached 59.6%.

The profits of insurance companies decreased in 2022 compared to the previous year but remained higher than in previous years. Conversely, the reinsurers' profit remained nearly unchanged in 2022 compared to the previous year. Until the end of 2022, capital adequacy of insurance companies in Slovenia remained high. Regarding the solvency capital requirement (SCR), the median capital adequacy among companies operating in Slovenia decreased by 3.2 percentage points to stand at 202.7% in the last quarter of 2022 compared to 2021. The median minimum capital requirement (MCR) in Slovenia also decreased by 9.1 percentage points to amount to 642.3% in the same period, yet it remained higher than the median MCR in EEA countries, which stood at 594.1%.

Throughout 2022, the insurance sector faced strong inflationary pressures attributed to increased costs of construction materials, which necessitated adjustments in insurance premiums. Additionally, substantial shifts in required return levels on bond markets significantly influenced the sector. It needs to be noted that the reinsurance market experienced again cases of exceptionally high claims (negative externalities of global atmospheric warming) which pushed property reinsurance premiums close to a 20-year high in January

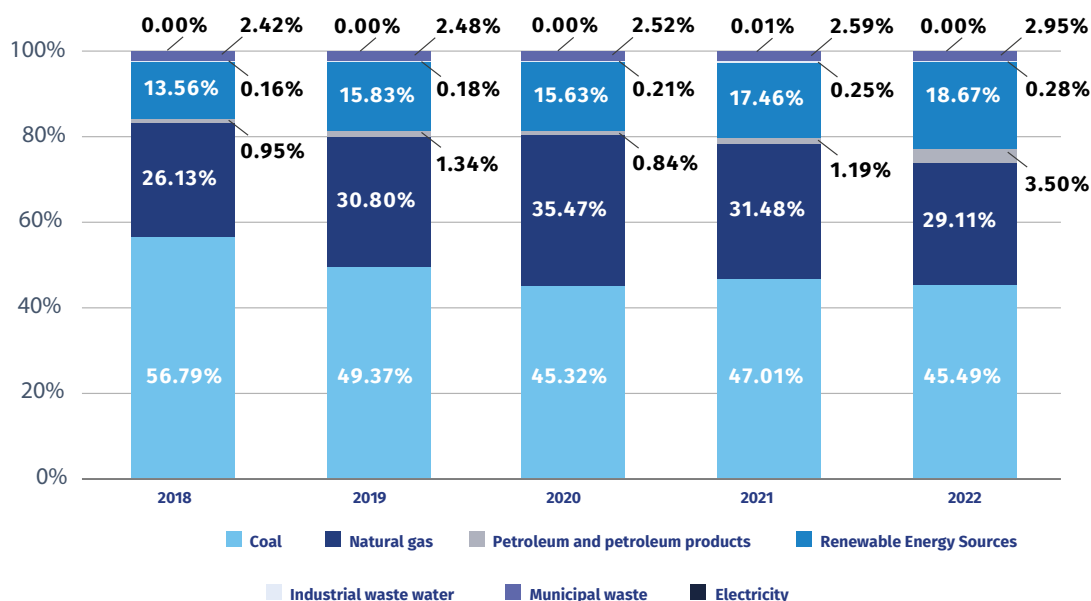
2023 during the annual premium renewal. Natural disasters (amounting to USD 125 billion in global insured catastrophic damages in 2022, with a decade-long average amounting to USD 81 billion), which have been increasingly prevalent in recent years, the actions of central banks in combating inflation, geopolitical tensions, and an uncertain economic situation (recession or low GDP growth rates) will be factors that will also require attention in the insurance and reinsurance sectors in 2023. In Slovenia, the ongoing debate on changes to supplementary health insurance (freezing premiums, abolishment, or restructuring of supplementary health insurance) in 2023 will significantly impact the business results of Slovenian insurance companies.

Energy products market

In 2022, the total electricity consumption in Slovenia amounted to 13,638 GWh or 12,793 GWh when excluding losses in the transmission and distribution system. Compared to 2021, the total consumption was lower by 535 GWh or 3.8%, excluding the electric energy produced and consumed at the metering point within customers' internal installations. Although the economic growth was high in 2022, consumers were negatively surprised by an energy crisis which resulted in significantly higher electricity prices. In 2022, Slovenia's total domestic electricity production reached 9,541 GWh, which accounted for just 70.0% of electricity consumption covered by domestic production. The coverage was 92.6% in 2020 and 82.9% in 2021. The reasons for such a low self-sufficiency rate in 2022 were mainly poor electricity production in hydroelectric power plants (drought) and a column collapse at the Velenje coal mine that caused a temporary shutdown of the operation of TEŠ 6.

The primary energy mix clearly reflects the impact of the energy crisis and specific conditions prevailing in the Republic of Slovenia in 2022 as compared to the situation in 2021. The decrease in the share of natural gas and coal (lignite) was influenced by the heightened and volatile natural gas exchange prices in 2022. This decline also resulted from specific operational circumstances at TEŠ 6 where efforts were made to conserve lignite. As a result, the share of oil and oil derivatives and renewable energy sources increased in the primary energy mix.

GRAPH: PRIMARY ENERGY MIX IN THE 2018-2022 PERIOD



Source: Energy Agency

When reflecting on 2022, it is crucial to note the remarkable surge in prices for individual energy products on stock exchanges, or financial instruments traded. Notably, the noteworthy milestone include the ascent to the 1,000 EUR/MWh price level for electricity (pertaining to the supply of German electricity for the upcoming year) and the elevation to the 300 EUR/MWh price level for gas (associated with the supply of gas in Germany for the following year). The price of coal, which fuels thermal power plants, also skyrocketed in 2022, and significantly exceeded long-term average price levels. The chaotic circumstances necessitated resolute action at both the national and EU levels. Through a series of measures, both entities effectively curtailed the energy crisis in 2023, and managed to drive energy prices down to relatively more reasonable levels. In the geopolitical arena, the EU's energy sector in 2022 witnessed a significant shift away from Russian energy sources (including measures in gas, oil, etc.), which were replaced instead by sources from new suppliers. Under specific conditions, the European Parliament incorporated gas and nuclear energy into the taxonomy in 2022. Nonetheless, substantial disparities persist among EU Member States in appraising gas and nuclear energy as categories of green (transitional) investments in European energy. The EU's inconsistency in nuclear energy utilization is evident from the following data: Germany closed its last three nuclear power plants in 2023, while France is strategizing the construction of new nuclear reactors.

In the context of the energy transition, it is worth mentioning the emissions trading market. In 2022, their prices were high on the stock markets. According to the European Energy Exchange portal data, the average monthly offer price in 2022 was 79.5 EUR/t CO₂, which is a 46.6% increase compared to the previous year. The average monthly offer prices ranged between 68.4 and 89.5 EUR/t CO₂ in 2022, while the daily offer price in the first quarter of 2022 exceeded 97.3 EUR/t CO₂. The costs of emission allowances play a crucial role in the electricity generation process within a thermal power plant. These market inputs contribute significantly to the (non) feasibility of electricity production in these facilities (depending on various market factors, guaranteed fuel supply, electricity sales pricing, and the adeptness of energy companies in managing production-sales risks).

In 2022, energy companies across Europe experienced diverse business outcomes. Those with sound business models reaped exceptional profits, while entities unprepared for the energy crisis sought state assistance or ceased operations altogether. In 2023 and beyond, it is crucial for both energy companies and consumers to structure their business models to effectively absorb shocks, akin to those experienced in 2022. In most cases, the energy crisis negatively affected Slovenian energy companies, but the underlying reasons behind this impact differed across the companies. As regards SSH's portfolio companies in terms of government interventions during the energy crisis, HSE has to be mentioned because

in 2022, this company received subsequent payments from the Republic of Slovenia to its capital in the amount of 492 million EUR.

In response to jeopardized energy reliability and soaring prices, the EU and Slovenian Government implemented multiple measures, and enacted several intervention laws, by way of which the energy market gradually stabilised. The intervention measures specifically targeted the supply of electricity, gas, and oil derivatives. For example, the Government of RS set the highest allowed retail price for electricity for households and small business consumers and similarly defined the maximum retail prices for natural gas for some protected consumers. Additionally, the Government of RS enacted the Act Governing Aid to Businesses Hit by High Increases in Electricity and Natural Gas Prices. Based on this Act, the Government supported the economy by co-financing the costs of electricity and natural gas in 2022.

When reviewing events taking place in the energy sector in the Republic of Slovenia, it is worth mentioning the adoption of a national strategy to phase out coal in January 2022. This plan envisages the cessation of the operation of the sixth block of TEŠ and lignite extraction in the SAŠA region by no later than 2033, along with various aid measures which were adopted to address the energy crisis. In the Republic of Slovenia, the current Integrated National Energy and Climate Plan (NEPN) has been in effect since February 2020 for the period from 2021 to 2023. But it was updated in mid-2023 and sent to the European Commission for their assessment. The revision of the NEPN was necessary following the decision to phase out coal usage and to curtail greenhouse gas emissions, as well as to attain the 2030 climate and energy objectives at the EU level. Energy is one of the key sectors which can contribute to achieving the NEPN goals.

Road transport: The COVID-19 pandemic, which significantly affected road traffic in 2020 and 2021, subsided in 2022, and traffic volume even surpassed that of 2019. On toll roads (excluding the Karavanke tunnel), 1,100,809,022 toll kilometres were travelled in 2022, marking a 2.9% increase compared to 2021. The value of toll point crossings stood at EUR 266,366,703, which marks a 1.3% increase compared to 2021.

In 1994, the Republic of Slovenia delegated the management and maintenance of all toll roads to DARS, the Motorway Company of the Republic of Slovenia, which oversaw 624.9 kilometres of highways, 143.4 kilometres of their access and exit roads, 22.3 kilometres of junctions, and 40.8 kilometres of other roads in 2022.

The pivotal event for 2022 was the introduction of electronic vignettes (7,799,630 e-vignettes were sold by 31 December 2022). The inaugural year attested to the success of the electronic vignettes' introduction and affirmed the system's stability and reliability.

In 2022, there were 1,915 traffic accidents on highways and expressways. Twenty-six individuals lost their lives, which is consistent with the casualty count in 2016. The last time the fatality count exceeded 26 was in 2007. Fifty-six individuals suffered severe injuries, which was a 65% increase compared to 2021 (34) and eight more than in 2019 (52).

Approximately 37.74 kilometres of carriageways of sections and connections were renovated in 2022, including the refurbishment of 24 overpass structures.

Slovenia is amid an intense investment cycle led by DARS. Notable ongoing projects include the construction of the third development axis and the second tube of the Karavanke Tunnel. DARS faces numerous challenges from civil initiatives opposing the construction of the third development axis, which hindered the construction in the past. In the first half of 2023, the timeline for completing the northern part of the third development axis was revised (the completion is expected in June 2028), and it was clearly pointed out that meeting the plan was dependent upon having no appeals against the construction permits issued. DARS has pledged responsibility for adhering to the construction plan's timeline once the final construction permits are obtained, as well as in managing business relations with contractual partners, both of which are aspects directly under DARS' influence. However, DARS does not have direct control over phases preceding the issuance of construction permits, as these are within the jurisdiction of other institutions.

The analysis of traffic volume and its movement shows that there are numerous congestion points on the most burdened segments of the Slovenian highway network. Addressing these challenges will require adopting and implementing appropriate measures to manage the increasing pressures of domestic and transit traffic on the Slovenian highway network (implementing construction interventions, traffic management changes, etc.). From an international trends perspective (aside from traffic growth), ensuring an adequate number of fast-charging stations for electric vehicles and sufficient parking spaces (rest areas) for freight vehicles remains a short-term challenge.

Railway transport: Based on quarterly data compiled by the Statistical Office of the Republic of Slovenia (SURS), it can be

stated that in 2022, the number of passengers in both domestic and international transport increased compared to 2021. The total number of passengers carried in the four quarters of 2022 was 14.9 million, compared to 11.9 million passengers carried in 2021. According to quarterly data, 835.1 million passenger kilometres were travelled in 2022 and 541.8 million in 2021. The data published is encouraging as it indicates an improved situation in passenger transport compared to 2019 (the impact of the COVID-19 pandemic was negative in 2020 and 2021). It is worth noting that Slovenske železnice (Slovenian Railways) further enhanced their fleet in 2022, as they incorporated 52 new modern passenger trains by the year's end and improved the comfort of transportation. The modernization of public transport is not only important in terms of Slovenian Railways' operations but also aligns with national sustainability objectives. This positive shift in 2022 could herald better times for public transport in the Republic of Slovenia. However, it is crucial to highlight that mere purchases of new trains and station renovations will not suffice. To improve Slovenia's railway transportation, higher speeds need to be enabled. This requires investments in railway infrastructure, which is a responsibility of the Republic of Slovenia. Shortening travel times between Slovenian destinations will make public rail transport more competitive against private car transportation.

In 2022, based on quarterly data, 20.46 million tonnes of goods were transported and 4,927.6 million tonne-kilometres were covered in domestic and international transport (20.34 million tonnes of goods were transported and 4,937.1 million tonne-kilometres were covered in 2021). Infrastructure works, track upgrades, and other investment projects were prominent throughout 2022, all of which are pivotal in enhancing the railway infrastructure system. Numerous track closures caused considerable disruptions and affected travel times. Among the major infrastructure projects in Slovenia, the investment in constructing a second track between Divača and Koper stands out. In 2023, an estimate was made that this project would be completed by the end of 2025 and its trial operation would commence in January 2026. The construction of the second track of Divača - Koper railway line is critical for ensuring the competitiveness of Slovenian Railways and the Port of Koper, which has a significant impact on the Slovenian economy as a whole.

Maritime transport: In Slovenia, maritime transport takes place through the only port in Koper, where freight but also passenger traffic takes place. The Port of Koper offers cargo handling services for various types of goods, with container and automobile handling services being the areas where the Port of Koper excels the most. In 2022, the Port of Koper

accomplished a historic milestone: the Port handled over 1 million TEUs of containers (an increase of 2% compared to 2021) and 801,000 vehicles (a 22% increase compared to 2021), and thus secured its position as the leading port in container handling in the Northern Adriatic and the top port for vehicle handling in the Mediterranean. However, neighbouring ports such as the Port of Trieste and the Port of Rijeka also have ambitious container handling plans. Therefore, seamless execution of investments in the concession area of the Port of Koper, as well as other infrastructure investments, such as the construction of the second railway track, managed by other entities, is crucial for successful operations. The capacity of the entire logistics network in Slovenia will determine the future growth of cargo handling in the Port of Koper in the coming years. The collaboration among the Port of Koper, the Republic of Slovenia, and other stakeholders (such as railway entities) is imperative for the successful and efficient implementation of these projects. In 2022, the Port of Koper handled 23.2 million tons of cargo, marking a 12% increase compared to the results achieved in 2021, and the growth was recorded across all categories of goods. In 2022, the passenger terminal registered 65 arrivals of passenger ships, which carried a total of 72,753 passengers. Although the results achieved are not yet comparable to the pre-pandemic traffic, based on forecasts and shipper announcements, the Port of Koper estimates that it will probably return to those levels in 2023.

The operational dynamics of the Port of Koper are influenced by its geostrategic position, which provides certain competitive advantages, especially in supplying markets in the Central and Eastern Europe. Consequently, macroeconomic influences affect the operations of the Port of Koper, such as shifts in cargo transit due to disruptions at Ukrainian or Black Sea ports. Notably, the conflict in Ukraine in 2022 redirected certain trade flows both in Europe and globally. Additionally, there was a significant shift in container shipping prices on intercontinental routes. In 2021, the effects of the COVID-19 crisis, resulting in the disruptions in the global logistics chains, led to a staggering increase in the cost of shipping containers. The price for shipping a container from Shanghai to Rotterdam decreased from USD 13,658.00 at the beginning of 2022 to USD 1,700 by the end of 2022, and this decline continued into 2023. The chaotic conditions in the global logistics market also impacted the Port of Koper's operations in 2022, as a result of these circumstances, and because the storage times for goods had to be extended, the Port of Koper increased its revenues from warehousing services. Furthermore, choosing a shorter shipping route from Asia to the Mediterranean, compared to the longer route to Northern European ports, positively affected cargo handling growth.

The Port of Koper's future operations are contingent on the absence of a prolonged general recession in Europe. Given the complexity of logistical chains, individual crises may differently affect its operations in the future. For the purpose of ensuring a seamless operation of the port in the future, all available infrastructure in Europe must be made available to the Port of Koper (with a focus on railway infrastructure and logistic centres) to support its expansion by acquiring new business volumes aligned with the market needs in the Central and Eastern Europe.

Air transport: Air transport is was one of the most affected sectors of the economy due to the negative impact of the COVID-19 pandemic. The broader aviation sector encompasses various segments, such as air carriers, airports, navigation services.

On the global scale, the air transport and the associated wider sector continued to be marked by the ongoing COVID-19 pandemic and the outbreak of the military conflict in Ukraine, alongside numerous strikes by aviation personnel (pilots, cabin crew, airport staff). In Europe, the air transport industry partially recovered in 2022 compared to the record year of 2019. In January, the traffic volume lagged behind the 2019 figures by 64%, while in December, it was 22% below the levels of 2019. A total of 1.6 million fewer flights were realized in 2022 compared to 2019. The volume of air traffic in Slovenian airspace, overseen by Slovenia Control, exhibited a notable recovery in 2022. Expressed in service units, the air traffic volume was merely 5.1% lower than the figures recorded in 2019 and signified a surge of 60.9% when compared to the statistics from 2021. However, the results were weaker concerning the terminal phase (arrivals and departures) at Slovenian international airports, where the number of service units was 39.1% lower than in 2019 but 54.4% higher than in 2021. This disparity indicates a challenge for Slovenia in the future due to the poor connectivity of its central airport.

In 2022, Ljubljana Jože Pučnik Airport served 0.97 million passengers, more than double the number from the previous year. Regular flights accounted for 86% of all passengers, with 46% travelling between Ljubljana and airports within the EU27 and 54% between Ljubljana and destinations outside the EU27. Furthermore, 12,468 tons of goods were transported in 2022, representing a 9% increase compared to 2021.

The growth in air traffic during 2022 was also influenced by the recovery of the tourism (holiday) flights in Southern Europe, in which Slovenia Control participated through providing its services within the Slovenian airspace. As per Slovenia Control's forecast, concerning the volume of air traffic opera-

tions it handles, a stable business is expected in 2023.

Postal traffic: European postal operators are facing demanding circumstances and rapid shifts in user needs and habits. The market is highly competitive, as a result of which digitization is one of crucial competitive advantages. Many countries have adapted to the changing landscape of declining traditional mail services by adjusting their legal frameworks. Slovenia faces a similar challenge, as its postal delivery standards are above the European average figures.

Postal companies are increasingly focusing on parcel and logistics services. In its parcel delivery operations, Pošta Slovenije contends with robust foreign competition (DHL, PDP, UPS, GLS, etc.). Notably, in 2022, the Austrian postal service, Express One Slovenia, entered the Slovenian market. Creating synergies, enhancing added value, and achieving economies of scale are pivotal factors in capturing market share in postal logistics. As European postal services emerged from the COVID-19 crisis in 2022, there was a noticeable decline in parcel delivery growth rates. This decline was understandable considering the reopening of the society and economy, which enabled traditional stores to operate smoothly.

Pošta Slovenije, acknowledging the declining trend in traditional mail services, emphasizes its business growth in parcel and logistics services, where they are experiencing commercial expansion. These sectors are poised for growth in the coming years, with revenues from these services already surpassing half of Pošta Slovenije's total income. In 2022, Pošta Slovenije adjusted to market conditions by expanding its spatial and transport capacities and optimizing its operational costs.

Tourism in Slovenia is an important economic activity which generates numerous multiplier effects in the economy. The sector has achieved very high growth rates in recent years, and accounted for 9.9% of Slovenia's GDP in 2019. The growth trend in the visits of foreign tourists was interrupted by the COVID-19 pandemic, which had a significant impact on the tourism sector in 2020 and 2021.

In 2022, Slovenian tourism nearly managed to return to the levels of 2019. The total tourist arrivals reached 94.20% of the arrivals generated by Slovenian tourism in the last pre-pandemic year of 2019. In terms of overnight stays, the result was even better, as domestic and foreign tourists together accounted for 98.77% of the number of overnight stays in 2019. The indirect impact of the COVID crisis was still present in 2022, and it is reflected in relative comparisons of the proportions of domestic and foreign visitors with their rel-

ative shares in 2019. The index of arrivals of foreign visitors in Slovenia in 2022, compared to 2021, stands at a significant 214.77% increase. However, concerning arrivals compared to 2019, foreign tourist arrivals in Slovenia represent only 83.70%. The overall arrival of all tourists in Slovenia in 2022 came close to the 2019 results, mainly due to domestic tourists, whose arrival index in 2022, compared to 2021, reached 146.57%. An analysis of Slovenia's tourist visits in 2022 indicates a return to the old image of Slovenian tourism, as foreign tourists accounted for the majority of all tourist arrivals in Slovenia, a characteristic of Slovenian tourism even before the COVID-19 crisis.

In May 2022, the Government of the Republic of Slovenia (based on the Promotion of Tourism Development Act) adopted the Slovenian Tourism Strategy 2022–2028, which serves as the fundamental framework for the development of Slovenian tourism in the coming years. To achieve better business results, Slovenian tourism needs to increase added value by extending the average number of days a visitor spends at each tourist destination and record higher revenues per visitor in service offerings. For achieving these goals, it will be necessary to restructure business processes, initiate a new investment cycle, and successfully implement business strategies, which all will enable Slovenia to position itself adequately on the tourism map.

Gambling is a regulated and controlled activity. Gambling in the Republic of Slovenia is regulated by the Gambling Act, which was adopted in 1995 and amended several times since then, most recently in 2012. Additional changes were anticipated for several years, particularly in the section regulating the ownership structure of organizers of specific games of chance. In 2021, after prior consultations, the Government of the Republic of Slovenia drew up the text of the Draft Act Amending the Gaming Act and submitted it to the National Assembly for the third reading in March 2022. However, the proposal was not adopted, as the legislative process concluded on 13 May 2022, due to the expiration of the parliamentary term.

The gambling sector was significantly affected by the negative effects of the COVID-19 crisis in 2020 and 2021, but its performance notably improved in 2022.

The providers of specific games of chance are faced with an environment that expects responsible social conduct from them (measures to prevent money laundering, gambling addiction, etc.). Additionally, the broader gambling market is becoming more demanding due to changes in consumer habits and the strengthening of online gambling and related

content. One of the major challenges for casinos in Slovenia continues to be the age structure of guests. Casinos must adjust their offerings of gaming and accompanying hospitality services to also attract younger guests. As regards the global gambling industry, there is a noticeable trend of collaboration between casinos and various other partners (such as betting companies, the media) which aims at increasing the market share through interconnected products (e.g., combined bets, brand or product integration in organizing sports events at casino resorts). When expanding their operations, gaming groups must ensure that new partners provide access to new markets (these could be locations of casinos, betting shops, media environments).

Loterija Slovenije, which organises traditional games of chance, is classified as a strategic asset which is managed by SSH. In most Member States of the European Union, lotteries are operated under a system of monopoly companies or exclusive rights granted to state operators, private non-profit operators, or operators directly supervised by public authorities. The majority of gambling revenue is therefore generated by the state lottery.

Slovenian **pharmaceutical companies** operate in the global pharmaceutical market. Krka and Lek (a Sandoz company) are the most recognisable Slovenian companies in this sector. Both companies are classified in the generic pharmaceutical segment. The global pharmaceutical industry of generic drugs is experiencing sales growth (the sector is resistant to various forms of crisis) due to the lower costs of generic medicines compared to original drugs, government policies and initiatives worldwide, and patent laws that allow the introduction of generic versions of a drug after a patent expires. Within the generic pharmaceutical industry, companies have achieved growth through business strategies involving acquisitions, mergers, collaborations, and significant investments in manufacturing capacities. The growth process can be accelerated by generic companies through the implementation of robotic process automation (RPA), which expedites the procedures necessary for introducing new medicines to the market. Analysts predict a steady growth rate (the compound annual growth (CAGR) from 5% to 8%) for the generic industry in the coming years. Krka has announced its pursuit of at least a 5% sales growth in quantity or value.

The European pharmaceutical industry concluded 2022 successfully, despite challenging circumstances (such as the war in Ukraine, rising raw material and energy costs, and wage pressures), and achieved, on average, an increase in the EBITDA margin compared to the EBITDA margin recorded in 2019. The two years of 2021 and 2020 cannot be fully compared

because of the impact of COVID-19 pandemic (stockpiling, accelerated sales of fever medications, savings in the sales network due to restrictions on visits by sales agents to hospitals), which enabled companies to achieve slightly higher EBITDA margin values. Investors also recognized the successful performance of pharmaceutical companies, and the pharmaceutical segment ranked among the better-performing sectors in the challenging year of 2022. The Krka Group also demonstrated successful performance in 2022, as it increased its revenues and net profit, in spite of the fact that a significant portion of its sales is tied to the markets of Russia, Ukraine, and Belarus. While medicines are not on the list of sanctions against Russia, but because of the tensions in the region it is necessary to consider Krka's presence in Russia, where it operates a factory, as this makes the Group exposed to currency risks.

In 2022, **European telecommunications operators** experienced negative returns in the market, which is not surprising, given the generally weak performance of European stock markets in 2022. However, the sector has not been a profitable investment for several years. Investors remain wary of the telecommunications sector due to high investment costs (expensive technological equipment), diminishing potential for takeover activities, strong competition, and European legislation preventing excessive returns. In 2022, the industry was adversely affected by risks associated with electricity prices and the monetary policy of the European Central Bank (ECB), as the ECB's process of raising the base interest rate results in higher financing costs. Managing debt and cash flow is crucial, both for servicing debt, making new investments, and meeting investor expectations regarding future dividend payments. With declining economic growth and high inflation, telecoms face risks regarding their ability (or inability) to pass on cost increases to consumers. This issue is more pronounced in markets with more than three providers, where there is an intense competition for customers.

European legislation on data transfer in roaming systems has a significant impact on telecom operations. The maximum tariffs allowed for the next decade have been established. The perspective on mandated price caps for the transfer of 1 GB of data in the roaming system is not optimistic for telecoms. Continued reduction of the permitted price cap is mandated for the coming years, set at only 1.1 EUR for 2026 and at 1 EUR from 2027 to 2032. Similar rules have been set by the European Commission for calls, SMS, and other telecommunications services. Considering the structural problems known in the telecommunications industry in recent years, telecoms must have an exceptionally well-crafted strategy to identify areas

for acquisitions and target markets with growth potential. In 2023, after substantial investments in 5G networks, there is an opportunity for new services which are enabled by the technology and the appropriate monetization of this field.

The steel market in 2022 operated under very specific conditions due to geopolitical events related to the Russian-Ukrainian conflict, high inflation, and an energy crisis. These conditions enabled companies which had their inputs properly secured at appropriate prices (receipt of energy products, raw materials, and emission allowances at adequately secured prices) to realize high profits. The profitability of steel production is highly dependent on the movement of market categories, both from the input side (exchange prices for iron ore or scrap metal, exchange prices for gas or electricity, exchange prices for emission allowances) and from the steel commodity markets. Due to the war in Ukraine and other factors (energy crisis, significance of Russia and Ukraine in the supply of iron, raw materials, energy, etc.), the price of steel (hot-rolled sheet metal) in Europe surged in March 2022, even breaking the price level of 1,400 EUR/ton. However, the steel price then declined, ending the year 2022 slightly below 700 EUR/ton. The fluctuation in steel prices provided an opportunity for steel companies to engage in financial operations (hedging input positions and steel prices) while adjusting production volume and transferring high input raw material prices to end consumers, which enabled the steel production to be profitable and to have high sales revenues. Even the SIJ Group, in which the Republic of Slovenia holds its own capital assets, reduced the production in 2022, starting from September.

Looking at the global steel market in 2022, the production of member countries of the World Steel Association amounted to 1,885 million tons of steel, down from 2,021 million tons recorded in 2021. Steel production in 2022 was at a very similar level to that in 2020. It is also necessary to emphasize how important it is for the steel companies to effectively manage future business risks which arise from the changes in the values of market categories (from energy prices to input raw material prices), the process for balancing inventory and the production capacities. In addition, steel companies have pledged to adhering to sustainable development guidelines.

As regards the **forging industry** (the Unior Group), it is essential to highlight once again the challenges faced by the automotive industry (a significant customer of Unior), which persisted in 2022. The Unior Group operates in the field of forgings (for the automotive industry), hand tools, and machine manufacturing.

In 2022, 11.31 million new vehicles were registered in Europe which signifies further setbacks for the automotive industry (in 2021, there were 11.80 million registrations of new vehicles, while in 2019, there were 15.84 million registrations of new vehicles). Volkswagen, the largest European vehicle manufacturer, marked a third consecutive year of sales decline in 2022 (-7%), leading to vehicle supply hitting an 11-year low. At the beginning of 2022, the entire European automotive industry grappled with the war in Ukraine which disrupted the supply chain of automotive components (especially cable sets), consequently leading to a decline in sales in conflict regions, and limited supply of semiconductors from Asia. The future of the automotive industry lies in e-vehicles, which is why it is necessary to take into account the fact that in Europe, 22.5% of vehicles sold were electric vehicles and plug-in hybrids in 2022. In 2022, Unior attained a 14% share of revenue for electric vehicles and plug-in hybrids among all its revenues generated from both programs supplying the automotive industry.

Water utility companies render services of general economic interest on the basis of a concession. Water management in Slovenia is organised in the following manner: the Ministry of the Environment and Spatial Planning awards concessions to companies which meet the required criteria and the requirements of a public tender. The concession is divided into two parts, the first is related to the provision of services of general economic interest, and the second part includes additional services. Services within the scope of the Concession Agreement include maintenance, security, cleaning, mowing, cutting, the restoration of weirs, banks, and grade control structures, the construction of stone-concrete barriers, retaining walls, and low-grade control structures, as well as the cleaning and maintenance of sink-holes and gravel barriers, and the removal of sandbanks and debris. Water management companies generate revenue from fulfilling concession obligations, partly they supplement it by engaging in market activities related to constructing municipal infrastructure, environmental protection facilities, agricultural work, geotechnical services, etc. Financing for the water management sector has been improving in recent years, although water management companies feel that the funding level is still insufficient. Similarly, these companies do highlight the importance of consistently maintaining suitable conditions of watercourses in Slovenia and enhancing flood protection in the country.

05 MANAGEMENT OF SSH AND RS CAPITAL ASSETS IN 2022

5.1 Management of Capital Assets

The most important activity pursued by SSH is the management of SSH and RS capital assets. The activity includes the acquisition and disposition of capital assets and the exercise of rights of a shareholder. The year of 2022 was a pivotal one for SSH in terms of expanding its portfolio of capital assets, as a consequence of legislative changes and the merger with BAMC. In accordance with ZSDH-1A, SSH took over the management of two companies with the state-owned capital assets: DRI, d.o.o., and SiDG, d.o.o. Additionally, on 1 January 2023, it also assumed the management of Talum, d.d. Throughout 2022, extensive preparations were made for the merger with BAMC, and consequently, for assuming the management of certain capital assets, detailed in the tables in the subsequent sections of this report.

As part of its asset-management related activities, SSH proactively engages in executing the state's strategies across various sectors within the framework of the State Assets Management Strategy.

5.1.1 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 maximise their profitability in the long-term and increase their value for the purpose of attaining the economic and developmental objectives and objectives related to the public interest. All of the above mentioned requires from SSH an efficient and transparent system of asset management with a clear distinction of responsibilities and accountability, together with the implementation of measures which limit corruption risks and other non-ethical and illegal actions and pressures, while SSH enhances the regulatory compliance, traceability and accountability of decision-making.

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

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

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

5.1.2 Active management of RS and SSH capital assets

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



CRITERIA

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



MONITORING

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



ANNUAL PLAN

AAMP - annual asset management plan for SOEs:
strategic and economic and financial goals for all significant companies and expectations which SSH has from these companies



AGMs

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



GOOD PRACTICE

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



SUPERVISORY BOARD MEMBERS

The selection of suitable Supervisory Board members



ACQUISITION AND SALE OF CAPITAL ASSETS

Implementing processes for the acquisition and disposition of capital assets and processes for the increases in share capital: sales via the public offering methods, public auction, public call for bids, IPO/SPO

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 competent, responsible and business-savvy members of supervisory bodies; diligent monitoring of performance of SOEs against predefined goals and performance criteria; the implementation of good corporate governance practice and timely and appropriate action-taking in cases of deviations from expected results.

5.1.3 Active preparation for Annual General Meetings and exercise of all other shareholder's rights

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

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

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

In accordance with ZSDH-1 and other key documents related to corporate governance, in 2022, in addition to carrying out other tasks, SSH exercised shareholder's rights on its own behalf and on behalf of the Republic of Slovenia, particularly:

- regularly monitored the operations of companies under its management and their implementation of the Annual Assets Management Plan 2022;
- SSH paid particular attention to monitoring the identification and management of risks within each individual company in the portfolio, especially those risks which could potentially impact operations due to the war in Ukraine. This included monitoring related issues within the supply chains and challenges within energy markets which consequently led to increases in prices of raw materials, supplies, services, interest costs, etc. ;
- 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 2022, which was adopted with the consent granted by RS Government on 13 January 2022, 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;
- 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 2022, the total of 125 General Meetings of Shareholders was convened, and founder's resolutions were adopted;**
- provided for the exercise of other rights of a shareholder, such as the submission of the request for the convocation of General Meetings, the applications for the extension of agenda, filing counter-proposals, lodging applications for a court-appointed nomination of members of a supervisory body, lodging applications for special audit review, and lodging compensation claims , and similar tasks, in accordance with the shareholder's corporate rights;
- SSH provided for suitable content-related and legal evaluations of individual activities and decisions taken as an 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;
- SSH continued its activities aiming for the most competent and compatible compositions of supervisory boards;
- SSH acquired and disposed of individual equity investments in accordance with the applicable legislation and other relevant legal documents;
- SSH submitted its comments and proposals on the amendments to the legislation in the field of each pillar of management activities and corporate governance;
- SSH updated its rules and regulations concerning the management of state capital assets and organized training sessions for the members of management and supervisory boards of SOEs;
- 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.

As with every year, before the AGMs of companies took place in June 2022, SSH prepared the guidelines for voting at these meetings and publicly disclosed them. In 2023, the content of this document was integrated into the revised SSH Asset Management Policy. This makes voting by SSH predictable, transparent and compliant with the legal documents on corporate governance. After General Meeting is held, SSH's voting standpoints are publicly published on the following web site: www.sdh.si.

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

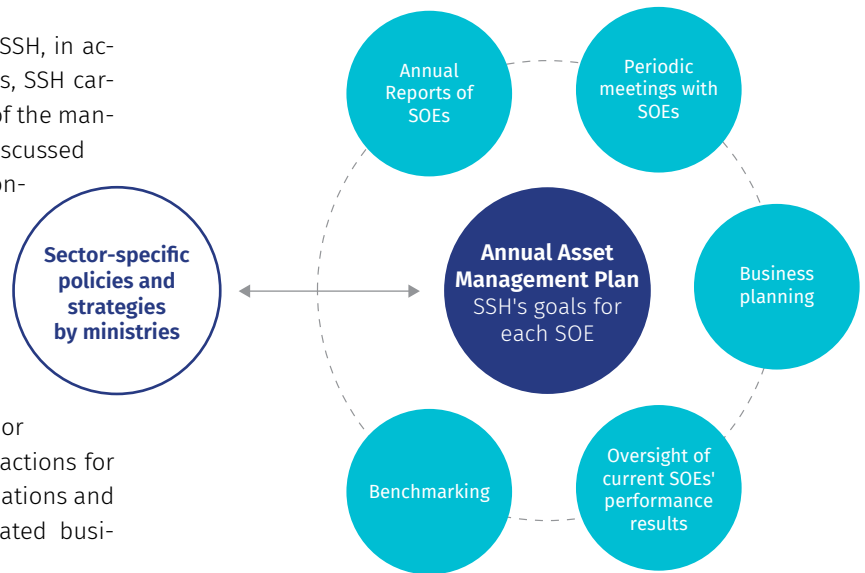
5.1.4 Monitoring operations of SOEs

As the manager of capital assets held by RS and SSH, in accordance with provisions of applicable regulations, SSH carries out regular periodic meetings with members of the management and supervisory bodies of SOEs. Topics discussed at such meetings mostly revolve around operational results, annual and business strategic plans, challenges in the market, monitoring strategic investment activities, expectations by SSH in regard to key financial goals (for example, ROE value and dividend amount), and the achievement of strategic objectives. They also encompass aspects of potential business optimization or restructuring measures, briefing on key risks and actions for their management, adherence to SSH Recommendations and Expectations, and other significant company-related business activities.

The content discussed at periodic meetings was harmonized across all companies, obviously, considering the specificities of each of them. **The scope of information received at such meetings depends on the legal organisational form of an individual company and the equity holding of RS and SSH in such company.** The intensity of SSH's monitoring of the activities pursued by individual companies is, among other things, also dependent on the circumstances surrounding the operation of each and every individual company (for example, if a company is carrying out important projects, or if conditions

in which a company operates have dramatically changed, or if a company is in distress).

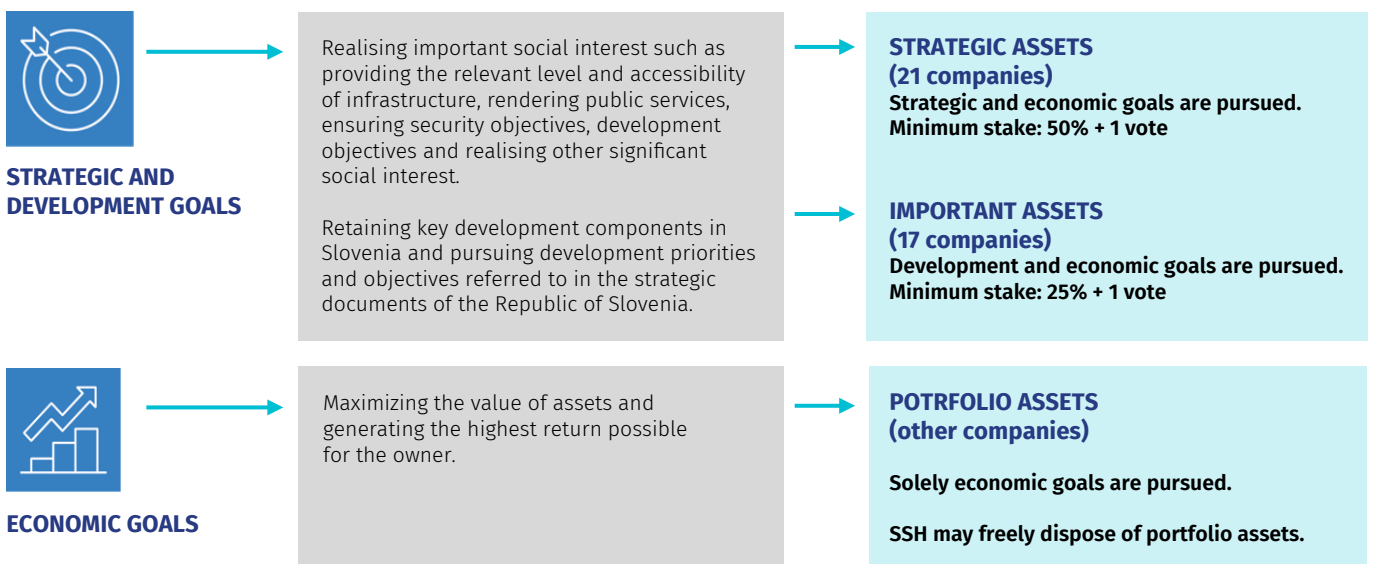
Oversight of current SOEs' performance results



In 2022, at periodic and other meetings, particular attention was paid to the risks identified and the measures taken to manage them, as well as to sustainability and the indicators monitored by the companies in this area.

The process for monitoring the performance of the portfolio companies and the process for preparation of the Annual Asset Management Plan, as well as SSH's control over it, is illustrated in the infographics.

Fundamental goals for managing capital assets and their classification



In accordance with ZSDH-1, goals for managing assets differ according to the classification of a company and state assets in strategic, important or portfolio asset. All assets owned by SSH and RS are classified into one of three groups of assets with equal or similar characteristics, realising the same or similar goals. They are deemed to be fundamental goals of asset management. These fundamental goals are presented in the figure below, together with the classification of assets.

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

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

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

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

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

For efficient monitoring of the achievement 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** – trends in the reported business results of an individual company are monitored, together

with movements in key performance indicators in an observed period;

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

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

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

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

The Strategy also provides a definition of a strategic asset and states the criteria for classifying companies as strategic assets. Of course, in addition to strategic objectives, economic and financial objectives must be set to companies for such activities; these goals are defined according to the nature of the public service provided by the company. SSH thus sets annual goals of economic and financial and strategic nature for these companies in AAMP and oversees their realization. The realization of these goals is reported in a respective Annual Report - Management of Capital Assets.

In 2022, two important chapters were added in the AAMP 2023 for most companies, namely: Key Risks to Achieving and Managing Goals and their Management, and Sustainability Objectives. In the General Section of the AAMP, it was announced that SSH would continue to promote actions in the following areas: risk management, compliance and integrity, corporate sustainability, and corporate culture.

5.1.5 Expectations in regard to ROE and dividend revenue

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

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

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

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

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

When formulating proposals for General Meeting Resolutions and when devising its voting positions in connection with dividend pay-outs, in 2022, SSH continued to advocate the objective of striking the balance between dividend-income and development needs of companies. The realisation of

dividend payments is shown in the chapter on performance results.

5.1.6. Main activities in 2022 in regard to asset management by individual companies

In 2022, the management of capital assets was marked by uncertain macroeconomic conditions. The energy crisis and consequent increase in prices of energy products and raw materials have resulted in a high level of inflation. All these factors contributed to increased risks within companies and their poorer performance, particularly within the energy sector, which was reflected in the lower ROE of the management portfolio as compared to the previous year. Additionally, the rise in interest rates and its impact on more expensive financing, coupled with a shortage of labour force in several sectors and pressures for increased wages, had additional impact on business operations.

Management activities focused on monitoring the control of the rising costs of raw materials and services, as well as implementing measures to mitigate risks in this area. Efforts were also directed towards executing and monitoring activities related to regulatory measures aimed at alleviating the effects of the energy price surge.

ECONOMY AND TOURISM PILLAR

– Slovenian Tourism Strategy

Among the most important projects led by SSH since 2019 is the implementation of the Tourism Strategy in the area of management of state-owned tourism companies. In 2021, the ownership consolidation of Terme Olimia, d. d., was successfully completed. As a result, the Republic of Slovenia, together with related parties, holds a 100% ownership share in the said company. In 2022, a similar ownership consolidation process was carried out for Sava, d. d., which is further detailed below. Through the merger with BAMC, two additional tourist companies were acquired: 100% ownership stakes in Istra-benz Turizem, d. d., and Thermana, d. d. The tourism portfolio now encompasses five tourist companies and the gaming company Hit, d. d. In the future, SSH will define the target management organization and the structure for companies with state capital assets which engage in tourism.

– Sava, d. d.

On 28 February 2022, SSH and KAD jointly exercised their pre-emption right to purchase the equity stake and receivables from York Global Finance Offshore BDH, Luxembourg. Specifically, SSH acquired a 43.226 percentage stake in Sava owned by York, while KAD acquired York's receivables due by

Sava. The total purchase price paid into the KDD escrow account upon the exercise of the pre-emption right amounted to EUR 38.0 million, of which SSH paid EUR 32.01 million for York's ownership interest in Sava, and KAD paid EUR 5.99 million for in York's receivables from Sava. The transaction was successfully completed on 15 September 2022. After the transaction was concluded, SSH became the holder of a 61.914 percentage equity stake in Sava, and KAD became the holder of a 28.046 percentage equity stake in Sava.

Activities regarding the capital assets held in Sava also included managing claims against Sava, d. d. During 2022, Addendum No. 5 and Addendum No. 6 were concluded to the Reprogramming Agreement, by way of which the maturity of existing receivables was extended. The maturity of receivables was extended until 30 June 2023, and in 202, it was further prolonged until 30 June 2024.

– **Studentenheim Korotan GmbH (Korotan)**

Korotan has been in a poor financial position for several years. In 2022, SSH continued its efforts for the Government of the Republic of Slovenia to adopt strategic guidelines for the company, and secure additional financial resources for their implementation. Based on the Decision of the Government of the Republic of Slovenia No. 60000-2/2022/4 of 16 February 2022, SSH facilitated the drafting of the Korotan's Long-Term Strategy, and on the basis of the proposed content of new programs (in education and training), SSH decided to propose to the Government of the Republic of Slovenia to transfer the Korotan's management to one of the relevant ministries/stakeholders. These stakeholders agreed with the proposal from the SSH's Management Board, and it was decided that an interdepartmental working group would be established to develop a proposal for appointing a new responsible manager and suggest the transfer of the company as well as the method for carrying out the capital increase in the company. However, this plan was not implemented in 2022. Efforts to find solutions for Korotan will continue in 2023.

– **Slovenski državni gozdovi, d. o. o. (State Forestry Company) (SiDG), d. o. o.)**

In November 2022, SiDG came under the management of SSH, in accordance with the amended ZSDH-1A.

– **Talum, d. d.**

A transfer of the equity stake in Talum, d. d. from Eles, d. o. o. to the Republic of Slovenia was also envisaged in ZSDH-1A. The method envisaged for the transfer was the reduction in the share capital of Eles, d. o. o. As the transfer of the equity stake could not be realized within the legally specified deadline, SSH entered into a management contract with Eles, d. o.

o., by way of which SSH was allowed to manage the capital assets held by RS in Talum, d. d., from 1 January 2023 until the transfer of the investment to the Republic of Slovenia. The actual transfer of the investment was executed on 20 September 2023, in accordance with the Asset Transfer Agreement.

TRANSPORT PILLAR

In 2022, SSH actively worked with the individual directorates of the Ministry of Infrastructure, which oversees the majority of companies in the Transport Pillar, by attending meetings associated with infrastructure projects. This improved information flow, awareness, governance, and contributed to align the interest of various stakeholders.

In accordance with the revised ZSDH-1A legislation, the management of the capital assets held in DRI transitioned to the Transport Pillar on 19 November 2022.

– **DARS, d. d.**

SSH regularly monitored DARS's major investment projects, such as the construction of the Karavanke second tube tunnel and the third development axis - north and south. It also actively participated in expediting the implementation of the European electronic toll service (EETS).

– **DRI, upravljanje investicij, d. o. o.**

The Ministry of Infrastructure, as the previous manager of DRI, handed over everything related to state-owned capital assets in DRI to SSH. ZSDH-1A imposes on SSH to make changes and additions to the Articles of Association of DRI within three months of its enactment, requiring SSH to obtain the consent of the Ministry of Infrastructure for any alterations. When drawing up the said alternations, SSH aim was to retain the company's status as an internal contractor within the meaning of the provisions of the Public Procurement Act, while also implementing the principles of sound corporate governance. However, despite several attempts to align the new Articles of Association of DRI, SSH had not yet received the consent of the ministry, responsible for infrastructure, by the time this report was completed.

– **Slovenske železnice, d. o. o.**

In April 2022, SSH, as the founder, adopted the Resolution to increase the share capital of Slovenske železnice by EUR 150 million. The aim of this capital increase was to enable Slovenske železnice to invest in its subsidiary, SŽ Potniški promet, for the purchase of twenty new passenger trains.

In 2022, SSH reviewed several strategic projects of Slovenske železnice and granted its consent to them. In March 2022, SSH

granted its approval for the concept of a strategic investment project to acquire the bus company Nomago, d. o. o. This company carries out intercity and other road passenger transport services within Slovenia. The purpose of the investment is to facilitate an integrated mobility of the RS population in rail and bus transportation.

By the end of 2022, SSH had given its consent for the acquisition of shares of Avtobusna postaja Ljubljana, d. d. However, the transaction did not materialize due to changes in the seller's conditions.

ENERGY PILLAR

In 2022, in the energy sector, SSH carried out a number of corporate governance activities related to the adoption of founder's decisions and proposals for amendments to sectoral legislation, and also actively participated in communication between energy companies and the relevant ministries.

In 2022, among other matters, SSH provided its substantive comments and drafted its proposals for various legislative amendments and also took part in the preparation of the following acts: Gas Supply Act (Official Gazette of RS, Nos. 204/21 and 121/22), Act on Measures for Management of Crisis Conditions in the Field of Energy Supply (Official Gazette of RS, No. 121/22), Act Determining Temporary Measures to Remedy the Consequences of Higher Living Costs of the Most Vulnerable Population Groups (Official Gazette of RS, No. 117/22), Act on the Guarantee of the Republic of Slovenia for the Obligations from Credits Taken Out to Ensure Liquidity on the Organized Electricity Markets and Emission Coupons and Obligations from the Purchase of Additional Quantities of Natural Gas Outside the European Union Market (Official Gazette of RS, No. 121/22) as well as the following decrees: Decree determining the price of electricity (Official Gazette of RS, Nos. 95/22 and 98/22), Decree on setting gas prices from the system (Official Gazette of RS, Nos. 98/22 and 138/22) and the Decree on setting prices for certain petroleum products. SSH closely collaborated with ministries and prepared analyses for formulating regulatory measures and for communicating with other stakeholders regarding the electricity generation and its sale prices in the Republic of Slovenia. Furthermore, SSH engaged in communication with relevant ministries concerning necessary measures, activities, and risk management related to the regulation of electricity prices, as well as regarding the contingency plans and the operation of the power system in crisis situations.

Due to increased risks resulting from heightened market conditions and emergency regulations/legislation aimed

at managing the energy crisis, SSH, by way of the founder's resolution, requested additional detailed monthly reporting from companies within the HSE Group and GEN Group. This reporting encompasses the financial and business implications arising from the enforcement of emergency regulations in managing the energy crisis. Additionally, it covers the impacts of price volatility in energy commodities on the Group's operations, the availability and inventories of key energy products, effects of hydrological conditions on Group's operations, and the influence of these circumstances on the planning and execution of key investments.

– Holding Slovenske elektrarne, d. o. o. (HSE) – subsequent payments to the share capital

The HSE Group found itself in a challenging liquidity position due to a combination of several adverse factors associated with the energy crisis (historically low hydrology, the shutdown of TEŠ due to the compression of one of the two excavation fields of Premogovnik Velenje, the inability to supply sufficient volume of lignite, and reduced readiness on the part of commercial banks to provide additional financing for short-term liquidity needs).

To prevent liquidity problems within the HSE Group and ensure its stable operation, SSH conducted all the necessary activities to inject subsequent payments from the Republic of Slovenia to the share capital of HSE, totalling EUR 492 million (the first tranche amounted to EUR 300 million, while the second tranche amounted to EUR 192 million). Both injections were paid in December 2022.

Before making the decision on the subsequent payment to the share capital, SSH also conducted a private investor test to demonstrate the economic rationale of the financial investment from the perspective of a private investor, and to prove that the capital injection does not constitute state aid. While monitoring the future circumstances and operations of the HSE Group, SSH pursues the goal of having the entire amount of subsequent payments to the share capital returned to the founder no later than by the end of 2024, or even earlier if the HSE Group's performance allows it. In this regard, SSH has established meticulous reporting and monitoring protocols to track the purpose of the funds received and ensure proper cash flow management within the group in order to facilitate a prompt return of funds based on the HSE Group's financial capabilities.

Furthermore, SSH actively monitored the resolution of the operational issues within the company's thermal division and was involved in their resolution within the scope of its competences. It also observed the implementation of the project

for vertical integration with the trading companies in electricity distribution (business integration of production and sales divisions).

In 2022, SSH adopted the Development Plan for the Holding Slovenske elektrarne Group for the period 2022–2027. Additionally, it recommended to the Management Board and Supervisory Board to accelerate their investments in renewable energy sources.

– **GEN Group**

In 2022, many of the SSH activities were focused on the following key areas: (i) the regulation of corporate relations within the GEN Group; (ii) monitoring the implementation of the Development Plan of the Company and the GEN Group for the 2020-2024 period; (iii) monthly monitoring of the implementation of the Umbrella Action Plan for the optimisation of the company's and the GEN Group's business; (iv) monitoring the Group's development and investments; (v) energy trading; (vi) expansion of production capacities, including activities for the development of new nuclear production capacities; (vii) familiarisation with studies and analyses commissioned and the status of the NEK2 project.

In addition to the required additional reporting, SSH coordinated activities in responding to parliamentary inquiries and activities in the borrowing processes under the Act on the Guarantee of the Republic of Slovenia for the Obligations from Credits Taken Out to Ensure Liquidity on the Organized Electricity Markets and Emission Coupons and Obligations from the Purchase Additional Quantities of Natural Gas Outside the European Union Market (Official Gazette of RS, No. 121/22).

– **Petrol, d. d.**

SSH, as one of the key stakeholders, actively participated in the process for maintaining the S&P's credit rating.

– **Electricity distribution companies (EDCs)**

In 2022, SSH closely monitored the activities of the EDCs aimed at aligning their operations to the requirements of the Act Determining Emergency Measures to Mitigate the Consequences of the Impact of High Energy Commodity Prices (ZUOPVCE). This law stipulated a reduction of tariff rates to zero for power calculated and energy consumed for all consumer groups from 1 February to 30 April 2022. Consequently, the revenues for all five EDCs decreased by EUR 67.6 million in 2022; moreover, their indebtedness increased, EBITDA significantly decreased, and financial commitments to banks were breached in some cases.

As the majority owner, SSH actively engaged in discussions with financial institutions with the purpose to redefine the financial commitments undertaken and held by the EDCs towards banks. In this manner, the investment potential of the EDCs would be increased and would in turn facilitate a faster transition toward green energy. SSH requested the EDCs to execute their proposed investment plans and resolve any delays in the decision-making process regarding the approval of connecting electricity self-supply devices.

Due to crisis and the potential for electricity reductions, as well as to avert potential excessive economic damage, SSH mandated that the EDCs develop an advanced crisis action plan for operating the electricity distribution network. SSH was actively engaged in crisis meetings to address these concerns.

In the first half of 2022, SSH, in coordination with the Ministry of the Environment, Climate, and Energy, continued to lead the process for the preparation of a Legal and Economic Study of Business Models. This study elaborates on various potential models for consolidating the service of general economic interest and includes an assessment on costs and benefits associated with the merging of the EDCs. In May, SSH presented the study findings to the above mentioned Ministry and, in line with the conclusions of the study, began drafting the Management Plan or Proposal for SSH to commence carrying out additional managerial activities in connection with EDCs as part of the preparation for the 2023 Annual Asset Management Plan.

– **EGS - RI, d. o. o.**

SSH actively monitored the progress of arbitration proceedings in the case of EGS-RI, d. o. o., against RiTE Ugljevik a. d., which addressed the compensation claim by EGS-RI for violations of the Self-Management Agreement from 1989. One of the proceedings is in its final phase, and in 2023, a partial arbitration decision was received.

FINANCIAL PILLAR

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

In 2022, several managerial activities were directed towards monitoring the liquidation proceedings of venture capital companies, particularly DTK Murka, d.o.o., which was in the liquidation process. Later, a procedure was conducted to sell the state's ownership stake in this company.

– **Geoplin, d. o. o.**

In the second half of 2022, SSH intensely monitored the operations of Geoplin, d.o.o., which, due to the energy crisis,

was significantly affected by unpredictable supplies and historically high and volatile natural gas prices. By Decision No. 47607-37/2022/2 of 6 October 2022, the Government of the Republic of Slovenia urged SSH to promptly conduct all managerial activities necessary. This was necessary considering the urgent need to ensure Geoplin's continued and stable operations and maintain the strategic interest of the Republic of Slovenia in securing a stable supply of natural gas to households and businesses. This required amendments or supplements to be made to the Annual Asset Management Plan, in accordance with the provisions of Article 30 of ZSDH-1. In connection with the above-mentioned Decision, SSH carried out the following actions in 2022: (i) conducted multiple meetings with representatives of Geoplin, financial advisors, and Petrol to gather information about the state of Geoplin and possibilities for future gas supply; (ii) arranged for Geoplin to conduct an independent due diligence of its business, financial, tax, and legal affairs and obtained final reports of the reviews; (iii) signed a contract for an independent valuation of Geoplin under various development scenarios and obtained the final valuation report of the company; (iv) established communication with the relevant ministry regarding strategic issues related to the operation of Geoplin; (v) engaged a legal advisor and collaborated with them on activities related to the prior notification of concentration to the Slovenian Competition Protection Agency; (vi) collaborated with the Ministry of Finance on activities related to obtaining a European Commission decision regarding the permitted state aid. Because market conditions improved and since some other activities were undertaken by Geoplin and its key owners, it was not necessary to carry out the increase of share capital in Geoplin in 2022.

– **Litostroj South Project and the establishment of the special purpose vehicle CASS, d.o.o.**

SSH continuously monitored the preparatory activities of D.S.U., d.o.o., in connection with the project planned for constructing office spaces for the Ministry of the Interior.

In 2022, SSH successfully completed the transaction for the paid transfer of the Selection and Testing Centre Ptuj (SPC Ptuj) to the Republic of Slovenia, specifically, to the Agricultural Institute of Slovenia (KIS). These activities, initiated in 2020, were implemented in accordance with the Decision of the Government of the Republic of Slovenia of 11 June 2020 and 30 in May 2022. Additionally, the transfer was carried out in accordance with the provisions outlined in the AAMP 2021. In 2021, SSH initially established a temporary special vehicle company, Center za avtohtone sorte semen, d. o. o. (CASS, d.o.o.), which subsequently, in the first quarter of 2022, bought the SPC Ptuj plant from Semenarna Ljubljana, d. o. o.

and took over the employees at the plant. On 30 June 2022, the assets of the mentioned company were transferred to the Agricultural Institute of Slovenia (KIS), using the statutory transformation route in accordance with Articles 640 and 641 of the Companies Act (ZGD-1). This transformation resulted in the cessation of CASS, d.o.o., without liquidation. On the same day, acting on behalf of the Republic of Slovenia, SSH entered into a contract with the Agricultural Institute of Slovenia, acting as the acquirer, for the free transfer of all movable assets. Furthermore, the employees at the STC Ptuj facility were transferred to the Agricultural Institute of Slovenia.

5.1.7 Disposition of capital assets in 2022 and their acquisition

SSH oversees the processes for both the disposition and acquisition of capital assets held by RS and SSH. This management is guided by the current State Assets Management Strategy. Additionally, SSH operates in accordance with the Annual Assets Management Plan for which the Government of the Republic of Slovenia grants its consent every year. The sales processes are run on the basis of the SSH Asset Management Policy, which includes principles, procedures and criteria applied by SSH in carrying out its duties and activities as stipulated by ZSDH-1. In addition to other matters, the Asset Management Policy determines the methods for the sale of state assets, for the communication on disposition and acquisition of state assets, for the course of a process for the sale of state assets, the method for running the sale processes and the method for hiring financial institutions and other advisors engaged in the sales processes.

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

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

Activities in connection with the disposition of capital assets

– DTK MURKA

On 20 May 2022, an advertisement was published in the national newspaper Delo and on the SSH website, advertising a public call for bids to purchase a 49-percentage stake in DTK Murka, a company owned by the Republic of Slovenia. On the basis of the bids received, SSH initiated negotiations, and on 21 December 2022, on behalf of and for the account of the Republic of Slovenia, entered into a contract with UD2, Ltd., as the buyer, for the sale of a 49% ownership stake in a venture capital company **DTK Murka, družba tveganega kapitala, d. o. o.** – in liquidation. The buyer paid the purchase price within the contractually agreed-upon period, and as all other contractual conditions for the transfer of the Republic of Slovenia's stake to the buyer were also fulfilled, a request for the registration of changes in shareholders was submitted to the Business Register on 30 December 2022.

– Cetis

On 13 August 2022, SSH and KAD published an advertisement in the newspaper Delo and on the SSH website, advertising a public call for bids to purchase **15.40% of shares in Cetis**. The sales process was not concluded in 2022. Due to uncertainty and rapidly changing market conditions, which affected the assessment of the acquisition value, on 28 February 2023, SSH and KAD decided to halt the sales process.

– Meta Ingenium

SSH reached an out-of-court settlement regarding an economic dispute arising from the sales process of a minority stake of the Republic of Slovenia in the venture capital company META Ingenium, Ltd. This sale was closed on 25 June 2022. The settlement involved an additional purchase price of

EUR 2.09 million, while the remaining conditions of the sales contract, which facilitated further payments due to the sale of BIA Separations, remained valid.

Activities in connection with the acquisition of capital assets

On 28 February 2022, SSH and KAD jointly exercised their pre-emption right to purchase the equity stake and receivables from York Global Finance Offshore BDH, Luxembourg. Specifically, SSH acquired a 43.226 percentage stake in Sava owned by York, while KAD acquired York's receivables due by Sava. The total purchase price paid into the KDD escrow account upon the exercise of the pre-emption right amounted to EUR 38.0 million, of which SSH paid EUR 32.01 million for York's ownership interest in Sava, and KAD paid EUR 5.99 million for York's receivables due by Sava. The transaction was successfully completed on 15 September 2022. After the transaction was concluded, SSH became the holder of a 61.914 percentage equity stake in Sava, and KAD became the holder of a 28.046 percentage equity stake in Sava.

Based on law, regulating inheritance matters, the Republic of Slovenia received a smaller number of shares from various companies in 2022. Additionally, under the Confiscation of Assets of Illicit Origin Act, it acquired a 100% stake in the company Lubrio, d. o. o.

In 2022, on behalf of and for the account of the Republic of Slovenia, SSH also made subsequent payments to the share capital of HSE, d. o. o., and acquired additional capital assets due to the merger of BAMC with SSH, as stipulated by the Slovenian Sovereign Holding Act (and specified under individual pillars).

5.2 CLAIMS MANAGEMENT

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

The claims management process initiates first with a situation analysis; this includes an assessment of (i) the potential for long-term repayment of claims through the debtor's cash

flows, (ii) the potential for disinvestment of the debtor's assets, (iii) the potential for a legal framework that would allow for a maximum repayment of claims, (iv) the debtor's readiness for seeking a satisfactory solution, and (v) any other circumstances that may affect repayment of the claims. Based on the analysis of the situation, the appropriate strategy is then selected which has been assessed as delivering the highest value for the creditor, either:

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

Restructuring of debtors

The objective to restructure a company is to ensure the long-term efficiency of the debtor's operations, its liquidity and competitiveness and to maximise the repayment of debts through cash flows from operations and the divestment of unnecessary assets. Where possible, SSH seeks to reduce the debtor's indebtedness to a sustainable level with the aim of enabling the existing claims of SSH against the debtor to be refinanced by a commercial bank. Financial restructuring of the debtor can run concurrently with operational restructuring, which SSH can actively implement, especially in companies where it holds a dominant or majority ownership stake.

SSH implements financial restructuring measures in collaboration with other financial creditors. Financial restructuring measures make it possible for debtors to extend the repayment period, reduce the interest rate, partially deleverage (mainly through the identification and sale of non-essential assets of the company), improving the capital structure and providing additional liquidity. SSH may convert its claims into equity investments, take on other claims and ownership stakes, or increase capital of individual debtors, particularly where it already holds ownership stakes.

Managing claims with collateral recovery strategy

In cases where a debtor is a loss-making entity and where even financial and operational restructuring measures are unlikely to generate more future value than the value which can be gained through the recovery and realisation of collateral, SSH, acting as a fair and diligent business operator, chooses to realise pledged assets and foreclose on the debtor's free assets. This strategy is also basically applied to companies which are already subject to insolvency proceedings, or on assets, for which enforcement proceedings have been confirmed. On the other hand, the realisation of collateral can also be carried out by agreement with the debtor, without initiating enforcement or insolvency proceedings.

Key activities undertaken for claims management

ALPINA

In May 2022, BAMC sold its ownership stake and claims against ALPINA, d. o. o. All conditions precedent for the sale to be realized were met in September 2022, at which point the full purchase price was received.

MERKUR NEPREMIČNINE

In June 2022, BAMC sold its ownership stake and claims against Merkur nepremičnine, d. o. o. After fulfilling all conditions precedent, the purchase price for the claims and ownership stake was received in November 2022.

PAPIRUS GROUP

By the end of 2022, the claims of BAMC against all three companies in the Papirus Group would become due for payment, but the companies were unable to pay. As a result, the liabilities of the Group's companies were restructured for a two-year period. The contractual provisions are agreed upon in a manner that encourages the companies to seek refinancing from commercial banks as soon as possible.

FORI GROUP

At the end of 2022, BAMC signed a debt restructuring agreement with Fori, d.o.o., within which Fori sold its technical textile division, and the proceeds of this sale were distributed to financial creditors. Additional collateral was established in the new joint company when the new agreement was concluded.

MARIBORSKA LIVARNA MARIBOR (MLM)

BAMC provided MLM with a deposit to secure a guarantee framework at a commercial bank, by way of which it made it possible to extend the payment terms with suppliers, and thereby improved the MLM's liquidity position. Towards the end of the year, as a result of MLM's poor performance, its liquidity situation became severely strained. There was a looming risk of suppliers invoking guarantees issued by the company, potentially leading to the utilization of the deposit and thereby straining relationships with suppliers. To prevent this scenario, BAMC approved an additional loan to MLM, which was drawn down for a specified purpose while the deposit was progressively released, so that the BAMC's overall exposure to MLM did not increase. In the first half of 2023, activities were conducted to sell claims and the 100% ownership stake. However, by mid-2022, the process was closed with only one investor expressing interest, as the sale conditions were deemed unacceptable. In 2023, SSH continued efforts to seek a strategic buyer for MLM.

ISTRABENZ HOLDING

Subsequent to the conversion of claims into capital and a legal restructuring, the company proceeded with asset divestiture, and finalized a sale of a 95.20% stake in the Zastava Istrabenz Lizing, d. o. o by the end of 2022.

BETI

By the end of 2022, BAMC sold its claims against Beti, d. d. to a strategic buyer from the industry, with the aim to create better conditions for the company's future operations.

NAFTA – PETROCHEM

Nafta – Petrochem, d. o. o. has been in bankruptcy proceedings since September 2014. The main asset of the bankruptcy debtor was the Industrial Complex TRIMLINI, which remained unsuccessfully realized during the bankruptcy for a long time. After successfully selling the Industrial Complex TRIMLINI and a 51% ownership stake in Industrijske storitve, d. o. o. in 2021, BAMC received the purchase price by the end of 2022.

CG INVEST GROUP

In the second half of 2022, during the course of the bankruptcy proceedings, the apartment of SEI Holding located in Romania were sold. BAMC had a mortgage established on these apartments as collateral for claims against CG Invest. This transaction resulted in a substantial inflow for BAMC.

5.3 Tangible Assets Management

The tangible assets of SSH primarily consists of real estate, along with movable assets such as artworks and other miscellaneous property. The real property was transferred to SSH through the merger with BAMC at the end of 2022.

The management of tangible assets also includes the management of selected capital assets, predominantly composed of real estate assets.

Acquisition of real estate (conversion of claims into real estate)

Real estate comprises the highest value of collateral for claims which were transferred to BAMC and subsequently to SSH through the merger. As the quality of the transferred claims was poor (making enforcement the most rational strategy for most debtor companies), a majority of these collateral assets (real estate) are also subject to realization by bankruptcy administrators and debtors in the market. In these cases, BAMC (now SSH) recouped itself with the received purchase price, reduced by the costs of the sales processes. From a standpoint of optimizing its investment value, BAMC (now SSH) could also choose to take ownership of real estate with the intention of later sale.

Management of real estate pledged as loan collateral

SSH actively facilitates the sales processes of claims which are secured by real estate. For each individual property, SSH determines an acceptable sale price and approves any sale at or near the acceptable price determined.

Takeover of real estate

When an appropriate (acceptable) sale price cannot be achieved in the process of collateral recovery (tangible assets), SSH decides to participate as a buyer in the collateral realization processes (tangible assets) and repurchases tangible assets through offsetting the claim it has against the debtor. The primary criterion SSH follows when deciding whether to take a direct ownership of pledged assets or not

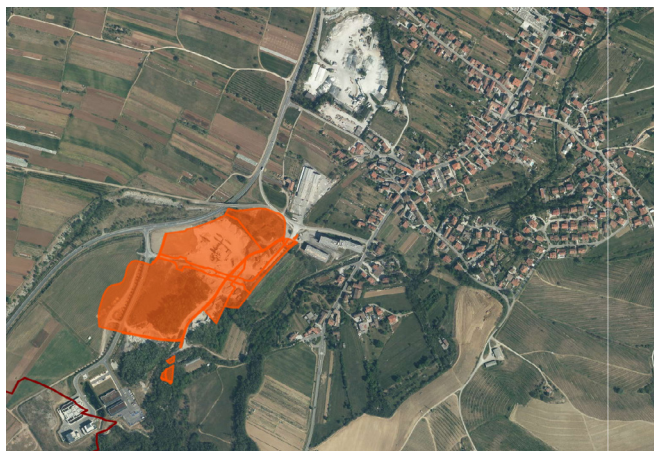
is an assessment of whether direct ownership and management of tangible assets, which sometimes requires property development and/or repairs, will ultimately yield a higher return from tangible assets than the sale price determined by the bankruptcy administrator or the company (debtor) in the tangible asset realization process. When making its own assessment on the subject matter, SSH includes management costs in the estimated value of tangible assets. Similarly, SSH decides to take over tangible assets even when there is no market interest for it in bankruptcy proceedings and it cannot be sold at all, while assessing whether the tangible asset is burdened by potential liabilities, such as environmental contamination, and the like. In special circumstances, SSH decides to purchase even unpledged land to gain access to its real estate, consolidate ownership, and the like.

After 1 July 2022 and by 31 December 2022, BAMC (now SSH) assumed control of 15 real estate properties valued at a total of EUR 9.6 million of book value. The largest properties acquired are a 11,500 m² commercial, production, and warehouse space Likozarjeva in Ljubljana and a more than 80,000 m² buildable land in Vrtojba.

FIGURE: COMMERCIAL, PRODUCTION, AND WAREHOUSE SPACE LIKOZARJEVA IN LJUBLJANA



FIGURE: PLOT OF LAND IN VRTOJBA



Management of owned real estate

As part of the management of tangible assets, a number of measures have been implemented to ensure that these assets are properly maintained and that (at a minimum) their value is preserved. For assets which are provided in the form of buildings, which require a manager by law, part of these measures are carried out by an external property manager. In addition, in some cases, legal and technical defects need to be rectified for example, obtaining missing documentation and permits, carrying out regularisation procedures, resolving disputes with neighbours and former subcontractors.

For some properties (new apartments and single-apartment buildings) which have already been sold by BAMC (or are to be sold by SSH) to SSH, in accordance with ZVKSES, SSH has to remedy any claims arising from the contractual relations for a period of two years after the conclusion of the purchase contract, or for ten years after the transfer of the common parts of the building to the property manager (for the soundness of the construction).

In some cases, investments will also be needed as part of the property management, for example, finishing works, purchase of a missing part of property, development of spatial plans and development of complete projects, and even construction. All immovable and movable property is cared for in accordance with the principle of due diligence, buildings, which have been taken over, are adequately insured, damaged buildings are rehabilitated to prevent any further damage, and additional security is provided over some assets.

Sale of real estate

The most significant sale realized is the approximately 50% co-ownership stake of a 50,000 m² plot of land in Vikrče, Medvode, with a sale price exceeding EUR 1 million. The sale

was realized in conjunction with the sale of claims against the pledgor's remaining 50% co-ownership stake in the plot of land.

FIGURE: VIKRČE PLOT OF LAND



All sales processes were executed directly by employees of BAMC (now SSH), except for certain units in Koprška vrata, which were sold with the assistance of a real estate agency. This agency was selected through a public tender to facilitate the sale of this property since the initiation of the sales process in 2019 when 164 apartments and a significant number of commercial spaces were available.

06

STRATEGIC TOPICS AND GOVERNANCE ISSUES

6.1 Sustainable business



SOEs are an important and a visible stakeholder of the Slovenian economy which is why it is of paramount importance that all aspects of sustainable business (environmental, social and governance, or ESG) are included in their strategic and development plans and business strategies. Decisions made at the EU level, such as the adoption of the CSRD Directive and the ESRS Reporting Standards, alongside the redirection of capital flows from unsustainable to sustainable enterprises, are increasingly motivating companies to incorporate sustainability into their practices in a responsible and integrated manner.

The main purpose is for SOEs to achieve the financial success expected by the owner while simultaneously implementing all three aspects of sustainable business: responsible attitude towards the society and the natural environment along with responsible governance.

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

SSH has already undertaken several activities to promote sustainable business in SOEs:

- SSH has adopted comprehensive recommendations for the sustainable operations of SOEs and other recommendations that fall under segment S (society);
- sustainable business has been a particular focus on the agenda of **periodic meetings held with companies** and has also been addressed in several **training sessions**;
- SSH has included **qualitative sustainability targets** in the Annual Asset Management Plan (AAMP) for some individual companies;
- in AAMP 2022, SSH set out its expectations for the largest

20 companies to **measure their carbon footprint** under Scopes 1 and 2 of the GHG Protocol, and to develop **targets and plans for corporate decarbonisation** (2025 and 2030 targets and 2050 ambition);

- at the end of 2019, as regards the largest portfolio companies, SSH started monitoring of data pertaining to additional **criteria for measuring the performance of SOEs** and included in the criteria a set of supplementary sustainability indicators;
- SSH has developed **non-financial indicators at the portfolio level**, specifically, carbon footprint, investment in staff development and gender diversity of management and supervisory bodies;
- sustainable business, was included in the 2023 Business Plans of the largest portfolio companies.

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

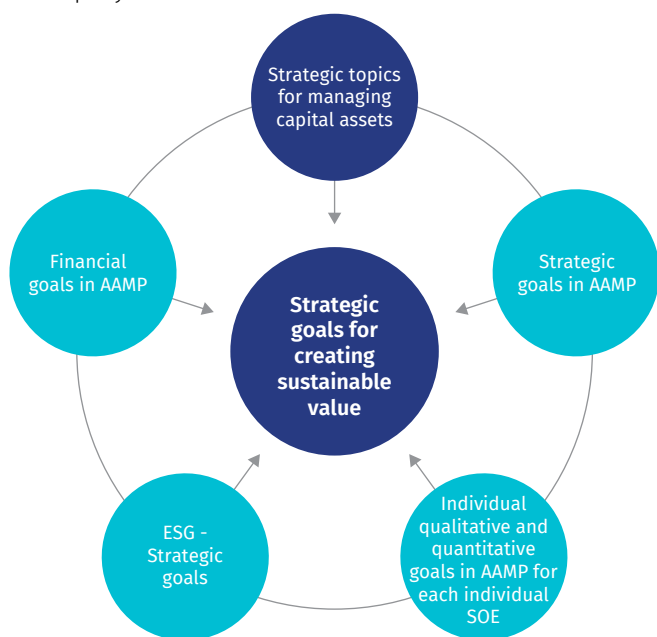
Good corporate governance deals with establishing and putting in place efficient mechanisms which aim to achieve long-term corporate value, financial and sustainable performance as well as other corporate objectives. These objectives can be achieved by understanding and considering, as well as balancing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

- The company's management and supervisory bodies are accountable to shareholders and company members for delivering long-term value to the company. It is their duty to ensure that sustainable business practices, now considered a *conditio sine qua non* for the long-term viability of a company, are a strategic priority which is integrated in all business processes and systems to manage risks and opportunities across the organisation.
- There must be a sufficient degree of diversity among the members of management and supervisory bodies, which places a particular emphasis on the relevant competences, to enable them to have effective

discussions and to take quality decisions on an informed basis.

- SOEs must identify the most effective way to integrate all aspects of sustainability into their corporate governance system (in which regard, strategy commissions, nomination committees, audit committees, risk committees and other committees functioning within supervisory bodies play an important role).
- It is the duty of supervisory bodies to include criteria for measuring the sustainability performance in the remuneration system to reward management bodies, in addition to performing an assessment of a short, medium and long-term adequacy of sustainability performance management.
- Management and supervisory bodies should ensure that an appropriate incentive system is put in place to enhance long-term sustainable performance of the company.
- It falls upon management and supervisory bodies to consistently and transparently disclose significant sustainability risks, opportunities, and strategic decisions to all stakeholders, particularly investors and regulators. These disclosures are outlined in various reports such as business reports, financial reports, and presented at investor conferences.
- Transparency and quality reporting are essential to understand how companies are achieving their objectives and creating sustainable value. Reporting will have to adhere to the ESRS reporting standards for liable companies.

Below is an overview of the key governance tools within SSH that contribute significantly to creating sustainable value for a company.



6.1.1 GHG emissions of the largest portfolio companies in 2022

SSH monitors greenhouse gas emissions for the largest companies in the portfolio according to the international Greenhouse Gas Protocol (GHG). Greenhouse gas emissions are the main driver for escalating global climate change and, therefore, remain the central focus of policies, legislation, business models, and technological responses aimed at mitigating climate change.

The monitoring involves the top 20 companies based on their book value of capital under management, and two significant manufacturing companies have been added in the monitoring. By the end of 2022, these companies accounted for 96% of the book value of assets under SSH management.

All significant greenhouse gas emissions are reported in metric tons of CO₂ equivalent (tCO₂e) according to GHG: Scope 1, Scope 2, and Scope 3. The table shows the GHG emissions (in tCO₂e) for Scope 1: direct emissions from own activities, and Scope 2: indirect emissions from energy consumption. Scope 3 reporting is not yet anticipated.

A distinctive feature of the SSH Portfolio is that the Energy Pillar dominates in terms of emissions, within which HSE (mainly due to TEŠ) contributed 82.4% of the total emissions of the SSH's Portfolio in 2022. The footprint varies considerably across pillars, with large differences due to different activities within the pillars themselves. It is important to note that the monitoring methodology differs among companies.

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

In 2022, the overall emissions of the SSH's managed portfolio were lower than in the previous year, primarily due to reduced emissions from HSE which is the result of a decreased production in TEŠ. Besides the Energy Pillar, reduced emissions were also observed in the Economy and Tourism Pillar as well as in the Financial Sector. Only the Transport sector experienced slightly higher emissions in 2022 compared to the previous year.

TABLE: EMISSIONS BY SSH'S MANAGEMENT PILLARS

PILLAR	Absolute emissions tCO ₂ e, Scope 1 and Scope 2, total 2020	Absolute emissions tCO ₂ e, Scope 1 and Scope 2, total 2021	Absolute emissions tCO ₂ e, Scope 1 and Scope 2, total 2022	Index 2022/21
TRANSPORT	87,392.0	97,086.6	98,626.8	101.6
ENERGY	4,039,220.4	3,684,764.7	2,958,574.0	80.3
FINANCIAL SECTOR	16,924.2	16,802.0	11,466.7	68.2
ECONOMY AND TOURISM	178,263.9	175,749.3	164,729.5	93.7
TOTAL	4,321,800.4	3,974,402.6	3,233,397.0	81.4

Relative emissions, measured as emissions per 1 million EUR of capital under management, decreased across all pillars in 2022, most notably in the Financial sector.

TABLE: RELATIVE EMISSIONS BY SSH'S MANAGEMENT PILLARS

PILLAR	Emissions tCO ₂ /mio EUR of capital under management, 2020	Emissions tCO ₂ /mio EUR of capital under management, 2021	Emissions tCO ₂ /mio EUR of capital under management, 2022	Index 2022/21
TRANSPORT	21.7	23.3	22.0	94.4
ENERGY	1286.8	1178.8	907.2	77.0
FINANCIAL SECTOR	10.6	9.7	6.7	69.0
ECONOMY AND TOURISM	207.9	199.5	174.0	87.2
TOTAL	448.7	401.2	310.8	77.5

6.1.2 Contribution of the top 20 portfolio companies to the 2030 Agenda

The 2030 Agenda for Sustainable Development, which comprises 17 Sustainable Development Goals (SDGs) and was adopted by global leaders at the United Nations summit in September 2015, stands as a transformative global plan for our national and international efforts. Its objective is to eradicate extreme poverty while safeguarding planetary boundaries and fostering prosperity, peace, and justice.

This is a universal agenda to which all countries and stakeholders can and must contribute. In its recommendations, SSH advises companies to assess these goals and identify methods through which their operations can contribute to accomplish them. Below is a display showing the contributions of the top 20 companies in the portfolio towards individual agenda goals.

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
Elektro Celje			■	■			■	■	■			■	■		■		
Elektro Gorenjska					■		■		■			■					
Elektro Ljubljana	■		■	■	■		■	■	■				■	■	■	■	■
Elektro Maribor			■				■		■			■					
Elektro Primorska			■	■			■	■	■			■	■				
Holding Slovenske elektrarne			■	■	■		■	■	■		■	■	■		■		■
Gen energija			■	■	■	■	■	■	■	■	■	■	■		■		
Petrol			■		■			■	■		■	■	■				■
Plinhold			■	■			■	■	■			■					■
Dars			■			■	■	■	■						■	■	■
Luka Koper			■	■	■		■	■	■	■	■	■	■	■	■	■	■
Pošta Slovenije				■	■			■	■		■	■	■				

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
Slovenske železnice	■		■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
NLB			■				■	■				■					
Sava RE			■	■	■								■				
SID banka	■							■	■	■	■	■	■	■	■		
Zavarovalnica Triglav		■	■	■	■		■	■			■	■	■		■		■
Krka			■	■	■			■	■			■	■				■
SIJ			■	■	■	■		■	■			■	■				
Telekom Slovenije	■		■	■	■		■	■	■	■	■	■	■		■		■
	***		**	**	***		**	**	*	***		***	**		***		***

*Most important, ** important, *** moderate

6.2 Risk management



Risk management is crucial for the stable and effective operation of companies, and it contributes to increased stakeholder trust, better fulfilment of strategic and financial goals, and a reduction in potential financial losses. Risk management represents a significant pillar of corporate governance, and a company's success heavily relies on its capability to identify, assess, and efficiently manage these risks.

Portfolio companies, which are included in the portfolio of assets under SSH management, are exposed to risks of various types.

SSH, acting in the capacity of an asset manager, monitors these risks as part of its regular asset management related activities, and also through various governance instruments, such as the Code of Corporate Governance for SOEs, SSH Recommendations and Expectations. Additionally, SSH organises training courses to which it invites members of the supervisory boards of SOEs and takes other measures to ensure that companies manage risks identified during their operations in an appropriate manner. In one-person companies, SSH occasionally conducts reviews through its own internal audit service and issues recommendations which among other matters, also include risk management measures from the perspective of the SSH's management. SSH does not directly lead the group of companies as a joint concern, thus it does not directly intervene in their processes, internal control systems, and risk management systems.

Nevertheless, effective risk management in companies in which SSH and the Republic of Slovenia hold capital assets is of great interest to SSH, which, in the capacity of asset manager, aims to achieve sound financial and business

results and strategic objectives. Risk management stands as a critical domain in securing robust business outcomes. Inadequate risk management in portfolio companies could jeopardize goals set by SSH in AAMP. Indeed, poorly managed risks are reflected in the operating result of each company, which affects the value of the ROE indicator of each company and the management portfolio of SSH as a whole, and ultimately the ability to pay dividends. In case of strategic assets, poorly managed risks could lead to suboptimal achievement of strategic indicators and objectives.

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

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

The sophistication and complexity of risk management systems in an individual company largely depend on each company's size, business complexity, employee count, and other factors which influence the required level of complexity to meet the standard of a diligent and fair business operator.

6.3 Compliance, ethics and corporate integrity



Through its management activities, SSH actively advocates for the creation of robust compliance and integrity systems, as well as risk management and internal audit systems within companies. These fundamental components of corporate governance are anticipated to be efficiently established to prevent, detect, and mitigate risks linked to business compliance and integrity issues. In addition, SSH ensures that operational regulations and best practices are adhered to.

The fundamental principles for the operation of SOEs must include commitments for corporate integrity, transparent operation and zero tolerance towards corruption, illegal and unethical conduct of employees, members of management and supervisory bodies.

In its pursuit to strengthen corporate integrity, SSH anticipates companies to not only comply with the applicable legislation concerning integrity and anti-corruption measures but also adhere to reference documents which focus on corporate integrity and best practices which are specific to their industries and company characteristics.

SSH has instituted internal mechanisms to oversee business compliance, integrity, and internal auditing. These are extensively detailed in the organizational development section of SSH's annual report drawn up in accordance with the Companies Act.

6.3.1 Business Compliance and Integrity System

The SSH's compliance and integrity system is set up in accordance with the provisions of ZSDH-1. These provisions are further enhanced by rules and procedures defined in the Company's internal policies and regulations. Thus, the provisions of Chapter 6 of ZSDH-1 are further defined in internal policies which regulate the following topics: conflicts of interest, traceability of contacts, reporting on non-public contacts, unethical or illegal actions or influences, acceptance of gifts, restrictions on transactions with related parties, transactions by liable persons with securities of companies under SSH management, business compliance policy, handling reports of alleged irregularities within SSH and the SOEs, and the Code of Ethics. Special attention is dedicated to the protection of personal data and the prevention of money laundering and terrorism financing.

All risks identified in the corporate compliance and integrity system (hereinafter referred to as: "CIS") are incorporated into the Integrity Plan. This Plan, which is publicly available, outlines a series of ongoing and one-time measures designed for risk management. During 2022, a routine assessment of the Integrity Plan was presented before the Company's governing bodies, as part of the comprehensive report delivered by the Chief Compliance and Integrity Officer to both the management and supervisory bodies.

Early in the year, an independent external review of the compliance and integrity system was conducted by the European Institute of Compliance and Ethics. In accordance with recommendations and changes in the environment, as well as amendments to ZSDH-1, internal processes of the CIS were reasonably upgraded.

As part of the merger project with BAMC, the Compliance and Integrity Department was established and assumed new roles and responsibilities: monitoring legislation and regulations, preventing money laundering and financing terrorism, providing advisory functions for liable parties within SSH as well as from management and supervisory bodies of SOEs, conducting operational assessment of the material and preparing recommendations for decision-making bodies within the Company.

6.3.2 Advisory services for SOEs

Under the advisory role of authorized personnel, as outlined in ZSDH-1, the focus is placed on advising the management and supervisory bodies, internal audit departments, and auditors of companies where SSH holds a majority stake or significant influence. This guidance aims to enhance integrity, ensure compliance with regulations and codes of conduct, and manage issues pertaining to corruption risks, conflicts of interest, and any unethical or unlawful behaviour. Strengthening professional collaboration among compliance and integrity officers within these companies was improved and emphasized when pursuing these efforts. In September 2022, the first professional meeting of compliance officers from companies in which SSH holds a majority ownership stake or has a significant influence was organized. **Regular educational and professional events will continue to foster a network among compliance officers, address common issues, share best practices, and discuss open professional challenges.**

As part of the amendments to ZSDH-1, Article 57 has been revised; it outlines procedures in cases of unethical or unlawful conduct or influences which may be encountered by liable parties within SSH. The commitment to report to SSH's Compliance and Integrity Officer about unethical or unlawful influences

from third parties now extends to members of management or supervisory bodies of companies where SSH holds a majority ownership stake or exerts significant influence.

6.3.3 Handling of reports on alleged irregularities

The Chief Compliance and Integrity Officer received a total of 51 reports under the system for handling reports of suspected irregularities. In accordance with internal processes, reports were categorised into the following categories:

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

Twenty-seven of reports referred to suspicions of irregularities in the functioning of SOEs which are included in the SSH's portfolio of assets. Eleven reports were expressions of

opinion by reporting persons, or they included other matters where no elements of suspected irregularities were detected. One report referred to the authority vested in other institutions and was submitted to this institution for their further consideration; one report concerned an alleged irregularity in SSH and was dealt with in accordance with internal procedures; and one report concerned alleged unethical or illegal conduct or influence within an SOE and was referred for review to the Commission for the Prevention of Corruption. The Whistleblower Protection Programme was not activated, as the content of the reports and the anonymity of the whistleblowers in each case made it unnecessary to do so.

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 the information received and gathered, the views of the Committee were formulated and, where necessary, measures were prepared and implemented under the responsibility of SSH.

At the beginning of 2023, internal procedures for handling reports of alleged irregularities were revised and adjusted in accordance with the provisions of the Reporting Persons Protection Act.

6.4 Internal Audit



In terms of organisation, the SSH's internal audit functions as an independent department. The basis for its operation is the Internal Audit Charter. The scope and schedule of Internal Audit's activities are defined in the annual work plan of the Internal Audit department, which is adopted by the Management Board of the Company with the consent of the SSH Supervisory Board.

The audit reviews in 2022 covered both compliance and performance issues of SSH. Key audit reviews at SSH focused on the appointment processes for candidates for members of supervisory boards of portfolio companies and personal data processing. A significant portion of Internal Audit's tasks also

included reviews of the operations of strategic companies in the portfolio managed by SSH. The purpose of including portfolio companies within the scope of Internal Audit activities was to enhance the scrutiny of their operations and their oversight. Through these operational audit reviews, SSH aims to mitigate risks significant to SSH or the Republic of Slovenia, risks that could impact SSH's and/or the Republic of Slovenia's objectives concerning the ownership of specific capital assets. Additional goal is to positively influence the compliance and efficiency of the business operations of the companies under review. All audits carried out were performed in accordance with the Hierarchy of Internal Audit Rules.

TABLE: NUMBER OF PLANNED AND REALISED ENGAGEMENTS CARRIED OUT BY THE INTERNAL AUDIT DEPARTMENT IN 2022

Internal audit engagements in 2021	Planned engagements	Executed engagements
Regular audit reviews	5	4
Audit reviews of companies under management	4	3
Formal advisory services	2	2

In areas where weaknesses were identified, recommendations were made to establish an even more effective system of internal controls and adequate risk management. Both

SSH and companies under review took a proactive approach to remedy the shortcomings identified.

TABLE: OVERVIEW OF THE INTERNAL AUDIT'S RECOMMENDATIONS AND INITIATIVES ISSUED AND IMPLEMENTED IN 2022

Internal Audit's Recommendations/Initiatives	Pending as at 1 January 2022	Newly issued in 2022	Implemented in 2022	Abandoned/not implemented	Still pending as at 31 December 2022
Recommendations and initiatives for SSH	13	20	22	0	11
Recommendations and initiatives for portfolio companies	20	30	32	2	16

6.5 Corporate culture, diversity, human rights



All three topics—**corporate culture, diversity, and human rights**—are interconnected and can significantly impact a company's business performance in their own way. Companies that effectively manage these areas are more likely to achieve their business goals, meet stakeholders' expectations, and uphold their broader social responsibilities.

In February 2022, recognizing the positive impact of corporate culture on business success, SSH introduced a handbook for supervisory boards of SOEs, which is entitled "Governing Corporate Culture". The manual was prepared in cooperation with the Centre of Business Excellence of the Faculty of Economics, the University of Ljubljana. The immediate aim of this paper is to equip supervisory boards with key guidelines, questions and tools for their operations from the aspect of governing corporate culture. Recognising that an appropriate organisational culture is an important factor in promoting or inhibiting business performance, the indirect purpose of the said guide is thus also to ensure the effectiveness and efficiency of companies' operations by giving culture an appropriate focus within corporate governance practices.

Creating a diverse, fair, and inclusive culture enables companies to foster a sense of belonging, motivating employees and ultimately impacting business success. Responsible business conduct and respect for human rights help strengthen trust in SOEs. Therefore, they should serve as an example to other companies in this field. This is not just a legal and moral obligation but can also have a positive impact on business results. Companies that operate responsibly and respect human rights are more likely to attract and retain talented employees who value ethical business practices.

As of May 2023, SSH has thus expanded its SSH Recommendations and Expectations and issued two entirely new recommendations—**governing corporate culture** and **diversity, equity, and inclusion (DEI)**. Additionally, it has amended the existing recommendation on **responsible business conduct and respect for human rights in operations**. In 2022, the proposal of the CS3D Directive was released with the aim of instituting a standard for human rights and environmental protection which would directly impose obligations on significant corporations.

SSH expects companies to comply with recommendations based on the principle of "**comply or explain**". Moving forward, these themes will hold a prominent position in monitoring companies' sustainable operations. SSH has consistently supported some of these topics through regular educational activities for supervisory boards and other decision-makers.

Grafik KPIE dan Monev
upravljenskih subjektu

PROMET



POSREDOVANJE



TURIZAM I VISITACIJA



BUSINESS PERFORMANCE OF COMPANIES OWNED BY RS AND SSH

07

BUSINESS PERFORMANCE OF COMPANIES OWNED BY RS AND SHS

7.1 Portfolio of RS and SSH capital assets as at 31 December 2022

As at 31 December 2022, portfolio of capital assets under SSH's management included 88 active companies (as at 31 December 2020, there were 62 such companies). Of this number, RS held direct ownership stake in 40 companies, and SSH in 34 companies, whereas both RS and SSH held direct ownership stake in 14 active companies. As at 31 December 2022, SSH held under its management nine smaller equity stakes owned by the Republic of Slovenia and acquired in accordance with the law governing inheritance. Capital assets with the RS's shareholding include the assets owned by ZPIZ and held in Zavarovalnica Triglav.

Additionally, as at 31 December 2022, SSH managed capital assets held in 26 non-active companies (in bankruptcy or in liquidation; there were 19 such companies in the SSH Port-

folio as at 31 December 2021). Of these companies, RS held direct ownership stake in ten companies, while SSH in 14 companies and both RS and SSH held direct ownership stake in two non-active companies.

Certain capital assets are classified under tangible assets management and claims management. Capital assets categorized under tangible assets management predominantly consist of real estate. These are typically project companies engaged in real estate management activities. Capital assets categorized under claims management are primarily companies focused on managing claims against these companies. Mostly, these are companies (except MLM) where their core business is no longer operational.

TABLE: LIST OF ACTIVE COMPANIES IN WHICH RS'S AND SSH'S EQUITY INTEREST EXCEEDS 5% AND FOR WHICH THE ANNUAL ASSET MANAGEMENT PLAN IS DRAWN UP; AS AT 31 DECEMBER 2021*

Pillar, Company	RS's shareholding (%)	SSH's shareholding (%)	Total (%)
TRANSPORT			
DARS, d. d.	100.00		100.00
DRI, d. o. o.	100.00		100.00
KOPP, d. o. o.	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
ENERGY			
EGS-RI, d. o. o.	100.00		100.00
ELEKTRO CELJE, d. d.	79.50	0.41	79.91
ELEKTRO GORENJSKA, d. d.	79.48	1.51	80.99
ELEKTRO LJUBLJANA, d. d.	79.50	0.77	80.27
ELEKTRO MARIBOR, d. d.	79.86		79.86
ELEKTRO PRIMORSKA, d. d.	79.68	0.36	80.05
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	12.70	23.52

Pillar, Company	RS's shareholding (%)	SSH's shareholding (%)	Total (%)
PLINHOLD, d. o. o.	60.10	0.05	60.15
RŽV, d. o. o.	100.00		100.00
FINANCIAL SECTOR			
D. S. U., d. o. o.	100.00		100.00
NLB, d. d.	25.00		25.00
Sava Re, d. d.	13.89	17.68	31.57
SID banka, d. d., Ljubljana	99.41		99.41
Terra mediterranea, d. d.**		42.85	42.85
UNIS Kovina, d. d., Visoko**		6.75	6.75
ZAVAROVALNICA TRIGLAV, d. d.***	34.48	28.09	62.57
TOURISM AND ECONOMY			
ADRIA, d. o. o.		11.74	11.74
A. L. P. PECA, d. o. o.	9.09		9.09
BODOČNOST MARIBOR, d. o. o.	77.52		77.52
CASINO BLEDE, d. d.		33.75	33.75
CASINO Portorož, d. d.		9.46	9.46
CENTER ZA AVTOHTONE SORTE SEMEN, d. o. o.	100.00		100.00
CETIS, d. d.		7.47	7.47
CINKARNA Celje, d. d.		24.44	24.44
CSS, d. o. o.	97.96		97.96
ELEKTROOPTIKA, d. d.	0.01	70.48	70.49
FAIR GmbH	1.18		1.18
FARME IHAN – KPM, d. o. o.**		100.00	100.00
HIT, d. d., Nova Gorica		28.54	28.54
ISTRABENZ TURIZEM, d. d.**		100.00	100.00
ISTRABENZ, d. o. o.**		100.00	100.00
KOTO, d. o. o.	66.23	4.42	70.65
KRKA, d. d., Novo mesto	7.22	9.00	16.22
LOTERIJA SLOVENIJE, d. d.		15.00	15.00
LUBRIO, d. o. o.	100.00		100.00
MK Založba, d. d.**		83.47	83.47
POMGRAD – VGP, d. d.	25.01		25.01
PS ZA AVTO, d. o. o., Ljubljana		90.00	90.00
SALOMON, d. o. o., Ljubljana**		30.59	30.59
SAVA, d. d.		61.91	61.91
SiDG, d. o. o.	100.00		100.00
SIJ, d. d.	25.00		25.00
STNA, d. o. o.**		100.00	100.00
STUDENTENHEIM KOROTAN GMBH	100.00		100.00
TALUM, d. d.**		5.21	5.21
TELEKOM SLOVENIJE, d. d.	62.54	4.25	66.80
TERME OLIMIA, d. d.	43.26	8.08	51.33
THERMANA, d. d.**		100.00	100.00
UNIOR, d. d.		39.43	39.43
URADNI LIST REPUBLIKE SLOVENIJE, d. o. o.	100.00		100.00
VGP, d. d.	25.00		25.00
VGP DRAVA Ptuj, d. o. o.	25.00		25.00
VGP Novo mesto, d. d.	25.00		25.00
TANGIBLE ASSETS			
ARGOLINA, d. o. o.**		100.00	100.00

Pillar, Company	RS's shareholding (%)	SSH's shareholding (%)	Total (%)
DUP, d. o. o., Sarajevo**		100.00	100.00
DUTB Crna Gora, d. o. o.**		100.00	100.00
FACTOR PROJEKT, d. o. o., Croatia**		100.00	100.00
CLAIMS			
Avtotehna Zagreb, d. o. o.**		100.00	100.00
Batris, LLC, Ukraine**		18.00	18.00
BR89, d. o. o.**		100.00	100.00
CONSTANT LEADER XXI, LLC, Ukraine**		18.00	18.00
DS PROJEKT, d. o. o.**		74.00	74.00
HYUNDAI AUTO BEOGRAD, d. o. o.**		100.00	100.00
MLM, d. d.**		100.00	100.00
POSLOVNI SISTEM DOMINA DOO, BEOGRAD**		55.52	55.52

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

** Capital assets which SSH received through the merger with BAMC at the end of 2022 and for which AAMP had not been prepared.

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

7.2 Value and structure of portfolio under management

7.2.1 Capital assets

In 2022, the book value of capital assets increased and amounted to EUR 11.2 billion at the end of the year (as at 31 December 2021: EUR 10.3 billion). The increase in value is partly due to the growth of the capital of companies as a result of their business results, partly due to capital increases carried out in 2022 (HSE and SŽ), and partly due to the acquisition of new equity stakes (the increase in the stake in Sava, the acquisition of DRI and SiDG, the acquisition of capital assets through the merger with BAMC). In total, the investments which were taken over at the end of 2022 (SiDG,

DRI) and capital assets (formerly held by BAMC) represented approximately 3% of the book value of all capital assets under management.

The concentration of assets in the portfolio continues to be high – top 10 companies represented almost as much as 77.9% of the total portfolio's assets, while 20 largest companies took up a 95% share of the entire portfolio. Just the largest portfolio company, DARS, took up as much as a 29% share of the total portfolio.

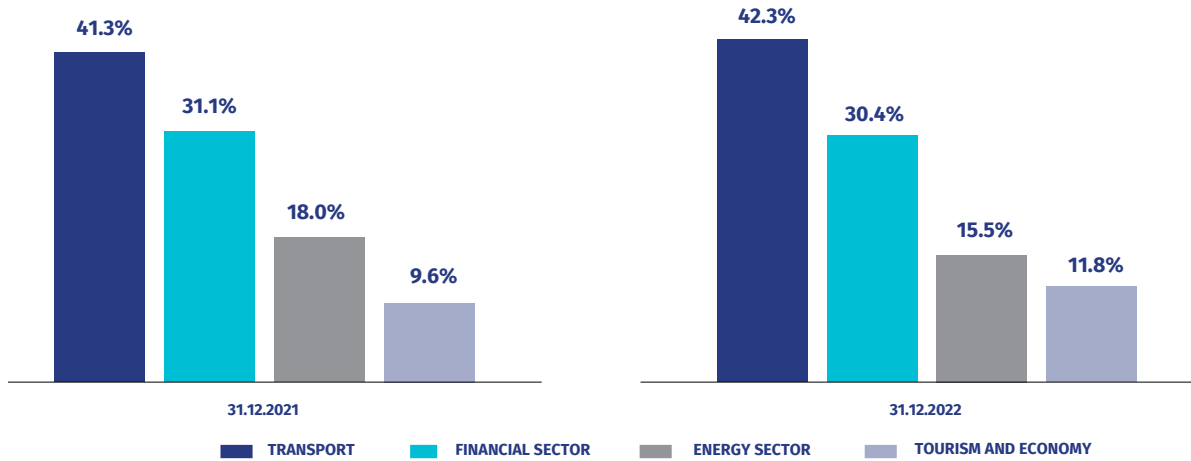
TABLE: TOP 10 ASSETS HELD BY RS AND SSH BY BOOK VALUE OF EQUITY AS AT 31 DECEMBER 2022

Company	Pillar	Classification	RS and SSH shareholding as at 31 December 2022	Book-value of assets owned by RS + SSH, as at 31 December 2022 (in EUR million)	Share in total portfolio
DARS, d. d.	TRANSPORT	STRATEGIC	100.00%	3,199	28.6%
GEN energija, d. o. o.	ENERGY SECTOR	STRATEGIC	100.00%	1,031	9.2%
HSE, d. o. o.	ENERGY SECTOR	STRATEGIC	100.00%	1,025	9.2%
SŽ, d. o. o.	TRANSPORT	STRATEGIC	100.00%	834	7.5%
NLB d. d.	FINANCIAL SECTOR	IMPORTANT	25.00%	606	5.4%
ZAVAROVALNICA TRIGLAV, d. d.	FINANCIAL SECTOR	STRATEGIC	62.57%	471	4.2%
SID banka, d. d.	FINANCIAL SECTOR	STRATEGIC	99.41%	448	4.0%
TELEKOM SLOVENIJE, d. d.	ECONOMY AND TOURISM	PORTFOLIO	66.80%	409	3.6%
KRKA, d. d.	ECONOMY AND TOURISM	IMPORTANT	16.21%	347	3.1%
POŠTA SLOVENIJE, d. o. o.	TRANSPORT	STRATEGIC	100.00%	348	3.1%
TOTAL TOP 10				8,717	77.9%
Other				2,479	22.1%
TOTAL PORTFOLIO				11,196	100.0%

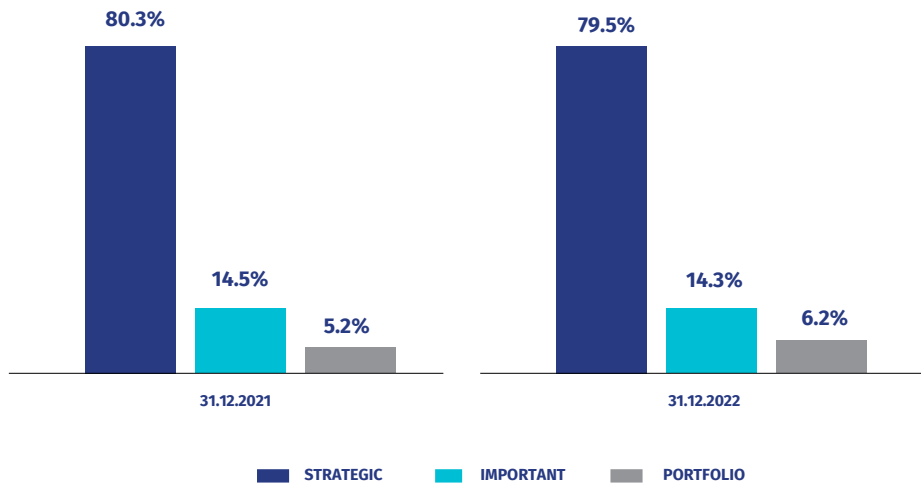
The Transport and Energy pillars account for the bulk of companies with capital assets under SSH's management, together they account for almost 73%. The structure of companies by

pillar did not change significantly in 2022. There were also no significant changes in the structure of companies by classification and listing.

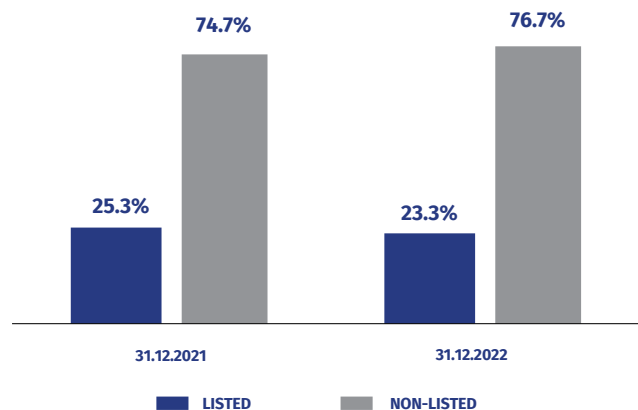
GRAPH: COMPOSITION OF THE PORTFOLIO UNDER MANAGEMENT AS AT 31 DECEMBER 2022 – BY PILLARS (INDUSTRIES)



GRAPH: COMPOSITION OF THE PORTFOLIO OF COMPANIES WITH ASSETS UNDER SSH MANAGEMENT AS AT 31 DECEMBER 2022 – BY CLASSIFICATION (STRATEGIC ORIENTATION)



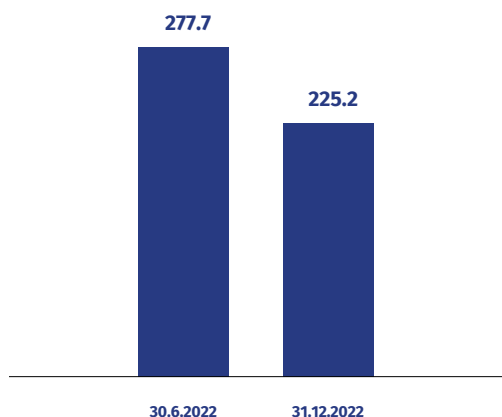
GRAPH: COMPOSITION OF THE PORTFOLIO OF COMPANIES WITH ASSETS UNDER MANAGEMENT AS AT 31 DECEMBER 2022 – BY QUOTATION AT THE STOCK EXCHANGE



7.2.2 Claims

As at 31 December 2022, the fair value of claims transferred from BAMC amounted to EUR 225.2 million. The fair value represents 7.6% of the total gross exposure, which amounts to nearly EUR 3.0 billion.

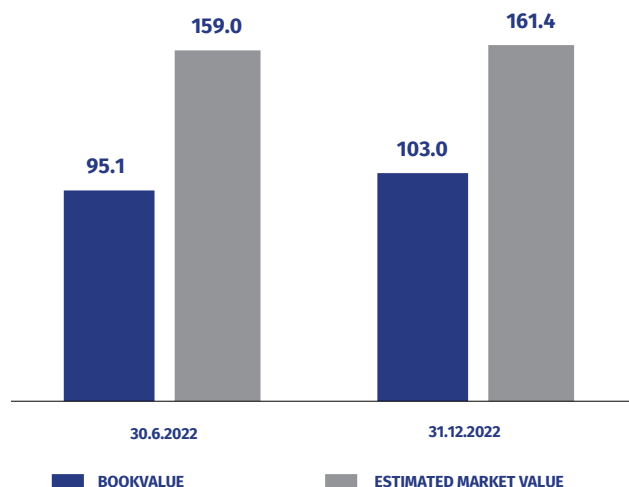
FAIR VALUE OF CLAIMS (IN EUR MILLION), TRANSFERRED FROM BAMC



7.2.3 Tangible assets

At the end of 2022, SSH owned 202 real estate units with a total book value of EUR 103 million. Its estimated market value amounted to EUR 161.4 million. A smaller portion of the portfolio of tangible assets consists of two smaller non-flying aircraft, artworks, and various equipment (within business premises). The majority of the real estate assets under ownership comprises land and residential buildings, followed by commercial and industrial real estate.

THE BOOK VALUE AND THE ESTIMATED MARKET VALUE OF OWNED REAL ESTATE (IN EUR MILLION)



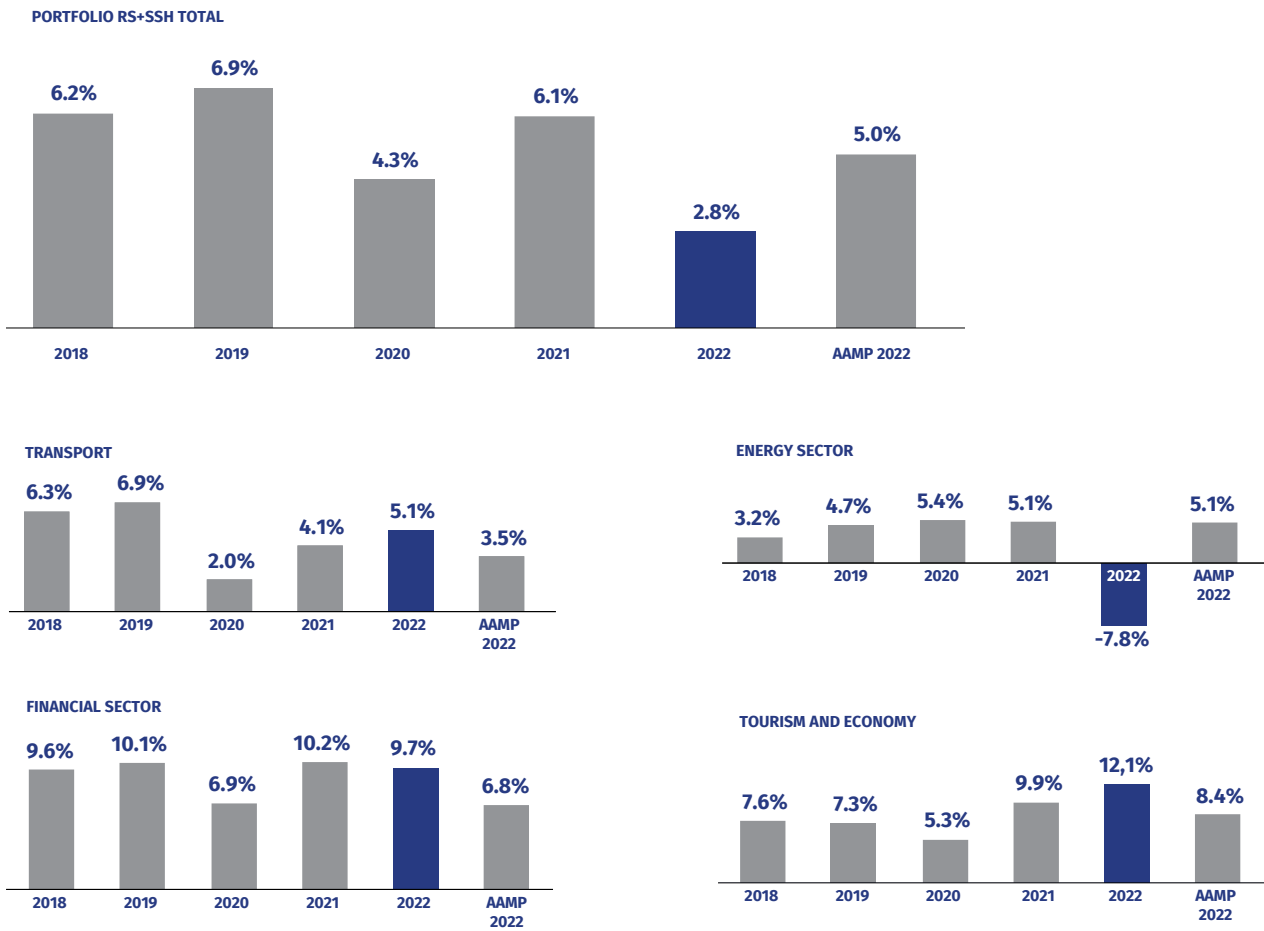
7.3 Business performance of asset management

7.3.1 Capital assets

The return on equity (ROE) of the entire portfolio of capital assets managed by SSH in 2022 amounted to 2.8%, which is less than the ROE planned for 2022 (5.0%) as well as less than the ROE in 2021 (6.1%). The reason for this is the poor performance of the companies in the Energy sector due to market conditions (high energy prices), production interruptions (drought, damage in the Velenje mine, maintenance of the NEK), and intervention measures to manage energy costs. The return on equity of the Energy sector was significantly negative.

Excluding the Energy sector, the results of other pillars are very favourable, as ROE of the portfolio of capital assets excluding the Energy sector amounts to 7.4%. This is higher than ROE planned for 2022 if the Energy sector (5.0%) is excluded from the calculation, and higher than the ROE in 2021 if the Energy sector (6.5%) is excluded from the calculation.

GRAPH: ROE FOR THE PORTFOLIO OF ASSETS – TOTAL AND BY PILLARS – IN THE 2018-2022 PERIOD



With the exception of the Energy sector, other sectors demonstrated good results in 2022 and surpassed the targets set in the AAMP. Among individual companies or groups, SIJ, Krka,

Luka Koper, both insurance firms and NLB stood out in terms of their 2022 results.

GRAPH: ROE OF TOP 10 ASSETS IN THE PORTFOLIO OF SSH IN 2022. THE SIZE OF THE CIRCLE REPRESENTS THE SIZE OF THE COMPANY IN THE PORTFOLIO (BOOK-VALUE OF THE EQUITY STAKE HELD BY RS AND/OR SSH) AND ITS WEIGHT IN THE CALCULATION OF THE ROE OF THE TOTAL PORTFOLIO.

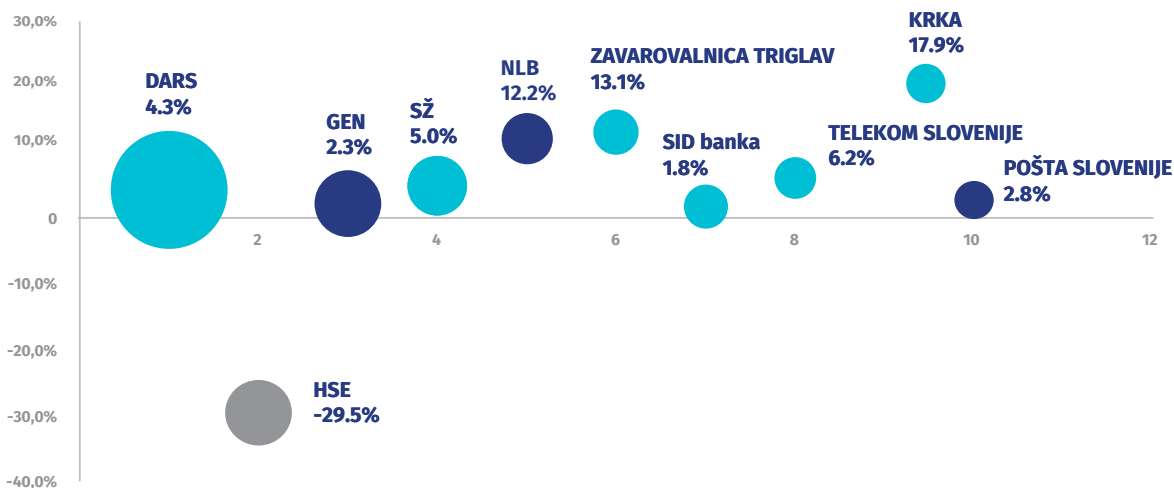


TABLE: ROE 2022 AND DIVIDENDS PAID OUT FOR FY 2022 BY FIVE TOP COMPANIES IN EACH PILLAR OF COMPANIES WITH ASSETS UNDER SSH MANAGEMENT

Pillar, Company (as at 31 December 2020)	Owner- ship stake RS+SSH	Book value of stake RS+SSH (EUR)	Share in total port- folio	ROE 2021	ROE 2022	Dividends for RS and SSH for FY 2021 (EUR)	Dividends for RS and SSH for FY 2022 (EUR)
TRANSPORT							
DARS, d. d.	100.00%	3,199,015,617	28.57%	3.78	4.33	0	0
SŽ, d. o. o.*	100.00%	834,109,083	7.45%	5.21	5.02	0	9,825,988
POŠTA SLOVENIJE, d. o. o.,	100.00%	347,575,191	3.10%	5.23	2.82	5,000,000	0
LUKA KOPER, d. d.	62.13%	320,412,019	2.86%	6.99	15.09	9,915,557	21,744,643
KZPS, d. o. o.	100.00%	8,276,083	0.07%	-85.26	41.89	0	0
TOTAL TOP 5 TRANSPORT		4,709,387,993	42.06%			14,915,557	31,570,631
ENERGY SECTOR							
GEN	100.00%	1,031,493,872	9.21%	10.88	2.27	0	0
HSE	100.00%	1,024,739,730	9.15%	5.47	-29.53	0	0
ELEKTRO LJUBLJANA, d. d.	80.26%	269,982,080	2.41%	4.15	-2.02	1,874,915	0
ELEKTRO MARIBOR	79.86%	249,418,310	2.23%	3.00	1.89	1,597,740	0
PETROL, d. d.	23.52%	202,294,846	1.81%	14.35	-0.30	14,706,450	14,719,800
TOTAL TOP 5 ENERGY SECTOR		1,746,434,966	15.60%			18,179,105	14,719,800
FINANCIAL SECTOR							
NLB d. d.	25.00%	605,581,250	5.41%	11.42	12.20	25,000,005	27,500,006
ZAVAROVALNICA TRIGLAV, d. d.	62.57%	471,051,843	4.21%	12.50	13.10	52,636,803	35,565,408
SID banka, d. d.	99.41%	448,204,815	4.00%	4.96	1.78	0	0
SAVA RE, d. d.	31.57%	130,054,695	1.16%	15.80	14.90	8,154,479	8,698,111
D. S. U., d. o. o.	100.00%	78,404,918	0.70%	6.00	6.55	0	0
TOTAL TOP 5 FINANCIAL SECTOR		1,127,716,271	10.07%			85,791,287	71,763,525
ECONOMY AND TOURISM							
TELEKOM SLOVENIJE, d. d.	66.80%	408,572,711	3.65%	6.36	6.19	19,644,336	0
KRKA, d. d.	16.21%	346,663,001	3.10%	16.79	17.93	29,929,063	35,085,581
SIJ GROUP	25.00%	111,229,195	0.99%	7.48	22.57	13,111,578	1,494,417
UNIOR, d. d.	39.43%	72,798,579	0.65%	6.54	5.67	0	0
SAVA, d. d.	61.91%	71,226,529	0.64%	2.01	5.67	0	0
TOTAL TOP 5 ECONOMY AND TOURISM		1,010,490,014	9.03%			62,684,977	36,579,998
TOTAL TOP 5 ALL PILLARS		8,594,029,245	76.76%			181,570,926	154,633,954
TOTAL RS+SSH PORTFOLIO		11,195,836,750	100%			190,655,299	175,500,357

* Dividend from tangible assets

7.3.2 Claims

In the second half of 2022, BAMC (now SSH) generated EUR 55.8 million in cash inflows from claim management. The largest inflows come from the sale of claims from Alpina, d. o. o., and Merkur nepremičnine, d. d. In the second half of 2022, on the basis of the refinancing of loans by commercial banks, regular or different forms of repayment, and full settlement of contracted debt, 15 loans were closed with the value of EUR 0.3 million.

Even in cases where no repayments were expected as at 30 June 2022 (cases without tangible collateral), in the second half of 2022 payments totalling EUR 0.6 million were realized as a result of a multitude of activities which were undertaken

in 35 cases (distribution of general bankruptcy estates, payments based on agreements, successfully completed enforcement and other judicial proceedings).

7.3.3 Tangible assets

In the second half of 2022, EUR 5.9 million in inflows was realised from the sale of 68 individual units of property. In the second half of 2022, among other achievements, EUR 0.6 million in inflows was realized from property leasing.

In addition to sales and leasing activities, numerous cost reduction activities for managing real estate were also carried out. This included an agreement reached in collaboration

with the Ministry of Culture of the Republic of Slovenia. Under this agreement, in 2023, art galleries took possession and

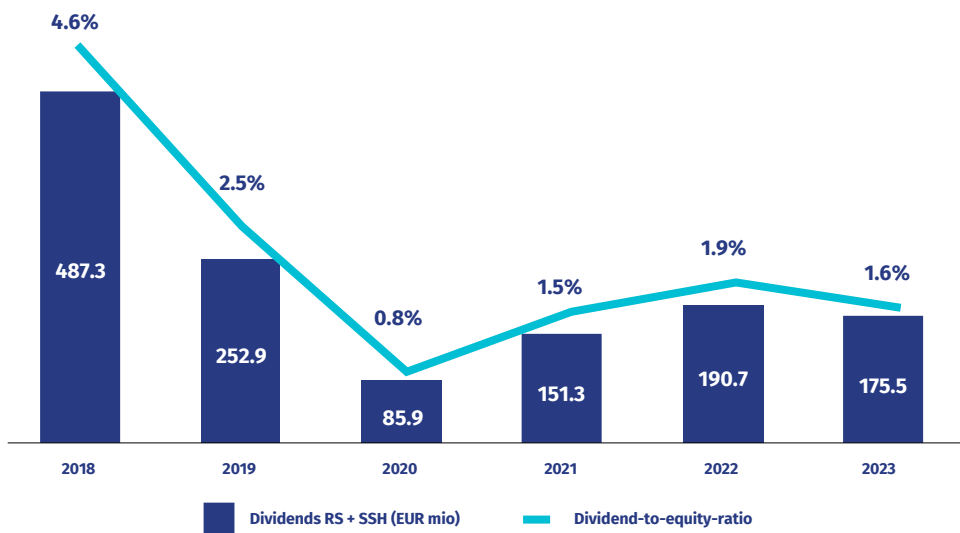
custody of artistic works, thereby transferring the entire management costs of these artworks to the galleries.

7.4 Dividends

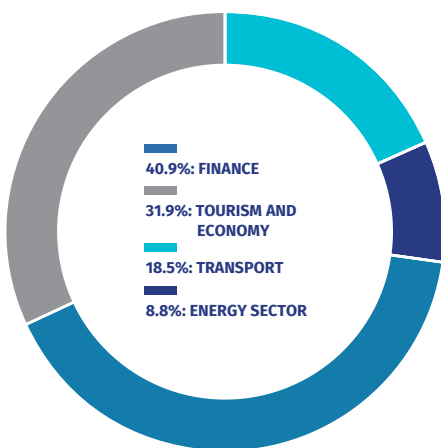
In 2023, dividends paid (for FY 2022) are expected to amount to EUR 175.5 million, which is above the level planned in the AAMP 2022 which was estimated to amount to EUR 162.6 million. Companies from the **Finance pillar** will contribute the highest share of dividends, specifically, 40.9%, followed by the com-

panies from the Tourism and Economy pillar with 31.9%, the Transport pillar will contribute 18.5% of total dividend income, and the share of dividend income contributed by the Energy pillar will be 8.8%. The dividends include the dividend in kind by SŽ in the amount of EUR 9.8 million (target: EUR 3 million).

GRAPH: DIVIDEND PAY-OUTS IN EUR FOR ASSETS OWNED BY RS AND SSH, SEPARATELY BY YEARS (FOR PREVIOUS FINANCIAL YEAR)



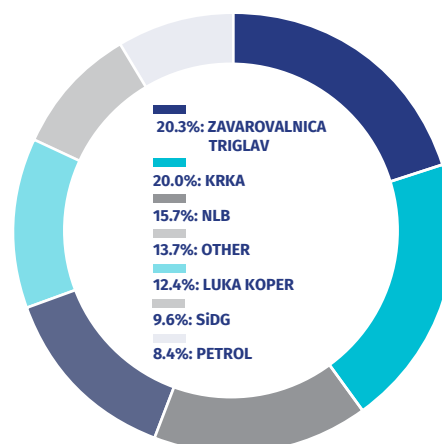
GRAPH: THE LARGEST DIVIDEND PAYERS FROM RS AND SSH PORTFOLIO IN 2023 (FOR FY 2022) - BY INDIVIDUAL PILLARS



As regards individual companies, Zavarovalnica Triglav distributed the highest amount of dividends, which accounted for 20.3% of all dividends. Zavarovalnica Triglav was followed by Krka, NLB, Luka Koper, SiDG and Petrol. Together, these six

top dividend payers distributed over 86% of all dividends paid out by companies with capital assets under SSH management.

GRAPH: THE LARGEST DIVIDEND PAYERS FROM RS AND SSH PORTFOLIO IN 2023 (FOR FY 2022) - BY INDIVIDUAL COMPANIES



7.5 Summary of criteria for measuring performance of SOEs and information on fulfilment of criteria in 2022

The table below provides a summary of how two key performance criteria for SOEs were satisfied in 2022. The table ex-

cludes companies with state capital assets for which the Annual Asset Management Plan was not prepared.

TABLE: ATTAINMENT OF GOALS ON THE BASIS OF CRITERIA SET IN ANNUAL ASSET MANAGEMENT PLAN 2022

Pillar, Company	ROE 2022 (%)		EBITDA margin 2022 (in%)	
	Annual Asset Management Plan	Outcome	Annual Asset Management Plan	Outcome
TRANSPORT				
DARS, d. d.	2.86	4.33	79.28	76.86
KOPP, d. o. o.	0.05	0.78	6.01	5.23
KZPS, d. o. o.	3.71	41.89	9.67	16.20
LUKA KOPER GROUP	7.00	15.09	28.50	36.06
POŠTA SLOVENIJE GROUP	3.85	2.82	9.86	9.19
SŽ GROUP	4.69	5.02	15.49	16.86
ENERGY				
ELEKTRO CELJE, d. d.	3.81	-1.82	39.90	25.32
ELEKTRO GORENJSKA GROUP	3.98	0.14	45.64	28.85
ELEKTRO LJUBLJANA, d. d.	3.21	-2.02	42.52	25.25
ELEKTRO MARIBOR GROUP	3.90	1.89	42.84	26.64
ELEKTRO PRIMORSKA, d. d.	4.01	-0.90	42.30	28.67
GEN GROUP	6.75	2.26	5.70	2.16
GEOPLIN, d. o. o.	5.74	-21.18	1.17	-1.96
HSE GROUP	16.10	-29.53	6.65	-2.29
NAFTA LENDAVA GROUP	-2.20	-3.23	2.55	1.44
PETROL GROUP	13.90	-0.30	10.50	4.16
PLINHOLD GROUP	2.08	2.53	60.60	25.31
FINANCIAL SECTOR				
D. S. U., d. o. o.	5.48	6.55	63.58	64.90
TOURISM AND ECONOMY				
ADRIA, d. o. o.	3.56	4.11	25.15	22.76
BODOČNOST MARIBOR, d. o. o.	5.51	10.73	4.74	7.54
CETIS GROUP	16.00	31.82	17.50	22.48
CINKARNA Celje, d. d.	9.00	21.74	20.00	26.17
CSS, d. o. o.	2.58	2.75	3.64	3.09
HIT GROUP	6.39	21.32	12.56	15.57
KOTO, d. o. o.	2.86	23.02	12.28	21.13
KRKA GROUP	13.00	17.93	26.50	28.50
LOTERIJA SLOVENIJE, d. d.	23.50	30.70	7.03	8.12
POMGRAD – VGP, d. d.	1.94	6.10	7.85	7.5
SAVA GROUP	-3.50	5.67	14.00	22.56
SIJ GROUP	5.98	22.57	9.90	13.76
STUDENTENHEIM KOROTAN GMBH	-9.00	-5.65	-5.70	7.28
TELEKOM SLOVENIJE GROUP	7.00	6.19	35.50	32.85
TERME OLIMIA GROUP	4.53	7.56	21.87	22.62
UNIOR GROUP	5.30	5.67	12.20	9.46
URADNI LIST REPUBLIKE SLOVENIJE, d. o. o.	1.51	3.34	8.07	10.82
VGP, d. d.	-9.11	13.86	2.54	7.71
VGP DRAVA Ptuj, d. o. o.	14.10	24.13	6.20	7.66
VGP Novo mesto, d. d.	7.80	10.28	13.60	16.72

Notes: When consolidated financial statements are drawn up, the indicators refer to the performance result of the Group, with the exception of data for electricity distribution companies (EDCs) in which case EBITDA margin refers to a parent company. In case of Petrol, gross margin is given, instead of EBITDA margin.

Pillar, Company	Annual Asset Management Plan	ROE 2022 (%)		CIR* 2022 (%)	
		Outcome	Annual Asset Management Plan	Outcome	Annual Asset Management Plan
FINANCIAL SECTOR - banks					
NLB GROUP	9.00	12.20	59.00	57.60	
SID banka, d. d., Ljubljana	0.20	1.78	63.63	81.65	

*Cost-to-Income Ratio

Pillar, Company	Annual Asset Management Plan	ROE 2022 (%)		Combined ratio 2022 (%)	
		Outcome	Annual Asset Management Plan	Outcome	Annual Asset Management Plan
FINANCIAL SECTOR - insurance companies					
SAVA INSURANCE GROUP	12.00	14.90	95.00	90.70	
ZAVAROVALNICA TRIGLAV GROUP	9.00	13.10	95.00	88.10	

08

METHODOLOGICAL, LEGAL AND OTHER NOTES

Legal basis

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

Operation performance data for SOEs

For companies, which prepare consolidated statements, data at the Group level have been utilized, except in cases explicitly noted in the Notes to Tables. All available audited financial statements, as of the time of composing this Report, have been taken into account.

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

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

- companies in bankruptcy or liquidation (a common list of all such companies is published on the), SSH's web site: <https://sdh.si/sl-si/upravljanje-nalozb/seznam-nalozb>),
- companies in which the equity stake of SSH or RS is lower than 1%;
- companies for which a Takeover Bid has been accepted or a Sale and Purchase Agreement has been concluded or any other written agreement has been entered into but it is not yet yet closed,
- companies for which 2022 AAMP was not prepared;
- capital assets acquired by the RS exclusively on the basis of the Inheritance Act (the list is published on the SSH website); and
- any other less important companies, such as, for example:
 - Savaprojekt d. d., with RS ownership stake amounting to 3.47% and which SSH strives to sell;
 - A. L. P. Peca, d. o. o. (micro company), with RS ownership stake amounting to 9.09 % : SSH strives to sell its equity interest under management.

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
Average No.-of employees	Average number of employees on the basis of hours worked during an accounting period
added value per employee	gross return – COGS – other operating expenses/No. of employees
Dividend amount RS/SSH	gross dividend amounts received by RS /SSH as voted at General Meetings (founder's resolution passed) and paid out in the current year for the pre-vious 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.

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:

- Energy Agency Report on Energy Sector in Slovenia for 2022 <https://www.agen-rs.si/>
- Governance instruments issued by Slovenian Sovereign Holding; www.sdh.si.
- Bank of Slovenia: Financial Stability Review, May 2023, www.bsi.si.
- Eurocontrol and Slovenia: data tabs and publications, <https://www.eurocontrol.int/> and <https://www.sloveniacontrol.si/>.
- Financial and Annual Reports of companies held in ownership of RS and SSH
- Bloomberg Information System
- Ljubljana Stock Exchange: Trading report for 2022, <https://ljse.si/>.
- Legislation Portal, <https://www.iusinfo.si/>.
- Slovenian Insurance Association Statistical Insurance Bulletin 2023, www.zav-zdruzenje.si.
- Statistical Office of Republic of Slovenia: SiStat Database, <https://pxweb.stat.si/SiStat/sl>.
- Slovenian Tourist Board: Business; Research and analysis;
- <https://www.slovenia.info/sl/poslovne-strani/raziskave-in-analize/turizem-v-stevilkah>
- Institute of Macroeconomic Analysis and Development (IMAD) Autumn Forecast of Economic Trends 2023, www.umar.gov.si.

List of acronyms and glossary of terms

- **5G** – In telecommunications, 5G is the fifth-generation technology standard
- **4G** – the fourth generation of mobile broadband technology
- **MW Police** – motorway police
- **APP** – Asset Purchase Programme
- **ATX index** – the most important index of Wiener Börse Dimensions Austrian Traded Index
- **GDP** – gross domestic product
- **BoE** – Bank of England, the central bank of the United Kingdom
- **CAGR** – Compound annual growth rate
- **CER** – CER Partnerstvo za trajnostno gospodarstvo (in English: Sustainable Economy Partnership)
- **COVID-19** – a disease caused by SARS-CoV-2 virus
- **CO2** – carbon dioxide
- **CPOEF** – Center poslovne odličnosti Ekonomske fakultete - Centre of business Excellence of the Faculty of Economic, University of Ljubljana
- **CSRD** – Corporate Sustainability Reporting Directive
- **CS3D** – Corporate Sustainability Due Diligence Directive
- **PSH** – Pumped Storage Hydroelectricity, a type of hydro energy power plant used for storing energy
- **DARS** – Motorway Company of Republic of Slovenia
- **DAX Index** – Deutscher Aktienindex. The index is calculated as a capitalization-weighted average of the stock prices of the 40 largest stock companies in Germany
- **DEI** – governing corporate culture, diversity, equity and inclusion
- **DEM** – Dravske elektrarne Maribor, d. o. o.
- **d. d. (PLC)** – public limited company
- **d.o.o. (Ltd.)** – Limited liability company
- **D.S.U.** – Družba za svetovanje in upravljanje
- **DTK** – venture capital companies
- **BAMC** – Bank Asset Management Company
- **EBRD** – European Bank for Reconstruction and Development
- **ECB** – European Central Bank
- **EDC** – electricity distribution company
- **EE** – electricity
- **EETS** – European electronic toll service
- **EEA** – of the state the European Economic premises
- **ESG** – environment, social and governance criteria
- **ESRS** – European Sustainability Reporting Standards
- **ECESA** – Expert Committee for Economic and Social Affairs
- **EU** – European Union
- **EUR** – Euro currency
- **EU-27** – European Union of 27 Member States
- **FED** – Federal Reserve System (American Central Bank)
- **FIHO** – Fundacija za financiranje invalidskih in humanitarnih organizacij (in English: Foundation for Funding Disability and Humanitarian Organizations)
- **FŠO** – Fundacija za financiranje športnih organizacij (in English: Foundation for Funding Sports Organisations of Slovenia)
- **GB** - a unit of measure for the amount of data in computing
- **GDR** – Global Depositary Receipts
- **GHG** – Standards for the carbon footprint of organizations, products, and services, as well as carbon neutrality.
- **GJS** – service of general economic interest
- **GMBH** – Gesellschaft mit beschränkter Haftung (limited liability company)
- **GWh** – Gigawatt hours
- **HPP** – hydro power plant
- **HESS** – Hidroelektrarne na spodnji Savi d. o. o. (Hydroelectric Power Plants on the Lower Sava River)
- **HICP** - Harmonised Index of Consumer Prices
- **HSE** – Holding slovenske elektrarne
- **ICT** – Information and communication technology
- **IPTV** – Internet Protocol Television (the delivery of television content over Internet Protocol (IP) networks)
- **etc.** – and similar
- **ICT** – Information and communication technology
- **NEK2** – the second unit of Krško Nuclear Power Plant
- **SEE** - South East Europe
- **KAD** – Kapitalska družba pokojninskega in invalidskega zavarovanja d. d. (Pension Fund Management)
- **KIS** – the Agricultural Institute of Slovenia
- **km** – kilometre
- **CA** – capital asset
- **Code** – Corporate Governance Code for SOEs
- **KOPP** – Javno podjetje Koprška pristaniška pilotaža , d. o. o.
- **KZPS** – Kontrola zračnega prometa Slovenije, d. o. o., or Slovenia Control Limited
- **LLC** – Limited liability company
- **AAMP** – Annual Asset Management Plan for capital assets of RS and SSH
- **LTE** – Long Term Evolution (a standard for mobile telecommunications defined by 3GPP)
- **MCR** – Minimum Capital Requirement
- **MERL** – Mercator shares
- **mio** – million
- **MOPE** – Ministry of the Environment, Climate and Spatial Planning
- **bn** – billion
- **MR stations** – metering and regulation stations
- **MSCI** – the MSCI Indexes are a measurement of stock market performance in a particular area

- **SME** – small and medium-sized enterprises
- **MW** – megawatt
- **MWh** – megawatt hour
- **NEK** – Krško nuclear power plant
- **NECP** – National Energy and Climate Plan
- **NLB** – Nova Ljubljanska banka, d. d.
- **LV network** – low-voltage network (up to 1 kV)
- **NPE** – non performing exposure
- **NPL** – non-performing loan
- **SB** – Supervisory Board
- **OE** – organisational unit
- **OECD** – Organisation for Economic Cooperation and Development
- **RES** – renewable sources of energy
- **RVT** – the recovered-tested-vaccinated rule in the face of the COVID-19 epidemic
- **Policy** – Asset Management Policy of SSH
- **RO-RO** terminal – roll-on/roll-off (wheeled freight terminal)
- **RPA** – Robotic process automation
- **RUB** – Russian Ruble
- **RS** – Republic of Slovenia
- **RŽV** – Žirovski vrh Mine
- **SAŠA** – Savinjsko - šaleška region is part of the Savinjska statistical region
- **SBITOP** – Slovenian Blue Chip Index,; benchmark index, which tracks the performance of the most liquid shares on the Ljubljana Stock Exchange
- **SCR** – Solvency capital requirement
- **SSH** – Slovenian Sovereign Holding
- **SIJ** – Slovenska industrija jekla d. d.
- **MV network** – Medium voltage network (1-35 kV)
- **SOD** – Slovenska odškodninska družba, d. d.
- **SODO** – sistemski operater distribucijskega omrežja z električno energijo, d.o.o. (Electricity Distribution System Operator)
- **SPA** – Sale and Purchase Agreement
- **SPC** Ptuj – Seleksijsko poskusni center Ptuj, or Selection and Testing Centre Ptuj
- **CCI** – Compliance and corporate integrity system
- **Strategy** – State Assets Management Strategy
- **SURS** – Statistical Office of the Republic of Slovenia
- **SIA** – Slovenian Insurance Association
- **SŽ** – Slovenske železnice, d. o. o.
- **S&P** – a stock market index
- **TEU** – the twenty-foot equivalent unit, an unit of cargo capacity used to describe the capacity of container ships and container terminals
- **TEN-T corridor** – the Trans-European Transport Network (TEN-T) is a planned network of roads, railways, airports and water infrastructure in the European Union
- **TEŠ** – Termoelektrarna Šoštanj, d. o. o.
- **TLTRO** – Targeted long-term funding operations; Euro system operations financing credit institutions)
- **TEU** – a unit of cargo capacity used to describe the capacity of container ships and container terminals; Twenty-foot Equivalent Unit
- **TWh** – Terawatt hour
- **VGP** – water utility company
- **HV network** – high voltage network (110-400 kV)
- **VOIP** – Voice over Internet Protocol
- **ZBan-3** – Banking Act
- **USA** – the United States of America.
- **ZGD-1** – Companies Act
- **ZGGLRS** – Management of State Forests Act
- **ZIntPK** – Integrity and Prevention of Corruption Act
- **ZIOOZP** – Act Regulating the Issuing of Bonds in Compensation for Confiscated Property pursuant to the Abrogation of the Penalty of Confiscation of Property
- **ZIUZEOP** – Act Determining the Intervention Measures to Contain COVID-19 Epidemic and Mitigate its Consequences for Citizens and the Economy
- **ZOPVTKK** – Act on Limitation and Distribution of Foreign Currency Risk between Lenders and Borrowers of Loans in Swiss Francs
- **ZPIZ** – Zavod za pokojninsko in invalidsko zavarovanje or in English, Pension and Disability Insurance Institute of Slovenia.
- **ZSDH-1** – Slovenian Sovereign Holding Act
- **ZSDH-1A** – Draft Act Amending the Slovenian Sovereign Holding Act
- **ZSOS** – Slovenian Compensation Fund Act
- **ZSPOZ** – Act on Payment of Compensation to Victims of War and Post-War Violence
- **ZUOPVCE** – Act Determining Emergency Measures to Mitigate the Consequences of the Impact of High Energy Commodity Prices
- **ZVKSES** – Protection of Buyers of Apartments and Single Occupancy Buildings Act
- **ZVJTO** – Reimbursement of Investments in Public Telecommunications Network Act
- **ZZavar-1** – Insurance Act

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Annual Report – Management of Assets of RS and SSH for 2022

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

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Due to the extensive nature of the document, the abbreviated version of the Annual Report - Management of Assets of the Republic of Slovenia and Slovenian Sovereign Holding for 2022 has been translated, excluding the original Chapters 8 - Company Details for 20 Largest SOEs, and Chapter 9 - 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.



SLOVENSKI DRŽAVNI HOLDING, d. d.