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KAPITALSKA DRUŽBA

ANNUAL REPORT OF KAPITALSKA DRUŽBA FOR 2013

LIST OF ABBREVIATIONS USED	ISA Insurance Supervision Agency
	GDP Gross domestic product
	ECB European Central Bank
	EIR Effective interest rate
	EUR Euro – currency of the European Union
	ITIL Information Technology Infrastructure Library
	KAD Kapitalska družba pokojninskega in invalidskega zavarovanja, d. d.
	KaD.Net Website for the secure exchange of data
	KDD Central Securities Clearing Corporation
KS SODPZ	Guarantee Fund of the Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia
	PDP Posebna družba za podjetniško svetovanje, d. d.
	VSPI Voluntary supplementary pension insurance
	RS Republic of Slovenia
SBI TOP	Central Slovenian stock market index
	SDH Slovenski državni holding, d. d.
SODPZ	Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia
SAS	Slovenian Accounting Standards
	USD US dollar
	VaR Value At Risk
ZZavar	Insurance Act (Official Gazette of the Republic of Slovenia, Nos. 13/2000, 31/2000 – ZP-L, 91/2000 – amended, 12/2001 – Constitutional Court ruling, 21/2002, 52/2002 – ZJA, 91/2002 – Constitutional Court ruling, 29/2003 – Constitutional Court decision, 40/2004 – ZDDPO-1, 50/2004, 65/2004 – Constitutional Court ruling, 76/2005 – ZZVZZ-H, 8/2006 – ORZZavar62, 79/2006, 114/2006 – ZUE, 9/2007, 102/2007, 69/2008, 19/2009, 49/2009, 83/2009, 79/2010, 90/2012, 102/2012, 56/2013, 63/2013 – ZS-K)
ZDDPO-2	Corporate Income Tax Act (Official Gazette of the Republic of Slovenia, Nos. 117/2006, 90/2007, 76/2008, 56/2008, 92/2008, 5/2009, 96/2009, 110/2009 – ZDavP-2B, 43/2010, 59/2011, 30/2012, 24/2012, 94/2012, 81/2013)
ZFPPIPP	Financial Operations, Insolvency and Compulsory Dissolution Act (Official Gazette of the Republic of Slovenia, Nos. 126/2007, 40/2009, 59/2009, 52/2010, 106/2010 – ORZFPPIPP21, 26/2011, 47/2011 – ORZFPPIPP21-1, 87/2011 – ZPUOOD, 23/2012 – Constitutional Court decision, 48/2012 – Constitutional Court decision, 47/2013, 100/2013)
ZGD-1	Companies Act (Official Gazette of the Republic of Slovenia, Nos. 42/2006, 60/2006 – amended, 26/2007 – ZSDU-B, 33/2007 – ZSReg-B, 67/2007 – ZTFI, 10/2008, 68/2008, 42/2009, 33/2011, 91/2011, 100/2011 – Constitutional Court ruling, 32/2012, 57/2012, 44/2013 – Constitutional Court decision, 82/2013)
ZIPRS1314	Implementation of the Budget of the Republic of Slovenia for 2013 and 2014 Act (Official Gazette of the Republic of Slovenia, Nos. 104/2012, 46/2013, 56/2013 – ZŠtip-1, 61/2013, 82/2013, 101/2013 – ZIPRS1415, 101/2013 – ZDavNepr, 111/2013 – ZOPSPU-A)
ZIPRS1415	Implementation of the Budget of the Republic of Slovenia for 2014 and 2015 Act (Official Gazette of the Republic of Slovenia, Nos. 101/2013 and 9/2014 – ZRTVS-1A)
	ZPIZ Pension and Disability Insurance Institute
ZPIZ-1	Pension and Disability Insurance Act (Official Gazette of the Republic of Slovenia, Nos. 109/2006 [official consolidated text] – ZPIZ-1 UPB 4, 112/2006 – Constitutional Court decision, 114/2006 – ZUTPG, 17/2007, 5/2008, 5/2008, 10/2008 – ZVarDod, 73/2008, 53/2009, 98/2009 – ZIUZGK, 27/2010 – Constitutional Court decision, 38/2010 – ZUKN, 56/2010, 79/2010 – ZPKDPIZ, 94/2010 – ZIU, 57/2011, 94/2011 – Constitutional Court decision, 105/2011 – Constitutional Court decision, 61/2010 – ZSVarPre, 40/2011 – ZSVarPre-A, 110/2011 – ZDIU12, 40/2012 – ZUJF, 96/2012 – ZPIZ-2
	ZPIZ-2 Pension and Disability Insurance Act (Official Gazette of the Republic of Slovenia, Nos. 96/2012, 39/2013, 46/2013 – ZIPRS1314-A, 63/2013 – ZIUPTDSV, 99/2013 – ZSVarPre-C, 101/2013 – ZIPRS1415, 111/2013 – ZMEPIZ-1)
ZPKDPIZ	Act Governing the Transformation of Kapitalska družba pokojninskega in invalidskega zavarovanja, d. d. and its Investment Policy, and Slovenska odškodninska družba, d. d. (Official Gazette of the Republic of Slovenia, Nos. 79/2010, 26/2011 and 105/2012 – ZSDH)
ZPPOGD	Act Governing the Earnings of Management Staff at Companies under the Majority Ownership of the Republic of Slovenia and Self-Governing Local Communities (Official Gazette of the Republic of Slovenia, Nos. 21/2010and 8/2011)
	ZSDH Slovenian Sovereign Holding Company Act (Official Gazette of the Republic of Slovenia, Nos. 105/2012, 39/2013, 101/2013 – ZIPRS1415)
	ZUKN Capital Investments Management Act (Official Gazette of the Republic of Slovenia Nos. 38/2010, 18/2011, 77/2011, 22/2012 and 105/2012 – ZSDH)

TABLES

<b>21</b>	Table 1: Number of employees by organisational unit as at 31 December 2013 and 31 December 2012:
<b>25</b>	Table 2: Composition of Kapitalska družba's investments as at 31 December 2013 with regard to management
<b>26</b>	Table 3: Breakdown of Kapitalska družba's capital investments as at 31 December 2013 in accordance with Kapitalska družba's asset management strategy
<b>26</b>	Table 4: Ten largest capital investments of Kapitalska družba's by value as at 31 December 2013
<b>26</b>	Table 5: Composition of capital investments in terms of size of ownership stake as at 31 December 2013
<b>27</b>	Table 6: Purchases and recapitalisations of capital investments in 2013
<b>28</b>	Table 7: Ten capital investments that generated the highest dividend income in 2013 and 2012
<b>28</b>	Table 8: Dividend income based on claims received for the distribution of profit
<b>29</b>	Table 9: Participation at general meetings
<b>31</b>	Table 10: Composition of equity portfolio investments as at 31 December 2013
<b>31</b>	Table 11: Composition of debt investments as at 31 December 2013
<b>32</b>	Table 12: Composition of money market investments as at 31 December 2013
<b>33</b>	Table 13: Return on the SODPZ in 2013
<b>33</b>	Table 14: Kapitalska družba's revenues from management of the SODPZ in 2013
<b>34</b>	Table 15: Composition of the investments of the SODPZ as at 31 December 2013
<b>35</b>	Table 16: Composition of the KS SODPZ investments as at 31 December 2013
<b>39</b>	Table 17: Kapitalska družba's payments to the budget of the ZPIZ
<b>61</b>	Table 18: Number of employees and average number of employees by educational level in 2013
<b>79</b>	Table 19: Changes in intangible assets, and long-term deferred costs and accrued revenues in 2013
<b>79</b>	Table 20: Changes in intangible assets, and long-term deferred costs and accrued revenues in 2012
<b>80</b>	Table 21: Changes in property, plant and equipment in 2013
<b>80</b>	Table 22: Changes in property, plant and equipment in 2012
<b>80</b>	Table 23: Carrying amount of buildings in 2013
<b>81</b>	Table 24: Changes in investment property in 2013
<b>81</b>	Table 25: Changes in investment property in 2012
<b>88</b>	Table 26: Structure of financial assets by group as at 31 December 2013 in terms of contractual deadlines for adjustment of interest rate or payment deadline or maturity date, whichever is sooner
<b>89</b>	Table 27: Effective interest rates by group of financial assets as at 31 December 2013
<b>89</b>	Table 28: Currency structure of financial assets of the Company as at 31 December 2013
<b>90</b>	Table 29: Receipts by category of beneficiaries in 2013
<b>90</b>	Table 30: Receipts of the Management Board members in 2013
<b>91</b>	Table 31: Receipts of the Supervisory Board members in 2013

FIGURES

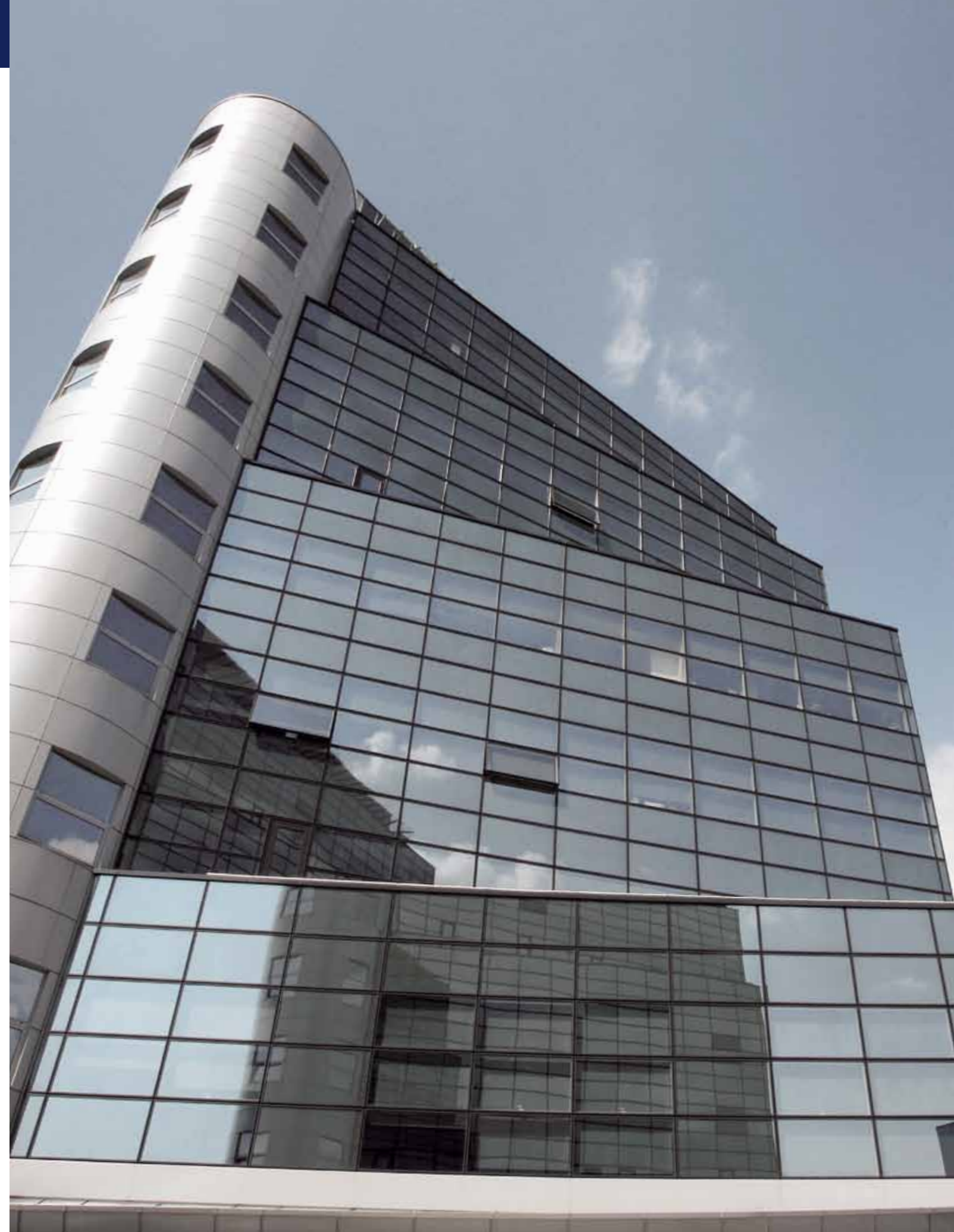
<b>20</b>	Figure 1: Organisational structure of Kapitalska družba
<b>22</b>	Figure 2: Change in monthly and annual growth in consumer prices in 2013 (in %)
<b>23</b>	Figure 3: Real year-on-year growth in GDP by quarter in 2013 (in %)
<b>23</b>	Figure 4: Movement in the yield-to-maturity on 10-year German government bonds and the 6-month EURIBOR in 2013 (in %)
<b>24</b>	Figure 5: Movement in the US dollar/euro exchange rate in 2013
<b>24</b>	Figure 6: Movement in the Slovenian SBI TOP and selected foreign stock indices in 2013 in euros (index: 1 January 2013 = 100)
<b>25</b>	Figure 7: Movement in the IBOXX EUR Corporates TR corporate bond index and the IBOXX EUR Sovereigns TR government bond index in 2013 (index: 1 January 2013 = 100)
<b>25</b>	Figure 8: Movement in prices of WTI crude and North Sea Brent crude in 2013 (in USD per 159-litre barrel)
<b>68</b>	Figure 9: Currency composition of the financial asset portfolio of Kapitalska družba as at 31 December 2013

<b>6</b>	<b>1</b>	<b>Highlights from the annual report</b>
<b>8</b>	<b>2</b>	<b>Presentation of Kapitalska družba, d. d.</b>
8	2.1	General information
8	2.1.1	Company
8	2.1.2	Ownership structure and data regarding capital
8	2.1.3	Activities of the Company
9	2.1.4	Company bodies
<b>12</b>	<b>3</b>	<b>Statement of the Management Board</b>
<b>14</b>	<b>4</b>	<b>Report of the Supervisory Board of Kapitalska družba</b>
14	4.1	Report of the Supervisory Board of Kapitalska družba for 2013
<b>20</b>	<b>5</b>	<b>Organisational structure of Kapitalska družba</b>
21	5.1	Reporting on employees
<b>22</b>	<b>6</b>	<b>Operations of Kapitalska družba</b>
22	6.1	Macroeconomic background of operations
22	6.1.1	Inflation
22	6.1.2	Gross domestic product
23	6.1.3	Employment and wages
23	6.1.4	Money market
24	6.1.5	Capital market
25	6.1.6	Price of oil
25	6.2	Investment management
26	6.2.1	Capital investment management
30	6.2.2	Management of portfolio investments
32	6.3	Transfers to the Pension and Disability Insurance Institute
32	6.4	Investment property
32	6.5	Risk management
32	6.6	Pension fund management
32	6.6.1	Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia
34	6.6.2	Guarantee Fund of the Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia
35	6.7	Information Technology Sector
36	6.8	Significant business events after the balance sheet date
<b>37</b>	<b>7</b>	<b>Expected development of Kapitalska družba in 2014</b>
<b>39</b>	<b>8</b>	<b>Social responsibility</b>
39	8.1	Responsibility to the wider social community
39	8.2	Responsibility to employees
39	8.2.1	Concern for employee training
40	8.2.2	Concern for a safe and healthy work environment
41	8.3	Environmental responsibility
<b>42</b>	<b>9</b>	<b>Indicators</b>
<b>43</b>	<b>10</b>	<b>Corporate governance statement</b>

<b>48</b>	<b>11</b>	<b>Auditor's report</b>
<b>50</b>	<b>12</b>	<b>Statement of the Management Board</b>
<b>51</b>	<b>13</b>	<b>Financial statements and disclosures to the financial statements</b>
51	13.1	Income statement for the period from 1 January 2013 to 31 December 2013
53	13.2	Statement of other comprehensive income for the period from 1 January 2013 to 31 December 2013
53	13.3	Balance sheet as at 31 December 2013
56	13.4	Cash flow statement for the period from 1 January 2013 to 31 December 2013
57	13.5	Statement of changes in equity for the period from 1 January 2013 to 31 December 2013
58	13.6	Statement of changes in equity for the period from 1 January 2012 to 31 December 2012
58	13.7	Proposal for the settlement of accumulated loss 2013
59	13.8	General disclosures
61	13.9	Accounting policies
71	13.10	Breakdown and notes to the financial statements
71	13.10.1	Notes to the income statement
79	13.10.2	Notes to the balance sheet
88	13.10.3	Financial instruments
89	13.11	Other disclosures

## Highlights from the annual report

- Net sales revenue amounted to EUR 9.9 million in 2013.
- Financial revenue totalled EUR 30.1 million in 2013.
- A transfer in the amount of EUR 50 million was made to the budget of the ZPIZ at the end of 2013. → Kapitalska družba, d. d. has transferred a total of EUR 645.3 million to the budget of the ZPIZ.
- Total assets stood at EUR 849.7 million at the end of 2013.
- The value of assets under management in the SODPZ was EUR 539.3 million as at 31 December 2013.
- A total of 44,862 policyholders held savings in the SODPZ at the end of 2013.
- Kapitalska družba, d. d. became the manager of the SODPZ guarantee fund and thus began paying occupational pension.
- The Company had 57 employees at the end of 2013.





Presentation of Kapitalska družba, d. d.

2.1 General information

2.1.1 Company

**Company name:** Kapitalska družba pokojninskega in invalidskega zavarovanja, d. d.  
**Abbreviated company name:** Kapitalska družba, d. d. (hereinafter: Kapitalska družba)  
**Company name in English:** Pension Fund Management  
**Registered office:** Dunajska cesta 119, Ljubljana  
**Registration number:** 5986010000  
**VAT ID number:** SI59093927  
**Entry in companies register:** Ljubljana District Court, reg. no. 1/28739/00

2.1.2 Ownership structure and data regarding capital

The Republic of Slovenia was Kapitalska družba’s sole shareholder as at 31 December 2013<sup>1</sup>. The Company’s share capital, amounting to EUR 364,809,523.15, is divided into 874,235 ordinary registered no-par-value shares. Each no-par-value share represents the same stake and corresponding amount in the share capital.

2.1.3 Activities of the Company

Kapitalska družba’s principle activity is the provision of supplementary funding for pension and disability insurance through the management of its own assets and the management of the Compulsory Supplementary Pension Insurance Fund (hereinafter: the SODPZ). Kapitalska družba also performs other activities related to asset management and asset management support services.

Kapitalska družba’s activities are defined by the law and the Company’s Articles of Association, according to which Kapitalska družba performs the following activities:

- 58.110 Book publishing
- 58.120 Publishing of directories and mailing lists
- 58.130 Publishing of newspapers
- 58.140 Publishing of journals and periodicals
- 58.190 Other publishing activities
- 58.290 Other software publishing
- 59.200 Sound recording and music publishing activities
- 62.010 Computer programming activities
- 62.020 Computer consultancy activities
- 62.030 Computer facilities management activities
- 62.090 Other information technology and computer service activities
- 63.110 Data processing, hosting and related activities
- 63.120 Web portals

<sup>1</sup> The first paragraph of Article 27 of the Slovenian Sovereign Holding Company Act (hereinafter: the ZSDH) states that Slovenski državni holding, d. d. is Kapitalska družba’s sole shareholder. Pursuant to Article 31 of the transitional and final provisions of the ZSDH, SHD, d. d. will be created through the transformation of Slovenska odškodninska družba, d. d. On the day Slovenska odškodninska družba, d. d. is transformed into Slovenski državni holding, d. d., the Republic of Slovenia’s capital investment in Kapitalska družba increases the share capital of SDH, d. d. as a non-cash contribution pursuant to Article 34 of the ZSDH.

- 64.200 Activities of holding companies
- 64.300 Trusts, funds and similar financial entities
- 64.990 Other financial service activities, except insurance and pension funding activities n.e.c.
- 65.300 Pension funding
- 66.210 Risk and damage evaluation
- 66.290 Other activities auxiliary to insurance and pension funding
- 68.100 Buying and selling of own real estate
- 68.200 Renting and operating of own or leased real estate
- 69.200 Accounting, bookkeeping and auditing activities; tax consultancy
- 70.100 Activities of head offices
- 70.220 Business and other management consultancy activities
- 73.200 Market research and public opinion polling
- 85.590 Other education n.e.c.
- 85.600 Educational support activities

2.1.4 Company bodies

2.1.4.1 Management Board

Kapitalska družba was run by its Management Board in 2013 in the following composition:

- Bachtiar Djalil, President, and
- Anja Strojin Štampar, MSc, member.

The Management Board was appointed by Kapitalska družba’s General Meeting in accordance with the Articles of Association, which were in effect until 17 November 2010, on the basis of a public tender procedure. Since the entry of changes to the Articles of Association in the companies register (on 17 November 2010), the Management Board is appointed by the Supervisory Board on the basis of a public tender procedure. One of the members of the Management Board is appointed the president thereof. Members of the Management Board serve a five-year term of office and may be re-appointed. The Management Board or its individual members may be recalled prior to the end of their term of office, but only for the reasons set out in the second paragraph of Article 268 of the Companies Act (hereinafter: the ZGD-1). Violation of the Articles of Association of Kapitalska družba deemed to be a serious violation of obligations may constitute a reason of culpability resulting in recall.

The Management Board of Kapitalska družba has no powers to issue or purchase treasury shares.

2.1.4.2 Supervisory Board

The Supervisory Board of Kapitalska družba functioned in the following composition from 1 January 2013 to 6 February 2013:

- Jani Kavtičnik, Chairman
- Aldo Ternovec, Deputy Chairman
- Jože Jurkovič,
- Luka Jurkovič,
- Ana Bilbija, and
- Ladislav Rožič, MSc.

The Supervisory Board of Kapitalska družba functioned in the following composition from 7 February 2013 to 27 August 2013 following the resignation of Luka Jurkovič, effective 6 February 2013:

- Jani Kavtičnik, Chairman
- Aldo Ternovec, Deputy Chairman

- Jože Jurkovič,
- Ana Bilbija, and
- Ladislav Rožič, MSc.

The General Meeting of Kapitalska družba recalled the following members of the Supervisory Board on 27 August 2013: Jani Kavtičnik and Jože Jurkovič. Samo Lozej, Aleksander Mervar and Stane Seničar were appointed to a four-year term as new members of the Supervisory Board effective 28 August 2013.

The Supervisory Board of Kapitalska družba functioned in the following composition from 28 August 2013 to 31 December 2013:

- Samo Lozej, Chairman,
- Aldo Ternovec, Deputy Chairman
- Aleksander Mervar,
- Stane Seničar,
- Ana Bilbija, and
- Ladislav Rožič, MSc.

The Supervisory Board of Kapitalska družba is appointed by the Company’s General Meeting. The Supervisory Board comprises six members in accordance with the fifth paragraph of Article 27 of the ZSDH. Three members of the Supervisory Board were appointed on the basis of a proposal by Slovenska odškodninska družba, d. d.<sup>2</sup>, while two members were appointed on the basis of a proposal by a national-level federation/organisation of pensioners. One member was appointed on the basis of a proposal by national-level trade union federations or confederations. If an individual interest group does not formulate a proposal for the appointment of members of the Supervisory Board in the manner defined below, the General Meeting of the Company appoints missing members at its own discretion. The proposal for candidates to represent Slovenski državni holding, d. d. is formulated by Slovenski državni holding, d. d., which informs the Supervisory Board of its choice. The proposal for candidates to represent pensioners is formulated by national-level federations/organisations of pensioners, which inform the Supervisory Board of their choice. The proposal for a candidate to represent trade unions is voted upon by representatives (electors) of national-level representative federations/confederations, who inform the Supervisory Board of their choice. Each representative federation/confederation has as many representatives as the number of representative trade unions amalgamated within them. In addition to the representatives referred to in the preceding sentence, a federation/confederation elects one representative for every 10 thousand members. Members of the Supervisory Board serve a four-year term of office and may be reappointed.

2.1.4.3 **General Meeting**

The rights of the sole shareholder are exercised by Slovenska odškodninska družba, d.d.<sup>3</sup>

<sup>2</sup> The first indent of the fifth paragraph of Article 27 of the ZSDH states that three members of Kapitalska družba’s Supervisory Board are elected based on a proposal by Slovenski državni holding, d. d. In accordance with the first paragraph of Article 31 of the ZSDH, Slovenski državni holding, d. d. was to be created through the transformation of Slovenska odškodninska družba, d. d. Because the aforementioned transformation did not take place, the tasks and competences of Slovenski državni holding, d. d. are performed by Slovenska odškodninska družba, d. d.

<sup>3</sup> On the day SDH, d. d. is established, the latter will become the sole shareholder of Kapitalska družba. The tasks of the General Meeting will be performed by the Management Board of SDH, d. d.

Statement  
of the  
Management  
Board



Bachtiar Djalil, President of the Management Board



Anja Strojín Štampar, MSc, Member of the Management Board

Kapitalska družba once again achieved its two core objectives in 2013: the provision of supplementary funding for the public pension and disability insurance system and the effective management of the assets of the Compulsory Supplementary Pension Insurance Fund. The Company also proved itself to be the most successful manager of supplementary pension insurance funds: Kapitalska družba achieved the highest return of all pension fund managers last year, and likewise achieved the best results over the last five-year period in terms of return. It also successfully achieved its objective to establish a guarantee fund for the payment of occupational pensions.

The Company’s mission was thus achieved in full, which was not easy in the difficult economic conditions in 2013. We could say that the Company’s operating results were shaped for the most part by the economic climate, which deteriorated further during the year in the context of the recession. Kapitalska družba generated an operating profit of EUR 4.1 million. The process of reducing and optimising costs contributed to the aforementioned results, as we have integrated savings-optimisation measures into the Company’s organisational culture. The fulfilment and measurement of target costs are becoming an integral part of everyday operations.

The impact of the economic crisis was reflected most notably in 2013 in impairments and write-offs of financial investments in the total amount of EUR 67.5 million. Among those, investments in the shares and bonds of Slovenian banks in the total amount of EUR 53.8 million are worthy of particular note.

The Company’s annual transfer to the Pension and Disability Insurance Institute in the amount of EUR 50 million also impacted overall operating results. The provision of additional funds for the public pension and disability insurance system is one of the Company’s core missions and represents a major expenditure in terms of operating results. That core mission is maintained in the scope of envisaged changes to the Slovenian Sovereign Holding Company Act. Also of great importance is how to maintain the future autonomy of the Company, whose operations are expected to form the basis of a demographic reserve fund for Slovenia. Although Kapital-ska družba has already contributed EUR 645.3 million to the budget of the ZPIZ to date, a conceptually broader solution is required due to the significant needs of the pension system and a rapidly ageing population. Kapitalska družba must be given a central and specific role in the scope of Slovenian society’s adaptation to demanding demographic changes.

Another important area of Kapitalska družba’s operations is management of the SODPZ. The value of the aforementioned fund’s assets exceeded EUR 539 million in 2013. In managing those assets, the Company ranked first among pension fund managers in 2013 with a return of

3.68%, and has proven to be the most effective manager over the last five-year period with a return of 25.77%. The SODPZ maintains its position as the second largest pension fund in Slovenia, and records the highest and most dynamic growth. As fund manager, Kapitalska družba is aware of its enormous responsibility to policyholders, their employers and the functioning of the fund as a whole.

Kapitalska družba also achieved its business objectives regarding the provision of occupational pensions in 2013. As the manager of the SODPZ, the Company established an SODPZ guarantee fund and began paying occupational pensions in accordance with the ZPIZ-1. The new Pension and Disability Insurance Act (ZPIZ-2) entered into force on 1 January 2013, bringing significant changes to compulsory supplementary pension insurance. The amended act demanded a change to the pension plan, which required coordination with social partners. The Minister of Labour, Family, Social Affairs and Equal Opportunities approved the occupational insurance pension plan, which entered into force on 30 December 2013. In accordance with the new act, a fund committee was established during the summer as an expert body and important factor in social dialogue. The aforementioned committee includes policyholder representatives (comprising members of several representative trade unions), employer representatives and representatives of the government. The committee contributed constructively to the drafting of the occupational insurance pension plan itself. The regular monitoring of the functioning of the fund represents another form of internal control and a complimentary line of defence for the effective management of related risks.

Kapitalska družba actively participates in the resolution of problems associated with occupational insurance. In addition to the occupational insurance pension plan, a pension plan for the payment of occupational pensions was also drafted, and subsequently approved by the Minister of Labour, Family, Social Affairs and Equal Opportunities. The first occupational pensions were paid in June 2013, while the new pension act brought changes to the conditions, purpose and period of occupational pension payments. The pension plan for the payment of occupational pensions was likewise adapted to the characteristics of the product amended as such. Thus, the conditions were met for the mass payment of occupational pensions, while the entire compulsory supplementary pension insurance system, which was renamed occupational insurance, is entering a more mature phase.

Contemporary occupational pensions adapted to today’s needs, as envisaged in the pension act by the legislative body, were developed in cooperation with the Ministry of Labour, Family, Social Affairs and Equal Opportunities, external supervisory bodies, the ZPIZ, the Health Insurance Institute of Slovenia and the Tax Administration of the Republic of Slovenia, while the fund committee oversaw the entire process.

Kapitalska družba has established itself as one of the pillars of the Slovenian pension system to which it contributes additional funds and in the scope of which it manages one of the largest pension funds. Despite the recession, the Company remains a trustworthy partner for all stakeholders: for the government as owner, for the ZPIZ as a reliable source of co-financing, and for those insured under the SODPZ as an effective manager of supplementary pension funds and a reliable payer of occupational pensions.

In the context of demographic changes, the economic crisis presents major challenges for all of Slovenian society. These challenges, and frequently the adverse conditions, had a significant impact on the Company’s operations in 2013. Through responsible and sustainably oriented operations, we will continue to respond to those challenges in the future. Together with the general economic situation, legislative changes will dictate the operations and development of Kapitalska družba in the future.



Anja Strojín Štampar, MSc  
Member of the Management Board



Bachtiar Djalil  
President of the Management Board

Report of the Supervisory Board of Kapitalska družba

4.1 Report of the Supervisory Board of Kapitalska družba for 2013

Pursuant to Article 282 of the ZGD-1, the Supervisory Board of Kapitalska družba hereby submits the following report to the Company’s General Meeting:

a) Report of the Supervisory Board on the method and extent of the verification of the Company’s management during the financial year

The Supervisory Board of Kapitalska družba functioned in the following composition up to and including 27 August 2013: Jani Kavtičnik (Chairman), Aldo Ternovec (Deputy Chairman), Jože Jurkovič, Ana Bilbija, Ladislav Rožič MSc and Luka Jurkovič, who was a members of the Supervisory Board until 6 February 2013, when he tendered his resignation.

At the Company’s 60<sup>th</sup> General Meeting of 27 August 2013, Jani Kavtičnik and Jože Jurkovič were recalled as members of the Supervisory Board, and the following persons appointed as new members: Samo Lozej, Aleksander Mervar and Stane Seničar. The four-year term of office of the three aforementioned members of the Supervisory Board began on 28 August 2013. At the 61<sup>st</sup> session of the new Supervisory Board of 5 September 2013, Samo Lozej was elected Chairman of the Supervisory Board.

The Supervisory Board met at 20 sessions during the 2013 financial year as follows: 15 regular sessions (11 sessions in the composition that functioned until 27 August 2013 and four sessions in the composition that functioned from 28 August 2013 onwards) and five correspondence sessions (two sessions in the composition that functioned until 27 August 2013 and three sessions in the composition that functioned from 28 August 2013 onwards).

Particular attention in the monitoring of Kapitalska družba’s operations in 2013 was given to monitoring the management of the Company’s assets, and to monitoring the management of the Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia (SODPZ) and the associated guarantee fund, which are managed by Kapitalska družba. Based on the Supervisory Board’s proposal, the General Meeting was convened in December 2013 when a resolution was adopted on the transition to the International Financial Reporting Standards.

At its 51<sup>st</sup> session of 25 April 2013, the Supervisory Board approved the annual report of Kapitalska družba for the 2012 financial year, adopted the report on the verification of the Company’s annual report for 2012 and was briefed on the audited annual report of the SODPZ for 2012. At its 58<sup>th</sup> session of 15 July 2013, the Supervisory Board approved the consolidated annual report of the Kapitalska Družba Group for the 2012 financial year, adopted the report on the verification of the consolidated annual report of the Kapitalska Družba Group for 2012 and submitted a proposal to the General Meeting on the appointment of an audit firm.

The Supervisory Board also continuously monitored the operations of the subsidiaries PDP, Posebna družba za podjetniško svetovanje, d. d. and Modra zavarovalnica, d. d. Special attention was given to the Company’s management activities, in the scope of which specific investments were presented and discussed in detail. At its 50<sup>th</sup> session of 26 March 2013, the Supervisory Board established an accreditation committee as an advisory body whose task is to provide support to the Supervisory Board in the supervision of the management of the Company’s transactions as they relate to the governance of companies in which Kapitalska družba holds capital investments.

In accordance with the provisions of the Company’s Articles of Association, the members of the Supervisory Board also gave the Management Board their consent to conclude transactions for the purchase and sale of securities and participating interests in cases when the value of a specific transaction exceeded the value set out in the relevant Supervisory Board resolution. The Supervisory Board also monitored activities relating to the exercising of rights from concluded agreements with the aim of protecting Kapitalska družba’s interests. The Supervisory Board also supported the proposal that Kapitalska družba be included in the process of joint sales of shares of companies under the direct or indirect ownership of the Slovenian government, to which the National Assembly gave its consent in accordance with the provisions of the ZSDH.

The Supervisory Board was briefed on and monitored the establishment of Slovenski državni holding, d. d. and legislative activities relating to the new draft Slovenian Sovereign Holding Company Act (ZSDH-1).

At its 65<sup>th</sup> session of 27 November 2013, the Supervisory Board gave its consent to Kapitalska družba’s business-financial plan for 2014.

Work of the Supervisory Board’s audit committee

- The Supervisory Board’s audit committee functioned in the following composition in 2013:
- Ladislav Rožič, MSc (chairman),
  - Ana Bilbija (member),
  - Mojca Verbič (external member),
  - Luka Jurkovič (member from 11 January 2013 to 6 February 2013),
  - Jože Jurkovič (member from 22 February 2013 to 27 August 2013), and
  - Aleksander Mervar (member from 5 September 2013 to 31 December 2013).

The audit committee is a permanent working body of the Supervisory Board, and closely monitors the operations of the Company and the work of the Management Board for the needs of the Supervisory Board’s decisions. The audit committee met at six sessions in 2013. In its work, the audit committee applied the recommendations of the Slovenian Directors’ Association for audit committees and the recommendations of the Slovenian Institute of Auditors, as well as the rules of procedure of the audit committee as adopted by the Supervisory Board. The audit committee verified the annual reports of the Company and Group, together with the accompanying audit reports of the external auditor, as well as Kapitalska družba’s business-financial plan for 2014, to which the Supervisory Board gave its consent. In addition to the tasks set out in the ZGD-1, the audit committee also reviewed the interim reports on the operations of Kapitalska družba, its subsidiaries PDP, d. d. and Modra zavarovalnica, d. d. and the pension funds under the management of Kapitalska družba (SODPZ and KS SODPZ). It also continuously monitored the project to create a guarantee fund for the SODPZ and the work of the internal audit department. It also recommended that the Supervisory Board propose to the General Meeting that a decision on the transition to International Financial Reporting Standards be adopted. The audit committee regularly briefed the Supervisory Board on its work during sessions of the Supervisory Board.

Assessment of the work of the Management Board and Supervisory Board

On the basis of the aforementioned continuous monitoring and supervision of Kapitalska družba’s operations and management during the year, and based on a review of the annual report compiled and submitted by the Management Board, the Supervisory Board assesses that the annual report and disclosures contained therein reflect the actual situation and position of Kapitalska družba. The Supervisory Board assesses that the Management Board of Kapitalska družba successfully and properly managed the Company’s transactions during the 2013 financial year and successfully achieved established business objectives. The Management Board prepared materials in a timely manner, which facilitated quality information and the thorough



discussion of the most important operational matters. The Management Board also provided exhaustive responses to the Supervisory Board’s additional questions and initiatives. The Management Board’s reporting to the Supervisory Board enabled the latter to carry out its supervisory role satisfactorily in 2013.

**b) Supervisory Board’s position on the audit report**


Pursuant to the second paragraph of Article 282 of the ZGD-1, the Supervisory Board reviewed and discussed the audit report relating to the audit of the financial statements of Kapitalska družba for 2013, which was conducted by the audit firm Deloitte revizija d. o. o., Ljubljana. The Supervisory Board finds that the auditor performed its task in accordance with the law, auditing rules and international auditing standards. The Supervisory Board has no remarks regarding the audit report.

**c) Decision regarding the approval of the annual report for 2013**

Pursuant to the provisions of Article 282 of the ZGD-1, the Supervisory Board of Kapitalska družba pokojninskega in invalidskega zavarovanja, d. d. hereby approves the annual report for 2013.

**d) Proposal to the General Meeting on the discharge of the Management Board and the Supervisory Board**

Pursuant to points a), b) and c) of this report, the Supervisory Board proposes that the General Meeting of Kapitalska družba grant discharge to the Company’s Management Board and Supervisory Board for their work during the 2013 financial year pursuant to the provisions of Article 294 of the ZGD-1.

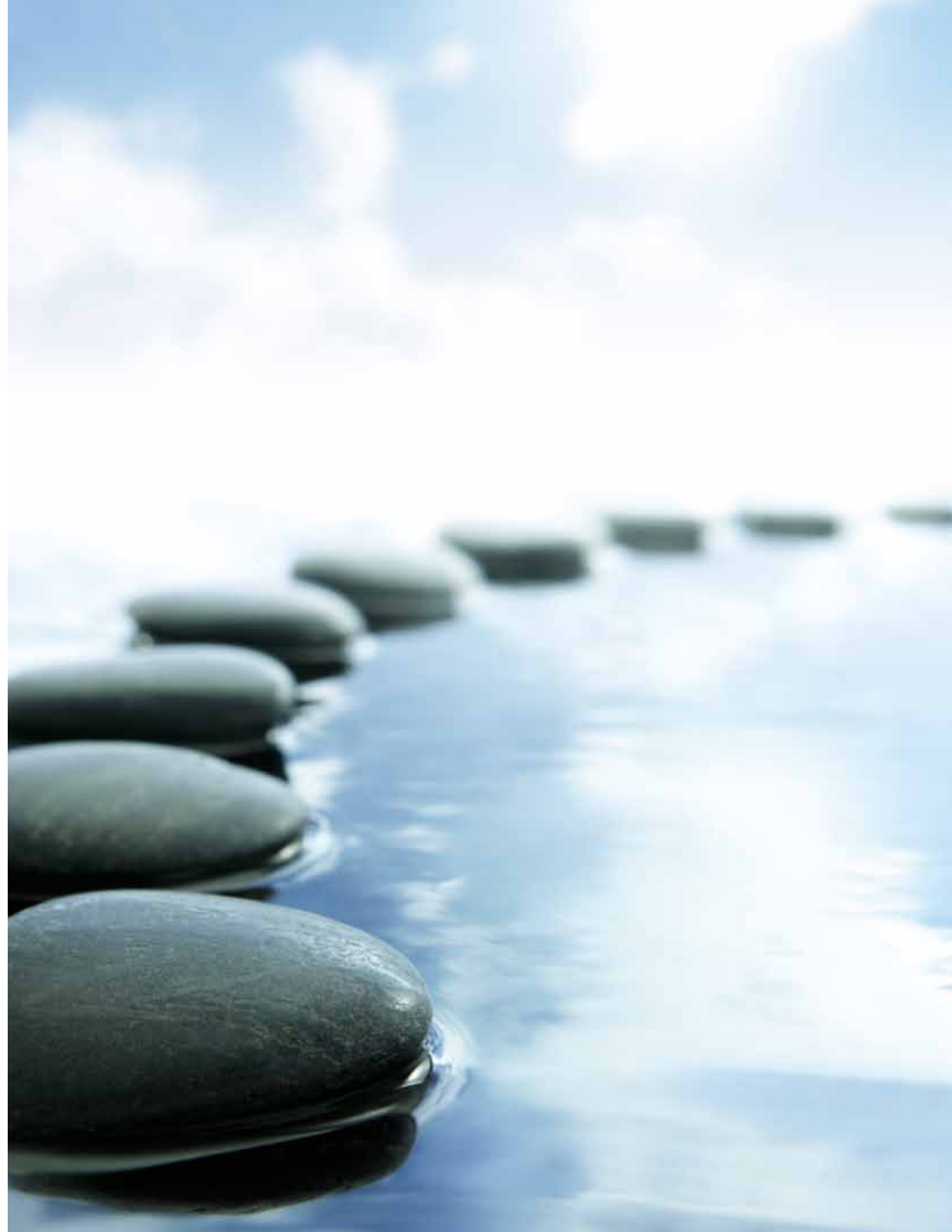


**Samo Lozej**  
Chairman of the Supervisory Board

Ljubljana, 12 May 2014

2013

*Those who know  
their objective  
steadfastly and  
decisively follow  
their chosen path.  
Through  
excellence and  
commitment, we  
achieve the  
high objectives we  
set for ourselves.*



Organisational structure of Kapitalska družba

The existing internal organisational structure of Kapitalska družba was established with the Company’s transformation and the demerger of Modra zavarovalnica, d. d. in October 2011 in order to ensure the necessary adaptations and changes, and was in line with the reduction in the scope of business functions, work and tasks, and also maintained the heterogeneity of activities (e.g. management of the Company’s own assets and the Guarantee Fund of the Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia). The internal organisational structure was formed as such to ensure the effective implementation of all core business processes in the context of rationalisation and a reduction in the number of employees. Kapitalska družba’s new role as the parent company of the insurance group was also taken into account. Since the establishment of the insurance company, certain services are provided for the latter by Kapitalska družba, i.e. IT services. Modra zavarovalnica, d. d. provided Kapitalska družba administrative services related to the management of the SODPZ until April 2013.

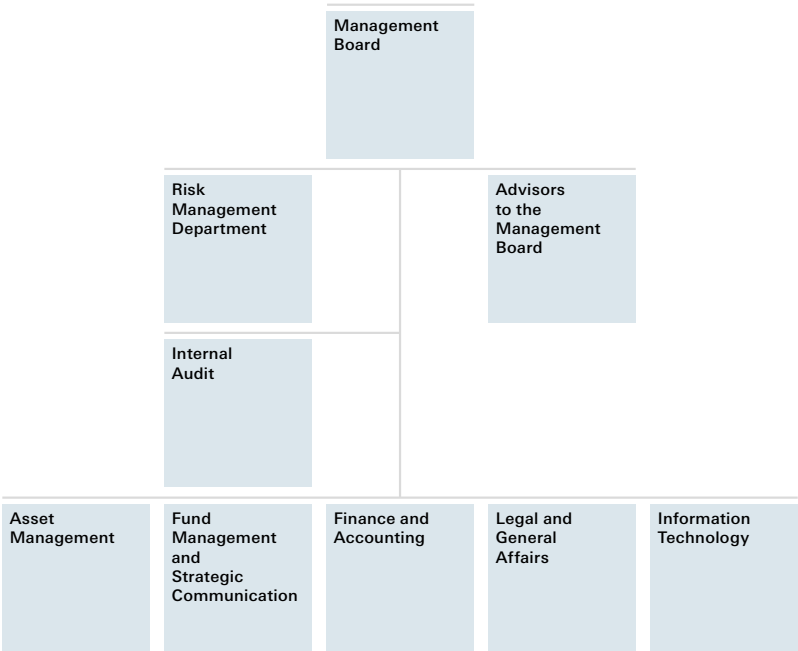
The new internal organisation resulted in a flexible organisational structure that facilitates an effective decision-making process at two organisational levels and ensures more efficient implementation in key work areas organised into five organisational units or sectors:

- Asset Management,
- Fund Management and Strategic Communication,
- Finance and Accounting,
- Legal and General Affairs, and
- Information Technology.

Support business processes are carried out in departments that report directly to the Company’s Management Board:

- the Internal Audit Department, and
- the Risk Management Department.

Figure 1  
Organisational structure  
of Kapitalska družba



5.1 Reporting on employees

The Company had 57 employees as at 31 December 2013, one of which was a temporary employee due to the nature of her work. Two workers were absent in 2013 due to maternity and child care leave. Both of those workers had returned to work by 31 December 2013.

The employment contracts of two employees expired in 2013 through the regular termination of the employment relationship. The employment relationship of one worker was terminated due to the expiry of a temporary employment contract, while that of another was terminated due to death. Four new permanent employment contracts and one temporary employment contract were concluded.

The number of employees by organisational unit is presented in the table below.

Table 1 Number of employees by organisational unit as at 31 December 2013 and 31 December 2012	As at	
	31 December 2013	31 December 2012
Organisational unit		
Management Board	2	2
Advisors to the Management Board	2	2
Finance and Accounting	11	12
Asset Management	10	11
Fund Management and Strategic Communication	11	10
Legal and General Affairs	12	12
Information Technology	6	6
Internal Audit	1	1
Risk Management Department	2	2
Total	57	58

As at 31 December 2013, a total of 61.41% of Kapitalska družba’s employees had completed a minimum of Level VII education, of which 15.79% had completed their master’s degree and 1.76% their doctorate. Women account for 73.69% of employees and men for 26.32%.

Operations of Kapitalska družba

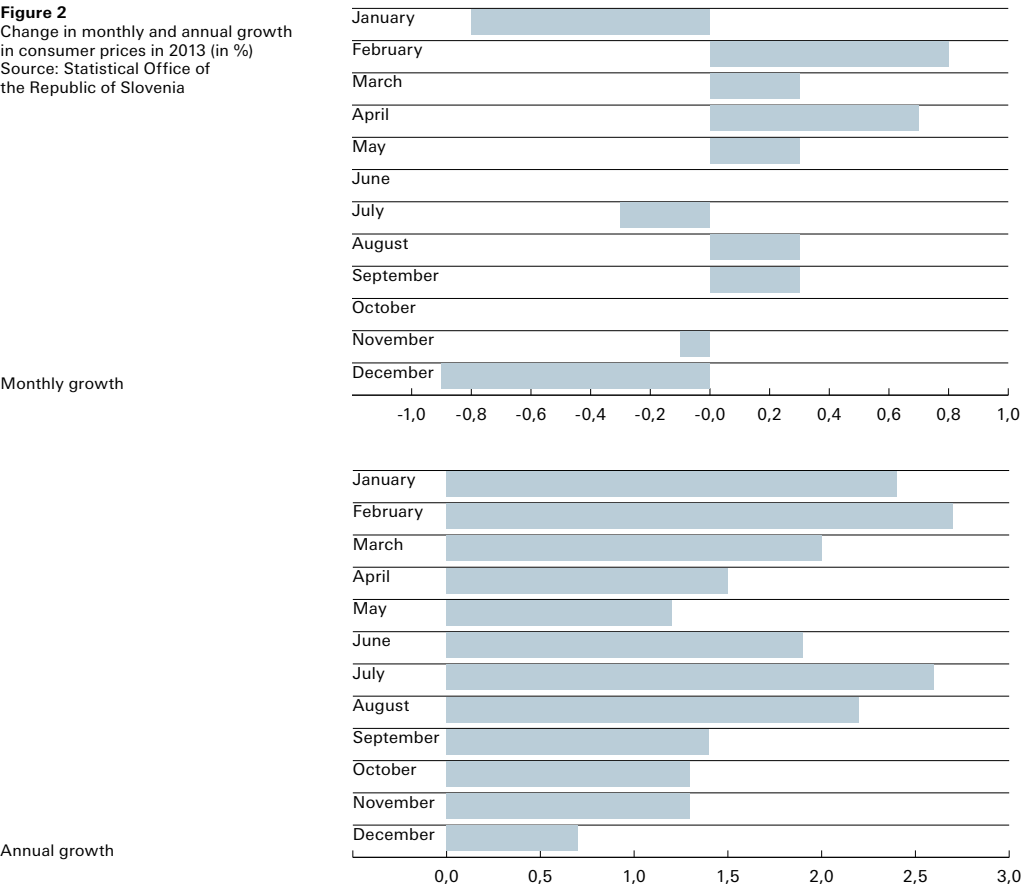
6.1 Macroeconomic background of operations

6.1.1 Inflation

Annual growth in consumer prices amounted to 0.7% in 2013. At 2.7%, inflation was higher in 2012.

The following categories recorded the sharpest price growth in 2013: housing (up 5.2%), alcoholic beverages and tobacco products (up 3.0%), food and non-alcoholic beverages (up 2.2%), catering and accommodation services (up 1.4%) and healthcare services (up 0.4%).

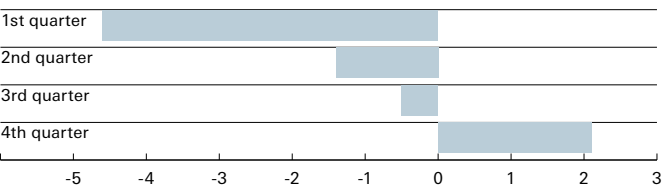
Figure 2  
Change in monthly and annual growth in consumer prices in 2013 (in %)  
Source: Statistical Office of the Republic of Slovenia



6.1.2 Gross domestic product

Gross domestic product (GDP) was up 2.1% in real terms in the final quarter of 2013 relative to the final quarter of 2012. Economic activity, adjusted for the season and number of working days, was up 1.2% relative to the third quarter of 2013. GDP was thus up for the first time in the final quarter of 2013 following eight straight quarter-on-quarter declines. According to initial estimates, GDP was down by 1.1% overall in real terms in 2013.

Figure 3  
Real year-on-year growth in GDP by quarter in 2013 (in %)  
Source: Statistical Office of the Republic of Slovenia



6.1.3 Employment and wages

According to figures from the Statistical Office of the Republic of Slovenia, the total workforce stood at 915 thousand in December 2013. The workforce in employment totalled 791 thousand, down 0.2% on the end of December 2012. The number of registered unemployed persons stood at 124 thousand at the end of December 2013, an increase of 5.0% on the number of registered unemployed persons a year earlier. The registered unemployment rate stood at 13.5% in December 2013, compared with 12.4% in the final quarter of 2012.

The average monthly net wage was EUR 997.01 in 2013, an increase of 0.6% in real terms relative to 2012. The average monthly net wage was EUR 1,007.65 in December 2013.

The average monthly gross wage was EUR 1,523.18 in 2013, a decline of 0.2% in real terms relative to the previous year.

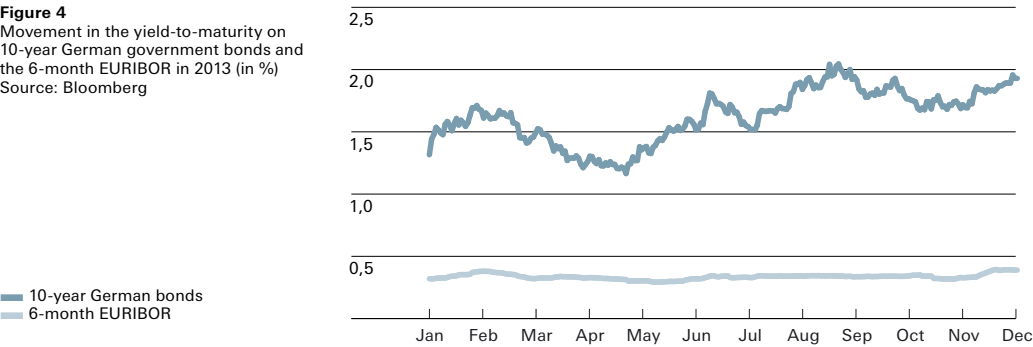
6.1.4 Money market

6.1.4.1 Interest rates

The reference interbank interest rate for the euro area, the six-month EURIBOR, was very stable in 2013, fluctuating between 0.293% and 0.393%. The key interest rate of the European Central Bank (ECB), which in the past had a significant impact on the movement in interbank interest rates, had no effect on the EURIBOR in 2013. The ECB cut its reference interest rate twice in 2013, from 0.75% to 0.25%. This, however, had no impact on interbank interest rates.

The yield-to-maturity on 10-year German government bonds rose by 0.613 percentage points in 2013 to stand at 1.929%. The lowest yield of 1.165% was achieved at the beginning of May.

Figure 4  
Movement in the yield-to-maturity on 10-year German government bonds and the 6-month EURIBOR in 2013 (in %)  
Source: Bloomberg

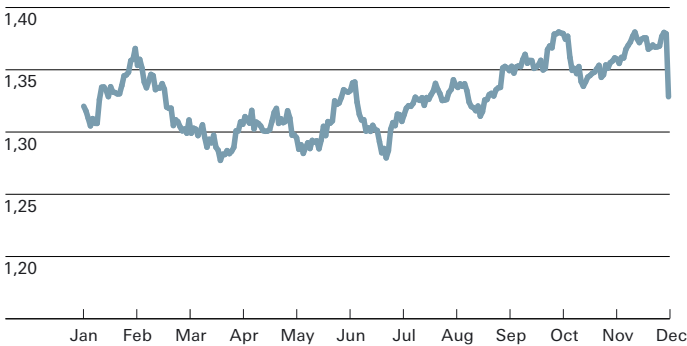




**Figure 5**  
Movement in the US dollar/  
euro exchange rate in 2013  
Source: Bloomberg

6.1.4.2 Exchange rate

The US dollar depreciated by around 4.4% against the euro in the period January to December 2013. The US dollar/euro exchange rate stood at 1.3789 at the end of the year, and averaged 1.328 for 2013.



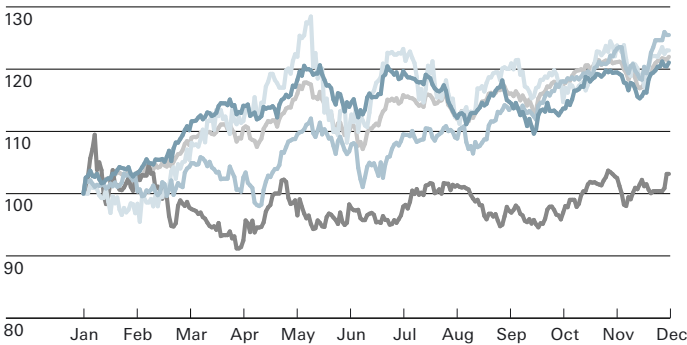
6.1.5 Capital market

6.1.5.1 Equity market

The value of share indices measured in euros rose in 2013. The US Dow Jones rose by 25.5% during the year, followed by the German DAX, which recorded growth of 23.0%, the MSCI World index, which recorded growth of 22.0% and the Slovenian SBI TOP which was up by 21.1% measured in euros. The Japanese Nikkei 225 recorded the lowest growth measured in euros, of 3.2%.

**Figure 6**  
Movement in the Slovenian SBI TOP and  
selected foreign stock indices in 2013  
in euros (index: 1 January 2013 = 100)  
Source: Bloomberg

SBI TOP  
DOW JONES INDUS. AVG  
DAX  
NIKKEI 225  
MSCI



6.1.5.2 Debt market

Corporate and government bonds achieved positive yields in 2013. The IBOXX EUR Corporates TR corporate bond index gained 2.24%, while the IBOXX EUR Sovereigns TR government bond index gained 2.21%.

**Figure 7**  
Movement in the IBOXX EUR  
Corporates TR corporate bond index  
and the IBOXX EUR Sovereigns TR  
government bond index in 2013  
(index: 1 January 2013 = 100)  
Source: Bloomberg

Government bonds  
Corporate bonds

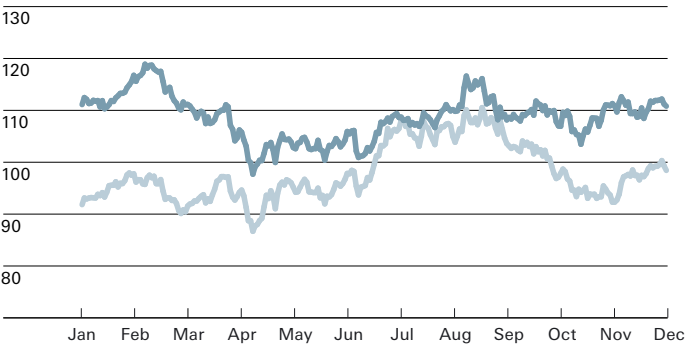


6.1.6 Price of oil

The price of West Texas Intermediate (WTI) crude oil rose from USD 91.82 per barrel (159 litres) at the beginning of 2013 to USD 98.42 at the end of the year. The price of WTI crude averaged USD 98.02 in 2013, up on the average price in 2012 of USD 94.17. Of interest was the deviation in the price of North Sea Brent crude, which exceeded the price of WTI crude. The price of Brent crude averaged USD 108.73 a barrel in 2013, 10.9% higher than WTI crude.

**Figure 8**  
Movement in prices of WTI crude  
and North Sea Brent crude in 2013  
(in USD per 159-litre barrel)  
Source: Bloomberg

WTI crude  
North Sea Brent crude



6.2 Investment management

Kapitalska družba classifies investments to the following two groups with regard to the method of management:

- capital investments, and
- portfolio investments.

Table 2 illustrates the composition of financial investments, while a detailed description of the aforementioned groups follows.

**Table 2**  
Composition of Kapitalska družba's  
investments as at 31 December  
2013 with regard to management  
(in 000 EUR)

Type of investment	Value	Proportion
Capital investments	527,762	66.3%
Portfolio investments	268,594	33.7%
- equity portfolio investments	116,490	14.6%
- debt portfolio investments	142,104	17.8%
- money market investments	10,000	1.3%
<b>Total financial investments</b>	<b>796,356</b>	<b>100.0</b>

6.2.1 Capital investment management

6.2.1.1 Composition of capital investments

Kapitalska družba’s capital investments comprise domestic equity investments in corporate shares and participating interests that the Company primarily obtained in corporate ownership transformation processes.

The Company held a total of 56 such investments at the end of 2013. Of those investments, Kapitalska družba had 47 so-called active investments, including 41 investments in public limited companies and six investments in limited liability companies. In addition to active investments, Kapitalska družba also held seven investments in bankruptcy proceedings and two investments in liquidation proceedings.

The value of capital investments was EUR 527,762 thousand as at 31 December 2013, a decrease of EUR 21,407 thousand on the previous year.

<b>Table 3</b> Breakdown of Kapitalska družba’s capital investments as at 31 December 2013 in accordance with Kapitalska družba’s asset management strategy (in 000 EUR)	Type of investment	No. of investments	Value	Proportion of capital investment portfolio
	Strategic investments	2	361,782	68.6%
	Marketable investments	17	123,670	23.4%
	Non-marketable investments	28¹	41,031	7.8%
	Investments in bankruptcy or liquidation	9	1,279	0.2%
	<b>Total capital investments</b>	<b>56</b>	<b>527,762</b>	<b>100.0%</b>

The Company’s ten largest capital investments and the proportion of the respective companies’ share capital accounted for by those investments are disclosed in Table 4.

<b>Table 4</b> Ten largest capital investments of Kapitalska družba’s by value as at 31 December 2013 (in %)	Seq. no.	Company name	Proportion of company’s share capital
	1.	Krka, d. d.	9.86
	2.	Modra zavarovalnica, d. d.	100.00
	3.	Telekom Slovenije, d. d.	5.59
	4.	Petrol, d. d.	8.27
	5.	Gorenje, d. d.	18.09
	6.	Hit, d. d.	20.32
	7.	Aerodrom Ljubljana, d. d.	7.36
	8.	PDP, d. d.	66.04
	9.	Luka Koper, d. d.	4.98
	10.	Gospodarsko razstavišče, d. o. o.	29.51

Investments in which Kapitalska družba holds a less than 20% ownership stake comprise the majority of capital investments. So-called active investments include 40 such investments, as well as four investments in bankruptcy and liquidation proceedings. A detailed overview of the composition of investments in terms of size of ownership stake is given in Table 5.

<b>Table 5</b> Composition of capital investments in terms of size of ownership stake as at 31 December 2013	Ownership stake in share capital	Active investments	Investments in bankruptcy or liquidation
	Up to 9.9%	30	3
	From 10.0% to 19.9%	11	1
	From 20.0% to 49.9% (associate)	4	4
	From 50.0% to 100.0% (subsidiary)	2	1
	<b>Total number of investments</b>	<b>47</b>	<b>9</b>

6.2.1.2 Sales of companies

With the aim of ensuring the transparency of sales procedures and the equal treatment of bidders, the sale of capital investments is carried out via public tender. With the aim of maximising the sales value of investments, Kapitalska družba also actively searches for potential buyers. Kapitalska družba published two public tenders for the purchase of shares and participating interests in 2013.

Despite the Company’s efforts, interest in the purchase of corporate shares and participating interests was down again in 2013 due to the continuation of the adverse economic conditions. Also contributing to the decline in the number of sales of corporate shares and participating interests was the failure to adopt a strategy for managing the capital investments of the Republic of Slovenia.

Kapitalska družba did not sell any capital investments in 2013, but did begin preparatory activities for the sale of certain capital investments for which the National Assembly adopted a resolution in June 2013 consenting to their disposal.

6.2.1.3 Purchases of companies

Kapitalska družba also found a great deal of interest on the part of other capital market participants in 2013 to sell investments to the Company.

Except for its participation in the recapitalisation of Gorenje, d. d. and NLB, d. d., Kapitalska družba did not accept any bids for the purchase of capital investments in 2013, as the majority of tendered capital investments would have been contrary to the objectives of the transformation of Kapitalska družba into a portfolio investor.

Kapitalska družba participated in the recapitalisation of NLB, d. d. in February 2013, when it subscribed and paid up 120,897 newly issued shares valued at EUR 1,009 thousand. In December 2013, it participated in the recapitalisation of Gorenje, d. d., subscribing and paying up 464,038 newly issued shares valued at EUR 2,000 thousand.

<b>Table 6</b> Purchases and recapitalisations of capital investments in 2013 (in 000 EUR)	No. of investments	Value of outflow
	Recapitalisation	2
	<b>Total purchases and recapitalisations of capital investments</b>	<b>3,009</b>

6.2.1.4 Explanation of the deletion of shares and subordinated bonds of certain Slovenian banks

Based on decisions by the Bank of Slovenia of 17 and 18 December 2013 on the adoption of specific extraordinary measures aimed at maintaining the stability of the Slovenian financial system, the KDD deleted from the central register of book-entry securities the shares and subordinated bonds of five Slovenian banks: NLB, d. d., Nova KBM, d. d., Abanka, d. d., Factor banka, d. d. and Probanka, d. d. Prior to deletion, Kapitalska družba held the shares of two and the subordinated bonds of four of the five aforementioned banks. The value of write-offs made by Kapitalska družba due to the deletion of the shares and subordinated bonds of the aforementioned banks is disclosed in the financial report section of the annual report. Because an initiative was sent to the Constitutional Court to assess the constitutionality of certain articles of the law governing banking, the Company’s Management Board will closely monitor legislative proceedings and activities in this area, and act accordingly to protect the assets of Kapitalska družba.

6.2.1.5 Dividends of domestic companies

Dividend income was up again in 2013. Kapitalska družba recorded EUR 19,665 thousand in domestic corporate dividends in 2013, an increase of EUR 7,916 thousand relative to 2012, when dividends totalled EUR 11,749 thousand. The ten largest capital investments in terms of dividends accounted for 97.8% of all dividends from capital investments held by Kapitalska družba.<sup>4</sup>

The payment of dividends in 2013 was approved by the general meetings of 23 companies in which Kapitalska družba held a capital investment, compared with 2012, when the payment of dividends was approved by the general meetings of 22 companies in which Kapitalska družba held a capital investment.

Table 7 illustrates the highest dividend income generated in 2013 by capital investments held by Kapitalska družba.

<b>Table 7</b> Ten capital investments that generated the highest dividend income in 2013 and 2012	<b>Seq. no.</b>	<b>Issuer</b>	<b>Dividends per share in 2013 (EUR)</b>	<b>Dividends per share in 2012 (EUR)</b>	<b>Total dividends in 2013 (in 000 EUR)</b>	<b>Total dividends in 2012 (in 000 EUR)</b>
	1.	Krka, d. d.	1.61	1.50	5,624	5,240
	2.	Telekom Slovenije, d. d.	12.00	7.00	4,382	2,556
	3.	Modra zavarovalnica, d. d.	0.02878	-	4,380	-
	4	Loterija Slovenije, d. d.	109.08	64.00	2,026	1,188
	5.	Petrol, d. d.	10.00	8.25	1,726	1,424
	6.	Grand hotel Union, d. d.	1.12	0.62	377	209
	7.	Terme Čatež, d. d.	3.00	-	355	-
	8.	Aerodrom Ljubljana, d. d.	0.63	0.64	176	179
	9.	Luka Koper, d. d.	0.17	-	118	-
	10.	Cetis, d. d.	4.00	-	62	-

The dividends of Terme Čatež, d. d. stated in Table 7 were paid in 2013 on the basis of a general meeting resolution adopted a year earlier.

Kapitalska družba also received dividends in 2013 from certain companies in its portfolio as the result of claims received for the allocation of distributable profit from previous years.

<b>Table 8</b> Dividend income based on claims received for the distribution of profit (in EUR)	<b>Issuer</b>	<b>Dividends for the year</b>	<b>Dividends per share</b>	<b>Total dividends</b>
	AG, d. d.	Distributable profit for 2010	0.16	13,398
	TKI Hrastnik, d. d.	Distributable profit for 2011	0.33	10,535
	HTG Sežana, d. d.	Distributable profit for 2008	0.17	6,034
	HTG Sežana, d. d.	Distributable profit for 2009	0.16	5,679

6.2.1.6 Corporate Governance Code Companies with State Capital Investments and the exercising of voting rights at general meetings

As an active player on the Slovenian capital market, Kapitalska družba strives to introduce in practice a contemporary form of corporate governance, the aim of which is to ensure clear, predefined and publicly known principles, procedures and criteria by which the Company acts in exercising its ownership rights. To that end, the Corporate Governance Code of Kapitalska družba was used from 2009 until December 2013, and defined the policy and procedures for exercising Kapitalska družba’s management rights in companies in which it holds an ownership stake. In 2013 Slovenska odškodninska družba, d. d. adopted the Corporate Govern-

<sup>4</sup> Dividend income is disclosed in the financial report section of the annual report.

ance Code for Companies with State Capital Investments, which Kapitalska družba has applied *mutatis mutandis* since December 2013 to ensure uniform operations. The aforementioned document is published on Kapitalska družba’s website.

Kapitalska družba also updates the bases for voting by the Company’s representatives at general meetings every year. These bases, among other things, define the remuneration policy for supervisory boards, management committees and management boards, the dividend policy, the use of distributable profit, recapitalisations via authorised capital, the acquisition of treasury shares and the introduction of a single-tier governance system. The aforementioned document is published on Kapitalska družba’s website.

Kapitalska družba attempted to exercise its management rights at all general meetings of companies with a registered office in Slovenia in which the Company has an equity holding that it manages on its own behalf or on behalf of the Compulsory Supplementary Pension Insurance Fund. The Company participated in all general meetings of companies in which it has a total equity holding of at least 5% that it manages on its own behalf or on behalf of the pension fund. Kapitalska družba also participated in the general meetings of companies in which it has a smaller equity holding, whenever it deemed that participation was appropriate.

Kapitalska družba was entitled to participate on its own behalf and on account of the pension fund under management in 72 general meetings of shareholders or partners of companies in 2013. Representatives of Kapitalska družba participated in 69 general meetings. Two general meetings were cancelled prior to the date of the meeting or rescheduled to another date, while representatives of Kapitalska družba did not participate in one general meeting. Kapitalska družba required the consent of the National Assembly to manage the aforementioned investment, but had not received that consent by the date of the general meeting.

When assessing proposed general meeting resolutions and formulating opinions for voting at general meetings, Kapitalska družba complied with the Corporate Governance Code for Companies with State Capital Investments and internal bases for voting at general meetings, as well as the provisions of the Company’s Articles of Association relating to the performance of corporate governance tasks. With respect to the remuneration of supervisory boards and management bodies, Kapitalska družba applied, *mutatis mutandis*, the Recommendations of the Manager of Direct and Indirect Capital Assets of the Republic of Slovenia, which were published by Slovenska odškodninska družba, d. d., and took into account the Act Governing the Earnings of Management Staff at Companies under the Majority Ownership of the Republic of Slovenia and Self-Governing Local Communities (ZPPOGD) with respect to the earnings and other rights of management boards, executive directors and the management staff of companies.

Kapitalska družba acted in accordance with the Corporate Governance Code for Companies with State Capital Investments at all general meetings attended by its representatives in 2013. Disclosures regarding Kapitalska družba’s conduct at general meetings are published on the Company’s website.

<b>Table 9</b> Participation at general meetings	<b>Form of participation</b>	<b>No. of general meetings</b>
	Participation by employees of Kapitalska družba	69
	Cancelled or rescheduled general meetings	2
	No participation	1
	<b>Total</b>	<b>72</b>

6.2.1.7 Code of Conduct of the Kapitalska Družba Group

In addition to Kapitalska družba, the Kapitalska Družba Group includes the subsidiaries Modra zavarovalnica, d. d. and the PDP Group.

In 2012 Kapitalska družba adopted the Code of Conduct of the Kapitalska Družba Group (hereinafter: Code of the Group). The Code of the Group is a document that includes the minimum standards of operations of Group companies and cooperation in specific areas of operations, and the monitoring of the Group’s operations by the parent company.

The Guidelines on the Reporting of Subsidiaries to the Parent Company represent an integral part of the Code of the Group. The aforementioned guidelines set out the content, deadlines and methods of reporting to the parent company by the Group’s subsidiaries.

6.2.1.8 Management of capital investments in the future

The Slovenian Sovereign Holding Company Act (ZSDH) entered into force at the end of December 2012. Management of investments on behalf and on the account of the Republic of Slovenia was assumed by Slovenska odškodninska družba, d. d. (i.e. SDH, d. d. following the latter’s transformation) with the entry into force of the ZSDH. Kapitalska družba’s annual obligation to provide funding to the ZPIZ remains unchanged. Kapitalska družba must transfer funds in the amount of EUR 50 million every year to the ZPIZ by no later than 30 September for the purpose of adjusting pensions. The Implementation of the Budget of the Republic of Slovenia for 2013 and 2014 Act (hereinafter: the ZIPRS1314) provides the government with the possibility of increasing Kapitalska družba’s obligation in order to cover the difference should the ZPIZ’s expenditure exceed its revenues from contributions for compulsory insurance and the planned scope of funding in the state budget for that purpose, up to the maximum amount of proceeds that Kapitalska družba receives from the sale of state-owned capital investments. The ZSDH and ZIPRS1314 also state that SDH, d. d. must transfer 10% of the proceeds from the sale of its capital investments (classified as assets held by SDH, d. d.) to Kapitalska družba with the aim of providing additional funding to the ZPIZ.

SDH, d. d. will manage investments in accordance with guidelines on the management of investments, the relevant investment management strategy and the Corporate Governance Code, and on the basis of the annual investment management plan. Kapitalska družba is also bound to the investment management strategy, which will include the classification of investments (the definition and classification of SDH, d. d.’s capital investments, excluding equity portfolio investments, to investment categories, target participating interests in capital investments and the sales method). The aforementioned strategy and classification of investments was not adopted in 2013.

Until the first classification enters into force, Kapitalska družba requires the consent of the National Assembly based on the government’s proposal to dispose of investments whose total carrying amount exceeds EUR 20 million or investments in which it has an equity holding of at least 25% or 25% of voting rights. In June 2013 the National Assembly adopted a resolution consenting to the disposal of 15 capital investments in which the Slovenian government held an indirect or direct ownership stake.

In September 2013 the Ministry of Finance drafted a new Slovenian Sovereign Holding Company Act (hereinafter: the ZSDH-1), which was adopted by the National Assembly on 28 March 2014. The aforementioned act is thus expected to enter into force in April 2014. Changes will again be seen in the management of capital investments following the entry into force of the ZSDH-1.

6.2.2 Management of portfolio investments

6.2.2.1 Equity portfolio investments

Equity portfolio investments include foreign shares and investment coupons from the investment funds of domestic and foreign issuers. The value of equity portfolio investment assets was EUR 116,490 thousand as at 31 December 2013.

Table 10 Composition of equity portfolio investments as at 31 December 2013 (in 000 EUR)	Type of investment	Value	Proportion of equity portfolio investments
	Foreign shares	9,058	7.8%
	Investment funds	107,432	92.2%
	- domestic investment funds	10	0.0%
	- foreign investment funds	107,422	92.2%
	Total equity portfolio investments	116,490	100.0%

The five largest investments accounted for a total of 47.2% of the portfolio of equity investments as at 31 December 2013. These investments included index funds represented by MSCI World global stock indices (XMWO GY and SMSWLD GY), an index fund represented by the US S&P 500 (SPY US), an index fund represented by the US IXT technology sector index (XLK US), and an index fund represented by euro area government bonds (XGLE GY).

6.2.2.2 Debt portfolio investments

The balance of debt portfolio investments stood at EUR 142,104 thousand at the end of 2013. At 68.0%, domestic bonds accounted for the highest proportion of debt portfolio investments. Investments in domestic bonds totalled EUR 96,586 thousand, while investments in foreign bonds totalled EUR 41,448 thousand. The remainder was accounted for by claims for accrued interest.

The primary focus of Kapitalska družba’s investment activities in 2013 was on security and maintaining the value of assets due to an increase in the general level of risk.

Table 11 Composition of debt investments as at 31 December 2013 (in 000 EUR)	Type of investment	Value	Proportion of debt portfolio investments
	Domestic bonds	96,586	68.0%
	- domestic government bonds	77,571	54.6%
	- domestic corporate and bank bonds	19,015	13.4%
	Foreign bonds	41,448	29.2%
	- foreign government bonds	21,775	15.3%
	- foreign corporate and bank bonds	19,673	13.8%
	Claims for interest	4,070	2.9%
	Total debt portfolio investments	142,104	100.0%

The five largest investments, together with accrued interest, accounted for a total of 41.5% of the portfolio of debt investments as at 31 December 2013. All five investments were in different issues (nos. 59, 66, 67, 69 and 70) of Slovenian government bonds.

6.2.2.3 Money market investments

The balance of money market investments was EUR 10,000 thousand at the end of 2013. Loans granted (deposits) account for the majority of the aforementioned investments.

Table 12 Composition of money market investments as at 31 December 2013 (in 000 EUR)	Type of investment	Value	Proportion of the portfolio of money market investments
	Loans granted (deposits)	8,279	82.8%
	Cash and cash equivalents	1,721	17.2%
	- cash on transaction accounts at banks, and cash in hand	321	3.2%
	- euro call deposits	1,400	14.0%
	Total money market investments	10,000	100.0%



6.3 *Transfers to the Pension and Disability Insurance Institute*

The management of Kapitalska družba’s liquidity focused on meeting the Company’s annual obligation to the ZPIZ. Pursuant to legal requirements, Kapitalska družba transferred EUR 50 million to the ZPIZ’s account on 30 September 2013. Including the aforementioned payment, Kapitalska družba has transferred the cumulative amount of EUR 645,321 thousand to the budget of the ZPIZ.

6.4 *Investment property*

Kapitalska družba holds investment property in the following commercial buildings:

- Stekleni dvor, Dunajska cesta 119, Ljubljana;
- Bežigranski dvor, Dunajska cesta 56 and 58, and Kržičeva ulica 3, Ljubljana;
- Nebotičnik, Štefanova ulica 1, 3 and 5, Ljubljana; and
- Smelt, Dunajska cesta 160, Ljubljana.

Supply currently exceeds demand on the market. Thus there has been pressure to reduce rents for some time. Revenues were also down slightly due to the termination of agreements by lessors as the result of government austerity measures and public sector reorganisation.

6.5 *Risk management*

Risk management is explained in Chapter 13.9 Accounting policies in the financial report section of Kapitalska družba’s annual report.

6.6 *Pension fund management*

6.6.1 *Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia*

6.6.1.1 **Operations of the SODPZ**

The Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia (hereinafter: the SODPZ) is a mutual pension fund that provides occupational insurance in accordance with the Pension and Disability Insurance Act (hereinafter: the ZPIZ-2)<sup>5</sup>. Kapitalska družba has been the manager of the SODPZ since its establishment in 2001.

The new ZPIZ-2, which entered into force on 1 January 2013, also brought numerous changes to occupational insurance, including the conditions for occupational retirement. The introduction of new features relating to occupational insurance under the ZPIZ-2 began on the basis of a change to the pension plan. Under decision no. 1032-5/2013-6 of 28 November 2013, the Minister of Labour, Family, Social Affairs and Equal Opportunities approved a new occupational insurance pension plan, which entered into force on 30 December 2013 (except for provisions regarding contribution rates, and the level of subscription and redemption fees and the management fee for the occupational insurance pension funds, which entered into force on 1 January 2014). With the adoption and approval of the pension plan, Kapitalska družba began to provide occupational insurance, including occupational pensions, in accordance with the provisions of the ZPIZ-2.

<sup>5</sup> Since the entry into force of the ZPIZ-2 on 1 January 2013, the SODPZ has provided compulsory supplementary pension insurance in accordance with the ZPIZ-1.

The SODPZ is intended for policyholders who perform especially difficult work and work that is harmful to the health, and for policyholders who perform work that can no longer be performed successfully after a certain age. The SODPZ had 44,862 policyholders as at 31 December 2013.

The SODPZ comprises assets that are financed by funds collected through the payment of occupational insurance contributions and revenues generated by the management of those funds, and are earmarked exclusively to cover liabilities to occupational insurance policyholders.

The actual return on the SODPZ was 3.68% in 2013, compared with the guaranteed return of 2.30% in the same period. The net value of SODPZ assets was EUR 537,906 thousand at the end of 2013, and exceeded the guaranteed value of assets (EUR 514,541 thousand) by EUR 23,365 thousand.The SODPZ held 704,185,876,514 units in circulation in 2013.

Table 13 Return on the SODPZ in 2013	Return during the period	
	2013	
	Actual return	3.68%
	Guaranteed return	2.30%

On the basis of the pension plan, Kapitalska družba, as manager of the SODPZ, is entitled to subscription fees calculated when employer contributions are paid in, redemption fees calculated when the redemption value is paid to policyholders, and annual management fees that are calculated from fund assets. The applicable rate for subscription fees was 3.6% in 2013, while the fund management fee and redemption fee were 1.2% and 1% respectively. Revenues from the management of the SODPZ totalled EUR 8,077 thousand in 2013, broken down as follows: EUR 5,983 thousand in management fees, EUR 2,054 thousand in subscription fees and EUR 40 thousand in redemption fees.

Table 14 Kapitalska družba’s revenues from management of the SODPZ in 2013 (in 000 EUR)	Revenues from management activities	
	2013	
	Management fees	5,983
	Subscription fees	2,054
	Redemption fees	40
	Total	8,077

6.6.1.2 **SODPZ investments**

The fund’s investment policy is governed by legal restrictions, the pension plan, internal acts and the fund manager’s criteria. As manager of the SODPZ, Kapitalska družba followed an investment policy in 2013 that was aimed at security, returns, liquidity, the diversification of investments and long-term growth in the value of SODPZ assets.

In managing the assets of the SODPZ, Kapitalska družba pursued the objective of ensuring the highest possible return on selected financial assets in the context of acceptable risk and compliance with legal limitations regarding the structure of the fund’s investments. The basic objectives of management of SODPZ assets were as follows in 2013:

- to increase the actual value of assets over their guaranteed value, while maximising the amount of the expected surplus in the context of the targeted level of risk; and
- to achieve and exceed the average returns of competitive pension funds in the context of minimum risk.

In assessing the success of fund asset management, Kapitalska družba made a comparison with the internal composite benchmark index, with the fund’s guaranteed return and with the success of other mutual pension fund managers.

The value of assets in the SODPZ stood at EUR 539,264 thousand as at 31 December 2013, an increase of 14.8% relative to 2012.

Investments in debt securities account for the highest proportion (62.1%) of SODPZ assets. The proportion accounted for by the aforementioned assets was up significantly in 2013 compared with the previous year. Bonds account for the majority of this class of investments, followed by investment coupons (18.8%) and investments in loans and deposits (18.1%). The proportion accounted for by the two aforementioned classes was down relative to 2012. The proportions accounted for by other forms of investments were also down relative to 2012.

**Table 15**  
Composition of the investments of the SODPZ as at 31 December 2013 (in 000 EUR)

Class	Value	Proportion of fund assets
Shares	4,557	0.8%
Debt securities	334,979	62.1%
Loans and deposits	97,535	18.1%
Investment coupons	101,212	18.8%
Cash and cash equivalents	715	0.1%
Other claims	266	0.1%
<b>Total</b>	<b>539,264</b>	<b>100.0%</b>

Due to the limited size of the Slovenian financial market and a wider selection of investment opportunities, a portion of the fund’s assets were initially channelled abroad. The fund’s exposure to currency risk was down again in 2013, as the proportion of securities denominated in foreign currencies declined from 7.0% to 6.5%.

6.6.2 *Guarantee Fund of the Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia*

6.6.2.1 **Operations of the KS SODPZ**

Kapitalska družba became manager of the KS SODPZ with the transfer of the first policyholder to the aforementioned fund in May 2013. Kapitalska družba began paying occupational pensions in June 2013 and created the KS SODPZ for that purpose. An occupational pension provides social security to employees who perform especially difficult work and work that is harmful to the health, and work that can no longer be performed successfully after a certain age.

SODPZ policyholders earn the right to an occupational pension when they fulfil the conditions set out in the pension plan. When policyholders exercise their rights to an occupational pension, the funds on their personal account in the SODPZ are transferred to the KS SODPZ and the policyholders are issued an occupational pension policy.

Two policyholders were transferred to the KS SODPZ in 2013 in accordance with the compulsory supplementary pension insurance plan valid at that time.

Kapitalska družba is entitled to a fee of 1.5% of each pension payment. Pension payment fees totalled EUR 108 in 2013.

Under decision no. 1032-5/2013-5 of 28 November 2013, the Minister of Labour, Family, Social Affairs and Equal Opportunities approved an occupational pension payment plan, which entered into force on 30 December 2013.

6.6.2.2 **KS SODPZ investments**

The value of KS SODPZ assets was EUR 46 thousand as at 31 December 2013. Investments in bonds accounted for the highest proportion (91.8%) of KS SODPZ assets, followed by cash and cash equivalents (4.9%) and deposits (3.3%).

**Table 16**  
Composition of the KS SODPZ investments as at 31 December 2013 (in EUR)

Class	Value	Proportion of fund assets
Bonds	42,291	91.8%
Loans and deposits	1,502	3.3%
Cash and cash equivalents	2,261	4.9%
<b>Total</b>	<b>46,054</b>	<b>100.0%</b>

During the first six months from its creation, the structure of KS SODPZ investments deviated from the permitted structure of investments defined in the Insurance Act (hereinafter: the ZZavar). Kapitalska družba asked the Insurance Supervision Agency (hereinafter: the ISA) for permission to deviate from the limits set out in the ZZavar during the transitional period.

Based on Kapitalska družba’s request, the ISA issued a decision on 16 April 2013 under which the Company was permitted to exceed the investment limits on deposits and cash set out in Article 122 of the ZZavar for KS SODPZ investments:

- for the period until guarantee fund assets reach or exceed EUR 100 thousand;
- but for no more than six months from the first inflow to the aforementioned fund.

Six months from the first inflow into the KS SODPZ, the structure of the guarantee fund’s investments was in line with legal provisions, despite the fund’s relatively small size.

6.7 *Information Technology Sector*

The Information Technology Sector’s role as a service centre that provides services for PDP, d. d. and Modra zavarovalnica, d. d. continued in 2013. One of the main tasks of the Information Technology Sector is thus the conscientious and high-quality provision of information services in accordance with agreements signed with subsidiaries. Continuous support and the optimisation and computerisation of work processes have led to the achievement of the Company’s business objectives and to maintaining and strengthening its competitive position.

The sector’s operational roles include ensuring the integrated development of software and maintenance of the information system. The appropriate selection and efficient use of information solutions is ensured by actively following changes and the introduction of new business processes, which in turn ensures optimal support in the performance thereof. Also contributing to that objective is the active participation of the Information Technology Sector in the definition of new business processes and changes to existing business processes in all material areas of Kapitalska družba.

Through the high-quality provision of services, a rapid response time and the high availability of the information system, the service centre successfully ensures the business continuity of the Company’s subscribers and thus the settlement of all obligations to their customers. The high availability of the information system and thus business continuity is ensured by purchasing selected models of reliable hardware, the redundancy of key components of the system infrastructure and high-quality maintenance, with the assistance of selected external service providers that offer an appropriate response time to eliminate potential faults and regular preventative inspections. Best practices based on the ITIL V3 recommendations are applied to ensure the optimal performance of maintenance and support processes.

A single entry point is the main channel for communications with users, and facilitates traceability and transparency in the provision of services. The service centre plays a central role in the provision and improvement of high-quality IT services.

During the final quarter of the year, we began replacing operating systems and Microsoft Office suite on work stations. The reason lies in the termination of support of the Microsoft Windows XP operating system by the supplier.

In 2013 Kapitalska družba continued to develop software for managing assets. Upgrades related to required legal changes.

The implementation of support for the KS SODPZ in the scope of software to support Kad. Skladi pension funds continued but has not yet been completed, while the Company also computerised business processes relating to changes to the pension plan.

Minor corrections were made in 2013 to the user interface in the KaD.Net application. Owing to the high-quality maintenance of software, the Company ensured a high level of availability and reliability of online services, while employers were provided the uninterrupted exchange and overview of master and financial data regarding employees 24 hours a day, seven days a week.

6.8 *Significant business events after the balance sheet date*

The occupational insurance pension plan entered into force on 30 December 2013, except the provisions of Articles 15 and 26, which entered into force on 1 January 2014. The provision of Article 15 introduces a new single contribution rate of 9.25 %, while Article 26 sets out lower fees reimbursed to the management company: a subscription fee of 2.3% of the paid-in amount, a redemption fee of 0.5% of the paid-out amount and a management fee of 1.0% of the average annual net value of SODPZ assets. In September 2013 the Ministry of Finance drafted a new Slovenian Sovereign Holding Company Act (hereinafter: the ZSDH-1), which was adopted by the National Assembly on 28 March 2014. The aforementioned act is thus expected to enter into force in April 2014. Changes will again be seen in the management of capital investments following the entry into force of the ZSDH-1.

The general meeting of Cimos, d. d. was convened for 30 April 2014. From the convening of the general meeting, it is apparent that the aforementioned body will make a decision to increase the company’s share capital via new non-cash contributions, where the issue price of a new ordinary registered share will be EUR 1.

Expected development of Kapitalska družba in 2014

The year 2014 will be characterised by significant changes in the fulfilment of the basic tasks of Kapitalska družba with regard to payments to the pension fund and the management of the SODPZ.

The ZSDH maintains Kapitalska družba’s annual obligation to the ZPIZ in the amount of EUR 50 million, while the ZIPRS1415 provides the government with the possibility of increasing Kapitalska družba’s obligation in order to cover the difference should the ZPIZ’s expenditure exceed its revenues from contributions for compulsory insurance and the planned scope of funding in the state budget for that purpose, up to the maximum amount of proceeds that Kapitalska družba receives from the sale of state-owned capital investments. Both of the aforementioned regulations envisage additional payments by the government via SDH, d. d. to Kapitalska družba in the amount of 10% of the proceeds from the sale of the capital investments of SDH, d. d., i.e. of the government. At the end of 2013 the Slovenian government submitted the draft Slovenian Sovereign Holding Company Act (hereinafter: the ZSDH-1) to the National Assembly for debate and ratification. The draft act envisages the redefinition of Kapitalska družba’s position, the method used to manage its investments, the securing of new funding and the fulfilment of obligations to the ZPIZ. It also envisages the transfer of Kapitalska družba’s investment in PDP, d. d. to Slovenski državni holding.

Kapitalska družba’s objective remains its transformation into a portfolio investor, in order to ensure its long-term ability to fulfil its obligations to the ZPIZ, through the sell-off of non-strategic state assets and the placement of proceeds into liquid investments. A significant portion of Kapitalska družba’s activities in 2014 will be aimed at sales processes, including the sale of investments for which the National Assembly gave its consent in 2013. The Company’s objective is to receive the maximum amount of proceeds taking into account the principles of transparent sales processes and the equal treatment of bidders. The adoption of the strategy for managing the capital investments of the Republic of Slovenia is expected during the first half of 2014 following the adoption of the new Slovenian Sovereign Holding Company Act. This will have a significant impact on the management of Kapitalska družba’s capital investments and thus on its operations.

The new ZPIZ-2 entered into force on 1 January 2013 and, to a great degree, changes arrangements concerning compulsory supplementary pension insurance, i.e. occupational insurance. As manager of the SODPZ, Kapitalska družba has already established a guarantee fund for the payment of occupational pensions, and will have to further adapt occupational pension payment processes and upgrade IT support due to the changes brought about by the ZPIZ-2. Guarantee fund management rules and an investment policy statement must be drafted and approved, while the SODPZ’s risk management system must be adapted to the new regulatory framework. The most important development tasks include the establishment of a system for the verification and forced collection of occupation insurance contributions. We can expect the further harmonisation of the pension plan in 2014 with announced changes to the ZPIZ-2, which could have a significant impact on the already established occupation pension system (e.g. verification of the appropriateness of jobs and the creation of a solidarity fund). This year will also see a great deal of attention dedicated to the notification of employers and policyholders included in the SODPZ with regard to occupational pension conditions and procedures, and verification of the fulfilment of the aforementioned conditions. We will regularly notify the SODPZ Committee and occupational insurance stakeholders about the implementation thereof and associated problems.

The business objectives of the SODPZ in 2014 will continue to focus on an optimal asset management process, where the most attention will be given to security and liquidity due to

the changing and adverse conditions on the financial markets. The basic objective will be to achieve the highest possible return taking into account the changing level of risk, which cannot be lower than the level defined in the fund’s pension plan.

Despite the changes envisaged in the new Slovenian Sovereign Holding Company Act, Kapitalska družba will remain the parent entity of the Kapitalska Družba Insurance Group. The Group’s established governance system will be applied consistently and upgraded as required.

Following the transformation of Kapitalska družba, the Company established a risk management system on a consolidated basis for the entire Kapitalska Družba Group. The emphasis in 2014 will be on the management of the risks to which the Group is exposed. Regular communication and reporting about all types of risks will be maintained at the Group level. Governance of the Group will be adapted to the terms and conditions set out in the new ZSDH.

Kapitalska družba will continue with its restrictive cost policy in 2014, together with its model-based management of business processes. The aim of the project to optimise operating costs is to increase the efficiency of operations. Another aim is to build savings-optimisation measures from the project-based organisation into the Company’s organisational culture, where achieving and measuring target costs remain an integral part of everyday operations. We will upgrade the document archiving system of Kapitalska družba and the SODPZ, likewise with the aim of optimisation.

During the 2014 financial year we will give special attention to training in areas associated with the Company’s operations, with an emphasis on training for work with clients and on team work. We are also planning to upgrade the employee remuneration system with the aim of improving employee efficiency and motivation to achieve the Company’s business objectives. We would also like to improve the transparency and efficiency of operations and the quality of Kapitalska družba’s corporate governance. We will therefore continue to strive to fulfil the recommendations of the manager of state capital investments. We will promote and develop our corporate culture in accordance with Kapitalska družba’s Employee Code of Ethics, which was adopted at the beginning of 2011.

Social responsibility

8.1 Responsibility to the wider social community

Kapitalska družba’s mission is the provision of supplementary funding for compulsory pension and disability insurance. In accordance with the legal requirement, Kapitalska družba transfers additional funds to the Pension and Disability Insurance Institute every year for the payment of pensions. Kapitalska družba transferred EUR 50 million in September 2013 and thus fulfilled its obligation for the year. The Company has now transferred the cumulative amount of EUR 645,321 thousand to the pension fund.

Table 17  
Kapitalska družba’s payments  
to the budget of the ZPIZ

Year	Amount of transfer (in EUR)
1999	7,093,974
2000	55,499,916
2001	34,948,255
2002	41,729,261
2003	26,602,404
2004	26,602,404
2005	26,602,404
2006	39,121,182
2007	39,121,182
2008	49,000,000
2009	49,000,000
2010	100,000,000
2011	50,000,000
2012	50,000,000
2013	50,000,000
Total	645,320,982

8.2 Responsibility to employees

8.2.1 Concern for employee training

Existing work areas and the development of new business functions at the Company are enhanced using various forms of training adapted to the specific job requirements and knowledge required by each employee, and to the Company’s developmentally established tasks. Employees thus receive additional training both in Slovenia and abroad by attending shorter or longer seminars and workshops, and through planned internal training carried out regularly for all employees.

From January to December 2013, employees attended seminars on the following topics: the latest changes to the pension system, corporate annual reports and the latest changes in the area of taxation, accounting and international accounting standards, labour law, occupational safety and health, IT security, IT business continuity, public relations, public procurement and the training of internal assessors in the scope of the Family-Friendly Company certificate.



In accordance with its education and training plan, Kapitalska družba organised several internal training programmes in 2013 on the following topics: the prevention of money laundering, the management of risks and investment limits, corporate governance and the migration to the latest Windows operating system and Office suite. All employees were afforded the opportunity to build on their knowledge of business English. A workshop was organised for managers and their deputies in October 2013 with the aim of obtaining change management skills.

Kapitalska družba also promotes continuing education and the acquisition of various licences in the employer's interest. This improves the quality of the work process and improves qualifications for work in a specific position. Five employees thus attended postgraduate courses in 2013, while three employees attended training to receive professional qualifications.

8.2.2 *Concern for a safe and healthy work environment*

Kapitalska družba ensures a safe and pleasant work environment by respecting all regulations governing workplace safety and by providing the appropriate working conditions. Tasks relating to occupational health and safety, and fire safety are carried out regularly. Among the most important tasks in this area are regular employee training in the area of occupational safety and health, participation in the assessment of risks in the workplace and working environment, regular periodic preventative medical examinations, the review of declarations of workplace safety, studies of the work environment (measurements of the micro-climate, lighting and noise in the workplace), measurements of electrical installations, inspections of work equipment and examinations of compliance with fire safety measures.

Collective voluntary pension insurance is another important aspect of ensuring and increasing the future social security of employees. The aforementioned area is governed by an agreement on the creation of a pension plan, which provides all employees insurance under the same conditions. The provider of the aforementioned insurance is the open mutual equity pension fund of Modra zavarovalnica, d. d. Since 2009 Kapitalska družba has paid the maximum supplementary pension insurance premium for its employees in the amount of 5.844% of an employee's gross wages, taking into account limitations regarding the maximum possible tax relief for voluntary supplementary pension insurance, as set out in the applicable legislation for a specific year. The costs of employee premiums for voluntary supplementary pension insurance totalled EUR 106 thousand in 2013.

**A family-friendly company**

Kapitalska družba is aware of the importance and advantages of an active family-friendly policy at the Company that facilitates the balancing of work and family life. The Kapitalska družba team comprises relatively young, highly qualified and educated employees, including many young parents with small children. The Company constantly strives to further improve the working environment and to make it possible for all employees to balance their career development and family life, which has become part of the organisational culture. We thus continued activities in the scope of the family-friendly company project in 2013. Receipt of the full certificate on 20 September 2013 marked the achievement of the objective set when the Company was included in the aforementioned project.

New measures, which were already implemented in practice in the past, were added to previously adopted measures relating to the more flexible management of working hours, the exchange of opinion studies between employees and additional notification of employees, the training of managers with regard to the more effective balancing of work and family life, an additional day off from work for children in the first three grades of primary school, more flexible working hours while initiating children in day care and the inclusion of employees following extended absences. The new measures relate to socialising among employees, the

participation of employees' families in temporary tasks at the organisation/Company and the giving of gifts to celebrate newborns and to mark the new year. New measures were proposed taking into account the general economic conditions of the Company's operations and previously established best practices at personal events among our employees.

As a family-friendly company, Kapitalska družba also organised the free care of employees' children during the general public sector strike last year and thus improved the work productivity and satisfaction of employees and their children.

8.3 *Environmental responsibility*

**Waste separation**

The irrational use of natural resources and the pollution of the environment are becoming pressing issues that Kapitalska družba cannot overlook. The Company therefore established separate waste collection, which facilitates the further use and/or processing of waste.

The Company pays particular attention to the collection of plastic bottle caps, which are forwarded to the subsidiary Modra zavarovalnica, d. d. From there, the caps are forwarded onward for charitable purposes.

**Collection of printer cartridges**

Kapitalska družba collects empty printer cartridges and sends them for refilling. Each refilled printer cartridge represents additional savings for Kapitalska družba and is part of the project to reduce and optimise operating costs, while at the same time reflecting the Company's responsibility for protecting the environment.

**Use of electricity from renewable sources**

Kapitalska družba issued a tender in 2013 for the supply of electricity in accordance with the Decree on Green Public Procurement. The Company took into account the provisions and requirements of the aforementioned decree and signed an agreement on the supply of 100% of electricity from renewable sources. Energy that is produced from environmentally friendly, renewable sources does not use fossil fuels. Thus, the burden on the environment with greenhouse gases, harmful emission and radioactive waste is reduced.

Indicators

in 000 EUR					
		Value	Value of indicator		
		2013	2012	2013	2012
1. FINANCING RATIOS					
a) self-financing ratio					
equity	817,063	847,589	0.96	0.92	
total equity and liabilities	849,651	920,731			
b) non-current financing ratio					
equity + non-current liabilities (including provisions) + non-current accrued expenses and deferred revenues	846,232	867,281	1.00	0.94	
total equity and liabilities	849,651	920,731			
2. INVESTMENT RATIOS					
a) fixed asset investment ratio					
fixed assets (at carrying amount)	4,450	4,761	0.01	0.01	
total assets	849,651	920,731			
b) non-current investment ratio					
fixed assets + non-current deferred expenses and accrued revenues (at carrying amount) + investment property + non-current financial assets + non-current operating receivables	735,408	814,898	0.87	0.89	
total assets	849,651	920,731			
3. HORIZONTAL FINANCIAL STRUCTURE RATIOS					
a) equity to fixed assets ratio					
equity	817,063	847,589	183.61	178.03	
fixed assets (at carrying amount)	4,450	4,761			
b) liquidity ratio					
liquid assets	1,721	2,215	0.52	0.04	
current liabilities	3,324	53,382			
c) quick ratio					
liquid assets + current receivables	3,035	4,505	0.91	0.08	
current liabilities	3,324	53,382			
d) current ratio					
current assets	85,657	86,591	25.77	1.62	
current liabilities	3,324	53,382			
4. EFFICIENCY RATIOS					
a) operating efficiency					
operating revenues	10,128	15,453	1.69	2.71	
operating expenses	5,979	5,712			
5. PROFITABILITY RATIOS					
a) net return on equity					
net profit for the period	-74,422	-61,320	-0.08	-0.06	
average equity (excluding net profit/loss for period)	900,197	971,455			
b) dividends to share capital ratio					
dividends for financial year	0	0	0.00	0.00	
average share capital	364,810	364,810			

Corporate governance statement

As a public limited company whose sole shareholder is the Republic of Slovenia, Kapitalska družba voluntarily complies with the Corporate Governance Code for Companies with State Capital Investments, which recommends the principles, procedures and criteria for conduct by the members of management and supervisory bodies in which the Republic of Slovenia is a shareholder.

Kapitalska družba hereby issues its statement of compliance with the Corporate Governance Code for Companies with State Capital Investments, which was adopted by Slovenska odškodninska družba, d. d. on 15 May 2013. The second part of the code defines the expectations for companies with state capital investments.

The code is published on Slovenska odškodninska družba, d. d.’s website at <http://www.so-druzba.si>. The statement of compliance with the Corporate Governance Code for Companies with State Capital Investments is published on the Company’s website at <http://www.kapital-ska-druzba.si>.

The Management Board and the Supervisory Board of Kapitalska družba hereby declare that they voluntarily comply with the Corporate Governance Code for Companies with State Capital Investments in the section relating to the expectations for companies in which the Republic of Slovenia is a shareholder or partner in their work and operations.

Any deviations from the Corporate Governance Code for Companies with State Capital Investments are cited and explained below:

- Provision no. 65 of the code:** Pursuant to the ZGD-1, companies with state capital investments must indicate in their annual report a true picture regarding the development of their business activities, current status and achievements in accordance with legislation and established practice. This, in addition to legally prescribed financial and non-financial disclosures, includes:
- disclosures regarding risks and the risk management system;
  - the Company’s research and development efforts;
  - reporting about corporate governance (the corporate governance statement) including the fulfilment of provisions of this code and any other relevant codes; and
  - reporting about the sustainable development of the Company (which may be a separate document or a part of an annual report), which comprises for example:
    - a report and a short analysis on the questions concerning sustainable development that are important for the Company,
    - a clear report about the risks and opportunities that the Company handles within the framework of sustainable development, in particular regarding non-financial risks and opportunities that are necessary for the understanding of its development, business performance and the position of the Company,
    - a review of the Company’s strategy and adaptation to the requirements for sustainable development, and how strategies and adaptations have influenced achievements in the operations of the Company and its current position and position in the future, and
    - a clear report about achievements and goals, which are based on selected performance indicators.

**Note:** The Company takes into account the requirements of the ZGD-1 regarding the content of its annual report.

**Provision nos. 74–79 of the code:** Selection of candidates for members of supervisory bodies and formulation of proposals for a general meeting

**Note:** The Company does comply with the aforementioned provisions of the code in full due to the cogent provisions of the Slovenian Sovereign Holding Company Act (ZSDH) and its Articles of Association, which envisage a special procedure for nominating members to Kapitalska družba’s Supervisory Board.

**Provision nos. 80–82 of the code:** Evaluation of the efficiency of the work of supervisory boards

**Note:** As a rule, the Supervisory Board evaluates the efficiency of its work at the end of the financial year. The aforementioned evaluation made no sense and was not carried out in 2013 due to the replacement of half of the members of the Supervisory Board during the second half of the financial year.

**Provision nos. 83–85 of the code:** Composition of supervisory boards

**Note:** The Company complies with the aforementioned provisions of the code *mutatis mutandis*, taking into account the cogent provisions of the ZSDH and Kapitalska družba’s Articles of Association, which set out a special composition of the Company’s Supervisory Board.

**Provision nos. 87–93 of the code:** Remuneration of members of a management board

**Note:** The Company complies with the aforementioned provisions of the code *mutatis mutandis*, taking into account the cogent provisions of the Act Governing the Earnings of Management Staff at Companies under the Majority Ownership of the Republic of Slovenia and Self-Governing Local Communities (ZPPOGD) and the Decree setting the highest correlation of basic wages and the amount of variable remuneration of directors.

# 2013

*Those who know  
their objective  
steadfastly and  
decisively follow  
their chosen path.  
Through  
excellence and  
commitment, we  
achieve the  
high objectives we  
set for ourselves.*





Auditor's report



Deloitte Revizija d.o.o.  
Dunajska cesta 165  
1000 Ljubljana  
Slovenija  
  
Tel: + 386 (0)1 3072 800  
Fax: + 386 (0)1 3072 900  
www.deloitte.si

INDEPENDENT AUDITOR'S REPORT  
to the General Meeting of the company KAPITALSKA DRUŽBA  
POKOJNINSKEGA IN INVALIDSKEGA ZAVAROVANJA, d. d.

Report on the Financial Statements

We have audited the accompanying financial statements of the company KAPITALSKA DRUŽBA POKOJNINSKEGA IN INVALIDSKEGA ZAVAROVANJA, d. d. (hereinafter: the "Company"), which comprise the balance sheet as at 31 December 2013, the income statement, statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Slovenian Accounting Standards. The management is also responsible for the level of internal control required in its opinion to prepare financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Ime Deloitte se nanaša na Deloitte Touche Tohmatsu Limited, pravno osebo, ustanovljeno v skladu z zakonodajo Združenega kraljestva Velike Britanije in Severne Irske (v izvirniku: UK private company limited by guarantee), in mrežo njenih članic, od katerih je vsaka ločena in samostojna pravna oseba. Podroben opis pravne organiziranosti združenja Deloitte Touche Tohmatsu Limited in njenih družb članic je na voljo na [www.deloitte.com/slmse/druzbic](http://www.deloitte.com/slmse/druzbic).  
Member of Deloitte Touche Tohmatsu Limited

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the company KAPITALSKA DRUŽBA POKOJNINSKEGA IN INVALIDSKEGA ZAVAROVANJA, d. d., as at 31 December 2013 and its financial performance and its cash flows for the year then ended in accordance with Slovenian Accounting Standards.

Report on Other Legal and Regulatory Requirements

The management is also responsible for the preparation of the business report in accordance with the requirements of the Companies Act (ZGD-1). Our responsibility is to provide an assessment of whether the business report is consistent with the audited financial statements. Our procedures have been conducted in accordance with the International Standard on Auditing 720 and are limited solely to assessing of whether the business report is consistent with the audited financial statements. In our opinion, the business report is consistent with the audited financial statements.

DELOITTE REVIZIJA d.o.o.

Bojan Bodnaruk  
Certified Auditor

Yuri Sidorovich  
President of the Board

*For signature please refer to the original Slovenian version.*



Ljubljana, 10 April 2014

TRANSLATION ONLY – SLOVENIAN ORIGINAL PREVAILS

Statement of the Management Board

The Management Board of Kapitalska družba pokojninskega in invalidskega zavarovanja, d. d. hereby confirms the Company’s financial statements for the year ending 31 December 2013, and the accompanying notes and disclosures to the financial statements on pages 62 to 119, which form an integral part thereof.

The Management Board also confirms that the appropriate accounting policies were consistently applied in compiling the financial statements, that accounting estimates were made according to the principle of prudence and the diligence of a good manager, and that the financial statements present a true and fair picture of the Company’s financial assets and operating results for 2013.

The Management Board is also responsible for ensuring that accounting is conducted correctly and that appropriate measures are taken to secure property and other assets, and confirms that the financial statements, together with the notes, have been compiled on a going concern basis and in line with current legislation and the 2006 Slovenian Accounting Standards.

The tax authorities may audit the company at any time in the five years following the end of a year in which tax must be paid, which can result in an additional tax liability, default interest and fines for corporate income tax or for other taxes and levies. The Management Board is not aware of any circumstances that could give rise to any significant liability on this account.



Anja Strojín Štampar, MSc  
Member of the Management Board

Ljubljana, 10 April 2014



Bachtiar Djalil  
President of the Management Board

Financial statements and disclosures to the financial statements

13.1 *Income statement for the period from 1 January 2013 to 31 December 2013*

000 EUR			
Item	Notes	1. 1.-31. 12. 2013	1. 1.-31. 12. 2012
1. Net revenue from sales	1		
a) Sales to local companies in the Group		637	668
c) Revenue from sales on the domestic market		9,262	8,800
Total revenue from sales		9,899	9,468
4. Other operating revenue (including revaluation revenue)	2	229	5,985
<b>Total revenue</b>		<b>10,128</b>	<b>15,453</b>
5. Costs of goods, materials and services	3		
b) Costs of materials		-133	-115
c) Costs of services		-1,706	-1,670
Total costs of goods, materials and services		-1,839	-1,785
6. Labour costs	4		
a) Payroll costs		-2,037	-2,116
b) Social security insurance costs		-327	-342
c) Pension insurance costs		-106	-110
d) Other labour costs		-200	-205
Total labour costs		-2,670	-2,773
7. Amortisation, depreciation and write-offs	5		
a) Depreciation and amortisation		-1,131	-1,153
b) Operating expenses from revaluation of fixed assets		0	-1
Total write-downs		-1,131	-1,154
8. Other operating expenses	6	-339	0
<b>Total expenses</b>		<b>-5,979</b>	<b>-5,712</b>
<b>Operating profit (loss)</b>		<b>4,149</b>	<b>9,741</b>

Item	Notes	1. 1.-31. 12. 2013	1. 1.-31. 12. 2012
9. Financial revenue from shares and interests	7		
a) Shares and interests in the Group		4,380	0
b) Shares and interests in associates		1,744	2,182
c) Financial revenue from other shares and interests		14,379	21,374
d) Financial revenue from other investments		7,633	7,753
Total financial revenue from shares and interests		28,136	31,309
10. Financial revenue from loans	7		
a) Financial revenue from loans to Group members		84	40
b) Financial revenue from loans to others		1,839	4,045
Total financial revenue from loans		1,923	4,085
<b>Total financial revenue</b>		<b>30,059</b>	<b>35,394</b>
12. Financial expenses due to write-off and impairment of financial assets	8		
b) Financial expenses due to impairment and write-off of other investments		-67,592	-53,825
Total financial expenses due to impairment and write-off of financial assets		-67,592	-53,825
13. Financial expenses for financial liabilities	8		
b) Financial expenses for bank loans		-1,169	-1,285
d) Financial expenses for other financial liabilities		-50,000	-50,000
Total financial expenses for financial liabilities		-51,169	-51,285
<b>Total financial expenses</b>		<b>-118,761</b>	<b>-105,110</b>
<b>Profit (loss) from ordinary activity</b>		<b>-84,553</b>	<b>-59,975</b>
15. Other revenue	9	787	41
16. Other expenses	10	-34	-108
<b>Total profit (loss)</b>		<b>-83,800</b>	<b>-60,042</b>
17. Income tax	11	0	0
18. Deferred tax	12	9,378	-1,278
<b>19. Net profit or loss for the period</b>	<b>13</b>	<b>-74,422</b>	<b>-61,320</b>

The notes to the financial statements are an integral part of these financial statements.

13.2 *Statement of other comprehensive income for the period from 1 January 2013 to 31 December 2013*

	000 EUR	
	1. 1.-31. 12. 2013	1. 1.-31. 12. 2012
19. Net profit or loss for the period	-74,422	-61,320
21. Gains (losses) on revaluation of AFS financial assets	43,841	28,595
<b>24. Total comprehensive income for the period</b>	<b>-30,581</b>	<b>-32,725</b>

The notes to the financial statements are an integral part of these financial statements.

13.3 *Balance sheet as at 31 December 2013*

	000 EUR		
Item	Notes	31. 12. 2013	31. 12. 2012
<b>ASSETS</b>			
A. Non-current assets			
I. Intangible assets and long-term deferred costs and accrued revenues	14		
5. Other long-term deferred costs and accrued revenues		416	561
<b>Total intangible assets</b>		<b>416</b>	<b>561</b>
II. Property, plant and equipment			
2. Buildings		3,915	4,085
4. Other plant and equipment		119	115
<b>Total property, plant and equipment</b>		<b>4,034</b>	<b>4,200</b>
<b>III. Investment property</b>	<b>16</b>	<b>18,856</b>	<b>19,504</b>
IV. Long-term financial assets			
1. Long-term financial assets, except loans			
a) Shares and stakes in Group companies	17	159,590	159,590
b) Shares and interests in associates	17	15,824	56,778
c) Other shares and interests	19	409,114	434,379
d) Other long-term financial assets	19	127,485	139,805
Total long-term financial assets, except loans		712,013	790,552
2. Long-term loans			
Total long-term loans		0	0
<b>Total long-term financial assets</b>		<b>712,013</b>	<b>790,552</b>
V. Long-term operating receivables			
	21		

Item	Notes	31. 12. 2013	31. 12. 2012
3. Long-term operating receivables due from others		89	81
Total long-term operating receivables		89	81
VI. Deferred tax assets		28,569	19,191
Total fixed assets		763,977	834,089
B. Current assets			
I. Assets held for sale	18	59,724	169
III. Short-term financial assets			
1. Short-term financial assets except loans	19		
d) Other short-term financial assets		14,619	28,200
Total short-term financial assets, except loans		14,619	28,200
2. Short-term loans	20		
a) Short-term loans to Group companies		1,779	1,779
b) Short-term loans to others		6,500	51,938
Total short-term loans		8,279	53,717
Total short-term financial assets		22,898	81,917
IV. Short-term operating receivables	21		
1. Short-term operating receivables due from the Group companies		92	65
2. Short-term operating trade receivables		869	910
3. Short-term operating receivables due from others		353	1,315
Total short-term operating receivables		1,314	2,290
V. Cash	22	1,721	2,215
Total current assets		85,657	86,591
C. Short-term deferred costs and accrued revenues		17	51
Total assets		849,651	920,731
EQUITY AND LIABILITIES			
A. Equity			
I. Called-up capital	23	364,810	364,810
II. Capital surplus	24	215,867	290,234
III. Revenue reserves	25	0	0

Item	Notes	31. 12. 2013	31. 12. 2012
IV. Revaluation surplus	26	236,386	192,545
Total equity		817,063	847,589
B. Provisions and long-term accrued costs and deferred revenues 27			
I. Provisions for pensions and similar obligations		163	168
II. Other provisions		431	327
Total provisions and accrued costs and deferred revenues		594	495
C. Long-term liabilities			
I. Long-term financial liabilities	29	0	0
II. Long-term operating liabilities	28		
4. Long-term operating liabilities from advances		6	6
Total long-term operating liabilities		6	6
III. Deferred tax liabilities		28,569	19,191
Total long-term liabilities		28,575	19,197
D. Short-term liabilities			
II. Short-term financial liabilities	29		
2. Short-term financial liabilities to banks		0	50,000
Total short-term financial liabilities		0	50,000
III. Short-term operating liabilities	28		
1. Short-term operating liabilities to Group companies		0	2
2. Short-term operating trade payables		3,072	3,011
4. Short-term operating liabilities from advances		4	12
5. Short-term liabilities to the State		14	40
6. Other short-term operating liabilities		234	317
Total short-term operating liabilities		3,324	3,382
Total short-term liabilities		3,324	53,382
E. Short-term accrued costs and deferred revenues		95	68
Total equity and liabilities		849,651	920,731

The notes to the financial statements are an integral part of these financial statements.



13.4 Cash flow statement for the period from 1 January 2013 to 31 December 2013

000 EUR		
Item	2013	2012
A. Cash flows from operating activities		
a) Net profit or loss and adjustments		
Profit or loss before tax	-83,800	-60,042
Adjustments for amortisation and depreciation	1,131	1,153
Adjustments for revaluation operating expenses	0	1
Adjustments for financial revenue from financing	-30,059	-35,394
Adjustments for financial expenses from financing	118,761	105,110
Total cash flow derived from the income statement items	6,033	10,828
b) Change in net current assets – operating items in the balance sheet		
Opening less closing operating receivables	968	40
Opening less closing deferred costs and accrued revenues	34	20
Opening less closing assets (disposal groups) held for sale	0	594
Closing less opening operating liabilities	-58	-58
Closing less opening accrued costs and deferred revenues, and provisions	126	-5,950
Total items of net current assets – operating items in the balance sheet	1,070	-5,354
c) Net cash from (used in) operating activities	7,103	5,474
B. Cash flows from investing activities		
a) Cash receipts from investing activities		
Interest and dividends received from investing activities	25,569	19,625
Cash receipts from disposal of property, plant and equipment	0	3
Cash receipts from disposal of long-term financial assets	9,156	9,751
Cash receipts from disposal of short-term financial assets	59,019	48,062
Total cash receipts from investing activities	93,744	77,441
b) Cash disbursements from investing activities		
Cash disbursements to acquire intangible assets	-105	-11
Cash disbursements to acquire property, plant and equipment	-67	-45
Cash disbursements to acquire long-term financial assets	0	-55,922
Total cash disbursements from investing activities	-172	-55,978
c) Net cash from (used in) investing activities	93,572	21,463
C. Cash flows from financing activities		

Item	2013	2012
a) Cash receipts from financing activities		
Total cash receipts from financing activities	0	0
b) Cash disbursements from financing activities		
Interest paid on financing activities	-1,169	-1,281
Cash repayments of long-term financial liabilities	-50,000	-50,000
Cash repayments of short-term financial liabilities	-50,000	0
Total cash disbursements from financing activities	-101,169	-51,281
c) Net cash from (used in) financing activities	-101,169	-51,281
D. Closing balance of cash		
a) Net cash for the period	-494	-24,344
b) Opening balance of cash	2,215	26,559
c) Total closing balance of cash	1,721	2,215

The notes to the financial statements are an integral part of these financial statements. Components of the closing balance of cash are disclosed in Note no. 22.

13.5 Statement of changes in equity for the period from 1 January 2013 to 31 December 2013

000 EUR					
	Share capital	Capital surplus	Revaluation surplus	Net profit or loss for the year	Total
A. 1. Balance as at 31 Dec. 2012	364,810	290,234	192,545	0	847,589
A. 2. Balance as at 1 Jan. 2013	364,810	290,234	192,545	0	847,589
B. 1. Changes in equity – transactions with owners	0	55	0	0	55
d) Additional payments of capital	0	55	0	0	55
B. 2. Total comprehensive income for the period	0	0	43,841	-74,422	-30,581
a) Net profit or loss for the period	0	0	0	-74,422	-74,422
d) Gains (losses) on revaluation of financial assets	0	0	43,841	0	43,841
B. 3. Movements in equity	0	-74,422	0	74,422	0
d) Loss settlement as a deductible item	0	-74,422	0	74,422	0
C. Closing balance as at 31 Dec. 2013	364,810	215,867	236,386	0	817,063

The notes to the financial statements are an integral part of these financial statements.

In 2013, the capital surplus increased by EUR 55 thousand on account of additional assets received in accordance with the Ownership Transformation of Companies Act and decreased by EUR 74,422 thousand due to the settlement of the net loss incurred in the business year.

13.6 *Statement of changes in equity for the period from 1 January 2012 to 31 December 2012*

	000 EUR				
	Share capital	Capital surplus	Revaluation surplus	Net profit or loss for the year	Total
A. 1. Balance as at 31 Dec. 2011	364,810	351,503	163,950	0	880,263
A. 2. Balance as at 1 Jan. 2012	364,810	351,503	163,950	0	880,263
B. 1. Changes in equity – transactions with owners	0	51	0	0	51
d) Additional payments of capital	0	51	0	0	51
B. 2. Total comprehensive income for the period	0	0	28,595	-61,320	-32,725
a) Net profit or loss for the period	0	0	0	-61,320	-61,320
d) Gains (losses) on revaluation of financial assets	0	0	28,595	0	28,595
B. 3. Movements in equity	0	-61,320	0	61,320	0
d) Loss settlement as a deductible item	0	-61,320	0	61,320	0
C. Closing balance as at 31 Dec. 2012	364,810	290,234	192,545	0	847,589

The notes to the financial statements are an integral part of these financial statements.

13.7 *Proposal for the settlement of accumulated loss 2013*

	EUR	
	31. 12. 2013	31. 12. 2012
a Net profit or loss for the financial year	-74,421,733.48	-61,320,573.73
b + Accumulated loss b/f	0	0
c + Decrease in capital surplus	74,421,733.48	61,320,573.73
d Increase of revenue reserves pursuant to a decision of the Management Board	0	0
e Increase of revenue reserves pursuant to a decision of the Management and Supervisory Board	0	0
f Accumulated loss (a+b+c-d-e), distributed by the AGM	0	0

In 2013, Kapitalska družba posted a net loss for the year totalling EUR 74,421,733.48 thousand, covered from capital surplus according to Article 64 of the Companies Act (ZGD-1).

13.8 *General disclosures*

Profile of the Company

Kapitalska družba is a public limited company with its registered office at Dunajska cesta 119, Ljubljana, Slovenia. Its sole shareholder is the Republic of Slovenia<sup>6</sup>. The share capital of the Company totals EUR 364,809,523.15 and is divided into 874,235 registered no-par value ordinary shares. Each share has the same interest and the attributed amount in the share capital. The rights of the sole shareholder, i.e. the Republic of Slovenia, are exercised by Slovenska odškodninska družba, d. d.<sup>7</sup>

The activities of Kapitalska družba are defined by law and by the Company’s Articles of Association. On the basis of the Standard Classification of Activities, according to the Company’s Articles of Association and entry in the Companies Register, Kapitalska družba also performs other activities related to asset management and services related to support to asset management: other financial intermediation, pension funding, activities ancillary to pension funding, trade in own real estate, lease of own real estate, software supply and consultancy, data processing, network data services, other computer related activities, accounting and book-keeping services, tax consultancy, market research and public opinion polling, business and other management consultancy, activities of holding companies, publishing of journals and periodicals, and other educational services.

Amendments to the Articles of Association and the Rules on Appointing the Management Board and the Supervisory Board

The Articles of Association and its amendments and supplements are adopted by the Annual General Meeting of Kapitalska družba on the proposal of the Management Board and the Supervisory Board.

Members of the Management Board are appointed by the Supervisory Board on the basis of a public job announcement. One member of the Management Board is appointed President of the Management Board. The term of office of the Management Board members is five years with the possibility of re-appointment. The Management Board or any of its members may be dismissed early only due to the reasons referred to in Article 268(2) of the ZGD-1. The breach of the Articles of Association of Kapitalska družba representing a severe dereliction of duties may constitute cause for dismissal.

The Management Board of Kapitalska družba is not authorised to issue or purchase treasury shares.

The Supervisory Board of Kapitalska družba is appointed by the Company’s Annual General Meeting. In compliance with Article 27(5) of the ZSDH, the Supervisory Board is composed of six members. Three members of the Supervisory Board are appointed on the proposal of Slovenska odškodninska družba, d. d.<sup>8</sup>, two members on the proposal of the pensioners’ governmental organisations and one member on the proposal of trade union associations or confederations which are representative of the country. If stakeholders do not formulate a proposal for the appointment of Supervisory Board members as defined below, the missing members of the Supervisory Board are appointed at the discretion of the Annual General Meeting. The candidates from among the representatives of th Slovenian Sovereign Holding are proposed by the Holding, which informs the Supervisory Board about the selection. The

6 Article 27(1) of the Slovenian Sovereign Holding Act (hereinafter: the ZSDH) stipulates that the sole shareholder of Kapitalska družba is SDH, d. d. Pursuant to Article 31 of the transitional and final provisions of the ZSDH, SDH, d. d., will be established with the transformation of Slovenska odškodninska družba, d. d. On the day of transformation of Slovenska odškodninska družba, d. d., into SDH, d. d., the equity investment held by the Republic of Slovenia in Kapitalska družba will transform into a non-cash contribution, increasing the share capital of SDH, d. d., according to Article 34 of the ZSDH.

7 On the day of its establishment, SDH, d. d., will become the sole shareholder of Kapitalska družba, and the tasks of the Annual General Meeting will be carried out by the Management Board of SDH, d. d.

8 Article 27(5), indent 1 of the ZSDH stipulates that three members of the Supervisory Board of Kapitalska družba shall be elected on the proposal of the Slovenian Sovereign Holding. In line with Article 31(1) of the ZSDH, the Slovenian Sovereign Holding is established with the transformation of Slovenska odškodninska družba, d. d. Since the transformation has not yet occurred, the tasks and competencies of the Slovenian Sovereign Holding are performed by Slovenska odškodninska družba, d. d.

candidates from among the representatives of the pensioners are proposed by the pensioners’ governmental organisations and associations, which inform the Supervisory Board about the selection. The candidates from among the representatives of the trade unions are elected by the representatives (electors) of the representative government-level trade union associations or confederations, which inform the Supervisory Board about the selection. Any representative association or confederation has the number of representatives equal to the number of the representative trade unions it comprises. In addition to the representatives referred to in the previous sentence, the association or confederation elects another representative for every 10 thousand members. The term of office of the Supervisory Board members is four years with the possibility of re-appointment.

Information about subsidiaries

Subsidiaries of Kapitalska družba are presented in the table below.

000 EUR				
Subsidiary	Country	Share in equity	Equity of the company as at 31 Dec. 2013	Net profit/loss for the year 2013
Modra zavarovalnica, d. d.	Slovenia	100.00%	178,076 <sup>9</sup>	4,070 <sup>10</sup>
PDP, Posebna družba za podjetniško svetovanje, d. d.	Slovenia	66.04 %	9,378 <sup>11</sup>	-210 <sup>12</sup>
Steklarska nova Rogaška Slatina, d. o. o. – in bankruptcy	Slovenia	100.00%	n.a.	n.a.

Information about the controlling entity

Kapitalska družba does not have a controlling entity.

Data on consolidation

Consolidation of financial data is carried out at two levels: for Posebna družba za podjetniško svetovanje, d. d., at the lower level, and for Kapitalska družba, at the higher level. The consolidated Annual Report of the PDP Group is available at <http://www.pdp.si/zainvestitorje>. The consolidated Annual Report of the Kapitalska družba Group is available at [http://www.kapital-ska-druzba.si/o\\_kapitalski\\_druzbi/letna\\_porocila](http://www.kapital-ska-druzba.si/o_kapitalski_druzbi/letna_porocila).

Information about treasury shares

Kapitalska družba holds no treasury shares.

Information about encumbrances

Kapitalska družba is the co-owner of investment properties on which a pledge has been entered to secure liabilities of EUR 1,000 thousand. The remaining assets owned by Kapitalska družba are free from mortgages, pledges or other guarantees.

Information about employees

At the end of 2013, Kapitalska družba had 57 employees inclusive of the two members of the Management Board. In 2013 the Company had 57 employees on average. The number of employees of Kapitalska družba as at 31 December 2013 and the average number of employees in 2013 according to the level of education is presented in Table 18.

9 Data on equity at 31 December 2013 is not audited.  
10 Data on net profit for the period from 1 January to 31 December 2013 is not audited.  
11 Data on equity at 31 December 2013 is not audited  
12 Data on net loss for the period from 1 January to 31 December 2013 is not audited.

Table 18  
Number of employees and average number of employees by educational level in 2013

Level of education	Number of employees as at 31 December 2013	Average number of employees in 2013
IX.	1	1
VIII.	9	10
VII.	30	29
VI.	3	3
V.	13	13
IV.	1	1
Total	57	57

13.9 Accounting policies

Basis of preparation

The financial statements of the Company have been compiled in accordance with accounting policies as presented below. The financial statements for 2013 have been prepared in accordance with Slovenian Accounting Standards and the Companies Act.

Statement of compliance

The financial statements of Kapitalska družba have been compiled under SAS.

Basic policies

The financial statements have been prepared on a going concern basis.

The financial statements have been compiled on historical cost basis, except for financial assets at fair value through profit or loss and available-for-sale financial assets, measured at fair value. The items in the separate financial statements are presented in the euro, rounded to the nearest thousand (000 EUR), except where specifically stated otherwise.

The compilation of financial statements in line with SAS requires the application of some significant accounting estimates. Furthermore, it requires assessments made by the Management Board on the application of the Company’s accounting policies.

Significant estimates are made in respect of impairment of non-marketable investments and establishment of provisions for guaranteed rate of return.

Investments in subsidiaries, associates and joint ventures

A consolidated subsidiary is an entity in which the controlling entity holds a controlling interest or a controlling influence associated with other reasons, and which is a member of the group for which the consolidated financial statements are prepared. An associate is a company over which the parent company has significant influence and that is neither a subsidiary nor a joint venture. A joint venture is an investment in jointly controlled entities on the basis of a founding contract to which Kapitalska družba is a party.

In the separate financial statements, investments in the equity of subsidiaries are measured at cost, less any impairment loss.

In the separate financial statements, investments in associates and joint ventures are measured at fair value (market value) or at cost if fair value cannot be determined reliably, reduced by impairment losses. Gains and losses on these investments are recognised in equity as a revaluation surplus from investments until the investment is sold or disposed of in some other manner. When an investment is impaired, the impairment is recognised in the profit or loss.

Foreign currency translation

Assets and liabilities originally expressed in foreign currencies are retranslated into the domestic currency at the reference exchange rate of the ECB. The financial statements of the Company are presented in the euro (EUR), which is the functional and reporting currency of the Company. Foreign currency transactions are initially recognised in the functional currency, translated at the exchange rate applicable on the transaction date. Monetary assets and liabilities in foreign currency are translated at the exchange rate of the functional currency prevailing on the balance sheet date. Any differences arising on the translation of foreign currencies are recognised in profit or loss. Non-monetary assets and liabilities, recognised at historical cost in foreign currency, are translated at the exchange rate applicable on the day of the transaction. Non-monetary assets and liabilities measured at fair value in foreign currency are translated at the exchange rate effective on the day when the fair value was established.

Buildings and equipment

Buildings and equipment are carried at cost, less depreciation and impairment losses. The Company uses the straight line depreciation method according to the estimated useful life:

Asset	Depreciation rate in %
Buildings	3.00-3.33
Equipment	16.67-33.33
Investment property	3.00-3.33

Land, buildings or equipment are derecognised when the relevant asset is sold or when the Company no longer expects economic benefits from the asset’s continuing use. Gains and losses arising from derecognition of the asset are included in the income statement in the year in which the asset is eliminated from the books of account.

The residual value of the assets, their estimated useful lives and/or the amortisation or depreciation method are revised and, if necessary, changed upon the compilation of the financial statements.

An item of property, plant and equipment whose individual value as per supplier’s invoice does not exceed EUR 500, may be carried as a group of low value assets. Low value assets whose individual cost does not exceed EUR 500 may be classified as materials.

Borrowing costs

Costs of borrowings are recognised in the period to which they refer.

Intangible assets

Intangible assets, acquired individually, are recognised at cost. Subsequent to initial recognition, the cost model is applied. The useful life of an item of intangible assets is limited. The amortisation of an intangible asset is recognised in the profit or loss. Intangible assets generated within the Company, except from development costs, are not capitalised. Costs represent expenses of the period in which they are incurred.

The carrying amount of an intangible asset is reviewed annually for impairment, if the asset has not been put to use, or more frequently when there are indications of impairment.

The amortisation of intangible assets is calculated on the straight-line basis over the estimated useful lives of the assets, which is 10 years. The estimated useful life of software applications acquired after 1 January 2008, is 3 to 5 years.

Gains and losses from elimination or disposal of an intangible asset are determined as the difference between the sales value on disposal and the asset’s carrying amount, and are recognised as revenue or expense in the income statement when the asset is eliminated or disposed of.

Investment property

Investment property that qualifies for recognition is initially measured at cost. The cost of investment property comprises the purchase price and all costs directly attributable to the acquisition. Such costs include costs of legal services, real estate transfer tax, and other transaction costs.

Investment property is measured at cost, reduced by depreciation and impairment losses. Gains or losses arising on elimination or disposal of investment properly are determined as the difference between the net return on disposal and the carrying amount, and are recognised in the profit or loss.

Recoverable amount of non-current assets

As at the reporting date the Company estimates if there exist any factors indicating that non-current assets need to be impaired. If events occur indicating that the asset’s book value is higher than the estimated recoverable amount, the value of the asset is impaired to its recoverable amount or that of cash-generating unit. The recoverable amount is the greater of an asset’s (or cash generating unit’s) net selling price and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment loss is recognised in the revaluation operating expenses.

Investments

- The Company classifies its investments in the following categories:
- financial assets measured at fair value through profit or loss;
  - held-to-maturity financial investments;
  - loans, and
  - available-for-sale financial assets;

The classification depends on the purpose for which an investment was acquired.

Recognition of financial asset

Initially, all the Company’s investments except financial assets classified at fair value through profit or loss are recognised at cost, plus transaction costs. Investments classified at fair value through profit or loss are recognised at fair value (direct costs of acquisition are not included in the cost).

1. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are measured at fair value. Gains and losses on investments designated at fair value through profit or loss are recognised directly in the profit or loss.

The fair value of investments actively traded on regulated markets is determined at the quoted closing price on the stock exchange on the balance sheet date. The fair value of investments whose market price is not quoted on financial markets is determined on the basis of a suitable valuation model.

Acquisition and sale of investments classified at fair value through profit or loss are recognised on the trading day i.e. on the day of commitment to buy or to sell a financial asset.



2. Financial assets held to maturity

Financial assets with fixed or determinable payments and maturity, other than derivative financial instruments, are recognised as held-to-maturity financial assets if the Company has a positive intention and the ability to hold the investment to maturity. Investments held for an indefinite period of time are not classified into this group.

Investments which are recognised as held-to-maturity are carried at amortised cost using the effective interest rate method. The amortised cost is calculated by allocation of the premium or the discount on acquisition over the period until the maturity of the investment. Gains and losses on investments carried at amortised cost are recognised in the profit or loss (disposal, impairment or effects of the discount premium amortisation). Investments designated as held-to-maturity are recognised on the settlement date.

3. Loans

Loans and receivables are financial assets with fixed or determinable payments that are not traded on a regulated market. They include loans and receivables acquired by the Company as well as those granted by the Company. Loans and receivables are measured at amortised cost using the effective interest rate method and are recognised on the trading date.

4. Available-for-sale financial assets

After the initial recognition, all investments designated as available for sale, are measured at fair value or at cost, if fair value cannot be determined reliably. Gains and losses on available-for-sale financial assets are recognised in equity as the net unrealised capital gains until the investment is sold or disposed of in some other manner. When an investment is impaired, the impairment is recognised in the profit or loss.

Acquisition and sale of financial assets classified as available-for-sale financial assets are recognised on the trading date i.e. on the day of commitment to buy or to sell an individual financial asset.

Impairment of available-for-sale financial assets

The Company regularly reviews the requirement for impairment of financial assets classified as available for sale. Investments whose value has significantly declined in the reporting period and/or such a decline is prolonged are impaired. The Company estimates that the assumption is met of a significant decline in the value of equity investments whose negative revaluation in equity, inclusive of exchange rate differences, reaches 40% of their cost. In this case such equity investments are impaired in the total amount of the cumulative unrealised net loss and exchange rate differences. When the amount of revaluation due to impairment and exchange rate differences recognised in the equity equals between 10% and 39%, the Company considers the need for impairment based on the time component. When the negative revaluation recognised in the equity equals between 10% and 39% of the investment’s cost and the investment is not impaired, there must be objective evidence to show that impairment is not required. The need for impairment of such financial assets is reviewed at least on the balance sheet date or more often if necessary. Once an investment has been impaired, the total amount of the negative revaluation recognised in equity inclusive of exchange rate differences is impaired in future periods.

The Company only impairs debt instruments classified as available-for-sale whose principal amounts will not be recovered or will not be recovered in full on maturity according to the estimate made by the Company as a prudent manager. The need for impairment is reviewed as and when necessary or at least on the balance sheet date.

Significant accounting estimates and judgements

Provisions for non-achievement of guaranteed rate of return

Provisions are set aside when the guaranteed value of assets exceeds the actual value of

assets belonging to an individual insured person/member, namely in the amount of the established deficit, i.e. the sum of differences between the guaranteed assets of the insured person/member and the actual value of the assets of the insured person/member.

Impairment of investments

On the balance sheet date the administrator reviews whether there is objective evidence of impairment of an investment or a group of investments. If such evidence exists, the investment is impaired. Impairment loss is recognised in the profit or loss.

Non-current assets (disposal groups) held for sale

Assets (disposal groups) held for sale are those whose carrying amount is justifiably expected to be settled predominantly with a sale in the next 12 months rather than with their continued use.

When an asset is designated as held for sale or classified as a disposal group held for sale or when the asset is derecognised, depending on the order of the events, the asset is no longer amortised or depreciated. Such an asset or a group of assets held for sale is measured at the lower of the carrying amount or fair value less costs to sell, except for the financial assets measured at fair value under SAS 3.

Operating and other receivables

Operating receivables are recognised at the amount of invoices issued, less any allowances. The allowance assessments are based on the Company’s reasonable expectations that a payment is no longer likely in full and/or in a specific amount.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and at bank as well as short-term deposits with maturity of up to three months.

Share capital

Ordinary shares are classified as equity. Direct additional costs of new shares issue, less tax effects, are included in the equity.

Borrowings

Initially, all borrowings are recognised at cost less acquisition costs. After initial recognition, they are measured at amortised cost using the effective interest rate method through profit or loss. The acquisition costs, any discounts or premiums on acquisition are taken into account upon recognition.

When these liabilities are derecognised, any gains or losses are recognised in the profit or loss.

Provisions

Provisions are recognised for current liabilities (legal or constructive) arising from past events when it is likely that an outflow of assets that generate economic benefits will be required to settle such an obligation, and when the amount of the liability can be reliably estimated. The amount recorded as a provision is the best estimate of expenses required to settle existing liabilities on the balance sheet date. When the value of money over time must be considered, provisions are determined on the basis of a discounted cash-flow using a discount rate (before taxes) which reflects the value of money over time and, where appropriate, includes potential risks associated with an individual liability. If provisions are made on the basis of a discounted cash-flow, an increase in the net present value is recognised over the years as financial expenses.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by other parties, the reimbursement is recognised as a special asset, but only when it is virtually certain that reimbursement will be received. In this case the costs of provision are disclosed decreased by expected reimbursement.

Employee benefits

Labour costs include gross salaries, gross salary compensations paid by the Company, benefits in kind, gifts and awards to employees, severance pay, as well as the relevant taxes and duties paid by the payer. These costs are recognised as the current expenses of the period. The Company also recognises contingencies based on collective agreements concerning the employees. These expenses are recognised over the entire period of employment of an individual employee to whom the collective agreement refers.

Revenue

The revenue is recognised if the increase of economic benefits in the accounting period is related to the increase in assets or decrease in liabilities and if the increases can be measured reliably. Revenues and increases of assets or decreases of liabilities are recognised simultaneously. The Company recognises the following types of revenues:

1. Revenue from fees

Kapitalska družba is entitled to entry and exit fees as well as an annual management fee for the management of the pension funds’ assets. Entry fees are charged as a percentage of the premium paid, the exit fees represent a percentage of redemption value, whereas the management fee is calculated as a percentage of total average net asset value of an individual fund during the saving period.

a) Entry fees

The Company charges entry fees for the performance of its activities in accordance with the pension scheme. This means that the assets collected and transferred to an individual pension fund are reduced by the amount of the entry fees and the fund manages the assets attributable to the net premium. The entry fees are charged in the percentage of the premium at the time of the payment.

b) Management fees

The Company manages a mutual pension fund and charges management fee, thus the monthly value of assets of the fund is reduced by the cost of management fees. The management fee is calculated as a percentage of the average value of the fund’s assets, determined as the arithmetic mean of the net value of the fund’s assets on the conversion day of the current year.

c) Exit fees

In accordance with the pension scheme, the Group is entitled to exit fees, whereby the redemption value is reduced by the exit fees and the net value is paid to the individual who terminated the scheme. Exit fees are calculated in a percentage of the redemption value when the policy is paid.

2. Interest

Interest income is calculated and recognised at the effective interest rate.

3. Dividends

Dividends are recognised when they are declared.

4. Revenue from lease payments

The revenue from lease of investment property is recognised over the duration of individual lease contract.

Tax

1. Current tax

Current tax assets and liabilities in respect of present and past periods are recognised at amounts which the Company expects to pay to the tax authorities or amounts of income tax credits that will be available in future periods. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date.

2. Deferred tax

Deferred tax is provided using the balance sheet liability method. Only deferred tax assets and liabilities arising from temporary differences are recognised.

A deferred tax asset is also recognised on account of unused tax losses and unused tax credits carried forward to the next period, if it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised.

On the balance sheet date, deferred tax assets are revised and impaired on account of those tax assets for which it is no longer probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are recognised using the tax rate applicable when the asset is expected to be realised or liabilities settled. Tax rates (and tax legislation) enacted at the balance sheet date should be used.

Deferred tax assets and liabilities are offset if, and only if, the Company has the legal right to offset current tax assets against current tax liabilities and if deferred tax assets and deferred tax liabilities relate to the income tax levied by the same tax authority.

Deferred tax assets and liabilities arising from transactions recognised directly in equity should be recognised in equity.

Derecognition of financial instruments

A financial asset is derecognised when all the risks and benefits as well as the control over contractual rights related to the financial instrument are transferred. A financial liability is derecognised when it is settled, cancelled or expired.

Cash flow statement

The cash flow statement is compiled under the indirect method (Format II) from the balance sheet data as at 31 December 2013 and 31 December 2012, income statement data for 2013, and additional data necessary for the adjustment of revenue and expenditure and for the appropriate breakdown of significant items.

Risk management

Risk management is very important in the current economic crisis. Fast response to the market conditions requires efficient risk management to mitigate risk and ensure successful operations of an entity. Therefore, risk management is crucial in performing activities to achieve the goals of Kapitalska družba. The use of standard methodologies for managing risk enables qualitative evaluation of all types of risk, a timely response and the reduction of risk exposure. Kapitalska družba observes legal regulations in the forefront while also regulating risk management through internal acts such as the Rules on risk management, which include in addition to individual risk description, internal risk management organisation, measures and methods used to mitigate the risks, as well as procedures of control and responses to individual risks.

In 2013, an inventory of risks was again prepared at the levels of the Company and the risks were measured based on a probability assessment and the consequences of loss events for individual risks. On the basis of the risk inventory and refreshed risk assessments, Kapitalska

družba updated the register of risks to which the Company is or could be exposed in operations. Kapitalska maintains a risk management system on a consolidated level for the entire Kapitalska družba Group.

In the course of its activity, Kapitalska družba is exposed to financial, operational and strategic risks. Financial risks include the important market risks (the risk of changes in securities prices, interest rate risk and currency risk) as well as credit and liquidity risk.

Risk of securities price change

The risk of securities price change is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the regulated markets in financial instruments. The risk of securities price change is managed by regular monitoring of the market situation and macroeconomic indicators that affect the movement in the general level of market prices and by maximum possible dispersion of investments to eliminate most of the non-systematic risk. The dispersal of a part of investments abroad decreased the dependence of Kapitalska družba’s portfolio of long-term investments on the movement of prices on the Slovenian capital market.

Monitoring and measuring of risks is performed weekly and is based on the calculation of Value-at-Risk (VaR) using the Monte Carlo method, namely at the level of the entire portfolio and also separately for equity and debt securities. The beta indicator is also calculated for equity securities weekly, as a measure of systematic risk.

Interest rate risk

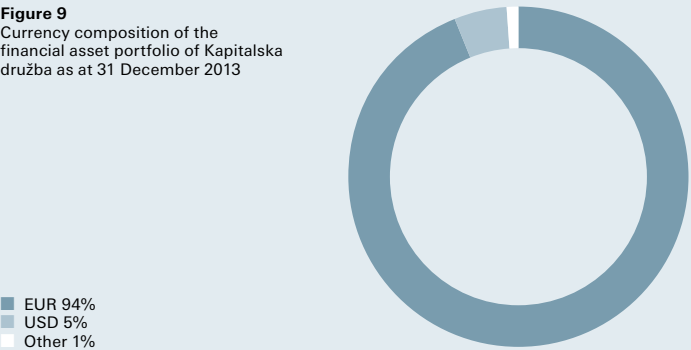
The very nature of investments in debt securities and deposits exposes Kapitalska družba to interest rate risk resulting from the risk that investment values will fluctuate due to changes in market interest rates. Assets are invested into foreign debt securities based on the selected benchmark portfolio. Furthermore, the Company’s internal committees monitor the fluctuation in interest rates and market forecasts and analysis on a weekly basis, providing investment recommendations on this basis.

Kapitalska družba endeavours to minimise risks arising from interest rates by restructuring the portfolio based on market conditions, by reducing the average maturity of bond portfolios, by disposing of securities with fixed interest rates and by purchasing securities with variable rate of interest, or vice versa.

Currency risk

In managing assets invested in foreign currencies, Kapitalska družba is also exposed to currency risk. Currency risk is monitored and managed on a daily basis. Currency risk is measured based on monitoring and calculation of exposure of assets to individual currencies.

Figure 9  
Currency composition of the financial asset portfolio of Kapitalska družba as at 31 December 2013



Credit risk

Credit risk comprises the risk of counterparty default, the risk of change in issuer credit rating and the risk arising from exposure to individuals or a group of related parties. Credit risk arising from debt securities is managed by regular monitoring of companies’ operations and setting exposure caps. Credit risk is also managed by dispersion of investments among industries, regular monitoring of credit margins and ratings of investments and issuers or contractual partners. Within the scope of company regulations, ratings of business partners are determined by applying an internal model and by using ratings of Standard & Poor’s, Fitch and Moody’s. The Company has set maximum permitted exposure arising from debt securities with a rating below BBB- from Standard & Poor’s or Fitch or Baa3 from Moody’s.

With regards to investments in deposits, debentures and certificates of deposits, Kapitalska družba has developed an internal model for determination of limits of such investments in individual banks. Internal limits set for individual banks are reviewed and updated quarterly to account for changes in credit ratings and the capital amount.

Liquidity risk

Liquidity risk is the risk related to the liquidity of the capital market or investment and the risk of solvency of Kapitalska družba. Due to the low liquidity of the Slovenian capital market, liquidity risk is encountered in the majority of investments of Kapitalska družba in association with domestic equity and debt securities, with the highest risk posed by non-listed investments. By dispersing a portion of investments abroad, Kapitalska družba is able to reduce liquidity risk by investing only in highly liquid securities. Moreover, liquidity risk is also limited by regular planning and daily monitoring of the Company’s cash flows.

Operational risk

Operational risk is the risk of a loss arising from inadequate internal processes and human errors or deficient functioning of Company systems or due to external events and actions. Operational risk also includes legal and documentary risk as well as the risks arising from trading procedures, settlement and valuation of assets and liabilities. The Company manages operational risk through a system of authority, internal controls and by defining business processes and ensuring the suitable employee qualifications. In order to minimise operational risk, Kapitalska družba established a system of recording loss events and regular monitoring of the implementation of measures adopted.

Strategic risk

Strategic risk is the risk of a loss arising from incorrect business decisions, inappropriate organisation and strategy of the Company and insufficient response to changes in the business environment. The Management Board, who is in charge of formulating appropriate organisation and strategy of the Company, must adopt all measures suitable for achieving the strategic goals as well as to preserve and strengthen the Company’s reputation. An appropriate supervision system is provided for managing this risk, enabling monitoring of the implementation of goals defined in the business strategy and the prevention of errors that would result in dissatisfaction of business partners. Strategic risks are also managed by regular monitoring and participation in the drafting of legal bases and by outsourcing external consultants (tax consultants, auditors, legal consultants, IT consultants, etc.).

In 2013, Kapitalska družba dealt with 153 claims of MORS (Ministry of Defence) insureds for the payment of once-off redemption value of funds in personal capital account based on Article 206(5) of the ZPIZ-2. Kapitalska družba processes insureds’ claims according to the ZPIZ-2 and the Compulsory Supplementary Pension Insurance Scheme approved by the Ministry of Labour, Family and Social Affairs (MDDSZ), as well as in line with the opinion of the MDDSZ and the SODPZ Committee. As the insureds disagree with the explanation of Kapital-

ska družba, two law suits were filed in 2013. Kapitalska družba regularly informs the MDDSZ and the SODPZ Committee about the relevant issue.

Risks related to investments where Kapitalska družba holds a significant share

Kapitalska družba devotes special attention to the management of risks, which arise from investments where the Company holds a significant share. Kapitalska družba prepared the Corporate Governance Code of the Group, which includes the Group’s governance policies and as such provides the basis for efficient management of subsidiary companies. The adopted Corporate Governance Code of the Group, which defines new standards that are complied with and abided by all companies in the Kapitalska družba Group, lays down new guidelines on risk management. Corporate governance of the Kapitalska družba Group is carried out by functional area. Also adopted were the Guidelines on Subsidiaries’ Reporting to the Parent Company of the Kapitalska družba Group, which specifically define the reporting type and method as well as deadlines. The business of subsidiaries is monitored by the Asset Management Department, with a manager assigned to each equity investment. Among other, the manager monitors the content and method of reporting as well as reporting deadlines defined in the Guidelines on Subsidiaries’ Reporting to the Parent Company of the Kapitalska družba Group. The Management Board of the subsidiary company is in charge of reporting. It presents various reports at the Management Board meetings of the parent company. The same applies to reporting by sub-subsidiaries of Kapitalska družba. In these cases, the Management Board of Kapitalska družba may invite to the meeting the Management Board of the company which is reported on. The manager may report to the Management Board, at its meeting, or to the Investment Committee about any specificities in the operations and/or major deviations from the planned results and, if needed, propose appropriate measures to the Management Board.

A constituent part of risk management is also the Corporate Governance Code of Kapital-ska družba applied from January 2009, until December 2013, which specifies the exercising of membership rights in companies where Kapitalska družba holds equity stakes. The Code represents a communication instrument towards all holders of functions in Kapitalska družba, and at the same time public disclosure of corporate governance policy, as well as voting and decision-making procedures with regards to the exercise of voting rights in accordance with international standards of good practice. By adopting the Code, Kapitalska družba has set its expectations with regards to efficient management and transparent operations of the companies based in the Republic of Slovenia where it holds equity stakes. In 2013, Slovenska odškodninska družba, d. d., adopted the Code of Management of Equity Investments of the Republic of Slovenia, which has been since December 2013 reasonably applied also by Kapi-talska družba due to unification.

Every year Kapitalska družba adopts at the general meetings of shareholders of companies the Voting Positions of the Representatives of Kapitalska družba. The purpose of these positions is to increase the efficiency and transparency of equity investment management and they form an element of reducing risks arising from equity investments.

13.10 Breakdown and notes to the financial statements

13.10.1 Notes to the income statement

Note no. 1  
Net sales revenues

	000 EUR	
	2013	2012
Revenue from fund’s management	8,077	7,338
Revenue from lease payments	1,518	1,795
Other revenue from sales	304	335
Total	9,899	9,468

Net sales of EUR 9,899 thousand were realised on the local market. A major part of rental revenue represents rental income from investment property.

Note no. 2  
Other operating revenue (including revaluation revenue)

	000 EUR	
	2013	2012
Revenue from reversal of provisions	229	5,981
Revaluation operating revenue	0	4
Total	229	5,985

Revenue from reversal of long-term provisions in the amount of EUR 229 thousand relates to the reversal of provisions established for non-realisation of the guaranteed return on the pension fund SODPZ in the amount of EUR 17 thousand and the reversal of provisions made for legal disputes and litigation based on the best estimate of the probability of payment in the amount of EUR 212 thousand.

EUR 4 thousand of revaluation operating revenue was realised on disposal of fixed assets from 2012.

Note no. 3  
Costs of goods, materials and services

	000 EUR	
	2013	2012
Costs of materials	133	115
Costs of services	1,706	1,670
Total	1,839	1,785

Costs of materials

Costs of materials comprise costs of power supply, write-off of low value assets, costs of office stationery and professional literature, and other costs of materials.



Costs of services

Costs of services include costs of transport, maintenance work on business premises and property, plant and equipment, lease payments, reimbursement of costs associated with labour, costs of payment transactions, banking services and insurance premiums, costs of intellectual and personal services, costs of advertising and entertainment, costs of services provided by natural persons, and costs of other services.

In 2013, the costs of services were higher than in 2012 due to a higher share of the costs of business building management charged to Kapitalska družba, increased prices of building management services and the age of some facilities that are very wasteful in terms of energy consumption.

Costs of audit

The costs of auditing the 2013 financial statements totalled EUR 23 thousand. An agreement on auditing the Annual Report worth EUR 21 thousand and an agreement on conducting the agreed procedures in the amount of EUR 2 thousand were concluded with auditors for 2013. The costs of audit will be fully paid in 2014.

Note no. 4  
Labour costs

	000 EUR	
	2013	2012
Payroll costs	1,980	2,063
Salary substitutes	57	53
Supplementary pension insurance costs	106	110
Pay for annual leave, reimbursements and other receipts	200	205
Other employer’s contributions on salaries, salary substitutes, bonuses, reimbursements and other receipts of employees	327	342
Total	2,670	2,773

Note no. 5  
Amortisation, depreciation and write-offs

	000 EUR	
	2013	2012
Amortisation and depreciation	1,131	1,153
Amortisation of intangible assets	250	258
Depreciation of buildings	159	159
Depreciation of garages	11	11
Depreciation of equipment and spare parts	63	77
Depreciation of investment property	648	648
Revaluation operating expenses	0	1
Revaluation operating expenses from intangible assets and property, plant and equipment	0	1
Total	1,131	1,154

Amortisation of intangible assets

Total amortisation expense of EUR 250 thousand represents amortisation of software.

Depreciation of buildings

Depreciation of buildings represents depreciation of offices owned by the Company in the ČStekleni dvor« building in the amount of EUR 159 thousand.

Depreciation of garages

Total costs of EUR 11 thousand represent depreciation of garages in the ČGlavarjeva rezidenca« building.

Depreciation of equipment and spare parts

A major part of depreciation of equipment and spare parts represents depreciation of computers and computer equipment (EUR 36 thousand), wooden furniture (EUR 20 thousand), cars (EUR one thousand) and other equipment (EUR 6 thousand).

Depreciation of investment property

EUR 648 thousand of depreciation of investment property represents EUR 620 thousand of depreciation of business premises leased out, and EUR 28 thousand of depreciation expense relating to leased out parking spaces.

Note no. 6  
Other operating expenses

	000 EUR	
	2013	2012
Provisions	333	0
Donations	6	0
Total	339	0

In 2013, Kapitalska družba established EUR 333 thousand of provisions for legal disputes.

Note no. 7  
Financial revenue

	000 EUR	
	2013	2012
Financial revenue from shares and interests	20,503	23,556
Financial revenue from other investments and loans	9,556	11,838
- Financial revenue from other investments	7,633	7,753
- Financial revenue from loans	1,923	4,085
Total	30,059	35,394

Financial revenue from shares and interests

	000 EUR	
	2013	2012
Dividends and shares in profits	20,419	13,571
Revaluation financial revenue	5	234
Revenue the disposal of financial assets	79	9,751
Total	20,503	23,556

Revaluation operating revenue comprises revenue from exchange rate differences on receivables and liabilities.

Dividends and other profit shares

Top five dividends received from:

		000 EUR
Company	Dividends in 2013	
Krka, d. d.		5,624
Telekom Slovenije, d. d.		4,382
Modra zavarovalnica, d. d.		4,380
Petrol, d. d.		1,726
Loterija Slovenije, d. d.		1,636

Revenue the disposal of financial assets

Net gains from the disposal of financial assets in the amount of EUR 79 thousand resulted from securities designated as held for sale.

In 2013, the Company sold no equity investments.

Financial revenue from other investments and loans

		000 EUR
	2013	2012
Interest income	9,536	10,723
Revenue from the revaluation of receivables, liabilities and loans to retain their value	11	190
- Exchange rate gains	11	8
- Revaluation revenue from futures and currency swaps	0	182
Other financial revenue	9	925
Total	9,556	11,838

Interest income

		000 EUR
	2013	2012
Deposits	1,923	4,085
Bonds	7,475	6,589
Other securities	138	49
Total	9,536	10,723

Note no. 8

Financial expenses

		000 EUR
	2013	2012
Loss from disposal of financial assets	87	322
Interest expense	1,169	1,285
Revaluation financial expenses- impairment	67,505	53,503
- Impairment of equity investments at fair value through profit or loss	10,355	18,588
- Impairment of shares and interests measured at cost	3,356	34,901
- Impairment of bonds measured at fair value through profit or loss	671	0
- Expenses from the cancellation of shares and subordinated bank bonds	53,109	0
- Exchange rate losses	8	12
- Other revaluation expenses	6	2
Expenses for ZPIZ	50,000	50,000
Total	118,761	105,110

Impairment loss was recognised on available-for-sale equity investments carried at fair value through equity and classified under available-for-sale financial assets in the total amount of EUR 6,877 thousand. The Company estimates that the assumption is met of a significant decline in the value of equity investments whose negative revaluation in equity, inclusive of exchange rate differences, reaches 40% of their cost. These equity investments were impaired in the total amount of the cumulative negative revaluation in equity and exchange rate differences.

Impairment loss was recognised on available-for-sale equity investments carried at fair value through equity and classified under available-for-sale financial assets in the total amount of EUR 68 thousand. The Company estimated that the assumption was met of a significant decline in the value of equity investments whose negative revaluation in equity, inclusive of exchange rate differences, was between 10% and 39% of their cost while considering time component. These equity investments were impaired in the total amount of the cumulative negative revaluation in equity and exchange rate differences.

Impairment loss of EUR 3,410 thousand was recognised on available-for-sale equity investments carried at fair value through equity, which were already impaired in the past. These equity investments were impaired in the total amount of the cumulative negative revaluation in equity and exchange rate differences.

Shares and interests carried at cost and classified as available-for-sale financial assets were impaired in the total amount of EUR 3,356 thousand as there was objective evidence of impairment of these financial assets. The value of assets was estimated based on internal valuations and one external valuation. Asset valuations were made according to the following methods: return-based valuation, the discounted free cash flow method, asset-based method, the net asset valuation method under the assumption of a going concern and regular liquidation.

The Company impaired debt instruments measured at fair value through equity, classified as available-for-sale financial assets in the total amount of EUR 671 thousand, as it assessed that the principal amounts will not be recovered in full on maturity.

Based on the orders of the Bank of Slovenia on extraordinary measures related to some Slovenian banks, dated 17 and 18 December 2013, the Company cancelled shares and subordinate bonds of some Slovenian banks in the total amount of EUR 53,109 thousand; of these,

EUR 48,830 thousand was accounted for by shares and EUR 4,279 thousand by subordinated bonds.

Pursuant to the provisions of the ZSDH, Kapitalska družba paid EUR 50,000 thousand of its own assets to the account of ZPIZ in 2013. These payments were included in the financial expenses from other financial liabilities.

EUR 87 thousand of expenses from disposal of financial assets relate to the disposal of securities.

Kapitalska družba did not increase investments in the shares of the companies that were impaired in the past four years, with the exception of participation in capital increases of NLB, d. d., and NKBM, d. d., which were carried out according to the resolutions of the General Meeting of Kapitalska družba.

Foreign currency translation

	000 EUR	
	2013	2012
Exchange rate gains	11	8
Exchange rate losses	8	12
Net exchange rate gains/losses	3	4

In 2013, the net exchange rate gains amounted to EUR 3 thousand.

Note no. 9  
Other revenue

	000 EUR	
	2013	2012
Other unusual items	787	41
Total	787	41

A major amount of other unusual items represents revenue from guarantee liquidation.

Note no. 10  
Other expenses

	000 EUR	
	2013	2012
Other items	34	108
Total	34	108

The majority of other expenses is accounted for by tax paid on dividends from abroad.

Note no. 11  
Income tax

	000 EUR	
	2013	2012
Profit or loss before tax	-83,800	-60,042
Non-deductible expenses	15,754	54,438

	2013	2012
Allowances for bad debt and inventories	0	0
Provisions formation	0	0
Non-taxable revenue	85,944	14,321
Tax allowance	0	0
Tax loss	0	0
Total	-153,990	-19,925
Income tax	0	0

At 31 December 2013, Kapitalska družba reported no income tax liabilities. Considering the revenue and expenses included in the income statement in accordance with Slovenian Accounting Standards and the Corporate Income Tax Act (ZDDPO-2), the Company recognised tax losses of EUR 153,990 thousand.

The Management Board believes that the calculation of the tax liability for 2013 is appropriate, based on the views presented below and in accordance with the opinions of tax advisors. It is however possible that the competent tax authorities would adopt a different position on certain issues, which could result in a difference between the tax liabilities disclosed in the financial statements and the amount assessed by the tax authorities.

Pursuant to the provisions of the ZSDH Kapitalska družba was in 2013 required to pay EUR 50,000 thousand to the ZPIZ. To date, Kapitalska družba has already paid EUR 645,321 thousand to the ZPIZ. These payments were recognised in the income statement under other financial expenses and as tax deductible expenses in the calculation of the tax liability.

For the financial year 2013, the effective tax rate calculation (as the ratio between the income tax and profit or loss before tax) is meaningless due to the loss incurred by the Company and negative tax basis. The effective tax rate in 2013 and 2012 was 0.0%.

Note no. 12  
Deferred tax

At 31 December 2013, deferred corporate income tax included:

	000 EUR			
	Balance sheet		Income statement	
	31. 12. 2013	31. 12. 2012	2013	2012
Deferred income tax liabilities	28,569	19,191	0	0
Total deferred corporate income tax liabilities	28,569	19,191	0	0
Deferred income tax assets	28,569	19,191	9,378	-1,278
Loss brought forward to be used as tax allowance	0	0	0	0
Value adjustments of fixed assets	0	0	0	0
Value adjustment of receivables	0	0	0	0
Dividend adjustment	297	161	136	41
Value adjustment of investments	28,215	18,979	9,236	-1,292
Provisions	57	51	6	-27
Total deferred income tax assets	28,569	19,191	9,378	-1,278
Netting of deferred tax assets and liabilities	0	0	9,378	-1,278

Disclosure of tax losses

In 2013, Kapitalska družba recognised tax losses of EUR 153,990 thousand. At 31 December 2013, the Company reported unused tax losses of a total of EUR 414,327 thousand. Tax losses may be carried forward for an unlimited period of time.

Disclosure of changes in deferred tax recognised in equity

	000 EUR	
Changes in deferred tax	2013	2012
Balance as at 1 January	19,191	20,469
Changes as at 1 January	0	0
Changes during the year	9,378	-1,278
Balance as at 31 December	28,569	19,191

Deferred tax liabilities of EUR 28,569 thousand at 31 December 2013 arose on revaluation of financial assets at fair value through equity.

Net earnings/loss per share

The basic net earnings/loss per share is calculated by dividing the net profit/loss attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the period. The weighted average number of ordinary shares outstanding is calculated on the basis of data about the number of ordinary shares outstanding, taking into account any acquisitions and disposals within the period and the time during which the shares participated in the generation of profit. Diluted net earnings/loss per share also includes all potential ordinary shares that originated in exchangeable bonds, options and futures. When calculated, earnings/loss and the number of shares are adjusted for effects of all adjustable potential ordinary shares that would occur if they were swapped for ordinary shares in the accounting period.

	2013	2012
Net profit or loss attributable to holders of ordinary shares (000 EUR)	-74,422	-61,320
Diluted net profit or loss attributable to holders of ordinary shares (000 EUR)	-74,422	-61,320
Weighted average number of ordinary shares for basic net earnings per share	874,235	874,235
Diluted average number of ordinary shares for diluted net earnings per share	874,235	874,235
Net earnings/loss per share (EUR)	-85.1	-70.1

At 31 December 2013, Kapitalska družba held no financial instruments that would require adjustment of either the net profit or loss or the weighted average number of ordinary shares.

Note no. 13  
Net profit or loss for the period

If the net loss of EUR 74,422 thousand was restated using the consumer price index to retain the purchasing power of equity, the net loss would be increased by EUR 4,586 thousand.

13.10.2 Notes to the balance sheet

Note no. 14  
Intangible assets and long-term deferred costs and accrued revenues

000 EUR		
31. 12. 2013	Software and other intangible assets	Total
Cost		
Cost as at 1 January 2013	2,827	2,827
Additions	105	105
Disposals	0	0
Cost as at 31 December 2013	2,932	2,932
Value adjustment		
Value adjustment as at 1 January 2013	2,266	2,266
Additions, transfers	0	0
Disposals, write-offs	0	0
Amortisation and depreciation	250	250
Value adjustment as at 31 December 2013	2,516	2,516
Carrying amount		
Carrying amount as at 1 January 2013	561	561
Carrying amount as at 31 December 2013	416	416

000 EUR		
31. 12. 2012	Software and other intangible assets	Total
Cost		
Cost as at 1 January 2012	2,816	2,816
Additions	11	11
Disposals	0	0
Cost as at 31 December 2012	2,827	2,827
Value adjustment		
Value adjustment as at 1 January 2012	2,008	2,008
Additions, transfers	0	0
Disposals, write-offs	0	0
Amortisation and depreciation	258	258
Value adjustment as at 31 December 2012	2,266	2,266
Carrying amount		
Carrying amount as at 1 January 2012	808	808
Carrying amount as at 31 December 2012	561	561



Table 21  
Changes in property, plant and equipment in 2013

Note no. 15 Property, plant and equipment			
000 EUR			
31. 12. 2013	Buildings	Other plant and equipment	Total
Cost			
Cost as at 1 January 2013	5,408	2,430	7,838
Additions	0	67	67
Disposals	0	-25	-25
Cost as at 31 December 2013	5,408	2,472	7,880
Value adjustment			
Value adjustment as at 1 January 2013	1,323	2,315	3,638
Additions, transfers	0	0	0
Disposals, write-offs	0	-25	-25
Amortisation and depreciation	170	63	233
Value adjustment as at 31 December 2013	1,493	2,353	3,846
Carrying amount			
Carrying amount as at 1 January 2013	4,085	115	4,200
Carrying amount as at 31 December 2013	3,915	119	4,034

Table 22  
Changes in property, plant and equipment in 2012

000 EUR			
31. 12. 2012	Buildings	Other plant and equipment	Total
Cost			
Cost as at 1 January 2012	5,408	2,498	7,906
Additions	0	45	45
Disposals	0	-113	-113
Cost as at 31 December 2012	5,408	2,430	7,838
Value adjustment			
Value adjustment as at 1 January 2012	1,153	2,350	3,503
Additions, transfers	0	1	1
Disposals, write-offs	0	-113	-113
Amortisation and depreciation	170	77	247
Value adjustment as at 31 December 2012	1,323	2,315	3,638
Carrying amount			
Carrying amount as at 1 January 2012	4,255	148	4,403
Carrying amount as at 31 December 2012	4,085	115	4,200

Table 23  
Carrying amount of buildings in 2013

000 EUR			
Residual value of buildings	31. 12. 2013	31. 12. 2012	
Buildings	3,915	4,085	
Total	3,915	4,085	

Table 24  
Changes in investment property in 2013

Note no. 16 Investment property		
000 EUR		
31. 12. 2013	Buildings	Total
Cost		
Cost as at 1 January 2013	23,678	23,678
Additions	0	0
Disposals	0	0
Cost as at 31 December 2013	23,678	23,678
Value adjustment		
Value adjustment as at 1 January 2013	4,174	4,174
Additions, transfers	0	0
Disposals, write-offs	0	0
Amortisation and depreciation	648	648
Value adjustment as at 31 December 2013	4,822	4,822
Carrying amount		
Carrying amount as at 1 January 2013	19,504	19,504
Carrying amount as at 31 December 2013	18,856	18,856

The fair value of investment property does not significantly deviate from its carrying amount as at 31 December 2013. The estimated fair value of investment property was assessed based on internal valuation.

Table 25  
Changes in investment property in 2012

000 EUR		
31. 12. 2012	Buildings	Total
Cost		
Cost as at 1 January 2012	23,678	23,678
Additions	0	0
Disposals	0	0
Cost as at 31 December 2012	23,678	23,678
Value adjustment		
Value adjustment as at 1 January 2012	3,526	3,526
Additions, transfers	0	0
Disposals, write-offs	0	0
Amortisation and depreciation	648	648
Value adjustment as at 31 December 2012	4,174	4,174
Carrying amount		
Carrying amount as at 1 January 2012	20,152	20,152
Carrying amount as at 31 December 2012	19,504	19,504

**Note no. 17**  
**Investments in subsidiaries, associates and joint ventures**

Investments in subsidiaries as at 31 December 2013 include:

No.	Subsidiary	Registered office	Equity stake in %
1.	Modra zavarovalnica, d. d.	Dunajska cesta 119, Ljubljana	100.00
2.	PDP, Posebna družba za podjetniško svetovanje, d. d.	Dunajska cesta 160, Ljubljana	66.04
3.	Steklarska nova Rogaška Slatina, d. o. o. - in bankruptcy <sup>13</sup>	Steklarska ulica 1, Rogaška Slatina	100.00

000 EUR		
	31. 12. 2013	31. 12. 2012
Shares and interests in the Group	159,590	159,590
<b>Total</b>	<b>159,590</b>	<b>159,590</b>

As at 31 December 2013, the Company held interests in the following associated companies:

No.	Associated company	Registered office	Equity stake in %
1.	Casino Ljubljana, d. d. - in bankruptcy <sup>14</sup>	Miklošičeva cesta 9, Ljubljana	47.01
2.	Casino Maribor, d. d. - in bankruptcy <sup>15</sup>	Glavni trg 1, Maribor	20.00
3.	Gio, d. o. o. - in liquidation	Dunajska cesta 160, Ljubljana	28.68
4.	Gospodarsko razstavišče, d. o. o.	Dunajska cesta 18, Ljubljana	29.51
5.	Hit, d. d. <sup>16</sup>	Delpinova ulica 7a, Nova Gorica	20.32
6.	Kli Logatec, d. d. - in liquidation	Tovarniška cesta 36, Logatec	27.70
7.	Loterija Slovenije, d. d.	Gerbičeva ulica 99, Ljubljana	25.00
8.	Terme Čatež, d. d.	Čatež ob Savi, Topliška cesta 35, Brežice	23.79
9.	Terme Olimia, d. d.	Zdraviliška cesta 24, Podčetrtek	19.98

The following associate has a material influence on the true and fair view of the Company’s financial position. The equity and net profit/loss of other associates are not reported for 2013 as they are not material for the presentation of the Company’s financial position.

000 EUR		
Associated company	Equity of the company as at 31 Dec. 2013	Net profit/loss of the company in 2013
Hit, d. d.	41,099 <sup>17</sup>	-1,678 <sup>18</sup>

Investments in joint ventures as at 31 December 2013 include:

No.	Joint venture	Registered office	Equity stake in %
1.	Terme Olimia Bazeni, d. d.	Zdraviliška cesta 24, Podčetrtek	49.70

<sup>13</sup> The shares were according to the ZFPPIPP deleted from the KSS by the receiver. Prior to bankruptcy, Kapitalska družba held a stake presented in the table above.  
<sup>14</sup> The shares were according to the ZFPPIPP deleted from the KSS by the receiver. Prior to bankruptcy, Kapitalska družba held a stake presented in the table above.  
<sup>15</sup> The shares were according to the ZFPPIPP deleted from the KSS by the receiver. Prior to bankruptcy, Kapitalska družba held a stake presented in the table above.  
<sup>16</sup> In Hit, d. d., the Company holds 33.33 % of voting rights.  
<sup>17</sup> Data on equity at 31 December 2013 is not audited.  
<sup>18</sup> Data on net loss incurred in the period from 1 January 2013 to 31 December 2013 is not audited.

000 EUR		
	31. 12. 2013	31. 12. 2012
Shares and interests in associates and joint ventures	15,824	56,778
<b>Total</b>	<b>15,824</b>	<b>56,778</b>

**Note no. 18**  
**Assets held for sale**

Non-current assets held for sale include the following items as at 31 December 2013:

000 EUR		
	31. 12. 2013	31. 12. 2012
Assets held for sale	59,724	169
<b>Total</b>	<b>59,724</b>	<b>169</b>

Non-current assets held for sale in the amount of EUR 59,724 thousand as at 31 December 2013 include equity investments for sale in the next 12 months.

**Note no. 19**  
**Financial assets, excluding loans**

000 EUR				
	Long-term		Short-term	
	31. 12. 2013	31. 12. 2012	31. 12. 2013	31. 12. 2012
Other shares and interests	409,114	434,379	0	0
Other financial assets	127,485	139,805	14,619	28,200
<b>Total</b>	<b>536,599</b>	<b>574,184</b>	<b>14,619</b>	<b>28,200</b>

Financial assets of the Company other than loans are classified into one of the following groups: financial assets at fair value through profit or loss, financial assets held to maturity, and available-for-sale financial assets. In addition, financial assets are also classified as non-current and current.

At 31 December 2013, financial assets except loans were classified into the following categories:

000 EUR						
	Long-term		Short-term		Total	
	31. 12. 2013	31. 12. 2012	31. 12. 2013	31. 12. 2012	31. 12. 2013	31. 12. 2012
Financial assets measured at fair value through profit or loss	0	0	0	4,955	0	4,955
Financial assets held to maturity	16,301	14,460	720	651	17,021	15,111
Available-for-sale financial assets	695,712	776,056	73,623	22,763	769,335	798,819
<b>Total</b>	<b>712,013</b>	<b>790,516</b>	<b>74,343</b>	<b>28,369</b>	<b>786,356</b>	<b>818,885</b>

Classification of financial investments, except loans at 31 December 2013, in terms of listing:

	000 EUR	
	31. 12. 2013	31. 12. 2012
Investments in listed entities	582,964	573,572
Investments in non-listed entities	203,392	245,313
Total	786,356	818,885

**Note no. 20**  
**Loans to others**

	000 EUR			
	Long-term		Short-term	
	31. 12. 2013	31. 12. 2012	31. 12. 2013	31. 12. 2012
Loans to Group companies	0	0	1,779	1,779
Loans to others	0	0	6,500	51,938
Total	0	0	8,279	53,717

At the end of 2013, Kapitalska družba had no long-term deposits disclosed in its books of account.

Short-term loans to others comprise short-term deposits. At the end of 2013, short-term loans to others totalled EUR 6,500 thousand. Loans to other comprise loans to Abanka Vipa, d. d.

Loans to Group companies in the amount of EUR 1,779 thousand include a loan to the subsidiary PDP, d. d., collateralised by pledged shares.

**Note no. 21**  
**Operating receivables**

	000 EUR			
	Long-term		Short-term	
	31. 12. 2013	31. 12. 2012	31. 12. 2013	31. 12. 2012
Receivables due from the Group	0	0	92	65
Receivables due from local customers	0	0	869	910
Receivables due from foreign customers	0	0	0	0
Operating receivables due from others	89	81	353	1,315
Total	89	81	1,314	2,290

EUR 89 thousand of non-current operating receivables due from others represent EUR 86 thousand paid into the reserve fund for the maintenance of real estate, and EUR 3 thousand of loans granted to buyers of former state-owned apartments, which Kapitalska družba, d. d. obtained under the Denationalization Act and sold under the Housing Act.

In 2014, EUR 1,314 thousand of operating receivables will be due for payment, whereas receivables of EUR 89 thousand mature in future years.

Kapitalska družba has no secured receivables. The Company’s receivables are not subject to material risk.

**Note no. 22**  
**Cash and cash equivalents**

	000 EUR	
	31. 12. 2013	31. 12. 2012
Bank balances and cash on hand	321	711
Euro redeemable deposits	1,400	1,504
Total	1,721	2,215

**Note no. 23**  
**Equity**

	31. 12. 2013	31. 12. 2012
Share capital (000 EUR)	364,810	364,810
Number of ordinary shares	874,235	874,235

Kapitalska družba holds no treasury shares. The share capital of EUR 364,810 thousand is represented by 874,235 ordinary, registered, non-par value shares. Each share has the same interest and the attributed amount in the share capital.

**Note no. 24**  
**Capital surplus**

	000 EUR
Capital surplus	
1. 1. 2013	290,234
Increase in capital surplus	55
Decrease in capital surplus	-74,422
31. 12. 2013	215,867

In 2013, the capital surplus increased by EUR 55 thousand on account of additional assets received in accordance with the Ownership Transformation of Companies Act and decreased by EUR 74,422 thousand due to the settlement of the net loss incurred in the business year. As at 31 December 2013, capital surplus totalled EUR 215,867 thousand.

**Note no. 25**  
**Revenue reserves**

As at 31 December 2013, Kapitalska družba reported no other revenue reserves.

**Note no. 26**  
**Revaluation surplus**

	000 EUR	
Changes in revaluation surplus and deferred tax recognised in equity	2013	2012
Balance as at 1 January Gross revaluation surplus	211,736	184,420
Balance as at 1 January Deferred taxes	19,191	20,469
Balance as at 1 January Net revaluation surplus	192,545	163,951
Changes during the year – gross increase in revaluation surplus	127,296	125,120

Changes in revaluation surplus and deferred tax recognised in equity	2013	2012
Changes during the year – gross decrease in revaluation surplus	-74,077	-97,804
<b>Balance as at 31 December Gross revaluation surplus</b>	<b>264,955</b>	<b>211,736</b>
Adjustments (criteria: 8%, 6 months)	-96,903	-83,798
<b>Balance as at 31 December Gross after adjustment</b>	<b>168,052</b>	<b>127,938</b>
<b>Balance as at 31 December Deferred tax</b>	<b>28,569</b>	<b>19,191</b>
<b>Balance as at 31 December Net revaluation surplus</b>	<b>236,386</b>	<b>192,545</b>

Note no. 27

Provisions and long-term accrued costs and deferred revenue

000 EUR			
	Provisions for pensions and similar obligations	Other provisions	Total
<b>1. 1. 2013</b>	<b>168</b>	<b>327</b>	<b>495</b>
Provisions formed during the year	0	333	333
Utilised provisions	5	0	5
Reversal of provisions	0	229	229
<b>31. 12. 2013</b>	<b>163</b>	<b>431</b>	<b>594</b>

In 2013, Kapitalska družba reversed provisions of EUR 17 thousand that had been established for non-achievement of guaranteed rate of return on pension fund SOPDZ. At the end of 2013, provisions for non-achievement of guaranteed rate of return of SODPZ pension funds amounted to EUR 5 thousand.

Under the principle of prudence, the Company created provisions for legal actions and legal disputes according to the best estimate of potential liabilities. Provisions for legal actions and legal disputes in the amount of EUR 212 thousand were reversed. Provisions for legal actions and legal disputes in the amount of EUR 333 thousand were established. At 31 December 2013, provisions for legal actions and legal disputes reached EUR 426 thousand.

EUR 5 thousand of provisions for termination benefits and jubilee awards were utilised. At 31 December 2013, provisions for termination benefits and jubilee awards amounted to EUR 163 thousand.

Provisions for severance pay on retirement and jubilee awards are calculated on the basis of the assumption of the expected employee fluctuation, years of service and expected years until retirement, taking into account individual and collective employment contracts as well as the Company’s internal regulations.

Provisions for legal actions and legal disputes in the amount of EUR 333 thousand were established, but not planned for 2013. The Company utilised EUR 5 thousand of provisions for severance pay on retirement and jubilee awards, which were not planned in 2013. In other provisions there was no difference between its planned amount and the actual utilisation and the amount established.

Note no. 28

Operating liabilities

000 EUR				
	Long-term		Short-term	
	31. 12. 2013	31. 12. 2012	31. 12. 2013	31. 12. 2012
Payables to the Group	0	0	0	2
Operating liabilities to suppliers	0	0	3,072	3,011
Bills payable	0	0	0	0
Operating liabilities from advances	6	6	4	12
Payables to the state	0	0	14	40
Other operating liabilities	0	0	234	317
<b>Total</b>	<b>6</b>	<b>6</b>	<b>3,324</b>	<b>3,382</b>

EUR 6 thousand of long-term operating liabilities relates to collateral deposit from the lessee of business premises.

Short-term operating liabilities are comprised of liabilities to domestic suppliers EUR 3,072 thousand, liabilities arising from advance payments EUR 4 thousand, liabilities to the State EUR 14 thousand and other operating liabilities EUR 234 thousand. The majority of short-term liabilities to local suppliers EUR 2,869 thousand represents consideration due for investment property.

Maturity structure of operating liabilities

000 EUR					
31. 12. 2013	Operating liabilities to group members	Operating liabilities to suppliers	Operating liabilities from advances	Other operating liabilities	Total
Maturity of up to 1 year	0	3,072	4	248	3,324
1 to 2 years	0	0	0	0	0
2 to 5 years	0	0	6	0	6
Over 5 years	0	0	0	0	0
<b>Total</b>	<b>0</b>	<b>3,072</b>	<b>10</b>	<b>248</b>	<b>3,330</b>
<b>Collateralised liabilities (pledges and similar)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

Note no. 29

Financial liabilities

000 EUR				
	Long-term		Short-term	
	31. 12. 2013	31. 12. 2012	31. 12. 2013	31. 12. 2012
Financial liabilities to banks	0	0	0	50,000
Other financial liabilities	0	0	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>50,000</b>

EUR 50,000 thousand of financial liabilities to banks from 2012 relate to a loan obtained from a local bank. The Company repaid the loan in 2013 and disclosed no financial liability as at 31 December 2013.



Collateralised borrowings

As at 31 December 2013, Kapitalska družba reported no loans.

Off-balance sheet receivables

As at 31 December 2013, the off-balance sheet records of Kapitalska družba disclosed a receivable due from Elan, d. o. o., in the amount of EUR 6,776 thousand. Based on the Decision of the European Commission dated 19 September 2012 on measures in favour of Elan, d. o. o., SA.26379 (C 13/2010) (ex NN 17/2010) and the letter of the Ministry of Finance dated 2 October 2012, Kapitalska družba recorded as at 19 December 2012 an off-balance sheet receivable due from Elan, d. o. o., totalling EUR 5,761 thousand, which is since 8 September 2008 until the day of payment subject to interest on the basis of compound interest calculation according to Chapter V of Commission Regulation (EC) no. 749/2004. Accrued interest stood at EUR 1,015 thousand as at 31 December 2013.

Collateralised liabilities (pledges)

At 31 December 2013, Kapitalska družba reported a liability of EUR 1,000 thousand relating to a pledge granted in accordance with the Agreement on Securing Cash Receivables with a Pledge on Real Estate.

13.10.3 *Financial instruments*

Fair value

The majority of investments classified among financial assets measured at fair value through profit or loss and financial assets available for sale are disclosed at fair value, whereas receivables and loans are reported at amortised cost. The fair values of investments at amortised cost (comprised mostly of receivables and loans that are short-term or subject to a variable interest rate) do not significantly differ from their carrying amounts.

Investments whose fair value cannot be determined reliably are disclosed at cost less any permanent impairment. Total value of these investments at 31 December 2013 was EUR 194,511 thousand.

Interest rate risk

**Table 26**  
Structure of financial assets by group as at 31 December 2013 in terms of contractual deadlines for adjustment of interest rate or payment deadline or maturity date, whichever is sooner

000 EUR				
Item	Up to 1 year	From 1 to 5 years	Over 5 years	Total
Financial assets held to maturity	0	0	17,021	17,021
Available-for-sale financial assets	9,279	60,068	55,736	125,083
Loans and deposits	8,279	0	0	8,279
Cash and cash equivalents	1,721	0	0	1,721
Total	19,279	60,068	72,757	152,104

Financial assets disclosed in Table 26 above comprise debt financial instruments for which the effective rate of interest is used, increased for cash and cash equivalents.

At 31 December 2013, the liabilities of Kapitalska družba were not significantly exposed to the interest rate risk.

**Table 27**  
Effective interest rates by group of financial assets as at 31 December 2013

Item	Effective interest rate
Financial assets held to maturity	6.27
Available-for-sale financial assets	5.23
Loans granted	3.16

Investments presented in Table 27 above comprise debt financial instruments for which the effective rate of interest is used.

For bonds whose coupons are not annual and are of the same maturity, the effective interest rate is calculated for the period of the coupon rather than annually. If coupons are not annual and are not equal in maturity, then a period of 365 days is applied in the calculation of the effective interest rate. For bonds with a variable coupon interest rate, the interest rate at the time of purchase is applied. The effective interest rate of bonds revalued at TOM (basic interest rate) is calculated according to the linear method.

At 31 December 2013, effective interest rates were not applied to the liabilities of the Company.

Currency risk

**Table 28**  
Currency structure of financial assets of the Company as at 31 December 2013

000 EUR				
Financial asset category	EUR	USD	Other	Total
Financial assets held to maturity	17,021	0	0	17,021
Available-for-sale financial assets	701,321	65,632	2,382	769,335
Loans and deposits	8,279	0	0	8,279
Cash and cash equivalents	1,484	220	17	1,721
Total	728,105	65,852	2,399	796,356

Financial assets stated in Table 28 comprise all financial assets increased for cash and cash equivalents. At 31 December 2013, the majority of liabilities of Kapitalska družba were exposed solely to euro and hence there was no significant exposure to the currency risk.

Derivative financial instruments

As at 31 December 2013, Kapitalska družba reported no derivatives.

Credit risk

The Company does not have any significant concentration of the credit risk exposure.

13.11 *Other disclosures*

Information on the Management

The names of the members of the Management Board and other bodies are stated in the introductory part of the Annual Report, under the section Corporate Profile of Kapitalska družba, d. d. No operating receivables and long- or short-term liabilities to the members of the Management Board and Supervisory Board were recorded in 2013.

Table 29  
Receipts by category of  
beneficiaries in 2013

Receipts of the members of the Management Board, Supervisory Board and staff with management contracts

In 2013, remunerations paid for carrying out of responsibilities and duties of members of the Management Board, Supervisory Board and employees with management contracts for which the tariff section of the collective agreement does not apply, amounted to EUR 719 thousand. Receipts by category of beneficiaries are presented in Table 29.

	000 EUR
Category of beneficiaries	Amount
Members of the Management Board	244
Members of the Supervisory Board	74
Employees with management contract	401
Total	719

No advances, loans or guarantees were approved or issued by Kapitalska družba in 2013.

Receipts of the members of management and supervisory bodies

Remunerations of members of the Management Board are set by the Act Governing the Remuneration of Managers of Companies with Majority Ownership held by the Republic of Slovenia or Self-Governing Local Communities (ZPPOGD) and the Regulation on setting the highest correlation of basic payments and the rate of variable remuneration of directors. In accordance with the said legal basis, the employment contracts of the Management Board members stipulate the basic pay as a multiple of 5 of the average gross salary paid in the Kapitalska družba Group in the previous year. All bonuses are included in the basic pay. The basic pay is revised annually when data on the average salary in the Kapitalska družba Group in the previous year are published. The revised basic salary is applicable from 1 July of the current year. The basic pay of the members of the Management Board of Kapitalska družba was calculated and paid in 2013 in line with the aforementioned criteria. Pursuant to the contract, the members of the Management Board are entitled to attend training at home and abroad of up to 15 days per year paid by Kapitalska družba, as specified in the adopted Business and Financial Plan of Kapitalska družba.

Table 30  
Receipts of the Management  
Board members in 2013

	EUR									
Name and surname	Fixed income	Variable income	Bonuses	Cost reimbursed	Insurance premiums (PDPZ)	Participation in profit	Options	Other rewards	Other payments	Total
Bachtiar Djalil (President of the Management Board)	115,297	3,726	55	1,730	2,819	-	-	-	784	124,411
Anja Strojín Štampar, MSc. (Member)	109,736	3,726	750	1,381	2,819	-	-	-	784	119,196
Total	225,033	7,452	805	3,111	5,638	-	-	-	1,568	243,607

Fixed income includes gross salary. The variable pay includes part of the variable receipt based on a resolution of the Supervisory Board. Cost reimbursements include reimbursement of meal/travel/accommodation expense and daily allowance. Bonuses include collective accident insurance premiums and/or a company car. Insurance premiums (PDPZ) represent payments for voluntary supplementary pension insurance. Other payments include pay for annual leave.

Table 31  
Receipts of the Supervisory  
Board members in 2013

	EUR									
Name and surname	Fixed income	Variable income	Cost reimbursed	Insurance premiums	Fees	Participation in profit	Options	Other rewards	Other payments	Total
Samo Lozej (Chairman since 28 August 2013)	6,018	-	-	-	-	-	-	-	-	6,018
Aldo Ternovec (Deputy Chairman)	14,381	-	1,823	-	-	-	-	-	-	16,204
Aleksander Mervar (Member since 28 August 2013)	5,254	-	133	-	-	-	-	-	-	5,387
Stane Seničar (Member since 28 August 2013)	5,749	-	278	-	-	-	-	-	-	6,027
Ladislav Rožič, MSc. (Member)	11,951	-	-	-	-	-	-	-	-	11,951
Ana Bilbija (Member)	11,242	-	1,036	-	-	-	-	-	-	12,278
Jani Kavtičnik (Chairman until 27 August 2013)	8,833	-	1,444	-	-	-	-	-	-	10,277
Jože Jurkovič (Member until 27 August 2013)	5,343	-	-	-	-	-	-	-	-	5,343
Luka Jurkovič (Member until 6 February 2013)	275	-	-	-	-	-	-	-	-	275
Total	69,046	-	4,714	-	-	-	-	-	-	73,760

Fixed income includes meeting fees of the Supervisory Board and payment for the performance of function in the Supervisory Board and/or in its Audit Committee and/or meeting fees and payment for the performance of function in the Accreditation Committee. Cost reimbursements include reimbursement of travel expenses.

In 2013, the members of management and supervisory bodies received no receipts for tasks performed in subsidiaries of Kapitalska družba.

Related-party transactions

In 2013 Kapitalska družba made no significant transactions with its related parties that were concluded under other than normal market conditions.

Reclassification of financial assets from fair value through profit or loss category

Pursuant to provisions of SAS 3.53, at 31 December 2008, shares of Krka and Petrol, which were classified at fair value through profit or loss were reclassified to available-for-sale financial assets. If the reclassification was not made, in 2013 gain on valuation of shares would amount to EUR 368 thousand. At 31 December 2013, fair value and/or carrying amount of these shares was EUR 3,121 thousand.

Disclosure related to the pension schemes

The new Pension and Disability Insurance Act (ZPIZ-2), which entered into force on 1 January 2013, brought a series of changes in occupational insurance. The novelties related to occupational insurance under the ZPIZ-2 started being implemented based on the amendment to the pension scheme. The Compulsory Supplementary Pension Insurance Scheme and the Occupational Pension Insurance Scheme were approved on 29 November 2013 based on a decision of the Minister of Labour, Family, Social Affairs and Equal Opportunities. Both pension schemes started being applied on 30 December 2013 (except for the provisions on the contribution rate and entry fees, exit fees and management fee for the Compulsory Supplementary Pension Insurance Scheme, which entered into force on 1 January 2014). Additional amendments to the ZPIZ-2 on occupational insurance are being prepared. Owing to the adop-

tion of the amendment to the ZPIZ-2 it will probably be necessary to again revise both pension schemes.

Significant events after the balance sheet date

The Occupational Insurance Pension Scheme entered into force on 30 December 2013, except for the provisions of Articles 15 and 26, which entered into force on 1 January 2014. The provision of Article 15 introduces a new single contribution rate of 9.25 %, while Article 26 sets out lower fees reimbursed to the management company: a subscription fee of 2.3% of the paid-in amount, a redemption fee of 0.5% of the paid-out amount and a management fee of 1.0% of the average annual net value of SODPZ assets. In September 2013 the Ministry of Finance prepared a draft Slovenian Sovereign Holding Act (ZSDH-1). The amendment to the Act was passed at the meeting of the National Assembly of the Republic of Slovenia on 28 March 2014, so the Act is expected to enter into force in April 2014. After the entry into force of the ZSDH-1, additional changes will occur in capital investments management.

The General Meeting of Cimos, d. d., is convened for 30 April 2014. The convocation envisages that the General Meeting of Shareholders will decide on the increase in share capital by new non-cash contributions, where the issue price of a new ordinary registered share will be EUR 1.