

ANNUAL REPORT 2014



KAPITALSKA DRUŽBA

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
FARS	Financial Administration of the Republic of Slovenia
IASB	International Accounting Standards Board
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
MLFSAEO	Ministry of Labour, Family, Social Affairs and Equal Opportunities
MDRS	Ministry of Defence of the Republic of Slovenia
IFRS	International Financial Reporting Standards
IFRIC	International Financial Reporting Interpretations Committee
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. (or Slovenski državni holding)
SODPZ	Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia
SAS	Slovenian Accounting Standards
USD	US dollar
VaR	Value At Risk
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 and 50/2014)
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 ruling, 48/2012 – Constitutional Court ruling, 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 ruling, 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, 25/2014 – ZSDH-1, 38/2014, 84/2014, 95/2014, 95/2014 – ZUJF-C, and 14/2015)
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 ruling, 114/2006 – ZUTPG, 17/2007, 5/2008, 5/2008, 10/2008 – ZVarDod, 73/2008, 53/2009, 98/2009 – ZIUZGK, 27/2010 – Constitutional Court ruling, 38/2010 – ZUKN, 56/2010, 79/2010 – ZPKDPiZ, 94/2010 – ZIU, 57/2011, 94/2011 – Constitutional Court ruling, 105/2011 – Constitutional Court ruling, 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, 44/2014, 85/2014 – ZUJF-B, 95/2014 – ZIUPTDSV-A, 97/2014 – ZMEPIZ-1A, 95/2014 – ZIPRS1415-C, 95/2014 – ZUPPJS15, and 95/2014 – ZUJF-C)
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)
ZPOGD	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. 21/2010 and 8/2011 and 23/2014 – ZDIJZ-C)
ZPZRTH	Act Governing the Closure of the Trbovlje-Hrastnik Mine and the Developmental Restructuring of the Region (Official Gazette of the Republic of Slovenia, Nos. 61/2000, 42/2003, 71/2004, 43/2010, 49/2010 – amended, 40/2012 – ZUJF, 25/2014 and 46/2014)
ZSDH	Slovenian Sovereign Holding Company Act (Official Gazette of the Republic of Slovenia, Nos. 105/2012, 39/2013, 101/2013 – ZIPRS1415, and 25/2014 – ZSDH-1)
ZSDH-1	Slovenian Sovereign Holding Company Act (Official Gazette of the Republic of Slovenia, No. 25/2014)
ZUJIK-E	Act Governing the Promotion of Public Interest in Culture (Official Gazette of the Republic of Slovenia, Nos. 96/2002, 123/2006 – ZFO-1, 7/2007 – Constitutional Court ruling, 53/2007, 65/2007 – Constitutional Court ruling, 56/2008, 4/2010, 20/2011, 100/2011 – Constitutional Court ruling, 111/2013)
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 ruling, 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, 66/2014 and 92/2014)

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HIGHLIGHTS FROM THE ANNUAL REPORT

Operating revenues totalled EUR 9.1 million in 2014.

Financial revenues totalled EUR 45.9 million in 2014.

Net profit amounted to EUR 46.7 million
for the 2014 financial year.

Total assets stood at EUR 932.7 million
at the end of 2014.

The value of assets under management in the
SODPZ was EUR 626.4 million at the end of 2014.

The value of assets under management in the KS
SODPZ was EUR 1.1 million at the end of 2014.

A total of 45,444 policyholders held savings
in the SODPZ at the end of 2014.

Kapitalska družba, d. d. has transferred a total
of EUR 645.3 million to the budget of the
ZPIZ. No funds were transferred to the ZPIZ
in 2014 in accordance with the ZSDH-1.

The Company had 56 employees at the end of 2014.



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 2014.

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 insur-

ance through the management of its own assets, and the management of the Compulsory Supplementary Pension Insurance Fund (hereinafter: the SODPZ) and the Guarantee Fund of the Compulsory Supplementary Pension Insurance Fund (hereinafter: the KS 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 Publication of magazines and other 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
- 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 fund activities
- 66.210 Risk and claims assessment
- 66.290 Other auxiliary activities for 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

Management Board

Kapitalska družba was run by its Management Board in 2014 in the following composition:

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

The President of 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. The member of the Management Board was appointed by the Supervisory Board in accordance with the Articles of Association, 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 four-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). A violation of the Articles of Association of Kapitalska družba that is 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.

Supervisory Board

The Supervisory Board of Kapitalska družba functioned in the following composition in 2014:

- 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 sixth paragraph of Article 51 of the ZSDH-1. Three members of the Supervisory Board are appointed on the basis of a proposal by SDH,¹ while two members are appointed on the basis of a proposal by a national-level federation/organisation of pensioners. One member is 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 is formulated by Slovenski državni holding, 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, which 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.

General Meeting

The rights of the sole shareholder are exercised by the Slovenian government.²

¹ The current members of the Supervisory Board were appointed based on a proposal by Slovenska odškodninska družba, d. d. in accordance with the previously valid ZSDH.

² Slovenska odškodninska družba, d. d. performed the tasks of the General Meeting until the entry into force of the ZSDH-1.

STATEMENT OF THE MANAGEMENT BOARD

The 2014 financial year was characterised by the adverse economic conditions, which were further exacerbated during the first half of the year by political instability. Economic conditions eased during the second half of the year, and the economy began to recover after an extended period of contraction. Kapitalska družba continued to perform well during the adverse economic conditions by focusing on the achievement of sustainable long-term objectives. Kapitalska družba's mission is to provide additional sources of financing for the public pension system and to provide compulsory supplementary pension insurance that facilitates supplementary pensions for employees in difficult jobs. Despite numerous challenges, due in particular to the adverse effects of the external environment, Kapitalska družba successfully achieved both objectives in 2014. In addition to good operating results, the Company also positioned itself as a vital and integral part of the entire pension system in Slovenia.

In accordance with its balanced and cost-effective governance policy, Kapitalska družba once again generated an operating profit in 2014, in the amount of EUR 3.5 million. Through the effective management of companies and financial investments, the Company generated a profit from ordinary operations of EUR 37.4 million and a net profit of EUR 46.7 million. Because pensions were not adjusted in 2014, Kapitalska družba did not make a transfer to the Pension and Disability Insurance Institute.

We can also thank the compulsory supplementary insurance segment for the Company's outstanding results. The Compulsory Supplementary Pension Insurance Fund is the second largest pension fund in Slovenia, with over 45,000 policyholders. It remains the fastest growing pen-

sion fund in Slovenia. The pension savings of policyholders has already exceeded EUR 624.5 million. Kapitalska družba achieved a return of 8.16% in 2014 through the management of the aforementioned assets. The Company thus continued its long tradition as the most successful manager of pension funds in Slovenia, ranking first in terms of return achieved over the last three and five-year periods. With a three-year return of 20.82% and a five-year return of 26.39%, Kapitalska družba has proved itself to be the most successful manager of pension savings.

The Company continued to pay occupational pensions in the scope of the Compulsory Supplementary Pension Fund in 2014. Despite a less-than-optimal legislative framework, the Company defined the fulfilment of conditions for 44 new occupational pensioners in cooperation with the Pension and Disability Insurance Institute, which determines the conditions for the retirement of public sector employees. Kapitalska družba paid occupational pensions exceeding EUR 300 thousand in 2014.

The Company is aware of its responsibility to policyholders, their employers and occupational pensioners. We therefore manage the assets of the fund responsibly, and resolve claims for occupational pensions in a friendly and efficient manner, despite the lack of legal provisions. To that end, we work with employers and the relevant external institutions. The Company strives to optimise the regulations governing this area in an effort to optimise procedures. In the provision of compulsory supplementary insurance, we are guided by the awareness that by providing such insurance we contribute decisively to the security and quality of the life of current and future occupational pensioners.



Anja Strojín Štampar, MSc
Member of the Management Board

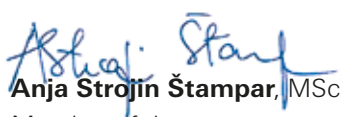
In terms of the essence of its activities and with regard to its business objectives, Kapitalska družba has functioned as a demographic reserve fund since its establishment. The Pension and Disability Insurance Act and thus the Slovenian Sovereign Holding Company Act state that Kapitalska družba must transform itself into a demographic reserve fund in 2015 in formal terms, as well. The characteristics of the demographic reserve fund and the method of transformation will be set out in a special act, which had not yet been drafted at the time this business report was compiled. Nevertheless, Kapitalska družba began preparing for the associated changes back in 2014. We conducted an in-depth study that includes a comparative analysis of such funds throughout the world and also includes examples of best practices. The Company reinforced proposed solutions through two external studies that identified the long-term needs of the Slovenian pension system and an assessment of the financial potential of the demographic reserve fund. By transforming into a demographic reserve fund, Kapitalska družba will contribute to the long-term sustainability of the Slovenian pension system and the sustainable development of Slovenian society as a whole.

In 2014 Kapitalska družba justified the trust of its owner, policyholders of the Compulsory Supplementary Pension Insurance Fund, occupational pensioners and employees. Despite the challenges posed by the adverse economic conditions, Kapitalska družba successfully managed and justified the expectations of stakeholders by focusing on the development of the Company, and through creativity and a large amount of innovation. Through its major successes in the area of compulsory supplementary pension insurance and achieved operat-



Bachtiar Djalil
President of the Management Board

ing results, Kapitalska družba represents a developmental, organisational and professional haven of pension solutions for 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

REPORT OF THE SUPERVISORY BOARD OF KAPITALSKA DRUŽBA for 2014

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 in 2014: Samo Lozej (Chairman), Aldo Ternovec (Deputy Chairman), Aleksander Mervar, Stanislav Seničar, Ana Bilbija and Ladislav Rožič, MSc.

The Supervisory Board met at 13 sessions during the 2014 financial year as follows: nine regular session and four correspondence sessions.

Particular attention in the monitoring of Kapitalska družba's operations in 2014 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 Guarantee Fund of the Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia (KS SODPZ), which are managed by Kapitalska družba.

At its 72nd session of 12 May 2014, the Supervisory Board approved the annual report of Kapitalska družba for the 2013 financial year, adopted the report on the verification of the Company's annual report for 2013, and was briefed on the audited annual report of the SODPZ for 2013, the audited annual report of the KS SODPZ and the actuary's report. At its 75th session of 13 June 2014, the Supervisory Board approved the consolidated annual report of the Kapitalska Družba Group for the 2013 financial year, adopted the report on the verification of the consolidated annual report of the Kapitalska Družba Group for 2013 and submitted a proposal to the General Meeting on the appointment of an audit firm.

The Supervisory Board was continuously briefed on the operations of the subsidiaries Modra zavarovalnica and PDP, Posebna družba za podjetniško svetovanje. Special attention was given to the Company's management activities, in the scope of which specific investments were presented and discussed in detail at sessions of the Supervisory Board. 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.

At its 80th session of 17 December 2014, the Supervisory Board gave its consent to Kapitalska družba's business-financial plan for 2015.

At its 74th session of 27 May 2014, the Supervisory Board appointed Anja Strojín Štampar, MSc to a four-year term as member of the Management Board. At its 79th session of 19 November 2014, the Supervisory Board appointed Bachtiar Djalil to a four-year term as President of the Management Board. Both members of

the Management Board were selected on the basis of a public tender procedure. The Supervisory Board appointed a human resource committee before the announcement of each tender to review applications, conduct the relevant interviews and formulate a proposal for the Supervisory Board.

For the needs of formulating a proposal for the General Meeting on the appointment of three new members (stakeholder representatives) to the Supervisory Board (due to the expiration of the previous members' term of office) and based on the proposal of candidates formulated in accordance with the provisions of Article 51 of the ZSDH-1 and Article 19 of the Company's Articles of Association, the Supervisory Board formulated a proposal for the General Meeting for the appointment of two members to the Supervisory Board based on the proposal of a national-level federation/organisation of pensioners and the appointment of one member based on a proposal by a national-level trade union federation or confederation.

The Supervisory Board carried out a self-assessment of the effectiveness of its work. In order to assess its effectiveness, the Supervisory Board relied on the self-assessment matrix published in the Manual for Assessing the Effectiveness of Supervisory Boards, adopted by the Slovenian Directors' Association.

An accreditation committee also functioned as an advisory body to the Supervisory Board in 2014. The aforementioned committee's task was 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.

Work of the Supervisory Board's audit committee

The Supervisory Board's audit committee functioned in the following composition in 2014: Ladislav Rožič, MSc (chairman), Ana Bilbija, Aleksander Mervar and Mojca Verbič (external member). The audit committee met at nine sessions in 2014, one of which was a correspondence session. 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 represented a permanent working body of the Supervisory Board, and closely monitored the operations of the Company and the work of the Management Board for the needs of the Supervisory Board's decisions. In addition to its legally prescribed tasks, the audit committee also reviewed the interim reports on the operations of Kapitalska družba, its subsidiaries and the pension funds under the management of Kapitalska družba (SODPZ and KS SODPZ). It also monitored the work of the internal audit department. The audit committee also carried out a self-assessment and submitted a report to the Supervisory Board accordingly. 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 financial 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 2014 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 2014.

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 2014, 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.

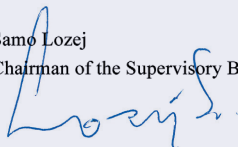
c) Decision regarding the approval of the annual report for 2014

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 2014.

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

Taking into account points a), b) and c) of this report, the Supervisory Board proposes that the General Meeting of Kapitalska družba adopt a decision granting discharge to the Company's Management Board and Supervisory Board for their work during the 2014 financial year pursuant to the provision of Article 294 of the ZGD-1.

Samo Lozej
Chairman of the Supervisory Board


Ljubljana, 26 May 2015



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.



BUSINESS REPORT

ORGANISATIONAL STRUCTURE OF KAPITALSKA DRUŽBA

The existing internal organisational structure of Kapital-ska družba was established with the Company's transformation and the demerger of Modra zavarovalnica, d. d. (hereinafter: Modra zavarovalnica) 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, the Compulsory Supplementary Pension Insurance Fund and the Guarantee Fund of the Compulsory Supplementary Pension Insurance Fund). 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.

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.

5.1 Reporting on employees

The Company had permanent 56 employees as at 31 December 2014. No workers were absent in 2014 due to maternity and child care leave.

The employment contracts of two employees expired in 2014 through the regular termination of the employment relationship. The employment relationship of one worker was terminated by the employer due to extraordinary circumstances, while one worker is under suspended contract from 1 May 2014 until 30 April 2015. One new permanent employment contract was concluded.

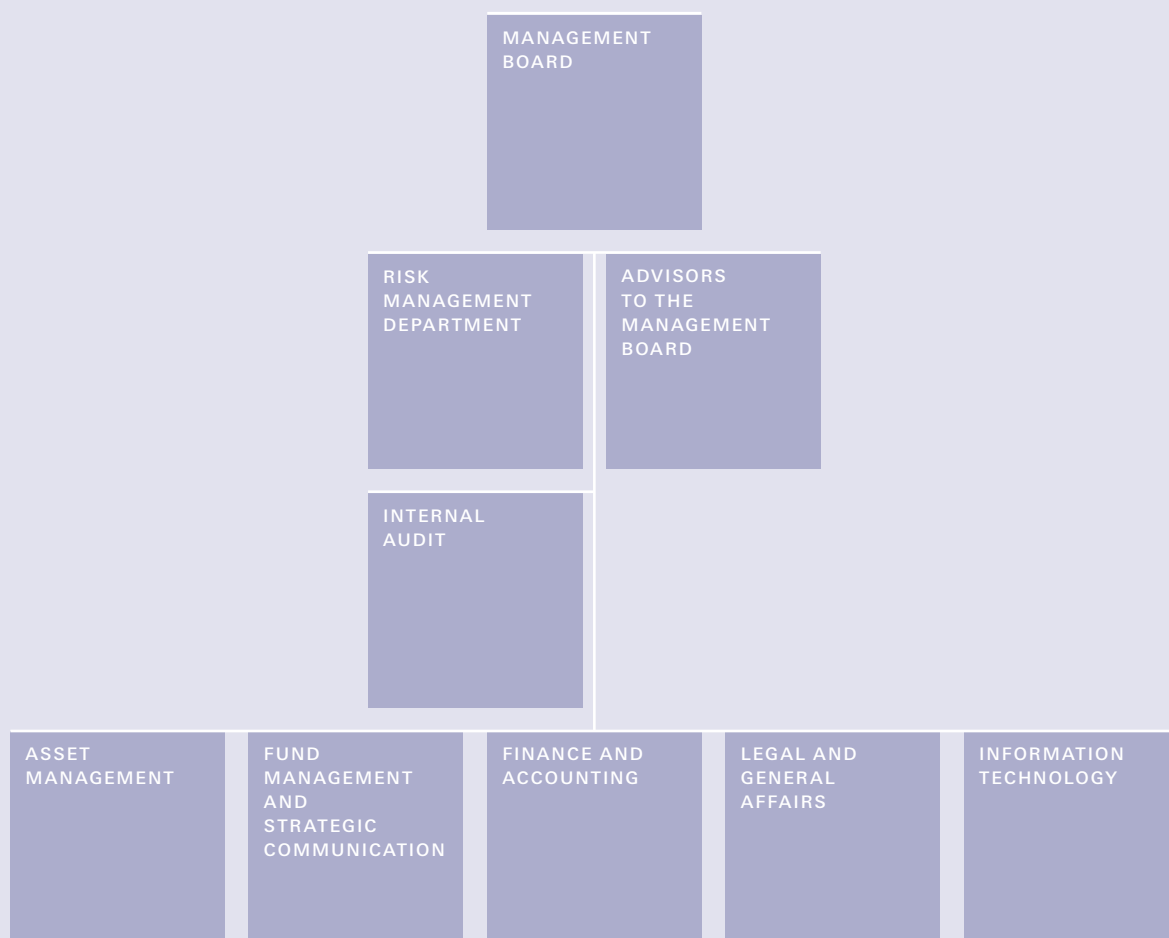
The number of employees by organisational unit is presented in the table below.

Table 1: Number of employees by organisational unit as at 31 December 2014 and 31 December 2013

Organisational unit	31 December 2014	31 December 2013
Management Board	2	2
Advisors to the Management Board	2	2
Finance and Accounting	11	11
Asset Management	9	10
Fund Management and Strategic Communication	11	11
Legal and General Affairs	12	12
Information Technology	6	6
Internal Audit	1	1
Risk Management Department	2	2
Total	56	57

As at 31 December 2014, a total of 66.08% of Kapitalska družba's employees had completed a minimum of Level VII education, of which 14.29% had completed their master's degree and 1.79% their doctorate. Women account for 71.43% of employees and men for 28.58%.

Figure 1: Organisational structure
of Kapitalska družba



6.1 Macroeconomic background of operations

6.1.1 Inflation

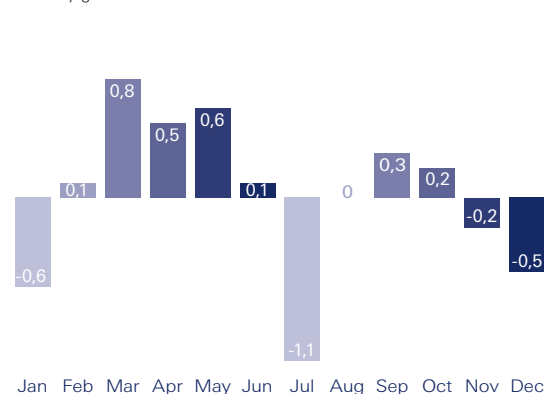
Annual growth in consumer prices (inflation) amounted to 0.2% in 2014. Inflation was higher in 2013, at 0.7%.

The following categories recorded the sharpest price growth in 2014: alcoholic beverages and tobacco products (up 4.0%) and catering and accommodation services (up 0.8%). Other categories recorded falling prices in 2014: housing (down 1.3%), food and non-alcoholic beverages (down 1.2%) and healthcare services (down 0.3%).

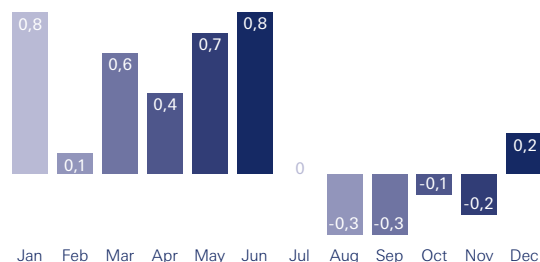
Figure 2: Change in monthly and annual growth in consumer prices in 2014 (in %)

Source: Statistical Office of the Republic of Slovenia

Monthly growth rate



Annual growth rate

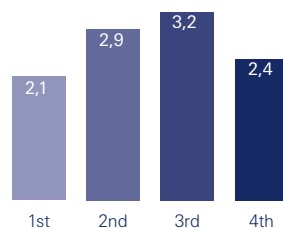


6.1.2 Gross domestic product

Gross domestic product (GDP) was up 2.4% in real terms in the final quarter of 2014 relative to the final quarter of 2013. Economic activity, adjusted for the season and number of working days, was up 0.3% relative to the third quarter of 2014. According to initial estimates, GDP was up by 2.6% overall in real terms in 2014.

Figure 3: Real year-on-year growth in GDP by quarter in 2014 (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 919 thousand in December 2014. The workforce in employment totalled 799 thousand, up 1.1% on the end of December 2013. The number of registered unemployed persons stood at 119 thousand at the end of December 2014, a decrease of 3.7% on the number of registered unemployed persons a year earlier. The registered unemployment rate stood at 13.0% in December 2014, compared with 13.5% in the final quarter of 2013.

The average monthly net wage was EUR 1,005.41 in 2014, an increase of 0.8% in real terms relative to 2013. The average monthly net wage was EUR 1,018.67 in December 2014.

The average monthly gross wage was EUR 1,540.25 in 2014, an increase of 1.2% in real terms relative to the previous year.

6.1.4 Money market

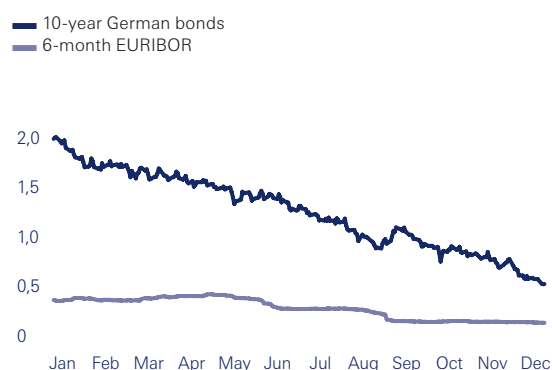
Interest rates

The reference interbank interest rate for the euro area, the six-month EURIBOR, was stable in 2014, fluctuating between 0.171% and 0.444%. 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 2014. The ECB cut its reference interest rate twice in 2014, from 0.25% to 0.05%. This, however, had no impact on interbank interest rates.

The yield-to-maturity on 10-year German government bonds fell by 1.388 percentage points in 2014 to stand at 0.541%. The lowest yield of 0.540% was achieved at the end of December.

Figure 4: Movement in the yield-to-maturity on 10-year German government bonds and the 6-month EURIBOR in 2014 (in %)

Source: Bloomberg



Exchange rate

The US dollar depreciated by around 12.1% against the euro in the period January to December 2014. The US dollar/euro exchange rate stood at 1.2098 at the end of the year, and averaged 1.3285 for 2014.

Figure 5: Movement in the US dollar/euro exchange rate in 2014

Source: Bloomberg



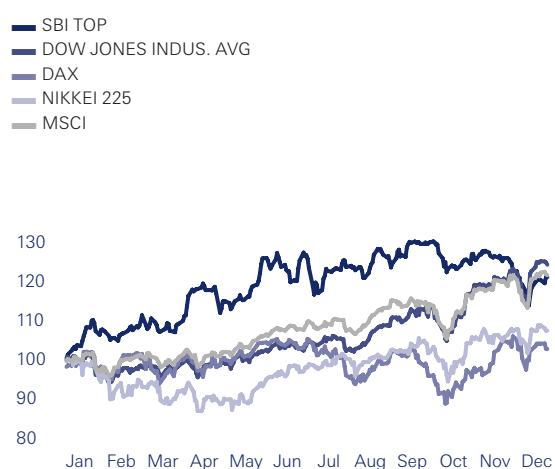
6.1.5 Capital market

Equity market

The values of share indices measured in euros rose in 2014. The US Dow Jones rose by 22.5% during the year, followed by the MSCI, which recorded growth of 20.0%, the Slovenian SBI TOP, which recorded growth of 19.6% and the Japanese Nikkei 225, which was up by 7% measured in euros. The German DAX recorded the lowest growth measured in euros, of 2.7%.

Figure 6: Movement in the Slovenian SBI TOP and selected foreign stock indices in 2014 in euros (index: 1 January 2014 = 100)

Source: Bloomberg

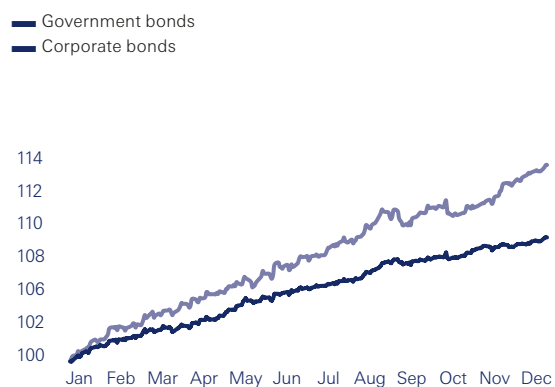


Debt market

Corporate and government bonds achieved positive yields in 2014. The IBOXX EUR Corporates TR corporate bond index gained 8.24%, while the IBOXX EUR Sovereigns TR government bond index gained 13.05%.

Figure 7: Movement in the IBOXX EUR Corporates TR corporate bond index and the IBOXX EUR Sovereigns TR government bond index in 2014 (index: 1 January 2014 = 100)

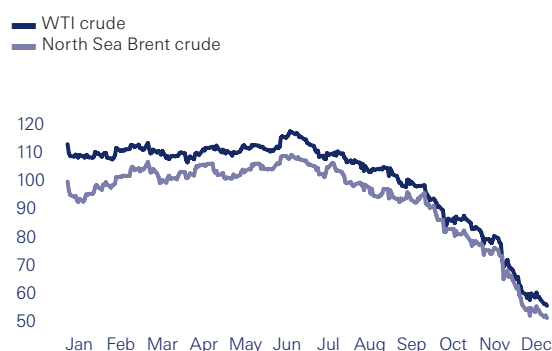
Source: Bloomberg



6.1.6 Price of oil

The price of West Texas Intermediate (WTI) crude oil fell from USD 98.42 per barrel (159 litres) at the beginning of 2014 to USD 53.27 at the end of the year. The price of WTI crude averaged USD 92.89 in 2014, down on the average price in 2013 of USD 98.02. 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 99.38 a barrel in 2014, 7.0% higher than WTI crude.

Figure 8: Movement in prices of WTI crude and North Sea Brent crude in 2014 (in USD per 159-litre barrel)
Source: Bloomberg



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 2014 with regard to management (in 000 EUR)

Type of investment	Value	Proportion
Capital investments	560,332	61.7%
Portfolio investments	347,277	38.3%
- Equity portfolio investments	140,603	15.5%
- Debt portfolio investments	110,821	12.2%
- Money market	95,853	10.6%
Total financial investments	907,609	100.0%

6.2.1 Capital investment management

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 51 such investments at the end of 2014. Of those investments, Kapitalska družba had 42 so-called active investments, including 37 investments in public limited companies and five 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 560,332 thousand as at 31 December 2014, an increase of EUR 32,570 thousand on the previous year.

Table 3: Breakdown of Kapitalska družba's capital investments as at 31 December 2014 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	360,385	64.3%
Marketable investments	15	168,562	30.1%
Non-marketable investments	25 ³	30,106	5.4%
Investments in bankruptcy or liquidation	9	1,279	0.2%
Total capital investments	51	560,332	100.0%

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.

Table 4: Ten largest capital investments of Kapitalska družba by value as at 31 December 2014 (in %)

Company name	Proportion of company's share capital
Krka, d. d.	10.65
Modra zavarovalnica, d. d.	100.00
Telekom Slovenije, d. d.	5.59
Petrol, d. d.	8.27
Gorenje, d. d.	16.37
Luka Koper, d. d.	4.98
Pivovarna Laško d. d.	7.17
PDP, d. d.	66.04
Terme Čatež, d. d.	23.79
Union Hoteli, d. d.	18.75

³ Kapitalska družba holds both preference shares and ordinary shares in one company classified in non-marketable investments. Both forms of shares are deemed one investment in the aforementioned company.

Investments in which Kapitalska družba holds a less than 20% ownership stake comprise the majority of capital investments. So-called active investments include 39 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.

Table 5: Composition of capital investments in terms of size of ownership stake as at 31 December 2014

Ownership stake in share capital	Active investments	Investments in bankruptcy or liquidation
Up to 9.99%	25	3
From 10.00% to 19.99%	10	1
From 20.00% to 49.99% (associate)	5	4
From 50.00% to 100.00% (subsidiary)	2	1
Total number of investments	42	9

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. Kapitalska družba published two public tenders for the purchase of shares and participating interests in 2014.

Despite the Company's efforts, interest in the purchase of corporate shares and participating interests was down again in 2014 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.

In 2014 Kapitalska družba received seven bids for the purchase of shares and participating interests relating to six different capital investments held by the Company. The majority of bids were unacceptable for Kapitalska družba because the bid prices were too low.

Kapitalska družba sold off three capital investments in their entirety in 2014 in the total amount of EUR 17,629 thousand. In two cases involving the sale of minority interests, the sale was carried out on the basis of a public invitation to tender bids and subsequent direct negotiations with potential buyers. In one case, the investment concerned was sold in the scope of a joint sale by shareholders who held a majority interest. Slovenski državni holding headed the sales process with the help of financial advisers.

Purchases of companies

Kapitalska družba also found a great deal of interest on the part of other capital market participants in 2014 to sell investments to the Company.

Kapitalska družba did not participate in any corporate recapitalisations in 2014, nor did it accept any bids for the purchase of capital investments in 2014, as the majority of tendered capital investments would have been contrary to the objectives of the transformation of Kapitalska družba into a portfolio investor.

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

Based on decisions by the Bank of Slovenia of 16 December 2014 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 one Slovenian bank: Banka Celje, d. d. Prior to deletion, Kapitalska družba held the shares and subordinated bonds of the aforementioned bank. The value of write-offs made by Kapitalska družba due to the deletion of the shares and subordinated bonds of the aforementioned bank 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.

Dividends of domestic companies

Dividend income was down in 2014. Kapitalska družba recorded EUR 18,751 thousand in domestic corporate dividends in 2014, a decrease of EUR 914 thousand relative to 2013, when dividends totalled EUR 19,665 thousand. The ten largest capital investments in terms of dividends accounted for 98.5% of all dividends from capital investments held by Kapitalska družba.

The payment of dividends in 2014 was approved by the general meetings of 21 companies in which Kapitalska družba held a capital investment, compared with 2013, when the payment of dividends was approved by the general meetings of 23 companies in which Kapitalska družba held a capital investment.

Table 6 illustrates the highest dividend income generated in 2014 by capital investments held by Kapitalska družba.

Table 6: Ten capital investments that generated the highest dividend income in 2014 and 2013

Issuer	Dividends per share in 2014 (EUR)	Dividends per share in 2013 (EUR)	Total dividends in 2014 (in 000 EUR)	Total dividends in 2013 (in 000 EUR)
Krka, d. d.	2.10	1.61	7,335	5,624
Telekom Slovenije, d. d.	10.00	12.00	3,652	4,382
Aerodrom Ljubljana, d. d.	9.16	0.63	2,561	176
Modra zavarovalnica, d. d.	0.01208	0.02878	1,838	4,380
Petrol, d. d.	10.10	10.00	1,744	1,726
Loterija Slovenije, d. d.	45.00	109.08	836	2,026
Hoteli Union, d. d.	0.85	1.12	286	377
Luka Koper, d. d.	0.16	0.17	111	118
Terme Olimia bazeni, d. d.	0.22	0.22	55	55
Elektro Maribor, d. d.	0.09	0.09	49	49

Kapitalska družba also received dividends in 2014 from one company in its portfolio as the result of claims received for the allocation of distributable profit from previous years.

Table 7: Dividend income based on claims received for the distribution of profit (in EUR)

Issuer	Dividends for the year	Dividends per share	Total dividends
Perutnina Ptuj, d. d.	Distributable profit for 2010	0.17	97,879

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

In connection with the management of its capital investments in the period 1 January 2014 to 31 January 2014, Kapitalska družba applied, *mutatis mutandis*, the Corporate Governance Code for Companies with State Capital Investments, which was adopted by Slovenska odškodninska družba, d. d. (hereinafter: Slovenska odškodninska družba) on 15 May 2013 (hereinafter: the Code).

For the same purpose, Kapitalska družba also applied the bases for voting by the Kapitalska družba's representatives at the general meetings of companies in which Kapitalska družba held an equity stake in 2014 (hereinafter: bases).

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 adopted the Corporate Governance 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 65 general meetings of shareholders or partners of companies in 2014. Representatives of Kapitalska družba participated in 26 general meetings with authorisation to vote. In accordance with Article 53 of the ZSDH-1 Slovenski državni holding, d. d. (hereinafter: Slovenski državni holding or SDH) exercised the voting rights of Kapitalska družba at 35 general meetings in the name and on account of Kapitalska družba. Of those general meetings, Kapitalska družba participated at 34 of the general meetings at which it did not exercise voting rights. Four general meetings were cancelled prior to the date of the meeting or rescheduled to another date. 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, 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 2014. Disclosures regarding Kapitalska družba's conduct at general meetings are published on the Company's website.

Table 8: Participation at general meetings

Form of participation	No. of general meetings
Participation by employees of Kapitalska družba with authorisation to vote	26
Participation by SDH (authorisation to vote by SDH)	35
- Participation by employees of Kapitalska družba without authorisation to vote	34
Cancelled or rescheduled general meetings	4
Total	65

Code of Conduct of the Kapitalska Družba Group

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

Management of capital investments in the future

The new Slovenian Sovereign Holding Company Act (ZSDH-1; Official Gazette of the Republic of Slovenia,

No. 25/2014) entered into force at the end of April 2014. The management of investments on behalf and on the account of the Republic of Slovenia was also assumed by Slovenska odškodninska družba (i.e. SDH following the latter's transformation) with the entry into force of the ZSDH-1. There was a partial change in Kapitalska družba's obligation to provide funding to the ZPIZ: based on the provision of the third paragraph of Article 52 of the ZSDH-1, the Company must transfer funds in the amount of EUR 50 million every year to the ZPIZ by no later than 29 September, primarily for the purpose of adjusting pensions, or a proportionally lower amount if the amount for adjusting pensions is lower.

Article 79 of the ZSDH-1 states that Kapitalska družba must be transformed into an independent and autonomous demographic reserve fund by no later than 31 December 2015, as set out in the law governing pension and disability insurance, following the prior adoption of the relevant law. The same article also states that 10% of proceeds from the sale of capital investments held by the Republic of Slovenia must be transferred to a special account at the Ministry of Finance. The aforementioned funds may be used exclusively to finance the demographic reserve fund.

Article 82 of the ZSDH-1 states that Kapitalska družba must transfer its participating interest in PDP to SDH. In the next phase, PDP must also be merged with SDH.

SDH 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'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 were not adopted in 2014.

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.

6.2.2 Management of portfolio investments

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 140,603 thousand as at 31 December 2014.

Table 9: Composition of equity portfolio investments as at 31 December 2014 (in 000 EUR)

Type of investment	Value	Proportion of equity portfolio investments
Foreign shares	9,204	6.5%
Investment funds	131,399	93.5%
- domestic investment funds	11	0.0%
- foreign investment funds	131,388	93.5%
Total equity portfolio investments	140,603	100.0%

The five largest investments accounted for a total of 52.2% of the portfolio of equity investments as at 31 December 2014. 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).

Debt portfolio investments

The balance of debt portfolio investments stood at EUR 110,821 thousand at the end of 2014. At 84.6%, domestic bonds accounted for the highest proportion of debt portfolio investments. Investments in domestic bonds totalled EUR 93,767 thousand, while investments in foreign bonds totalled EUR 13,953 thousand. The remainder was accounted for by claims for accrued interest.

The primary focus of Kapitalska družba's investment activities in 2014 was on security and maintaining the value of assets due to an increase in the general level of risk.

Table 10: Composition of debt investments as at 31 December 2014 (in 000 EUR)

Type of investment	Value	Proportion of debt portfolio investments
Domestic bonds	93,767	84.6%
- domestic government bonds	77,276	69.7%
- domestic corporate and bank bonds	16,491	14.9%
Foreign bonds	13,953	12.6%
- foreign government bonds	1,183	1.1%
- foreign corporate and bank bonds	12,770	11.5%
Claims for interest	3,101	2.8%
Total debt portfolio investments	110,821	100.0%

The five largest investments, together with accrued interest, accounted for a total of 53.4% of the portfolio of debt investments as at 31 December 2014. All five investments were in different issues (nos. 59, 66, 67, 69 and 70) of Slovenian government bonds.

Money market investments

The balance of money market investments was EUR 95,853 thousand at the end of 2014. Loans granted (deposits) account for the majority of the aforementioned investments.

Table 11: Composition of money market investments as at 31 December 2014 (in 000 EUR)

Type of investment	Value	Proportion of the portfolio of money market investments
Loans granted (deposits)	61,400	64.1%
Cash and cash equivalents	34,453	35.9%
- Cash on transaction accounts at banks, and cash in hand	653	0.7%
- Euro call deposits	33,800	35.3%
Total money market investments	95,853	100.0%

6.3 Transfers to the Pension and Disability Insurance Institute

In accordance with the provisions of the ZSDH, Kapitalska družba was obliged to transfer EUR 50,000 thousand to the budget of the ZPIZ in 2013. The ZSDH-1 resulted in a change to previous arrangements regarding the transfer to the budget of the ZPIZ. In accordance with the third paragraph of Article 52 of the ZSDH-1, the annual obligation to the ZPIZ depends on the amount of the adjustment pensions, which is limited to EUR 50 million. In accordance with the provisions of the ZIPRS1415, which did not envisage any adjustment to pensions in 2014, Kapitalska družba did to make a transfer to the ZPIZ during the year. Kapitalska družba has transferred a total of EUR 645,321 million to the budget of the ZPIZ.

Article 11 of the Act Amending the Implementation of the Budget of the Republic of Slovenia for 2014 and 2015 Act (ZIPRS1415-C; Official Gazette of the Republic of Slovenia, No. 95/2014) amended the text of the ZIPRS1415 with the addition of Article 67, the fifth paragraph of which states that Kapitalska družba must transfer EUR 19 million to the ZPIZ in 2015 for the annual bonus paid to pensioners by no later two business days prior to the payment of that bonus. The fourth paragraph of the same article, which states that the annual bonus must be paid with the regular pension payment for July (envisaged on 29 July 2015), was deleted.

6.4 Investment property

Kapitalska družba holds investment property in the following commercial buildings:

- Stekleni dvor, Dunajska cesta 119, Ljubljana;
- Bežigrajski 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.

All of the aforementioned properties are currently leased, except the conference hall in the Bežigrajski dvor commercial building, which Kapitalska družba will lease for the organisation of various events.

6.5 Risk management

Risk management is explained in Chapter 15.2 Accounting policies and Chapter 15.3.3 Management of risks associated with financial assets 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

Operations of the SODPZ

Pursuant to the law, Kapitalska družba has been the manager of the Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia (SODPZ) since its establishment in 2001. The SODPZ is a mutual pension fund that provides occupational insurance in accordance with the ZPIZ-2.

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 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 Pension and Disability Insurance Act (ZPIZ-2), which entered into force on 1 January 2013, brought numerous changes to occupational insurance. The introduction of new features in the area of occupational insurance began on the basis of the occupational insurance pension plan and the pension plan for the payment of occupational pensions, which were approved by the Minister

of Labour, Family, Social Affairs and Equal Opportunities. Both pension plans entered into force on 30 December 2013, except the provisions of Articles 15 and 26 of the occupational insurance pension plan, which entered into force on 1 January 2014. The provision of Article 15 introduces a new single contribution rate of 9.25% for all policyholders, effective 1 January 2014. The costs reimbursed to beneficiaries were also reduced as of 1 January 2014. In accordance with Article 26, the subscription fee amounts to 2.3%, the redemption fee amounts to 0.5% and the annual management fee amounts to 1.0%. New changes to the ZPIZ-2 are being drawn up in the area of occupational insurance. Both pension plans are likely to require changes again when the new ZPIZ-2 is adopted.

The SODPZ had 45,444 policyholders as at 31 December 2014. The actual return on the SODPZ was 8.16% in 2014, compared with the guaranteed return of 2.30% in the same period. The net value of SODPZ assets was EUR 624,567 thousand at the end of 2014, and exceeded the guaranteed value of assets (EUR 568,935 thousand) by EUR 55,631 thousand. The SODPZ held 755,947.189 units in circulation in 2014.

As the manager of the SODPZ, Kapitalska družba is entitled to the reimbursement of subscription and redemption costs, and annual management fees. Revenues from the management of the SODPZ totalled EUR 7,073 thousand in 2014, broken down as follows: EUR 5,834 thousand in management fees, EUR 1,210 thousand in subscription fees and EUR 29 thousand in redemption fees.

Table 12: Kapitalska družba's revenues from management of the SODPZ in 2014 (in 000 EUR)

Revenues from management activities	2014
Management fees	5,834
Subscription fees	1,210
Redemption fees	29
Total	7,073

SODPZ investments

The manager will manage fund assets in such a way as to achieve, at a minimum, the guaranteed return in the context of minimal risk, taking into account liquidity criteria. The manager will allocate the investments of the fund to ensure that they will be appropriately diversified and that they will not exceed legal limits regarding the types of investments allowed and the level of assets in specific types of investments, with the exceptions set out in the relevant fund management rules.

The measure of the fund's success (benchmark index) is the latter's guaranteed return, which is ensured on a monthly and annual basis.

The basic objective of fund management was as follows in 2014:

- 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.

The manager applied an active management strategy with the aim of achieving its objectives at the fund level. It applied a combination of active and passive investment strategies at the level of investment categories. The manager used a top-down approach to manage fund assets.

In assessing the success of fund asset management, the manager made a comparison with the 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 626,373 thousand as at 31 December 2014, an increase of 13.9% relative to 2013.

Investments in debt securities account for the highest proportion (49.8%) of SODPZ assets. The proportion accounted for by the aforementioned assets was down slightly in 2014 compared with the previous year. Bonds account for the majority of this class of investments, followed by investments in loans and deposits (25.2%) and investment coupons (21.7%). The proportion accounted for by the two aforementioned classes was up relative to 2013. The proportions accounted for by other forms of investments were also up relative to 2013.

Table 13: Composition of the investments of the SODPZ as at 31 December 2014 (in 000 EUR)

Class	Value	Proportion of fund assets
Shares	6,333	1.0%
Debt securities	311,964	49.8%
Loans and deposits	157,932	25.2%
Investment coupons	135,822	21.7%
Cash and cash equivalents	13,996	2.2%
Other claims	326	0.1%
Total	626,373	100.0%

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 up in 2014, as the proportion of securities denominated in foreign currencies rose from 6.5% to 7.4%.

6.6.2 Guarantee Fund of the Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia (KS SODPZ)

Operations of the KS SODPZ

With the transfer of the first policyholder to the SODPZ in May 2013, Kapitalska družba created and became the manager of the KS SODPZ. The Company began paying occupational pensions in June 2013. 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. An occupational pension is paid from the time that right is earned until old-age or early retirement.

SODPZ policyholders earn the right to an occupational pension when they fulfil the conditions set out in the plan for the payment of occupational pensions. 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. A total of 44 policyholders were transferred to the KS SODPZ in 2014. The total value of funds transferred for those policyholders was EUR 1,328 thousand.

Kapitalska družba is entitled to a fee of 1.5% of each pension payment. Pension payment fees totalled EUR 5,802 in 2014.

KS SODPZ investments

The value of KS SODPZ assets was EUR 1,055 thousand as at 31 December 2014.

Investments in bonds accounted for the highest proportion (59.6%) of KS SODPZ assets, followed investments in deposits (21.9%) and other claims (17.8%).

Table 14: Composition of the KS SODPZ investments as at 31 December 2014 (in EUR)

Class	Value	Proportion of fund assets
Debt securities	628,911	59.6%
Loans and deposits	231,006	21.9%
Cash and cash equivalents	7,710	0.7%
Other claims	187,262	17.8%
Total	1,054,889	100.0%

Despite its relatively small size, the structure of the guarantee fund's investments was in line with legal provisions and focused on ensuring liquidity for the payment of pension annuities.

6.6.3 Activities in the implementation of the ZPIZ-2 in 2014

Kapitalska družba was again actively involved with the business processes of the SODPZ in 2014. In addition to its regular tasks associated with managing the fund's liabilities, the Company was also involved in the implementation of legislative changes under the ZPIZ-2, occupational pensions, the payment of occupational pensions, active notification of liable persons and policyholders regarding developments in the area of occupational insurance, regular meetings of the SODPZ Committee and activities relating to the resolution of current occupational insurance issues. To that end, communication with the following agencies was active: the Ministry of Labour, Family, Social Affairs and Equal Opportunities (hereinafter: the MLFSAEO), the Pension and Disability Insurance Institute (hereinafter: the ZPIZ), Ministry of Defence of the Republic of Slovenia (hereinafter: the MDRS), the Ministry of Finance, the Ministry of Education, Science, Culture and Sport, the Financial Administration of the Republic of Slovenia (hereinafter: the FARS), the Trbovlje-Hrastnik mine, the SODPZ Committee, the media, policyholders and liable persons.

The number of requests for information regarding occupational pension and thus the number of requests to exercise the right to an occupational pension was up sharply in 2014. Kapitalska družba carried out tasks in connection with occupational retirement, such as verification of the fulfilment of conditions for occupational retirement and the occupational retirement of policyholders who have already fulfilled those conditions, via the BiZPIZ web portal, which is intended for the exchange of data between Kapitalska družba and the ZPIZ. Kapitalska družba received 1,003 requests for information regarding occupational pensions in 2014. A confirmation of inclusion in occupational insurance had to be drawn up for each request, which was then sent to the ZPIZ. The latter then forwarded the data received to an actuary, who drew up informative calculations. Based on the aforementioned calculations, Kapitalska družba prepared answers to requests and sent them to policyholders and liable persons.

Since the entry into force of the ZPIZ-2, Kapitalska družba has warned of the need to establish a system for verifying the accuracy of paid in contributions for occupational insurance. This need derives from the fact that a policyholder who was included in compulsory supplementary pension insurance under the ZPIZ-1 or in occupational insurance under the ZPIZ-2 has one quarter of the period in which they were included in compulsory supplement-

tary pension insurance or occupational insurance added to the actual period for the fulfilment of conditions to earn the right to an early or old-age pension from compulsory insurance under the ZPIZ-2. Only the periods for which a liable person paid contributions in full count towards the period in which an occupational insurance policy holder was included in occupational insurance. With the aim of collecting unpaid contributions for occupational insurance, Kapitalska družba reported defaulters to the FARS in August 2014, and also notified the Labour Inspectorate of the Republic of Slovenia accordingly.

The ZPIZ-2 also brought a change and new feature with regard to the lump-sum payment of the redemption value from the SODPZ for MDRS policyholders. Due to ambiguity in the interpretation of the fifth paragraph of Article 206 of the ZPIZ-2, Kapitalska družba obtained the opinion of the MLFSAEO back in April 2013, which it took into account during the settlement of claims for lump-sum payment based on the fifth paragraph of Article 206 of the ZPIZ-2. That opinion was confirmed in June 2014, when the National Assembly of the Republic of Slovenia adopted an authentic interpretation of the fifth paragraph of Article 206 of the ZPIZ-2, which was published in the Official Gazette of the Republic of Slovenia No. 44/2014.

In cooperation with the MLFSAEO, Kapitalska družba resolved certain open issues regarding the occupational retirement of MDRS policyholders. It thus warned of the problem faced by policyholders who are unable to enjoy occupational retirement due to a lack of funds on their accounts. These are policyholders who are entitled to co-financing provided by the government in accordance with the provisions of the fifth paragraph of Article 413 of the ZPIZ-2 but, because no law governing government co-financing has been adopted, are unable to enjoy occupational retirement due to a lack of funds. Additional issues have arisen with regard to the occupational retirement of MDRS policyholders. The Company has informed the MDRS accordingly, as these issues could affect the date conditions for occupational retirement are fulfilled.

The new Act Governing the Closure of the Trbovlje-Hrastnik Mine and the Developmental Restructuring of the Region (ZPZRTH) entered into force in June 2014 and set out the conditions for obtaining the right to an occupational pension for specific categories of employees of the Trbovlje-Hrastnik Mine. All activities in connection with the drafting of the aforementioned act were carried out in a very short period of time. Thus, Kapitalska družba was unable to participate in that process. Nevertheless, after a quick review of the act and amendments thereto, the Company proposed changes crucial to the act's

implementation. Due to the short deadline to adopt the aforementioned act, Kapitalska družba's comments were not taken into account. The competent ministry therefore requested an additional interpretation regarding the implementation of the ZPZRT. Kapitalska družba is working intently to carry out activities that would facilitate the unimpeded occupational retirement of Trbovlje-Hrastnik mine policyholders on the basis of the ZPZRT. Those activities include personal and written communication with representatives of the Trbovlje-Hrastnik mine, representatives of several ministries and trade unions, and the ZPIZ. The Republic of Slovenia will provide co-financing in accordance with the law for all policyholders with insufficient funds on their personal account for the payment of occupational pensions, and ensure that those policyholders are able to exercise all rights to which they are entitled based on the ZPZRT.

In January 2014 the Act Amending the Act Governing the Promotion of Public Interest in Culture (hereinafter: the ZUJK-E) entered into force. The fourth paragraph of Article 12 of the aforementioned act states that a ballet worker is to be allocated one half of the period in which they were included in occupational insurance. In connection with ambiguities regarding the implementation of the aforementioned article, Kapitalska družba received an opinion from the MLFSAEO and also attended a meeting at which the issue regarding the occupational retirement of ballet workers was discussed, in terms of the provisions of the ZUJK-E.

In 2014 Kapitalska družba was also very involved in addressing problems relating the occupational retirement of firefighters. During the drawing up of informative calculations to establish the conditions to earn the right to an occupational pension, Kapitalska družba followed cases in which the period when an occupational pension is received in accordance with the rules set out in the second paragraph of Article 204 of ZPIZ-2 in connection with the first paragraph of the same article ends earlier than is evident from data received from the ZPIZ. In cooperation with the MLFSAEO and the ZPIZ, Kapitalska družba also addressed the aforementioned issue and briefed representatives of firefighters accordingly at a meeting held in December 2014.

Kapitalska družba informs all occupational insurance stakeholders regularly via its website about all of the latest developments and the operations of the fund. The Company communicates with policyholders and liable persons throughout the year, both personally through the call centre and through a toll-free telephone number and email. In 2014 Kapitalska družba also organised presenta-

tions for policyholders, liable persons, trade unions and human resource departments. There were ten such meetings in 2014.

Kapitalska družba regularly informed the MLFSAEO in 2014 about occupational retirement issues and work with the aforementioned ministry to develop proposed solutions and initiatives in connection with the implementation of the ZPIZ-2. Based on these solutions, the Company was able to continue unimpeded with occupational retirement processes. Kapitalska družba also put forth initiatives and proposals for changes and amendments aimed at the comprehensive regulation of the area of occupational insurance, and actively participated in the MLFSAEO's working groups.

The Company also regularly informed the SODPZ Committee with regard to activities in the area of occupational insurance, the operations of the fund and issues associated with occupational retirement. The SODPZ Committee actively participated in the search for occupational retirement solutions and continuously put forth initiatives to address this issue. The SODPZ Committee met seven times in 2014.

6.7 Information Technology Sector

In 2014 Kapitalska družba's Information Technology Sector pursued the objective of ensuring a high level of availability, confidentiality and integrity of information through the prudent maintenance and development of the information system. High-quality and continuous support and the optimisation and computerisation of work processes continued to lead to the achievement of the Company's business objectives and to maintaining and improving its competitive position. The Company continued its role as a provider of IT services for the subsidiaries PDP and Modra zavarovalnica.

The Information Technology Sector's operational role includes ensuring the integrated development of software and maintenance of the information system. The constant monitoring of changes during the introduction of new business processes contributes significantly to the appropriate selection and efficient use of information solutions, which in turn ensures optimal support in the performance of business processes. Also contributing to that objective is the active participation of the Information Technology Sector in the definition of and changes to business processes in all material areas of Kapitalska družba.

By documenting all material changes, Kapitalska družba improves its competitiveness, mitigates the risks associated with its operations and improves the decision-making process.

The Company continued to develop the KadSkladi software in 2014 in accordance with the requirements of the ZPIZ-2. We completed the migration to the Microsoft Windows 8.1 operating system and Microsoft Office 2013 on user workstations. We also successfully implemented all legally prescribed changes to software support for asset management. In order to ensure the continuous high availability of the information system and thus the business continuity of the Company's subscribers and the settlement of all obligations to their customers, we continued the successful replacement of old, worn out disk systems in 2014 with new systems. The aforementioned replacement did not cause any disruptions to business processes.

The IT infrastructure and software are used to a certain extent by the subsidiaries Modra zavarovalnica and PDP. All mutual relationships are defined in the relevant agreements. The key business software is also maintained and developed with the subsidiary Modra zavarovalnica.

The service centre provides a single entry point for all errors, requests, recommendations and reports relating to the provision of the centre's services. It carries out its processes in accordance with ITIL V3 recommendations. The service centre performs technical support tasks, and also monitors the functioning of services and communication between users and IT support. The service centre plays a central role in the provision and improvement of high-quality IT services.

In 2014 Kapitalska družba began the process of replacing software support for asset and fund management. The basis for beginning that process was a notable increase in the risk associated with software maintenance by external service providers. The objective of the aforementioned replacement is to ensure the reliability and availability of software for asset and fund management over the long term, and thus the continued, uninterrupted implementation of Kapitalska družba's long-term strategy.

6.8 Significant business events after the end of 2014

In accordance with the provisions of the ZSDH-1, Kapitalska družba and Slovenski državni holding concluded an agreement on 19 January 2015 on the transfer of the entire 66.04% participating interest in PDP.

The terms of office of three members of the Supervisory Board (Aldo Ternovec, Ana Bilbija and Ladislav Rožič, MSc) expired on 31 January 2015. The Slovenian government, in its role as Kapitalska družba's General Meeting, appointed the following members to the Supervisory

Board on 29 January 2015: Dr Boris Žnidarič, Cirila Surina Zajc and Ladislav Rožič, MSc. The aforementioned members of the Supervisory Board will serve a four-year term of office that began on 1 February 2015.

The term of office of President of the Management Board Bachtiar Djalil expired on 1 January 2015. The Supervisory Board reappointed Mr Djalil to the position of President of the Management Board on 19 November 2014. The President of the Management Board will serve a four-year term of office that began on 2 January 2015.

EXPECTED DEVELOPMENT OF KAPITALSKA DRUŽBA, D. D. IN 2015

In 2014 Kapitalska družba strengthened its position as an important financial institution that manages its own assets with the aim of generating additional funds for the Slovenian pension system and that develops appropriate pension solutions for employees in difficult jobs through the management of the Compulsory Supplementary Pension Insurance Fund. Kapitalska družba plays an increasingly important role in the search for sustainable pension solutions for the rapidly aging Slovenian population. The Company's firm position in Slovenia's overall pension system scheme will determine Kapitalska družba's main strategies and operations in 2015.

In accordance with the changes to the Act Amending the Implementation of the Budget of the Republic of Slovenia for 2014 and 2015 Act, Kapitalska družba will transfer EUR 19 million to the ZPIZ for the annual bonus paid to pensioners. That transfer is expected to be made in July.

Kapitalska družba must transform itself into a demographic reserve fund by the end of 2015. The Slovenian Sovereign Holding Company Act (ZSDH-1) represents the basis for the aforementioned change, while details will be governed in a special law. As one source of financing, the ZSDH-1 already states that 10% of proceeds from the sale of capital investments held by the Republic of Slovenia must be transferred to a special account at the Ministry of Finance, and that the aforementioned funds may be used exclusively to finance the demographic reserve fund. Technical studies carried out by Kapitalska družba to date with the help of external experts and presented to all important stakeholders, represent a quality basis, not only for the act governing the demographic reserve fund, but also for the development of comprehensive and long-term sustainable pension solutions.

Another important area of Kapitalska družba's operations will be the creation of a bridging fund for professional athletes and the start of the provision of bridging insurance. The law that imposes that task on Kapitalska družba is largely deficient. The provision of that insurance will therefore be one of the Company's biggest challenges in 2015. Further impeding the implementation of the aforementioned legally prescribed task are the systemically unregulated employment relations of professional athletes.

A third project linked to numerous challenges is the comprehensive upgrading of the information system. With the help of two service providers selected via public tender, we will develop and implement new information support for core processes in the provision of insurance and asset management. Due to the size, complexity and risks of such projects, we expect implementation to continue into 2016. The upgrading of the information system will be accompanied by the optimisation of key business processes, which will be adapted to changes in the business environment and financial world.

A fourth, very important area of Kapitalska družba's operations in 2015 will be the continuing transformation of the Company into a portfolio investor through the sale of state equity investments and the placement of proceeds into liquid investments. Kapitalska družba will participate in sales of companies under direct or indirect state ownership, a process that will be headed by Slovenski državni holding. In the scope of the aforementioned activities Kapitalska družba's participating interest in PDP was transferred to SDH in January 2015. Sales of companies will continue based on the strategy on the sale of state-owned companies, which is being drawn up by the government and had not yet been adopted at the time the annual report was compiled. The aforementioned strategy will also include the classification of investments. 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. The activities described above will accelerate Kapitalska družba's transformation into a portfolio asset manager.

As the manager of the SODPZ (the second largest mutual pension fund in terms of size, with the fastest growth in assets), Kapitalska družba will work actively with all stakeholders in the occupational insurance system, both via the fund's committee and directly. In providing compulsory supplementary pension insurance, the Company is guided by concern for policyholders and their employers, and for

occupational pensioners. We will therefore continue to strive to be one of the most successful pension savings managers in Slovenia, and to ensure that systematic pension solutions are aimed at providing higher-quality and safer forms of insurance. In this way, we will contribute to the improved pension stability of occupational insurance policyholders and pensioners.

A quick response to significant events and continuous adaptation to changes in the environment, as well as everyday business opportunities, will facilitate Kapitalska družba's future positioning in the Slovenian pension system and in the broader business environment.

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. Kapitalska družba transfers funds in the amount of EUR 50 million to the ZPIZ every year by no later than 29 September, primarily for the purpose of adjusting pensions, or a proportionally lower amount if the amount for adjusting pensions is lower.

In accordance with the provisions of the ZSDH, Kapitalska družba was obliged to transfer EUR 50,000 thousand to the budget of the ZPIZ in 2013. The ZSDH-1 resulted in a change to previous arrangements regarding the transfer to the budget of the ZPIZ. In accordance with the third paragraph of Article 52 of the ZSDH-1, the annual obligation to the ZPIZ depends on the amount of the adjustment pensions, which is limited to EUR 50 million. In accordance with the provisions of the ZIPRS1415, which did not envisage any adjustment to pensions in 2014, Kapitalska družba did to make a transfer to the ZPIZ during the year. Kapitalska družba has transferred the cumulative amount of EUR 645,321 thousand to the budget of the ZPIZ.

Table 15: 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

Year	Amount of transfer (in EUR)
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
2014	0
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.

During 2014 employees attended seminars on the following topics: the compilation of corporate annual reports, the latest changes in the area of taxation, accounting and international accounting standards, corporate governance, business valuations, labour law, commercial law, management, public procurement, auditing, information technology, paperless operations, the management of documentary material and archiving, and training 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 2014 on the following topics: the prevention of money laundering, personal data protection, recommendations to contract administrators for the liquidation of invoices, successful communication with problematic clients, information security management and the management of the risks to which Kapitalska družba is exposed. Kapitalska družba organised a workshop in October 2014 on the subjects of effective cooperation and team work. All employees were also afforded the opportunity to build on their knowledge of business English and German.

Kapitalska družba promotes continuing education and the acquisition of various licences in the employer's interest. This improves the quality of the work process and improves employees' qualifications for work in a specific position. In 2014 two employees thus attended master's degree courses (according to the Bologna model), four attended postgraduate courses (master's of science), while two 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 health and safety, 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.

The Company is aware that maintaining and improving health is important, as only healthy and satisfied employees who work in a safe and stimulating work environment are effective and innovative, and are less prone to sick leave. We are therefore implementing systematically targeted activities with the aim of maintaining and strengthening the physical and mental health of employees. This is achieved by improving the organisation of work and the work environment. Good interpersonal relationships are the most important in this regard, as they have a decisive impact on the health and well-being of employees. We encourage employees to actively participate in activities to protect and strengthen their health, and facilitate the selection of a healthy lifestyle and promote their personal development.

Collective voluntary supplementary 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. 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 104 thousand in 2014.

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 numerous 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 2014.

The following twelve measures were adopted: improving communication with employees, opinion polls among employees, public relations, time account, children's time bonus, additional annual leave, the philosophy and concept of management, a reintegration plan following an extended absence, socialising among employees, the participation of employees' families in temporary jobs at the Company and the giving of gifts to celebrate newborns. Thus five employees accompanied their children to the first day of primary school in 2014.

Practical training of a student registered with the Institute for Blind or Partially Sighted Youth, Ljubljana

A student registered with the Institute for Blind or Partially Sighted Youth, Ljubljana completed two practical training programmes at the Company in 2014. Because our aim was to facilitate the easiest inclusion in the work environment possible, we marked certain places (glass surfaces, sanitary facilities, lift switches, light switches, etc.) in Kapitalska družba's premises to help the student recognise those places and orientate himself easier. We attempted to make the student's practical training as pleasant as possible, while familiarising him with the importance and work of Kapitalska družba, and with certain work processes at the Company. A great deal of emphasis was also placed on a personal approach and interaction with the student.

In this way, we made it possible for a partially sighted student to train in the work environment for the purpose of gaining a degree of independence and facilitating his inclusion in the broader social environment following the completion of his education.

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 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 2014 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 from greenhouse gases, harmful emissions and radioactive waste is reduced.

REPORT ON RELATIONS WITH SUBSIDIARIES

Modra zavarovalnica and PDP are subsidiaries of Kapitalska družba. As the parent company, Kapitalska družba holds a 100% participating interest in Modra zavarovalnica and a 66.04% participating interest in PDP. No transactions were executed between the parent company and its subsidiaries in 2014 under conditions that deviated from market conditions.

9.1 Report on relations with Modra zavarovalnica

Lease of business premises

Modra zavarovalnica leases business premises from Kapitalska družba. A lease agreement was concluded in 2011 for a period of five years. The monthly rent for equipped business premises measuring 1,704.23 m² amounts to EUR 27,714. The aforementioned rental fee includes 46 parking places and electricity costs.

Use of computer programs

As the exclusive holder of material copyrights on software used to support pension funds, including the software packages KadSkladi, ProcScheduler for the ZVPSJU, ProcScheduler for the KVPS and Kad.Net, Kapitalska družba allows Modra zavarovalnica to use that software under the relevant agreement. As the holder of rights to use a software package to support asset management, Kapitalska družba also allows Modra zavarovalnica to use the AdTreasury and IteoNaložbe software, with the consent of the exclusive holders of material rights on those programs. The use of the aforementioned programs is permitted for the period of time set out in

the relevant agreement. The monthly contractual value is EUR 12,700, excluding VAT.

Provision of IT services

Kapitalska družba provides IT services for Modra zavarovalnica. Those services include the maintenance of workstations and other users, help desk services, internet access services, reporting system services, data file and printing services, roaming services for business software in the test and production environments in Kapitalska družba's IT infrastructure, and maintenance of the latter. The monthly fee includes the cost of labour of experts and the cost of hardware maintenance. The monthly contractual value is EUR 10,757, excluding VAT.

9.2 Report on relations with PDP

Provision of financial-accounting services

Kapitalska družba provides the following services for the subsidiary PDP: the management of the company's books of account, the compilation of financial statements in accordance with valid standards and legislation, the preparation of tax returns and the provision of other accounting-related services. An agreement on the provision of financial-accounting services has been concluded for that purpose. The monthly fee is EUR 1,666, excluding VAT.

Provision of HR services

Kapitalska družba provides HR and general services for the subsidiary PDP. The aforementioned services include all activities in connection with recruitment and the termination of employment relationships, the keeping of HR records, the compilation of data for the calculation of salaries, expert assistance in the harmonisation of internal acts, responsibility for and execution of HRM and training, and all other HR-related tasks in accordance with the applicable labour legislation. The monthly fee is EUR 150, excluding VAT.

Provision of IT services

Kapitalska družba provides IT services for the subsidiary PDP. Those services include the maintenance of workstations and other users, help desk services, reporting system services, data file services, fixed telephony services, the leasing of business software (licences), roaming services for business software in the production environment in Kapitalska družba's IT infrastructure, and maintenance of the latter. The monthly fee includes the cost of labour of experts and the cost of hardware maintenance. The monthly contractual value is EUR 688, excluding VAT.

INDICATORS

in 000 EUR				
	Value		Value of indicator	
	2014	2013	2014	2013
1. FINANCING RATIOS				
a) Equity financing ratio				
equity	925,977	817,063		
total equity and liabilities	932,730	849,651	0.99	0.96
b) Long-term financing ratio				
equity + long-term liabilities (including provisions) + long-term accruals and deferred income	927,487	846,232		
total equity and liabilities	932,730	849,651	0.99	1.00
2. INVESTMENT RATIOS				
a) Operating fixed asset ratio				
fixed assets (at carrying amount)	4,255	4,450		
total assets	932,730	849,651	0.00	0.01
b) Long-term investment ratio				
fixed assets + long-term deferred expenses and accrued revenues (at carrying amount) + investment property + long-term financial assets + long-term operating receivables	736,641	735,408		
total assets	932,730	849,651	0.79	0.87
3. HORIZONTAL FINANCIAL STRUCTURE RATIOS				
a) Equity to fixed assets ratio				
equity	925,977	817,063		
fixed assets (at carrying amount)	4,255	4,450	217.63	183.61
b) Acid test ratio				
liquid assets	34,453	1,721		
short-term liabilities	5,153	3,324	6.69	0.52

		Value		Value of indicator	
		2014	2013	2014	2013
c) Quick ratio					
	liquid assets + short-term receivables	35,706	3,035		
	short-term liabilities	5,153	3,324	6.93	0.91
d) Current ratio					
	short-term assets	194,806	85,657		
	short-term liabilities	5,153	3,324	37.80	25.77
4. EFFICIENCY RATIOS					
a) Operating efficiency					
	operating revenues	9,064	10,128		
	operating expenses	5,524	5,979	1.64	1.69
5. PROFITABILITY RATIOS					
a) Net return on equity					
	net profit for the period	46,749	-74,422		
	average equity (excluding net profit/loss for period)	885,356	900,197	0.05	-0.08
b) Dividends to share capital ratio					
	dividends for financial year	0	0		
	average share capital	364,810	364,810	0.00	0.00

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 members of the management and supervisory bodies of companies 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 on 15 May 2013. The second part of the code defines the expectations for companies with state capital investments.

The code was published on the website of Slovenski državni holding at <http://www.sdh.si/> until 18 December 2014. On 19 December 2014 it was replaced by the Corporate Governance Code for Companies with State Capital Investments, which was published on the website <http://www.sdh.si/sl-si/upravljanje-nalozb/kodeks-upravljanja-kapitalskih-nalozb-republike-slovenije>.

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.kapitalska-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, and their current status and achievements in accordance with legislation and national 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 that 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-1) and Kapitalska družba's Articles of Association, which envisage a special procedure for nominating members to Kapitalska družba's Supervisory Board.

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-1 and Kapital-ska 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 provisions of the Slovenian Sovereign Holding Company Act.



Doors that close
mean security;
doors that open
mean opportunity.
Wise is the person
who is able to
combine them both.



FINANCIAL REPORT

STATEMENT OF THE MANAGEMENT'S RESPONSIBILITY

The Management Board of Kapitalska družba pokojninskega in invalidskega zavarovanja, d. d., approves the financial statements for the year ended 31/12/2014, and the accompanying notes and disclosures thereof on pages 54 to 110, which are an integral part of the financial statements.

The Management Board confirms that the appropriate accounting policies were consistently applied, and that the accounting estimates were made under the principle of prudence and good management. The Management Board also confirms that the financial statements give true and fair presentation of the Company's financial position and the results of its operation for the year ended 31 December 2011.

The Management Board is also responsible for the appropriate accounting system and adoption of measures to secure the property and other assets. The Management Board confirms that the financial statements and notes thereof have been compiled under the assumption of a going concern, and in accordance with the current legislation and International Financial Reporting Standards (IFRS).

The Tax Authorities may, at any time within a period of 5 years after the end of the year for which a tax assessment was due, carry out an audit of the company's operations, which may lead to assessment of additional tax liabilities, default interest, and penalties with regards to corporate income tax or other taxes and duties. The Management Board is not aware of any circumstances that may result in a significant tax liability.



Anja Strojín Štampar, MSc., MBA
Member of the
Management Board



Bachtiar Djalil
President of the
Management Board

AUDITOR'S REPORT



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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 2014, 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 International Financial Reporting Standards as adopted by the EU. 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/si/nasa-druzba.

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 2014 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

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.

Deloitte.

DELOITTE REVIZIJA D.O.O.
Ljubljana, Slovenija 3

Ljubljana, 11 May 2015

TRANSLATION ONLY – SLOVENIAN ORIGINAL PREVAILS

FINANCIAL STATEMENTS FOR 2014

14.1 Income statement from 01/01/2014 to 31/12/2014

in EUR 000			
Item	Notes	1. 1. - 31/12/2014	1. 1. - 31/12/2013
1. Net revenue from sales	1		
a) Sales to local companies in the Group		644	637
c) Revenue from sales on the domestic market		8,071	9,262
Total revenue from sales		8,715	9,899
4. Other operating revenue (including revaluation revenue)	2	349	229
Total revenue		9,064	10,128
5. Costs of goods, materials and services	3		
b) Costs of materials		-140	-133
c) Costs of services		-1,630	-1,706
Total costs of goods, materials and services		-1,770	-1,839
6. Labour costs	4		
a) Payroll costs		-2,067	-2,037
b) Social security insurance costs		-331	-327
c) Pension insurance costs		-104	-106
d) Other labour costs		-191	-200
Total labour costs		-2,693	-2,670
7. Amortisation, depreciation and write-offs	5		
a) Depreciation and amortisation		-1,060	-1,131
Total write-downs		-1,060	-1,131

Item	Notes	1. 1. - 31/12/2014	1. 1. - 31/12/2013
8. Other operating expenses	6	-1	-339
Total expenses		-5,524	-5,979
Operating profit (loss)		3,540	4,149
9. Financial revenue from shares and interests	7		
a) Shares and interests in the Group		1,838	4,380
b) Shares and interests in associates		891	1,744
c) Financial revenue from other shares and interests		32,622	14,379
d) Financial revenue from other investments		9,509	7,633
Total financial revenue from shares and interests		44,860	28,136
10. Financial revenue from loans	7		
a) Financial revenue from loans to Group companies		16	84
b) Financial revenue from loans to others		1,064	1,839
Total financial revenue from loans		1,080	1,923
Total financial revenue		45,940	30,059
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		-12,064	-67,592
Total financial expenses due to impairment and write-off of financial assets		-12,064	-67,592
13. Financial expenses for financial liabilities	8		
b) Financial expenses for bank loans		0	-1,169
d) Financial expenses for other financial liabilities		0	-50,000
Total financial expenses for financial liabilities		0	-51,169
Total financial expenses		-12,064	-118,761
Profit (loss) from ordinary activity		37,416	-84,553
15. Other revenue	9	51	787
16. Other expenses	10	-3	-34
Total profit (loss)		37,464	-83,800
17. Income tax	11	-1,899	0
18. Deferred tax	12	11,184	9,378
19. Net profit or loss for the period	13	46,749	-74,422

Disclosures and notes on pages 54 to 110 are a constituent part of financial statements.

14.2 Statement of other comprehensive income for the period from 01/01/2014 to 31/12/2014

	in EUR 000	
	1. 1. - 31/12/2014	1. 1. - 31/12/2013
19. Net profit or loss for the period	46,749	-74,422
21. Gains (losses) on revaluation of AFS financial assets	62,079	43,841
24. Total comprehensive income for the period	108,828	-30,581

Disclosures and notes on pages 54 to 110 are a constituent part of financial statements.

14.3 Statement of financial position as at 31/12/2014

	in EUR 000			
Item	Notes	31/12/2014	31/12/2013	01/01/2013
ASSETS				
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		268	416	561
Total intangible assets		268	416	561
II. Property, plant and equipment				
2. Buildings	15	3,745	3,915	4,085
4. Other plant and equipment		242	119	115
Total property, plant and equipment		3,987	4,034	4,200
III. Investment property	16	18,277	18,856	19,504
IV. Long-term financial assets				
1. Long-term financial assets, except loans				
a. Shares and interests in the Group	17	152,200	159,590	159,590
b. Shares and interests in associated companies	17	13,859	15,824	56,778
c. Other shares and interests	19	452,208	409,114	434,379
d. Other long-term financial assets	19	95,789	127,485	139,805
Total long-term financial assets, except loans		714,056	712,013	790,552
2. Long-term loans				
Total long-term loans	20	0	0	0
Total long-term financial assets		714,056	712,013	790,552

Item	Notes	31/12/2014	31/12/2013	01/01/2013
V. Long-term operating receivables	21			
3. Long-term operating receivables due from others		53	89	81
Total long-term operating receivables		53	89	81
VI. Deferred tax assets		1,263	28,569	19,191
Total fixed assets		737,904	763,977	834,089
B. Current assets				
I. Assets held for sale	18	82,668	59,724	169
III. Short-term financial assets	19			
1. Short-term financial assets except loans				
d. Other short-term financial assets		15,032	14,619	28,200
Total short-term financial assets, except loans		15,032	14,619	28,200
2. Short-term loans	20			
a. Short-term loans to Group companies		0	1,779	1,779
b. Short-term loans to others		61,400	6,500	51,938
Total short-term loans		61,400	8,279	53,717
Total short-term financial assets		76,432	22,898	81,917
IV. Short-term operating receivables	21			
1. Short-term operating receivables due from the Group		46	92	65
2. Short-term operating trade receivables		848	869	910
3. Short-term operating receivables due from others		359	353	1,315
Total short-term operating receivables		1,253	1,314	2,290
V. Cash	22	34,453	1,721	2,215
Total current assets		194,806	85,657	86,591
C. Short-term deferred costs and accrued revenues		20	17	51
Total assets		932,730	849,651	920,731

EQUITY AND LIABILITIES

A. Equity				
I. Called-up capital	23	364,810	364,810	364,810
II. Capital surplus	24	215,953	215,867	290,234
III. Revenue reserves	25	0	0	0

Item	Notes	31/12/2014	31/12/2013	01/01/2013
IV. Revaluation surplus	26	298,465	236,386	192,545
VI. Net profit/loss for the year		46,749	0	0
Total equity		925,977	817,063	847,589
B. Provisions and long-term accrued costs and deferred revenue	27			
I. Provisions for pensions and similar obligations		159	163	168
II. Other provisions		82	431	327
Total provisions and accrued costs and deferred revenues		241	594	495
C. Long-term liabilities				
I. Long-term financial liabilities	29			
Total long-term financial liabilities		0	0	0
II. Long-term operating liabilities	28			
4. Long-term operating liabilities from advances		6	6	6
Total long-term operating liabilities		6	6	6
III. Deferred tax liabilities		1,263	28,569	19,191
Total long-term liabilities		1,269	28,575	19,197
II. Short-term financial liabilities	29			
2. Short-term liabilities to banks		0	0	50,000
Total short-term financial liabilities		0	0	50,000
III. Short-term operating liabilities	28			
1. Short-term operating liabilities to Group companies		0	0	2
2. Short-term operating trade payables		2,968	3,072	3,011
4. Short-term operating liabilities from advances		6	4	12
5. Short-term liabilities to the State		1,910	14	40
6. Other short-term operating liabilities		269	234	317
Total short-term operating liabilities		5,153	3,324	3,382
Total short-term liabilities		5,153	3,324	53,382
D. Short-term accrued costs and deferred revenues		90	95	68
Total equity and liabilities		932,730	849,651	920,731

Disclosures and notes on pages 54 to 110 are a constituent part of financial statements.

14.4 Cash flow statement for the period from 01/01/2014 to 31/12/2014

in EUR 000

Item	01/01 - 31/12/2014	01/01 - 31/12/2013
A. Cash flows from operating activities		
a) Net profit or loss and adjustments		
Profit or loss before tax	37,464	-83,800
Income tax and other taxes not included in operating expenses	-1,899	0
Adjustments for amortisation and depreciation	1,060	1,131
Adjustments for financial revenue from financing	-10,461	-30,059
Adjustments for financial expenses from financing	12,064	118,761
Total cash flow derived from the income statement items	38,228	6,033
b) Changes in net operating assets in the balance sheet items		
Opening less closing operating receivables	97	968
Opening less closing deferred costs and accrued revenues	-3	34
Opening less closing deferred tax assets	27,306	0
Closing less opening operating liabilities	1,829	-58
Closing less opening accrued costs and deferred revenues, and provisions	-358	126
Closing less opening deferred tax liabilities	-27,306	0
Total net operating assets in the operating balance sheet items	1,565	1,070
c) Net cash from (used in) operating activities	39,793	7,103
B. Cash flows from investing activities		
a) Cash receipts from investing activities		
Interest and dividends received from investing activities	31,321	25,569
Cash receipts from disposal of long-term financial assets	14,939	9,156
Cash receipts from disposal of short-term financial assets	0	59,019
Total cash receipts from investing activities	46,260	93,744
b) Cash disbursements from investing activities		
Cash disbursements to acquire intangible assets	-50	-105
Cash disbursements to acquire property, plant and equipment	-166	-67
Cash disbursements to acquire investment property	-70	0
Cash disbursements to acquire short-term financial assets	-53,121	0
Total cash disbursements from investing activities	-53,407	-172
c) Net cash from (used in) investing activities	-7,147	93,572

Item	01/01 - 31/12/2014	01/01 - 31/12/2013
C. Cash flows from financing activities		
a) Cash receipts from financing activities		
Capital increase and effect of free acquisition of investments	86	0
Total cash receipts from financing activities	86	0
b) Cash disbursements from financing activities		
Interest paid on financing activities	0	-1,169
Cash repayments of long-term financial liabilities	0	-50,000
Cash repayments of short-term financial liabilities	0	-50,000
Total cash disbursements from financing activities	0	-101,169
c) Net cash from (used in) financing activities	86	-101,169
D. Closing balance of cash		
a) Net cash for the period	32,732	-494
b) Opening balance of cash	1,721	2,215
c) Total closing balance of cash	34,453	1,721

Disclosures and notes on pages 54 to 110 are a constituent part of financial statements.

14.5 Statement of changes in equity for the period from 01/01/2014 to 31/12/2014

	Share capital	Capital surplus	Revaluation surplus	Net profit or loss for the year	Total
in EUR 000					
A. 1. As at 31/12/2013	364,810	215,867	236,386	0	817,063
a) Changes from the transition to IFRS	0	0	0	0	0
b) Retrospective adjustments (change in accounting policies)	0	0	0	0	0
A. 2. As at 01/01/2014	364,810	215,867	236,386	0	817,063
B. 1. Changes in equity – transactions with owners	0	86	0	0	86
d) Additional payments of capital	0	86	0	0	86
B. 2. Total comprehensive income for the period	0	0	62,079	46,749	108,828
a) Net profit or loss for the period	0	0	0	46,749	46,749
d) Gains (losses) on revaluation of financial assets	0	0	62,079	0	62,079
B. 3. Movements in equity	0	0	0	0	0
C. Closing balance as at 31/12/2014	364,810	215,953	298,465	46,749	925,977

Disclosures and notes on pages 54 to 110 are a constituent part of financial statements.

In 2014, the capital surplus increased by EUR 86 thousand on account of additional assets received in accordance with the Ownership Transformation of Companies Act.

14.6 Statement of changes in equity for the period from 01/01/2013 to 31/12/2013

	in EUR 000				
	Share capital	Capital surplus	Revaluation surplus	Net profit or loss for the year	Total
A. 1. As at 31/12/2012	364,810	290,234	192,545	0	847,589
A. 2. As at 01/01/2013	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 31/12/2013	364,810	215,867	236,386	0	817,063

Disclosures and notes on pages 54 to 110 are a constituent part of financial statements.

14.7 Distributable profit for 2014

	in EUR 000	
	31/12/2014	31/12/2013
a Net profit/loss for the year	46,749	-74,422
c + Decrease in capital surplus	0	74,422
f Distributable profit (a+b+c-d-e), distributed by the AGM	46,749	0

In 2014, Kapitalska družba disclosed distributable profit in the amount of EUR 46,749 thousand.

DISCLOSURES AND NOTES

15.1 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. 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 the Government of the Republic of Slovenia.⁴

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 bookkeeping 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.

⁴ Until the entry into force of the ZSDH-1 (Slovenian Sovereign Holding Act), the rights of the sole shareholder were exercised by Slovenska odškodninska družba

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 four 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 51(6) of the ZSDH-1, the Supervisory Board is composed of six members. Three members of the Supervisory Board are appointed on the proposal of Slovenski državni holding, d. d.⁵, 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 the Slovenian Sovereign Holding are proposed by the Holding, which informs the Supervisory Board about the selection. The 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 ten thousand members. The term of office of the Supervisory Board members is four years with the possibility of re-appointment.

Information about the controlling entity

Kapitalska družba does not have a controlling entity.

Information about subsidiaries

Subsidiaries of Kapitalska družba are presented in the table below.

Subsidiary	Country	Share in equity	Equity of the company as at 31/12/2014	in EUR 000
				Net profit for 2014
Modra zavarovalnica, d. d.	Slovenia	100.00%	209,045	17,447
PDP, Posebna družba za podjetniško svetovanje, d. d.	Slovenia	66.04%	19,841	4,195
Steklarska nova Rogaška Slatina, d. o. o. – in bankruptcy	Slovenia	100.00%	negative	n.a.

⁵ The current members of the Supervisory Board were appointed on the proposal of Slovenska odškodninska družba according to the previously applicable ZSDG.

As the parent company, Kapitalska družba consolidates the PDP Group and Modra zavarovalnica in consolidated financial statements.

Kapitalska družba does not consolidate the subsidiary Steklarska nova Rogaška Slatina, d. o. o. in consolidated financial statements, since the integration of subsidiary's financial statements in consolidated statements is not relevant for a true and fair view of the financial statements of the Kapitalska družba Group as a whole.

Basic data on Modra zavarovalnica, d. d.

Name: Modra zavarovalnica, d. d.
Registered office: Dunajska cesta 119, Ljubljana
Company ID number: 6031226
Tax number: SI21026912

As at 31/12/2014, the sole shareholder of Modra zavarovalnica, d. d., was Kapitalska družba. The share capital of the insurance company amounts to EUR 152,200,000. The share capital is divided into 152,200,000 ordinary registered no-par value shares. Each share has the same interest and the corresponding amount in the share capital.

Modra zavarovalnica, d. d. is performing the activities within the group of life insurance products pursuant to the Insurance Act and the decision issued by the Insurance Supervision Agency allowing the Company to perform insurance transactions for the following types of insurance:

- accident insurance – Article 2, paragraph 2, item 1 of the ZZavar;
- life insurance – Article 2, paragraph 2, item 19 of the ZZavar;
- unit-linked insurance (units of investment funds or long-term business fund) – Article 2, paragraph 2, item 21 of the ZZavar.

The activities of Modra zavarovalnica, d. d., are defined by law and by the Company's Articles of Association. Under the Articles of Association, Modra zavarovalnica engages in the activities listed below in line with the purpose of its incorporation:

- 65.110 Life insurance
- 65.120 Non-life insurance (only the insurance business under the classes of insurance involving accident and health insurance)
- 65.300 Pension funding
- 66.210 Risk and damage evaluation
- 66.220 Activities of insurance agents and brokers
- 66.290 Other activities auxiliary to insurance and pension funding
- 66.300 Fund management activities

Kapitalska družba is subject to no restrictions related to the payment of dividend to which it is entitled as the controlling company. Moreover, Kapitalska družba is not obligated to provide financial support to companies in the future.

Kapitalska družba is not exposed to any additional risks arising from its interests in subsidiaries.

Data on consolidation

Kapitalska družba is, as the controlling company, obligated to prepare consolidated financial statements and for 2014 it compiled them according to the IFRS for the first time. The consolidated financial statements of the Kapitalska družba Group for 2014 are presented in a special document entitled the Consolidated Annual Report of the Kapitalska družba Group for 2014.

The Annual Report of Kapitalska družba for 2014 has to be read in conjunction with the Consolidated Annual Report of the Kapitalska družba Group for 2014, which will be prepared upon the drafting of the Annual Report of Kapitalska družba for 2014 and the annual reports of its subsidiaries for 2014.

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.kapitalska-druzba.si/o_kapitalski_druzbi/letna_porocila.

Information about employees

At the end of 2014, Kapitalska družba had 56 employees inclusive of the two members of the Management Board. In 2014 the Company had 55 employees on average. The number of employees of Kapitalska družba as at 31/12/2014 and the average number of employees in 2014 according to the level of education is presented in the table below.

Table 16: Number of employees and average number of employees by educational level in 2014

Level of education	Number of employees at 31/12/2014	Average number of employees in 2014
IX.	1	1
VIII.	8	8
VII.	29	29
VI.	4	3
V.	13	13
IV.	1	1
Total	56	55

15.2 Accounting policies

Basis of preparation

The financial statements for 2014 have been prepared for the first time in accordance with the International Financial Reporting Standards (IFRS) adopted by the EU, and the Companies Act. The date of transition to the IFRS is 01/01/2013.

Data in financial statements are based on book-keeping documents and books of account kept in line with the International Financial Reporting Standards. Financial statements have been compiled by taking into account the fundamental accounting assumptions: going concern, consistency and accrual basis. Accounting policies have been formulated by taking into account qualitative characteristics: understandability, relevance, reliability and comparability.

Significant accounting estimates and judgements

The preparation of financial statements requires the management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities of the Company as well as the amounts of revenues and expenses.

The adequacy of used assumptions and estimates is checked periodically.

Relevant estimates refer to the impairment of assets, the classification of financial instruments and the distinction between the financial instruments held to maturity and available for sale, and the establishment of provisions.

On the date of the statement of financial position the manager assesses whether there is objective evidence of impairment of a financial asset or a group of financial assets. If such evidence exists, the asset is impaired. Impairment loss is recognised in the profit or loss.

The estimates of asset value mainly depend on the current and expected macroeconomic situation in the EU and other relevant markets where the Company operates and that affect the future cash flow projection, the interest rates influencing the required return both on debt and equity capital, and the stock prices, which also influence the estimated value of the financial instruments.

The assessments and estimates are also applied in determining the (useful) life of fixed assets and investment property, the basis for impairment of financial assets exposed to credit risk and the setting of fair value of long-term provisions.

Statement of compliance

The financial statements of Kapitalska družba have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB) as well as the Interpretations adopted by the International Financial Reporting Interpretations Committee (IFRIC) and the European Union (EU).

In its financial statements, Kapitalska družba applied all IFRS and IFRIC required in 2014. It did not apply any standard or interpretation before its application became obligatory in 2014.

Amendments to standards and interpretations

Standards and interpretations effective for the current period

In the current period, the following standards, amendments to the existing standards and interpretations issued by the International Accounting Standards Board (IASB) and adopted by the EU apply:

- IFRS 10 "Consolidated Financial Statements", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IFRS 11 "Joint Arrangements", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IFRS 12 "Disclosures of Interests in Other Entities", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IAS 27 (revised in 2011) 'Separate financial statements', adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IAS 28 (revised in 2011) 'Investments in associates and joint ventures', adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IFRS 10 'Consolidated financial statements', IFRS 11 'Joint arrangements' and IFRS 12 'Disclosure of interests in other entities' - Transition

Guidance, adopted by the EU on 4 April 2013 (effective for annual periods beginning on or after 1 January 2014),

- Amendments to IFRS 10 'Consolidated financial statements', IFRS 12 'Disclosure of interests in other entities' and IAS 27 (revised in 2011) 'Separate financial statements' – Investment entities, adopted by the EU on 20 November 2013 (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IAS 32 Financial Instruments: Presentation' – Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IAS 36 'Impairment of assets' - Recoverable amount disclosures for non-financial assets, adopted by the EU on 19 December 2013 (effective for annual periods starting on or after 1 January 2014),
- Amendments to IAS 39 'Financial instruments: Recognition and measurement' - Novation of derivatives and continuation of hedge accounting, adopted by the EU on 19 December 2013 (effective for annual periods starting on or after 1 January 2014).

The adoption of these amendments to the existing standards has not led to any changes in the Company's accounting policies.

Standards and interpretations issued by IASB and adopted by the EU but not yet effective

On the date of approval of these financial statements, the following standards, amendments and interpretations of the existing standards issued by IFRIC and adopted by the EU were in issue but not yet effective:

- Amendments to various standards – 'Improvements to IFRSs (2010-2012)', resulting from the annual project for improvement of IFRSs (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to remove inconsistencies and to clarify wording adopted by the EU on 17 December 2014 (the amendments will need to be applied for annual periods beginning on or after 1 February 2015),
- Amendments to various standards – 'Improvements to IFRSs (2011-2013)', resulting from the annual project for improvement of IFRSs (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to remove inconsistencies and to clarify wording, adopted by the EU on 18 December 2014 (the amendments will need to be applied for annual periods beginning on or after 1 January 2015),
- Amendments to IAS 19 'Employee Benefits' - Defined benefit plans: Employee Contributions, adopted by the EU on 17. December 2014 (effective for annual periods starting on or after 1 February 2015),
- IFRIC 21 'Levies', adopted by the EU on 13 June 2014 (effective for annual periods starting on or after 17 June 2014).

Standards and interpretations issued by the IASB, but not yet adopted by the EU

At present, the IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except from the following standards, amendments to the existing standards and interpretations, which were not endorsed for use in the EU on the day these financial statements were published (the effective dates indicated below apply for entire IFRS):

- IFRS 9 'Financial Instruments' (effective for annual periods starting on or after 1 January 2018),

- IFRS 14 'Regulatory Deferral Accounts' (effective for annual periods starting on or after 1 January 2016),
- IFRS 15 'Revenue from Contracts with Customers' (effective for annual periods starting on or after 1 January 2017),
- Amendments to IFRS 10 'Consolidated financial statements' and IAS 28 'Investments in associates and joint ventures' - Sales or contributions of assets between an investor and its associate/joint venture (effective for annual periods starting on or after 1 January 2016),
- Amendments to IFRS 10 'Consolidated financial statements', IFRS 12 'Disclosure of interests in other entities' and IAS 28 'Investments in associates and joint ventures' – Investment entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IFRS 11 'Joint arrangements' – Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 1 'Presentation of Financial Statements' – Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 'Property, Plant and Equipment' and IAS 38 'Intangible Assets' – Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 'Property, plant and equipment' and IAS 41 'Agriculture' - Agriculture: Bearer Plants (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 27 'Separate Financial Statements' – Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016),
- Amendments to various standards – 'Improvements to IFRSs (2012-2014)', resulting from the annual project for improvement of IFRSs (IFRS 5, IFRS 7, IFRS 19 and IAS 34) primarily with a view to remove inconsistencies and to clarify wording (the amendments will need to be applied for annual periods beginning on or after 1 January 2016),

The Company anticipates that the adoption of these standards, amendments to the existing standards and interpretations will have no material impact on the financial statements of the Company in the period of initial application.

At the same time, hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not yet been adopted by the EU, is still unregulated.

According to the Company's estimates, application of hedge accounting for the portfolio of financial assets or liabilities pursuant to IAS 39: 'Financial Instruments: Recognition and measurement' would not significantly impact the financial statements, if applied as at the balance sheet date.

Foreign currency translation

The financial statements of the Company are presented in the euro (EUR), which is the functional and reporting currency of the Company. Assets and liabilities originally expressed in foreign currencies are retranslated into the domestic currency at the reference exchange rate of the ECB. 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 date of the statement of financial position. 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.

Transition to International Financial Reporting Standards

For the previous periods and for 2013, Kapitalska družba prepared financial statements according to the accounting and reporting requirements set in the Slovenian Accounting Standards (SAS). Pursuant to the resolution adopted by the General Meeting of Shareholders of Kapitalska družba the Company has been keeping books of account and compiling financial reports according to the International Financial Reporting Standards (IFRS) since 01/01/2014. In compiling financial statements for 2014, the Company aligned accounting policies and reporting requirements with the IFRS. Comparative data were prepared according to IFRS for the first time as at 01/01/2013. Kapitalska družba recorded no effects of the translation or transition from SAS to IFRS.

Table 17: The effect of transition to IFRS – statement of financial position as at 01/01/2013 according to IFRS and as at 31/12/2012 according to SAS

Item	01/01/2013 IFRS	in EUR 000 31/12/2012 SAS
ASSETS		
A. Non-current assets		
I. Intangible assets and long-term deferred costs and accrued revenues		
5. Other long-term deferred costs and accrued revenues	561	561
Total intangible assets	561	561
II. Property, plant and equipment		
2. Buildings	4,085	4,085
4. Other plant and equipment	115	115
Total property, plant and equipment	4,200	4,200
III. Investment property	19,504	19,504
IV. Long-term financial assets		
1. Long-term financial assets, except loans		
a. Shares and interests in the Group	159,590	159,590
b. Shares and interests in associated companies	56,778	56,778
c. Other shares and interests	434,379	434,379
d. Other long-term financial assets	139,805	139,805
Total long-term financial assets, except loans	790,552	790,552

Item	01/01/2013 IFRS	31/12/2012 SAS
2. Long-term loans		
Total long-term loans	0	0
Total long-term financial assets	790,552	790,552
V. Long-term operating receivables		
3. Long-term operating receivables due from others	81	81
Total long-term operating receivables	81	81
VI. Deferred tax assets	19,191	19,191
Total fixed assets	834,089	834,089
B. Current assets		
I. Assets held for sale	169	169
III. Short-term financial assets		
1. Short-term financial assets except loans		
d. Other short-term financial assets	28,200	28,200
Total short-term financial assets, except loans	28,200	28,200
2. Short-term loans		
a. Short-term loans to Group companies	1,779	1,779
b. Short-term loans to others	51,938	51,938
Total short-term loans	53,717	53,717
Total short-term financial assets	81,917	81,917
IV. Short-term operating receivables		
1. Short-term operating receivables due from the Group	65	65
2. Short-term operating trade receivables	910	910
3. Short-term operating receivables due from others	1,315	1,315
Total short-term operating receivables	2,290	2,290
V. Cash	2,215	2,215
Total current assets	86,591	86,591
C. Short-term deferred costs and accrued revenues	51	51
Total assets	920,731	920,731
EQUITY AND LIABILITIES		
A. Equity		

Item	01/01/2013 IFRS	31/12/2012 SAS
I. Called-up capital	364,810	364,810
II. Capital surplus	290,234	290,234
III. Revenue reserves		
Total revenue reserves	0	0
IV. Revaluation surplus	192,545	192,545
Total equity	847,589	847,589
B. Provisions and long-term accrued costs and deferred revenue		
I. Provisions for pensions and similar obligations	168	168
II. Other provisions	327	327
Total provisions and accrued costs and deferred revenues	495	495
C. Long-term liabilities		
I. Long-term financial liabilities		
Total long-term financial liabilities	0	0
II. Long-term operating liabilities		
4. Long-term operating liabilities from advances	6	6
Total long-term operating liabilities	6	6
III. Deferred tax liabilities	19,191	19,191
Total long-term liabilities	19,197	19,197
II. Short-term financial liabilities		
2. Short-term financial liabilities to banks	50,000	50,000
Total short-term financial liabilities	50,000	50,000
III. Short-term operating liabilities		
1. Short-term operating liabilities to Group companies	2	2
2. Short-term operating trade payables	3,011	3,011
4. Short-term operating liabilities from advances	12	12
5. Short-term liabilities to the State	40	40
6. Other short-term operating liabilities	317	317
Total short-term operating liabilities	3,382	3,382
Total short-term liabilities	53,382	53,382
D. Short-term accrued costs and deferred revenues	68	68
Total equity and liabilities	920,731	920,731

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.

Annual Report adoption procedure

Annual Report is compiled by the Management Board of the Company, which submits it for approval to the Supervisory Board. The Management Board and the Supervisory Board also decide on disposition of net profits for creation of the Company's reserves according to provisions of the Public Utilities Act. Such disposition of profits is included in statements of the current year, whereas the Company's Assembly determines the distribution of distributable profit. In line with Article 52(2) of the ZSDH-1 distributable profit of Kapitálska družba cannot be distributed to the shareholders.

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. Disclosed intangible assets are impaired when their carrying amount exceeds their net recoverable amount. In the event of impairment, the carrying amount of the asset is decreased to its net recoverable amount and at the same time an expense arising from impairment is recognised directly in profit or loss.

Asset	Amortisation/Depreciation rate in %
Software	10
Software applications obtained after 01/01/2008	20.00–33.33

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 01/01/2008 is 3 to 5 years.

The Company reviews the value of its assets in order to establish the existence of and the amount of impairment. If the carrying amount of an asset exceeds its estimated recoverable amount, i.e. the value in use, it is written down to the recoverable amount against operating expenses.

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.

Property, plant and equipment

Buildings and equipment are carried at cost, less depreciation and impairment losses. Depreciation is accounted for under the straight-line basis over the estimated useful life of the assets:

Asset	Amortisation/Depreciation rate in %
Buildings	3.00-3.33
Equipment	16.67-33.33

Every year an impairment test is carried out on property, plant and equipment. Impairment is made if the asset's estimated recoverable amount is less than its carrying amount. The Company reduces the carrying amount of such assets to their recoverable amount. The decrease is disclosed as impairment loss directly in the income statement.

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.

Maintenance costs and increase in fixed assets value

Maintenance costs are the costs arising from the conclusion and execution of transactions required to maintain the conditions allowing the use and the achievement of the primary purpose of the building. Maintenance comprises all works according to the regulations on building of facilities and functioning of fire protection systems and other protection and rescue measures.

Criteria for the deferral of maintenance costs and the increase in fixed assets value

Maintenance costs include the costs of maintaining a fixed assets useful during its useful life. The increase in fixed asset comprises costs required to increase the future benefits of a fixed asset in comparison to past benefits.

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.

The Company recognises investment property when it is probable that the future economic benefits that are associated with the investment property will flow to the entity and the cost of the investment property can be measured reliably. Investment property includes the real property that is not used by the Company for its principal activity.

Investment property is measured at cost, reduced by depreciation and impairment losses. The depreciation rate of investment property is between 3.00 and 3.33 per cent annually and the estimated useful life is 33.33 or 30 years.

Every year an impairment test is carried out on investment property. Impairment is made if the investment property's estimated recoverable amount is less than its carrying amount. The Company reduces the carrying amount of such investment property to its recoverable amount. The decrease is disclosed as impairment loss directly in the income statement.

Gains or losses arising on elimination or disposal of investment property are determined as the difference between the net return on disposal and the carrying amount, and are recognised in the profit or loss.

Financial assets

Classification of financial assets

Financial assets of Kapitalska družba are classified into the following groups:

- financial assets at fair value through profit or loss,
- held-to-maturity financial assets,
- loans, and
- available-for-sale financial assets.

The classification depends on the purpose for which an investment was acquired. An asset is classified in the group of financial assets at fair value through profit or loss if:

- a. at least one of the following criteria is fulfilled:
 - a financial asset has been acquired or incurred principally for the purpose of selling or repurchasing it in the near term; or
 - a financial asset is part of a portfolio of identified financial instruments that are managed together and
 - for which there is evidence of a recent actual pattern of short-term profit-taking;
- b. it is a derivative (except for a derivative that is a designated and effective hedging instrument);
- c. it is any financial asset designated as such by the entity, if active market for such asset exists or if its value can be measured reliably.

An asset is classified in the group of held-to-maturity financial assets if the following criteria are fulfilled:

- a. a financial asset is a non-derivative financial asset with fixed or determinable payments;
- b. it has determinable maturity;
- c. which the Company has the positive intent and ability to hold to maturity.

The group of available-for-sale financial assets comprises the financial assets not classified in any other group.

Based on the prescribed classification criteria the shares listed on the stock exchange may be classified into the group of assets measured at fair value through

profit or loss or in the group of available-for-sale financial assets. In addition to these two groups, bonds may be also classified into the group of assets held to maturity. Most assets of the Company are classified into the group of available-for-sale financial assets.

Long-term and short-term financial assets are disclosed separately in the statement of financial position. Long-term financial assets are investments that the Company intends to hold for a period longer than one year and which are not held for trading.

Recognition of financial assets

Initially, all the Company's investments except financial assets classified at fair value through profit or loss are recognised at cost, plus transaction costs. Assets classified at fair value through profit or loss are recognised at fair value, with direct costs of acquisition not included in the cost, but rather charged directly against profit or loss under investment expense.

1. Financial assets measured 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 assets designated at fair value through profit or loss are recognised directly in the profit or loss.

The fair value of assets actively traded on regulated markets is determined at the quoted closing price on the stock exchange on the last trading day of the period. The fair value of assets whose market price is not quoted on financial markets is determined on the basis of a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, and the discounted cash flow analysis.

Acquisition and sale of assets 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. 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 the statement of comprehensive income as the net unrealised capital gains until the investment is

sold or disposed of in some other manner. When an asset is impaired, the impairment is recognised in the profit or loss.

Acquisition and sale of investments 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.

4. 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 settlement date.

Financial assets measured at cost

Assets are measured at cost if the fair value cannot be reliably measured, because the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed.

Available-for-sale financial assets are measured at stock prices. If a stock price is not available for a particular asset, the fair value is determined using the valuation models taking into account subjective variables that are not publicly available on markets or by making value estimates of particular assets. The following methods are applied in making the value estimates of particular assets: income-based valuation, asset-based valuation and the comparison approach, involving a comparison with the comparable listed companies.

Investments in subsidiaries and associated companies

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 in which the parent has a significant influence and which is neither a subsidiary nor a joint venture.

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 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 asset is impaired, the impairment is recognised in the profit or loss.

Financial asset valuation methods

The fair value of certain shares is determined using the valuation models taking into account subjective variables that are not publicly available on markets. Certain data for valuation are obtained from the Bloomberg system and other financial sources, whereas in some cases an important source is the data and documents about the past and expected future performance provided by companies.

Share valuations are made according to the income-based approach, the discounted free cash flow method, asset-based approach, the regular liquidation method and the market comparison valuation method, involving a comparison with the comparable listed companies. Bond valuations were made according to the market comparison valuation method, involving a comparison with the comparable listed bonds.

Determination of fair value

Fair value assessment of financial investments depends on availability of market data based on which the Company can assess fair value. Three levels are applied in fair value measurement:

- Level 1 input comprises quoted (unadjusted) prices for identical assets or liabilities in an active market which are available to the Company on the measurement date;
- Level 2 input includes inputs other than the quoted prices included in Level 1 and which are observable either directly or indirectly for an asset or liability;
- Level 3 input includes unobservable inputs for an asset or liability.

The entire IFRA 13 must be applied in fair value measurement assessment, in addition to the above stated levels.

The valuation of Level 2 fair value was applied to certain bonds according to the market comparison valuation method, involving a comparison with the comparable listed bonds. The valuation of certain Level 2 shares was made using the method involving a comparison with the comparable listed companies.

The fair value valuation of Level 3 assets was made by applying the income-based approach, the discounted free cash flow method, and the asset-based approach according to the regular liquidation method.

Moreover, Level 3 fair value includes all assets where fair value of debt financial instruments is determined using the Bloomberg Generic prices (BGN) and the Bloomberg Valuation Services prices (BVAL). This methodology and assumptions of price calculation are not available to the public, so all these assets are classified into Level 3 fair value hierarchy.

The fair value of certain shares is determined using the valuation models taking into account subjective variables that are not publicly available on markets. Certain data for valuation are obtained from the Bloomberg system and other financial sources, whereas in some cases an important source is the data and documents about the past and expected future performance provided by companies.

Impairments

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 considers a significant decline to be one in which the fair value is below the cost by more than 40%. 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 percent, the need for impairment based

on the time component is considered. When the negative revaluation recognised in the equity equals between 10 and 39 percent of the investment's cost and the investment is not impaired, there must be relevant indicators to show that impairment is not required. The need for impairment of such financial assets is reviewed at least on the date of the statement of financial position 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. In the former case such debt instruments are impaired to zero, while in the latter case, debt instruments are impaired to the percentage of the principal which the Company estimates with certainty to be repaid on maturity. In the latter case, debt instruments that have no material effect on the financial statements are not carried at amortised costs but rather at estimated realisable value. The need for impairment of such financial assets is reviewed at least on the date of the statement of financial position or more often if necessary.

Impairment and reversal of impairment of financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans or held-to-maturity financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of that item of asset has to be decreased through the allowance account. Impairment losses have to be posted in operating result as revaluation financial expenses.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss shall be reversed through the allowance account. The reversal of impairment losses shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been if the impairment loss had not been recognised at the date on which the impairment loss is reversed. The amount of the reversal of an impairment loss shall be recognised in profit or loss as revaluation financial revenue.

Recoverable amount of non-current assets

On the reporting day, the Company reviews if there is objective evidence of impairment of non-current assets. When as a result of certain events the carrying amount of an asset exceeds its estimated recoverable amount, the asset is impaired to the recoverable amount of the asset or money-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.

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.

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 non-current asset or disposal group held for sale is measured at the lower of its carrying amount or fair value, less costs to sell.

Operating 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

Upon initial recognition, cash and cash equivalents are recognised at the amount arising from the underlying document. Cash and cash equivalents comprise bank balances, cash on hand, call deposits and short-term deposits with maturity of up to three months.

Deferred costs and accrued revenues

Deferred costs and accrued revenues include short-term deferred costs and short-term accrued revenues.

Equity

Kapitalska družba holds no treasury shares. Its sole shareholder is the Republic of Slovenia.

The Company's equity is share capital. 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. Kapitalska družba holds no treasury shares.

Total equity consists of: called-up capital, capital surplus, revenue reserves, retained net earnings or retained net loss, revaluation surplus and temporarily undistributed net profit or unsettled loss for the financial year.

Revenue reserves are recognised according to the ZGD-1. In line with Article 52(2) of the ZSDH-1 distributable profit of Kapitalska družba cannot be distributed to the shareholders.

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

Revaluation surplus

Revaluation surplus arises solely from effects of valuation of financial assets available for sale at fair value. Amounts of revaluation surplus disclosed in the balance sheet are corrected for amounts of deferred tax.

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 date of the statement of financial position. 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. The Company established long-term provisions:

- 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;
- if a law suit is filed against Kapitalska družba or if the Company estimates a claim is very probable;
- for termination benefits and jubilee awards, calculated on the basis of assumption on 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.

The recognition of provisions in the books of account and in the statement of financial position is reversed when the possible obligations for which the provisions were made no longer exist or such provisions are no longer needed. Provisions can only be used for items of the type for which they were originally recognised.

Operating liabilities

Operating liabilities comprise trade payables for acquired assets or services, and liabilities to employees, the state, etc. Liabilities are recognised if it is probable that an outflow of resources embodying economic benefits will result from their settlement and the amount at which the settlement will take place can be measured reliably.

Accrued costs and deferred revenues

Accrued costs and deferred revenues comprise accrued revenue and other accruals and income collected in advance. Accrued costs are the disclosed accrued costs from ordinary activity of the Company.

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 fee

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 fee

The Company manages a 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 fee

In accordance with the pension scheme, the Company 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. Revenue from lease payments

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

Financial revenue

3. Interest

Interest income is calculated and recognised at the effective interest rate. Interest on debt securities is disclosed in the Company's statement of financial position together with financial investments.

4. Dividends

Dividends are recognised when they are declared.

5. Revenue from sale of financial assets

Revenue from the sale of financial assets (gains on the disposal of financial assets) are accounted for and recognised on the trading day.

Costs

Costs of materials and services

Costs of materials and services are classified by primary types. The Company does not classify costs by functional type, because the entire Company represents a single functional type.

Borrowing costs

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

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.

Expenses

Expenses are recognised if the decrease in economic benefits in the reporting period is associated with decreases in assets or increases in debt and if this decrease can be reliably measured. Expenses should therefore be recognised simultaneously with the recognition of a decrease of assets or of an increase of liabilities (debts).

Financial expenses

Financial expenses comprise expenses for financing, mostly interest expenses. Revaluation financial expenses arise in association with the impairment of financial assets. Expenses from the sale of financial assets (losses on the disposal of financial assets) are accounted for and recognised on the trading day.

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 assets or liabilities are measured using the tax rates enacted at the date of the statement of financial position.

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 date of the statement of financial position, 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 date of the statement of financial position are 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.

Cash flow statement

The cash flow statement is compiled under the indirect method (Format II) from the data included in the statement of financial position at 31/12/2014 and 31/12/2013, income statement data for the year 2014, and additional data necessary for the adjustment of revenue and expenditure and for the appropriate breakdown of significant items.

Risk management

In the economic crisis, risk management proved to be a very important area, because efficient risk management is a condition for successful and stable operations. 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.

On the basis of the risk inventory and refreshed risk assessments as well as the consequences of loss events, Kapitalska družba in 2014 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.

The monitoring and measurement of risk is carried out through the calculation of values at risk (VaR) applied to the portfolio as a whole as well as separately for equity and debt securities. The beta indicator is also calculated for equity securities, as a measure of systematic risk.

Interest rate risk

The very nature of investments in debt securities exposes Kapitalska družba to interest rate risk resulting from the risk that investment values will fluctuate due to changes in market interest rates. The exposure to interest rate risk is regularly measured by the modified duration indicator. 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.

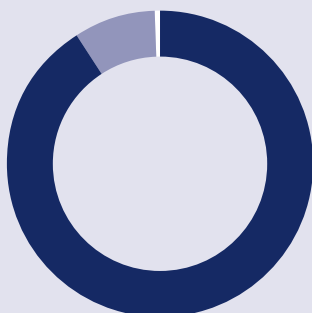
Kapitalska družba endeavours to minimise risks arising from interest rates by restructuring the portfolio based on market conditions, by reducing the average maturity of bond portfolios, by disposing of debt securities with fixed interest rates and by purchasing securities with variable rate of interest,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

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. The basis for measuring currency risk is the monitoring and calculation of exposure to individual currencies.

Figure 9: Currency composition of the financial asset portfolio of Kapitalska družba as at 31/12/2014

■ EUR 91.1%
■ USD 8.6%
■ Other 0.3%



Credit risk

Credit risk is related to investments in debt instruments (investments in bonds, commercial papers, certificates of deposit, deposits, loans given, cash assets) and entails the possibility of investments being only partly repaid or not at all. The management of credit risk for investments in debt securities is implemented by careful selection of business partners, regular monitoring of companies' operations and by establishing investment limits with regard to exposure to individual investments. Credit risk is managed also by dispersion of investments among industries and regular monitoring of credit margins and credit ratings of investments and issuers or contractual partners. According to internal acts, business partners' credit rating is determined by ratings assigned by Standard&Poor's, Fitch and Moody's, and in-house analyses. The maximum exposure, i.e. high yield, is set for debt securities.

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 managed by daily monitoring of the inflows and outflows of the Company and precise matching of maturity of assets and liabilities.

Operational risk

Operational risk is the risk of a loss due to inappropriate internal processes or incorrect action by people or defective functioning of systems within the Company or as a result of 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 owing to incorrect business decisions, inappropriate organisation and strategy of the Company and insufficient response to the changes in the business environment. Significant strategic risks include legislative, tax and political risks, resulting from the state's discretionary right to adopt decisions, and may lead to changes in the business and tax environment. These risks

also influence the processes involved in the sale of companies where Kapitalska družba holds interests, the amount of liabilities to the pension budget and consequently the management of financial assets.

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, two lawsuits were filed against Kapitalska družba in relation to the exercise of the right to receive once-off redemption value of the funds held in the personal capital account pursuant to Article 206(5) of the ZPIZ-2, and in 2014 another two lawsuits, one involving 194 MORS insured persons on the side of the plaintiff. In 2014, one lawsuit was withdrawn, meaning that three remain pending. As the interpretation of Article 206(5) of the ZPIZ-2 to which the plaintiffs refer in the said lawsuits is not clear, the Government of the Republic of Slovenia proposed that an authentic interpretation of the said provision be adopted. This was made in June 2014. In June 2014, the Military Trade Union of Slovenia (SVS) applied with the Constitutional Court of the Republic of Slovenia for a review of constitutionality and lawfulness of the authentic interpretation of Article 206(5) of the Pension and Disability Insurance Act (ZPIZ-2). The decision on this matter will most likely also influence the resolution of the disputes in the remaining three lawsuits against Kapitalska družba.

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.

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 Kapitalska 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.

15.3 Disclosures and notes to the financial statements

15.3.1 Notes to the income statement

Note no. 1

Net sales revenues

	in EUR 000	
	2014	2013
Revenue from fund's management	7,079	8,077
- management fee	5,834	5,983
- entry fee	1,210	2,054
- exit fee	29	40
- revenues from pension annuities	6	0
Revenue from lease payments	1,325	1,518
Other revenue from sales	311	304
Total	8,715	9,899

Net sales of EUR 8,715 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)

	in EUR 000	
	2014	2013
Revenue from reversal of provisions	349	229
Total	349	229

Revenue from reversal of long-term provisions in the amount of EUR 349 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 3 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 346 thousand.

Note no. 3

Costs of goods, materials and services

	in EUR 000	
	2014	2013
Costs of materials	140	133
Costs of services	1,630	1,706
Total	1,770	1,839

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.

Costs of audit

The costs of auditing the 2014 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 2014. The costs of audit will be fully paid in 2015.

Note no. 4

Labour costs

	in EUR 000	
	2014	2013
Payroll costs	2,020	1,980
Salary substitutes	47	57
Supplementary pension insurance costs	104	106
Pay for annual leave, reimbursements and other receipts	191	200
Other employer's contributions on salaries, salary substitutes, bonuses, reimbursements and other receipts of employees	331	327
Total	2,693	2,670

Note no. 5

Amortisation, depreciation and write-offs

	in EUR 000	
	2014	2013
Amortisation of intangible assets	198	250
Depreciation of buildings	159	159
Depreciation of garages	11	11
Depreciation of equipment and spare parts	43	63

	2014	2013
Depreciation of investment property	649	648
Total	1,060	1,131

Amortisation of intangible assets

Total amortisation expense of EUR 198 thousand represents amortisation of software.

Depreciation of buildings

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

Depreciation of garages

Total costs of EUR 11 thousand represent depreciation of garages in the "Glavarjeva rezidenca" building.

Depreciation of equipment and spare parts

A major part of depreciation of equipment and spare parts represents depreciation of computers and electronic equipment (EUR 31 thousand), wooden furniture (EUR 7 thousand), and other equipment (EUR 5 thousand).

Depreciation of investment property

Investment property depreciation charge refers to the depreciation of business premises leased out in the amount of EUR 620 thousand, and EUR 28 thousand of depreciation expense relating to leased out parking spaces as well as depreciation of part of investment property totalling EUR 1 thousand.

Note no. 6

Other operating expenses

	2014	2013
Provisions	0	333
Donations	0	6
Other	1	0
Total	1	339

in EUR 000

Note no. 7

Financial revenue

	2014	2013
Financial revenue from shares and interests	35,351	20,503
Financial revenue from other investments and loans	10,589	9,556
- Financial revenue from other investments	9,509	7,633
- Financial revenue from loans	1,080	1,923
Total	45,940	30,059

in EUR 000

Financial revenue from shares and interests

in EUR 000

	2014	2013
Dividends and shares in profits	20,756	20,419
Revaluation financial revenue	7	5
Revenue from the sale of financial assets available for sale	14,588	79
Total	35,351	20,503

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

Revenue from the sale of financial assets in the amount of EUR 14,588 thousand constitute realised capital gains from the disposal of available-for-sale financial assets.

In 2014, Kapitalska družba gained revenues from the sale of domestic equity investments in the amount of EUR 14,075 thousand.

Financial revenue from other investments and loans

in EUR 000

	2014	2013
Interest income	6,583	9,536
Revenue from the revaluation of receivables, liabilities and loans to retain their value	22	11
Exchange rate gains	22	11
Revenue from realised gains	3,984	8
Revenue from the sale of financial assets available for sale	3,981	8
Revenue from the sale of financial assets measured at fair value through profit or loss	3	0
Other revenue	0	1
Total	10,589	9,556

Revenue from the sale of financial assets in the amount of EUR 3,981 thousand constitute realised capital gains from the disposal of available-for-sale debt instruments.

Revenue from the sale of financial assets in the amount of EUR 3 thousand constitute realised capital gains from the disposal of financial assets measured at fair value through profit or loss.

Revenue from sale of financial assets

in EUR 000

	2014	2013
Revenue from realised gains	18,572	87
- Available-for-sale financial assets	18,569	87
- Financial assets measured at fair value through profit or loss	3	0

Interest income

	in EUR 000	
	2014	2013
Deposits	1,080	1,923
Bonds	5,490	7,475
- Available for sale	4,469	6,479
- Held to maturity	1,021	996
Other securities	13	138
- At fair value through profit or loss	13	138
Total	6,583	9,536

Note no. 8

Financial expenses

	in EUR 000	
	2014	2013
Loss from disposal of financial assets	349	87
Interest expense	0	1,169
Revaluation financial expenses- impairment	11,715	67,505
Impairment of equity investments at fair value through profit or loss	82	10,355
Impairment of shares and interests measured at cost	10,864	3,356
Impairment of bonds measured at fair value through profit or loss	0	671
Expenses from the cancellation of shares and subordinated bank bonds	747	53,109
Exchange rate losses	13	8
Other revaluation expenses	9	6
Expenses for ZPIZ	0	50,000
Total	12,064	118,761

All impairments and derecognition of financial assets in the amount of EUR 11,693 thousand refer to available-for-sale financial assets.

Expenses from the sale of financial assets in the amount of EUR 349 thousand constitute realised capital losses from the disposal of available-for-sale financial assets.

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 82 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 other comprehensive income and exchange rate differences.

Shares and stakes carried at cost and classified as available-for-sale financial assets were impaired in the total amount of EUR 10,864 thousand. The Company assessed that there was impartial evidence of impairments of these assets. The value of assets was estimated based on internal valuations and one external valuation, and in one internal valuation the real property was appraised by an external valuer.

Asset valuations were made according to the following methods: income-based approach, the discounted free cash flow method, the asset-based approach, the net asset valuation method under the assumption of a going concern and regular liquidation and the peer comparison method (comparable listed companies), where the procedure is based on selected multipliers and the value of the relevant company is assessed based on the comparison of performance indicators and stock price of comparable companies.

On the basis of the decision of the Bank of Slovenia on extraordinary measures imposed on 16/12/2014 on Banka Celje, d. d., the Company deleted the subordinated bonds of Banka Celje, d. d., in the amount of EUR 675 thousand and the pertaining interest totalling EUR 72 thousand.

Pursuant to the provisions of the ZSDH in 2013 Kapitalska družba was required to pay EUR 50,000 thousand to ZPIZ. The ZSDH-1 interfered with the existing regulation of payments to the ZPIZ budget. In line with Article 52(3) of the ZSDH-1, the annual liability to the ZPIZ (Pension and Disability Insurance Institute) depends on the amount for indexation of pensions, the limit being EUR 50 million. Pursuant to the ZIPRS1415, which does not provide for pension indexation for 2014, Kapitalska družba did not discharge its liability to the ZPIZ.

Foreign currency translation

	in EUR 000	
	2014	2013
Exchange rate gains	22	11
Exchange rate losses	13	8
Net exchange rate gains/losses	9	3

In 2014, the net exchange rate gains amounted to EUR 9 thousand.

Profit or loss from financial assets

	in EUR 000	
	2014	2013
Income from financial assets	45,940	30,059
Expenses from financial assets	-12,064	-118,761
Net profit or loss financial asset	33,876	-88,702

Note no. 9

Other revenue

	in EUR 000	
	2014	2013
Other unusual items	51	787
Total	51	787

A major amount of other unusual items represents revenue from previous periods.

Note no. 10

Other expenses

	in EUR 000	
	2014	2013
Other items	3	34
Total	3	34

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

Note no. 11

Income tax

	in EUR 000	
	2014	2013
Profit or loss before tax	37,464	-83,800
Non-deductible expenses	12,459	15,754
Allowances for bad debt and inventories	0	0
Provisions formation	0	0
Non-taxable revenue	27,051	85,944
Tax allowance	262	0
Tax loss	11,436	0
Total	11,174	-153,990
Tax rate	17%	17%
Income tax	1,899	0

At 31/12/2014, Kapitalska družba reported income tax liabilities. Considering the revenue and expenses included in the income statement in accordance with the IFRS and the Corporate Income Tax Act (ZDDPO-2), the Company recognised tax profit of EUR 11,174 thousand.

The Management Board believes that the calculation of the tax liability for 2014 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 in 2013 Kapitalska družba was required to pay EUR 50,000 thousand to ZPIZ. The ZSDH-1 interfered with the existing regulation of payments to the ZPIZ budget. In line with Article 52(3) of the ZSDH-1, the annual liability to the ZPIZ (Pension and Disability Insurance Institute) depends on the amount for indexation of pensions, the limit being EUR 50 million. Pursuant to the ZIPRS1415, which does not provide for pension indexation for 2014, Kapitalska družba did not discharge its liability to the ZPIZ. To date, Kapitalska družba has paid EUR 645,321 thousand to 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.

The effective tax rate (as the ratio between the corporate income tax and profit or loss before tax) was 5.07% in 2014.

Harmonisation of the actual and the calculated corporate income tax expense taking into account the effective tax rate

	in EUR 000
	2014
Profit or loss before tax	37,464
Tax calculated at the general tax rate	6,369
Change in tax based on:	
1. Revenue exempt from the tax base	4,599
Untaxed dividends received	3,188
Adjustment of revenues to the level recognised for tax purposes (decrease)	1,411
2. Expenses exempt from the tax base	2,118
Increase in expenses (unrecognised in previous periods)	196
Adjustment of expenses to the level recognised for tax purposes (decrease)	1,922
3. Tax reliefs used in current year	45
4. Other changes in differed taxes in the income statement	1,944
Total corporate income tax in the income statement	1,899
Total effective tax	5.07

The effective tax rate is not disclosed for 2013, because Kapitalska družba did not report corporate income tax payable in 2013 owing to tax loss from previous years.

Note no. 12

Deferred tax

At 31/12/2014, deferred corporate income tax included the following:

	Statement of financial position		Income statement	
	31/12/2014	31/12/2013	2014	2013
Deferred income tax liabilities	39,753	28,569	0	0
Total deferred corporate income tax liabilities	39,753	28,569	0	0
Deferred income tax assets	39,753	28,569	11,184	9,378
Loss brought forward to be used as tax allowance	1,203	0	1,203	0
Value adjustments of fixed assets	0	0	0	0
Value adjustment of receivables	0	0	0	0
Dividend adjustment	34	297	-263	136
Value adjustment of investments	38,490	28,215	10,275	9,236
Provisions	26	57	-31	6
Total deferred income tax assets	39,753	28,569	11,184	9,378
Netting of deferred tax assets and liabilities arising from financial assets	38,490	0	11,184	9,378

In 2014, Kapitalska družba generated a positive tax base, which it used to cover the tax loss of EUR 11,436 thousand. As at 31/12/2014 the unused tax loss totalled EUR 402,891 thousand and is freely transferable.

Disclosure of changes in deferred tax recognised in equity

	in EUR 000	
	2014	2013
Changes in deferred tax		
Balance as at 01/01	28,569	19,191
Changes at 01/01	0	0
Changes during the year	11,184	9,378
Balance as at 31/12	39,753	28,569

Deferred tax liabilities of EUR 39,753 thousand at 31/12/2014, 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 of ordinary shares in issue during the year is calculated by reference to shares in issue during the period, considering any potential redemptions and sales in that period and the period during which these shares generated 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.

	2014	2013
Net profit or loss attributable to holders of ordinary shares (000 EUR)	46,749	-74,422
Diluted net profit or loss attributable to holders of ordinary shares (000 EUR)	46,749	-74,422
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)	53.5	-85.1

At 31/12/2014, 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 profit for the year totalling EUR 46,749 thousand was restated using the consumer price index to retain the purchasing power of equity, the net profit would be increased by EUR 1,162 thousand.

15.3.2 Notes to the statement of financial position

Note no. 14

Intangible assets and long-term deferred costs and accrued revenues

Table 18: Changes in intangible assets and long-term deferred costs in 2014

	Software and other intangible assets	Total
31/12/2014		
Cost		
Cost as at 01/01/2014	2,932	2,932
Additions	50	50
Disposals	0	0
Cost as at 31/12/2014	2,982	2,982
Value adjustment		
Value adjustment as at 01/01/2014	2,516	2,516
Additions, transfers	0	0
Disposals, write-offs	0	0
Depreciation/amortisation	198	198
Value adjustment as at 31/12/2014	2,714	2,714
Carrying amount		
Carrying amount as at 01/01/2014	416	416
Carrying amount as at 31/12/2014	268	268

Table 19: Changes in intangible assets and long-term deferred costs and accrued revenues in 2013

	Software and other intangible assets	Total
31/12/2013		
Cost		
Cost as at 01/01/2013	2,827	2,827
Additions	105	105
Disposals	0	0
Cost as at 31/12/2013	2,932	2,932
Value adjustment		
Value adjustment as at 01/01/2013	2,266	2,266
Additions, transfers	0	0
Disposals, write-offs	0	0
Depreciation/amortisation	250	250
Value adjustment as at 31/12/2013	2,516	2,516
Carrying amount		
Carrying amount as at 01/01/2013	561	561
Carrying amount as at 31/12/2013	416	416

Intangible assets refer to software applications and licences.

Note no. 15

Property, plant and equipment

Table 20: Changes in property, plant and equipment in 2014

	in EUR 000		
31/12/2014	Buildings	Other plant and equipment	Total
Cost			
Cost as at 01/01/2014	5,408	2,472	7,880
Additions	0	166	166
Disposals	0	-47	-47
Cost as at 31/12/2014	5,408	2,591	7,999
Value adjustment			
Value adjustment as at 01/01/2014	1,493	2,353	3,846
Additions, transfers	0	0	0
Disposals, write-offs	0	-47	-47
Depreciation/amortisation	170	43	213
Value adjustment as at 31/12/2014	1,663	2,349	4,012
Carrying amount			
Carrying amount as at 01/01/2014	3,915	119	4,034
Carrying amount as at 31/12/2014	3,745	242	3,987

Table 21: Changes in property, plant and equipment in 2013

	in EUR 000		
31/12/2013	Buildings	Other plant and equipment	Total
Cost			
Cost as at 01/01/2013	5,408	2,430	7,838
Additions	0	67	67
Disposals	0	-25	-25
Cost as at 31/12/2013	5,408	2,472	7,880
Value adjustment			
Value adjustment as at 01/01/2013	1,323	2,315	3,638
Additions, transfers	0	0	0
Disposals, write-offs	0	-25	-25
Depreciation/amortisation	170	63	233
Value adjustment as at 31/12/2013	1,493	2,353	3,846
Carrying amount			
Carrying amount as at 01/01/2013	4,085	115	4,200
Carrying amount as at 31/12/2013	3,915	119	4,034

Note no. 16

Investment property

Table 22: Changes in investment property in 2014

	in EUR 000
31/12/2014	Buildings
Cost	
Cost as at 01/01/2014	23,678
Additions	70
Disposals	0
Cost as at 31/12/2014	23,748
Value adjustment	
Value adjustment as at 01/01/2014	4,822
Additions, transfers	0
Disposals, write-offs	0
Depreciation/amortisation	649
Value adjustment as at 31/12/2014	5,471
Carrying amount	
Carrying amount as at 01/01/2014	18,856
Carrying amount as at 31/12/2014	18,277

The fair value of investment property does not significantly deviate from its carrying amount as at 31/12/2014. The estimated fair value of investment property was assessed based on internal valuation. The appraised value of investment property was EUR 19,884 thousand as at 31/12/2014. The carrying amount of investment property was verified against the market value.

Table 23: Changes in investment property in 2013

	in EUR 000
31/12/2013	Buildings
Cost	
Cost as at 01/01/2013	23,678
Additions	0
Disposals	0
Cost as at 31/12/2013	23,678
Value adjustment	
Value adjustment as at 01/01/2013	4,174
Additions, transfers	0
Disposals, write-offs	0
Depreciation/amortisation	648
Value adjustment as at 31/12/2013	4,822
Carrying amount	
Carrying amount as at 01/01/2013	19,504
Carrying amount as at 31/12/2013	18,856

Table 24: Rental income investment property and costs related to investment property

	in EUR 000	
	2014	2013
Rental income from investment property	1,315	1,509
Costs related to investment property	916	838

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 encumbrances.

Fixed assets are not under finance lease not have they been acquired for the purpose of trading.

Note no. 17

Investments in subsidiaries and associated companies

Investments in subsidiaries as at 31/12/2014 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 ⁶	Steklarska ulica 1, Rogaška Slatina	100.00

	in EUR 000	
	31/12/2014	31/12/2013
Shares and interests in the Group	152,200	159,590
Total	152,200	159,590

As at 31/12/2014, the investments in associated companies comprise:

No. Associated company	Registered office	Equity stake in %
1. Casino Ljubljana, d. d. – in bankruptcy ⁷	Miklošičeva cesta 9, Ljubljana	47.01
2. Casino Maribor, d. d. – in bankruptcy ⁸	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. ⁹	Delpinova ulica 7a, Nova Gorica	20.32
6. Kli Logatec, d. d. – in liquidation ¹⁰	Tovarniška cesta 36, Logatec	27.70

6 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.

7 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.

8 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.

9 In Hit, d. d., the Company holds 20.32% of voting rights. Preference shares became voting rights due to non-payment of preference dividends.

10 Kapitalska družba already obtained funds from the liquidation estate. The company is expected to be deleted from the Companies Register in 2015.

No.	Associated company	Registered office	Equity stake in %
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	24.79

Kapitalska družba is not exposed to any risks arising from ownership stakes in subsidiary and associated companies Kapitalska družba such as for instance:

- provision of funds for the operations/capital adequacy of the subsidiary or associate;
- participation in covering contingent liabilities of the subsidiary or associated company.

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 2014 as they are not material for the presentation of the Company's financial position.

in EUR 000		
Associated company	Equity of the company as at 31/12/2014	Net profit of the company in 2014
Hit, d. d.	41,892 ¹¹	1,398 ¹²

in EUR 000		
	31/12/2014	31/12/2013
Shares and interests in associated companies	13,859	15,824
Total	13,859	15,824

Note no. 18

Assets held for sale

At 31/12/2014, the following assets are designated as held for sale:

in EUR 000		
	31/12/2014	31/12/2013
Assets held for sale	82,668	59,724
Total	82,668	59,724

Non-current assets held for sale in the amount of EUR 82,668 thousand as at 31/12/2014, include equity investments for sale in the next 12 months.

¹¹ Data on equity at 31/12/2014 are not audited.

¹² Data on net profit for the period from 01/01/2014 to 31/12/2014 are not audited.

Note no. 19

Financial assets, excluding loans

in EUR 000				
	Long-term		Short-term	
	31/12/2014	31/12/2013	31/12/2014	31/12/2013
Other shares and interests	452,208	409,114	0	0
Other financial assets	95,789	127,485	15,032	14,619
Total	547,997	536,599	15,032	14,619

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 31/12/2014, financial assets except loans were classified into the following categories:

in EUR 000						
	Long-term		Short-term		Total	
	31/12/2014	31/12/2013	31/12/2014	31/12/2013	31/12/2014	31/12/2013
Financial assets measured at fair value through profit or loss	0	0	0	0	0	0
Financial assets held to maturity	16,505	16,301	720	720	17,225	17,021
Available-for-sale financial assets	697,551	695,712	96,980	73,623	794,531	769,335
Total	714,056	712,013	97,700	74,343	811,756	786,356

Investments in securities

in EUR 000		
	31/12/2014	31/12/2013
Financial assets measured at fair value through profit or loss	0	0
Equity securities	0	0
Debt securities	0	0
Financial assets held to maturity	17,225	17,021
Available-for-sale financial assets	794,531	769,335
Equity securities	700,935	644,252
Debt securities	93,596	125,083
Total	811,756	786,356

Financial assets at carrying amount and fair value as at 31/12/2014

in EUR 000		
Asset	Carrying amount	Fair value
Financial assets at fair value through profit or loss	0	0
Financial assets held to maturity	17,225	22,298
Available-for-sale financial assets	794,531	794,531

Asset	Carrying amount	Fair value
Loans	61,400	61,400
Cash and cash equivalents	34,453	34,453
Total	907,609	912,682

Financial assets at carrying amount and fair value as at 31/12/2013

in EUR 000		
Asset	Carrying amount	Fair value
Financial assets at fair value through profit or loss	0	0
Financial assets held to maturity	17,021	18,811
Available-for-sale financial assets	769,336	769,336
Loans	8,279	8,279
Cash and cash equivalents	1,721	1,721
Total	796,357	798,147

According to its accounting policy, Kapitalska družba carries assets at fair value which equals the market value of financial asset. The difference between the carrying amount and fair value appears on financial assets held until maturity that are measured at amortised cost. The fair value of financial assets comprising loans and receivables also equals their amortised cost. The assumptions applied in fair value estimates of Level 3 financial assets are presented in the fair value hierarchy.

Changes in securities investments in 2014

in EUR 000					
	31/12/2013	Acquisitions	Disposals, maturity	Revaluation	31/12/2014
Financial assets measured at fair value through profit or loss	0	5,973	6,000	27	0
Financial assets held to maturity	17,021	0	817	1,021	17,225
Available-for-sale financial assets	769,335	5,448	63,137	82,885	794,531
Total	786,356	11,421	69,954	83,933	811,756

Changes in securities investments in 2013

in EUR 000					
	31/12/2012	Acquisitions	Disposals, maturity	Revaluation	31/12/2013
Financial assets measured at fair value through profit or loss	4,955	4,907	10,000	138	0
Financial assets held to maturity	15,111	1,649	817	1,078	17,021
Available-for-sale financial assets	798,818	5,557	28,256	-6,784	769,335
Total	818,884	12,113	39,073	-5,568	786,356

Financial assets by type of interest rate as at 31/12/2014

	31/12/2014	31/12/2013
in EUR 000		
Investments in debt instruments	110,821	142,104
Fixed Rate	108,166	138,928
Variable interest rate	2,655	3,177
Loans and deposits	95,200	96,792
Fixed Rate	95,200	96,792
Variable interest rate	0	0
Total	206,021	238,897

Fair value hierarchy as at 31/12/2014

	Level 1	Level 2	Level 3
in EUR 000			
Financial assets measured at fair value through profit or loss	0	0	0
- Equity securities	0	0	0
- Debt securities	0	0	0
Available-for-sale financial assets	529,042	7,197	258,292
- Equity securities	385,951	3,050	180,536
- Debt securities	11,693	4,147	77,756
- Target funds	131,398	0	0
Total	529,042	7,197	258,292

The valuation of Level 2 fair value was applied to certain bonds according to the market comparison valuation method, involving a comparison with the comparable listed bonds. The valuation of certain Level 2 shares was made using the method involving a comparison with the comparable listed companies.

The fair value valuation of Level 3 assets was made by applying the income-based approach, the discounted free cash flow method, and the asset-based approach according to the regular liquidation method.

Moreover, Level 3 fair value includes all assets where fair value of debt financial instruments is determined using the Bloomberg Generic prices (BGN) and the Bloomberg Valuation Services prices (BVAL). This methodology and assumptions of price calculation are not available to the public, so all these assets are classified into Level 3 fair value hierarchy.

The fair value of certain shares is determined using the valuation models taking into account subjective variables that are not publicly available on markets. Certain data for valuation are obtained from the Bloomberg system and other financial sources, whereas in some cases an important source is the data and documents about the past and expected future performance provided by companies.

Level 3 comprises assets whose fair value is determined based on valuation models taking into account subjective variables that are not available to the public on markets and investments in shares measured at cost which are reviewed for impairment on an annual basis by applying these estimates of the asset value. The assets stated below were impaired in 2014 on the basis of value estimates.

The fair value of ordinary shares of HIT, d. d., was estimated by applying the income-based approach, and using the discounted free cash flow method. The estimated free cash flow was discounted at a 8.6% discount rate. The remaining growth rate of normalised free cash flow is 2%.

The fair value of the shares of Pomurske mlekarne, d. d., was estimated by applying the income-based approach, and using the discounted free cash flow method. The estimated free cash flow was discounted at a 8.9% discount rate. The remaining growth rate of normalised free cash flow is 2%.

The fair value of the equity stake in Gospodarsko razstavišče, d. o. o., was estimated by applying the income-based approach, using the discounted free cash flow method, and the asset-based approach to company valuation, according to the regular liquidation method. The estimated free cash flow was discounted at a 7.8% discount rate. The remaining growth rate of normalised free cash flow is 2%. A significant item in the valuation of Gospodarsko razstavišče, d. o. o., is the value of the company's real estate. The valuation of real estate was made by using the income-based method, the income capitalisation approach and the development method. The direct sales comparison approach was also used in the valuation of real estate. The discount rate of 8.71% was applied under the income capitalisation approach. The discount rates applied in the development method were 10.19%, 8.71% and 7.64%.

The fair value of the shares of Elektro Gorenjska, d. d., was estimated by applying the market comparison valuation method, involving a comparison with the comparable listed companies.

The fair value of the shares of Elektro Primorska, d. d., was estimated by applying the market comparison valuation method, involving a comparison with the comparable listed companies.

The fair value of the shares of PDP, d. d., was estimated by applying the asset-based approach according to the regular liquidation method. The companies owned by PDP, d. d., were valued by applying the income-based approach, and using the discounted free cash flow method.

The fair value of the shares of Cimos, d. d., was estimated by applying the asset-based approach to company valuation. Compulsory settlement proceedings were initiated against the company on 03/06/2014. There is a high probability that the existing shareholders will be expropriated in the scope of the compulsory settlement proceedings. The report on the operations of the insolvent debtor Cimos, d. d., shows that in 2014 the company continued operating at a loss and the company's equity as at 30/11/2014 was EUR -131.7 million.

Gains from the Level 3 financial assets refer to dividends, coupons received from bonds and profits from the sale of investments disclosed under financial revenues. The management is of the opinion that data that have not been disclosed do not contain information relevant to the users of the Annual Report which could influence decisions.

There were no reclassifications among hierarchy levels in 2014.

Fair value hierarchy as at 31/12/2013

	in EUR 000		
	Level 1	Level 2	Level 3
Financial assets measured at fair value through profit or loss	0	0	0
- Equity securities	0	0	0
- Debt securities	0	0	0
Available-for-sale financial assets	462,709	4,793	301,834
- Equity securities	342,310	0	194,511
- Debt securities	12,968	4,793	107,323
- Target funds	107,432	0	0
Total	462,709	4,793	301,834

The assets stated below were impaired in 2013 on the basis of value estimates.

The fair value of the shares of Cimos, d. d., was estimated by applying the income-based approach, and using the discounted free cash flow method. The estimated free cash flow was discounted at a 13.3% discount rate until and including 2018. The calculation of residual value after 2018 on the present value was made by taking into account a 12% discount rate and a 2.5% growth rate in normalised cash flow.

The fair value of the equity stake in Gospodarsko razstavišče, d. o. o., was estimated by applying the income-based approach, using the discounted free cash flow method. The estimated free cash flow was discounted at a 10.1% discount rate. The remaining growth rate of normalised free cash flow is 2.0%. The redundant assets of the company, representing a significant item in company value, was assessed under the assumption of regular liquidation.

A valuation was not made for Banka Celje, d. d. Based on the results of stress tests and the ownership structure of the bank, it was assessed that the share of Banka Celje, d. d., was worth EUR 0.00. On 17/12/2014, all existing shareholders of Banka Celje, d. d., were expropriated on the basis of a decision issued by the Bank of Slovenia.

The fair value of the shares of HTG, d. d., Sežana, was estimated by applying the net asset valuation method under the assumption of a going concern. The value was estimated to be negative, so the share was valued at EUR 0.00.

Gains from the Level 3 financial assets refer to dividends, coupons received from bonds and profits from the sale of investments disclosed under financial revenues. The management is of the opinion that data that have not been disclosed do not contain information relevant to the users of the Annual Report which could influence decisions.

Table 25: Effective interest rates by asset group

	2014	2013
Financial assets held to maturity	6.27%	6.27%
Loans granted	1.48%	3.16%
Available-for-sale financial assets	5.40%	5.23%
Cash and cash equivalents	0.00%	0.00%

Table 26: Return by asset group

	2014	2013
Financial assets measured at fair value through profit or loss	1.67%	2.81%
Financial assets held to maturity	6.24%	6.23%
Available-for-sale financial assets	15.37%	1.47%
Financial investments in loans and deposits	2.21%	3.09%
Total	14.63%	1.25%

Note no. 20**Loans to others**

	in EUR 000			
	Long-term		Short-term	
	31/12/2014	31/12/2013	31/12/2014	31/12/2013
Loans to Group companies	0	0	0	1,779
Loans to others	0	0	61,400	6,500
Total	0	0	61,400	8,279

At the end of 2014, Kapitalska družba had no long-term deposits disclosed in its books of account.

Short-term loans to others comprise short-term deposits and the short-term part of long-term deposits. At the end of 2014, short-term loans to others totalled EUR 61,400 thousand. Loans to others were given to Banka Celje, d. d., Gorenjska banka, d. d., Hypo Alpe-Adria-Banka, d. d., Nova Kreditna banka Maribor, d. d., Nova Ljubljanska banka, d. d., and Sberbank, d. d.

Note no. 21**Operating receivables**

	in EUR 000			
	Long-term		Short-term	
	31/12/2014	31/12/2013	31/12/2014	31/12/2013
Receivables due from the Group	0	0	46	92
Receivables due from local customers	0	0	848	869
Receivables due from foreign customers	0	0	0	0
Operating receivables due from others	53	89	359	353
Total	53	89	1,253	1,314

EUR 53 thousand of non-current operating receivables due from others represent EUR 51 thousand paid into the reserve fund for the maintenance of real estate, and EUR 2 thousand of loans granted to buyers of former state-owned apartments, which Kapitalska družba obtained under the Denationalization Act and sold under the Housing Act.

In 2015, EUR 1,253 thousand of operating receivables will be due for payment, whereas receivables of EUR 53 thousand mature in future years.

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

Breakdown of operating trade receivables by maturity

31/12/2014	Outstanding	Up to 30 days	From 31 to 60 days	From 61 to 90 days	From 91 to 180 days	From 181 to 365 days
894	824	12	0	0	1	57

Note no. 22

Cash and cash equivalents

	31/12/2014	31/12/2013
Bank balances and cash on hand	653	321
Euro redeemable deposits	33,800	1,400
Total	34,453	1,721

in EUR 000

Note no. 23

Equity

	31/12/2014	31/12/2013
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

	31/12/2014
Capital surplus	215,867
01/01/2014	215,867
Increase in capital surplus	86
Decrease in capital surplus	0
31/12/2014	215,953

in EUR 000

In 2014, the capital surplus increased by EUR 86 thousand on account of additional assets received in accordance with the Ownership Transformation of Companies Act. As at 31/12/2014, capital surplus totalled EUR 215,953 thousand.

Note no. 25

Revenue reserves

As at 31/12/2014, Kapitalska družba reported no other revenue reserves.

Note no. 26

Changes in revaluation surplus

	in EUR 000	
Changes in revaluation surplus and deferred tax recognised in equity	2014	2013
Balance at 1 January – gross revaluation surplus	264,955	211,736
Balance at 1 January – deferred tax	28,569	19,191
Balance at 1 January – net revaluation surplus	236,386	192,545
Changes during the year – gross increase in revaluation surplus	146,854	127,296
Changes during the year – gross decrease in revaluation surplus	-73,591	-74,077
Balance at 31 December – gross revaluation surplus	338,218	264,955
Adjustments (criteria: 8%, 6 months)	-104,378	-96,903
Gross balance at 31 December after adjustment	233,840	168,052
Balance at 31 December – deferred tax	39,753	28,569
Balance at 31 December – net revaluation surplus	298,465	236,386

Note no. 27

Provisions and long-term accrued costs and deferred revenue

	in EUR 000		
	Provisions for pensions and similar obligations	Other provisions	Total
01/01/2014	163	431	594
Newly established during the year	0	0	0
Utilised provisions	4	0	4
Reversal of provisions	0	349	349
31/12/2014	159	82	241

In 2014, Kapitalska družba reversed provisions of EUR 3 thousand that had been established for non-achievement of guaranteed rate of return on pension fund SOPDZ. At the end of 2014, provisions for non-achievement of guaranteed rate of return of SODPZ pension funds amounted to EUR 1 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 346 thousand were reversed. At the end of 2014, provisions for legal actions and legal disputes reached EUR 81 thousand.

EUR 4 thousand of provisions for termination benefits and jubilee awards were utilised. At the end of 2014, provisions for termination benefits and jubilee awards amounted to EUR 159 thousand.

Provisions for termination benefits and jubilee awards are calculated on the basis of 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.

The Company utilised EUR 4 thousand of provisions for severance pay on retirement and jubilee awards, which were not planned in 2015. In other provisions there was no difference between its planned amount and the actual utilisation and the amount established.

Note no. 28

Operating liabilities

	in EUR 000			
	Long-term		Short-term	
	31/12/2014	31/12/2013	31/12/2014	31/12/2013
Operating liabilities to suppliers	0	0	2,968	3,072
Operating liabilities from advances	6	6	6	4
Payables to the state	0	0	1,910	14
Other operating liabilities	0	0	269	234
Total	6	6	5,153	3,324

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

Short-term operating liabilities are comprised of liabilities to domestic suppliers (EUR 2,968 thousand), liabilities arising from advance payments (EUR 6 thousand), liabilities to the state (EUR 1,910 thousand, of which EUR 1,899 thousand for corporate income tax) and other operating liabilities (EUR 269 thousand). Majority of short-term liabilities to local suppliers (EUR 2,869 thousand) represents consideration due for investment property.

Maturity structure of operating liabilities

	in EUR 000				
31/12/2014	Operating liabilities to suppliers	Operating liabilities from advances	Payables to the state	Other operating liabilities	Total
Maturity of up to 1 year	2,968	6	1,910	269	5,153
1 to 2 years	0	6	0	0	6
2 to 5 years	0	0	0	0	0
Over 5 years	0	0	0	0	0
Total	2,968	12	1,910	269	5,159
Collateralised liabilities (pledges and similar)	0	0	0	0	0

Note no. 29

Financial liabilities

	in EUR 000			
	Long-term		Short-term	
	31/12/2014	31/12/2013	31/12/2014	31/12/2013
Financial liabilities to banks	0	0	0	0
Other financial liabilities	0	0	0	0
Total	0	0	0	0

Collateralised borrowings

As at 31/12/2014, Kapitalska družba reported no loans.

Off-balance sheet receivables

As at 31/12/2014, the off-balance sheet records of Kapitalska družba disclosed a receivable due from Elan, d. o. o., in the amount of EUR 6,881 thousand. Based on the Decision of the European Commission dated 19/09/2012 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 02/10/2012, Kapitalska družba on 19/12/2012 recorded an off-balance sheet receivable due from Elan, d. o. o., totalling EUR 5,761 thousand, which is since 08/09/2008 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 1,120 thousand as at 31/12/2014.

15.3.3 Managing risks arising from financial assets

All risks to which Kapitalska družba is exposed, and the risk management measures and criteria, are described in chapter 15.2 Accounting policies. It is estimated that financial instruments and assets give rise to exposure to credit, market (interest, currency, price) and liquidity risk.

Credit risk

Credit risk is related to investments in debt instruments (investments in bonds, commercial papers, certificates of deposit, deposits, loans given, cash assets) and entails the possibility of investments being only partly repaid or not at all. Assets' and business partners' credit rating is determined by ratings assigned by Standard&Poor's, Fitch and Moody's, and in-house analyses. The highest exposure equals the book value of financial instruments. Equity securities are exempt from the analysis, because they do not entail direct credit risk.

Table 27: Exposure of financial assets to credit risk, excluding any collaterals as at 31/12/2014

in EUR 000					
Financial asset group	Secure investments – high rating of the borrower	Medium secure investments – medium rating of the borrower	Less secure investments	Impaired investments – low rating of the borrower	Total
Financial assets at fair value through profit or loss	0	0	0	0	0
Financial assets held to maturity	0	17,225	0	0	17,225
Available-for-sale financial assets	2,256	79,222	12,117	0	93,596
Loans	0	0	61,400	0	61,400
Cash and cash equivalents	0	0	34,453	0	34,453
Total	2,256	96,447	107,970	0	206,674

Table 28: Exposure of financial assets to credit risk, excluding any collaterals as at 31/12/2013

in EUR 000

Financial asset group	Secure investments – high rating of the borrower	Medium secure investments – medium rating of the borrower	Less secure investments	Impaired investments – low rating of the borrower	Total
Financial assets at fair value through profit or loss	0	0	0	0	0
Financial assets held to maturity	338	16,683	0	0	17,021
Available-for-sale financial assets	25,450	83,032	15,879	722	125,083
Loans	0	0	8,279	0	8,279
Cash and cash equivalents	0	0	1,721	0	1,721
Total	25,788	99,715	25,880	722	152,105

Financial assets were classified into the stated groups based on credit ratings. Secure assets comprise all assets with the credit rating AAA to A-, medium secure assets include assets with the credit rating BBB+ do BBB-, whereas less secure assets comprise the assets with credit rating under BBB- and assets without a credit rating assigned by a renowned rating agency. Less secure assets mainly comprise instruments issued by Slovenian banks with reduced credit rating.

Loans represent deposits in banks in Slovenia. Deposits are classified into the rating class of the bank with which the respective deposit has been made.

Table 29: Geographical concentration of credit exposure of financial assets

in EUR 000

Region	31/12/2014	31/12/2013
Slovenia	192,412	109,724
Other countries	14,262	42,381
Total	206,674	152,105

Sector concentration

Sector concentration of financial assets reveals the dispersion of assets by industry sector and refers to the risk arising from excessive exposure of assets to a specific sector. The dispersion of assets among sectors is provided based on macroeconomic analyses and projections of market participants. It influences the reduction in credit and market risks.

Table 30: Sector concentration of financial assets

in %

Industry	31/12/2014	31/12/2013
Cyclical consumer goods	12.3	11.2
Non-cyclical consumer goods	2.5	1.4
Energy	1.8	2.0
Financial sector	31.3	25.2
Pharmacy	24.0	27.4
Industry	4.0	3.9

Industry	31/12/2014	31/12/2013
Information Technology	2.1	1.9
Materials	1.4	1.7
Telecommunications	6.6	6.6
Public goods	1.3	1.5
Government securities	10.5	14.9
Undefined	2.4	2.5
Total	100.0	100.0

At the end of 2014, 31.3% of financial assets were invested in the financial sector, 24.0% in the pharmacy industry, 12.3% in cyclical consumer goods, 10.5% in government securities (bonds, treasury bills, investment coupons linked to government bonds) and 22.0% in other sectors.

Currency risk

Table 31: Currency structure of financial assets

Currency	31/12/2014	in EUR 000
		31/12/2013
Assets denominated in EUR	827,214	728,105
Assets denominated in USD	77,716	65,852
Assets denominated in other currencies	2,680	2,400
Total	907,609	796,357

On 31/12/2014, 91.1% of financial assets were denominated in euros, 8.6% in US dollars and 0.3% in other currencies.

Table 32: Currency risk of financial assets as at 31/12/2014

USD exchange rate fluctuation in %	Impact on the income statement	in EUR 000
		Impact on capital
+/- 10%	+/- 0	+/- 7,772

Table 33: Currency risk of financial assets as at 31/12/2013

USD exchange rate fluctuation in %	Impact on the income statement	in EUR 000
		Impact on capital
+/- 10%	+/- 0	+/- 6,585

Interest rate risk

Interest rate risk is related to investments in debt instruments that respond to changes in market interest rates. These include assets of which revenues are related to the variable interest rate as well as debt instruments of which interest income is related to a fixed interest rate, but their market value changes upon the change in the market interest rates. The exposure to interest rate risk is regularly measured by the modified duration indicator.

Table 34: Sensitivity analysis of investments according to changes in market interest rates as at 31/12/2014 – change in interest rates by 50 basis points

in EUR 000

Financial asset group	Change in interest rate	Sensitivity of interest income	Impact on fair value	Total
Financial assets at fair value through profit or loss	+/- 0.5%	+/- 0	+/- 0	+/- 0
Financial assets held to maturity	+/- 0.5%	+/- 0	+/- 0	+/- 0
Available-for-sale financial assets	+/- 0.5%	+/- 3	-/+ 2,272	-/+ 2,268
Loans	+/- 0.5%	+/- 0	+/- 0	+/- 0
Total		+/- 3	-/+ 2,272	-/+ 2,268

Table 35: Sensitivity analysis of investments according to changes in market interest rates as at 31/12/2013 – change in interest rates by 50 basis points

in EUR 000

Financial asset group	Change in interest rate	Sensitivity of interest income	Impact on fair value	Total
Financial assets at fair value through profit or loss	+/- 0.5%	+/- 0	+/- 0	+/- 0
Financial assets held to maturity	+/- 0.5%	+/- 0	+/- 0	+/- 0
Available-for-sale financial assets	+/- 0.5%	+/- 4	-/+ 2,985	-/+ 2,981
Loans	+/- 0.5%	+/- 0	+/- 0	+/- 0
Total		+/- 4	-/+ 2,985	-/+ 2,981

The calculation of the sensitivity of interest income was made by taking into account the investments subject to variable interest rate, whereas the impact on fair value was calculated by taking into account the investments subject to fixed interest rate.

Market risk

Market risk represents the possibility of the value of equity securities to change due to the changes in market indexes and market prices of specific equity instruments. The beta indicator is calculated for equity securities, as a measure of systematic risk. The value at risk indicator (VaR) is also monitored.

Table 36: Market risk of the equity securities portfolio as at 31/12/2014

in EUR 000

Index change in %	Impact on the income statement	Impact on capital
+/- 10%	+/- 0	+/- 36,858

Table 37: Market risk of the equity securities portfolio as at 31/12/2013

in EUR 000

Index change in %	Impact on the income statement	Impact on capital
+/- 10%	+/- 0	+/- 19,164

The table takes into account the Company's investments in equity instruments. The effect in the income statement is evident under equity securities measured at fair value through profit or loss, and the effect on equity is evident under investments in AFS equity instruments.

Table 38: Financial instruments in terms of marketability

in EUR 000		
Financial instrument	31/12/2014	31/12/2013
Securities traded on the regulated market	618,773	582,964
Financial assets at fair value through profit or loss	0	0
Financial assets held to maturity	17,225	17,021
Available-for-sale financial assets	601,548	565,943
Securities not traded on the regulated market	192,983	203,392
Financial assets at fair value through profit or loss	0	0
Financial assets held to maturity	0	0
Available-for-sale financial assets	192,983	203,392
Total	811,756	786,357

At the end of 2014, assets traded on regulated stock markets accounted for 76% of financial instruments or 66% of all assets of Kapitalska družba (including OTC and interbank market investments representing 2% of total assets). Available-for-sale financial assets not traded on regulated market include non-marketable shares, stakes and investment coupons.

Liquidity risk

Liquidity risk represents the possibility of liabilities not being settled upon maturity. Risk is managed by daily monitoring of the inflows and outflows, and precise matching of maturity of assets and liabilities. As at 31/12/2014, Kapitalska družba recorded a total of EUR 930,388 thousand of surplus of expected non-discounted cash inflows over outflows.

Table 39: Expected actual non-discounted cash flows as at 31/12/2014

in EUR 000					
Item	Up to 1 year	From 1 to 5 years	Over 5 years	No maturity	Total
Investments in securities	16,424	42,622	76,763	701,904	837,713
- at fair value through profit or loss	0	0	0	0	0
- held-to-maturity	817	3,267	19,521	0	23,605
- available-for-sale	15,607	39,355	57,243	701,904	814,108
Loans and deposits	62,076	0	0	0	62,076
Cash and cash equivalents	34,453	0	0	0	34,453
Operating receivables	1,253	53	0	0	1,306
Total assets	114,205	42,675	76,763	701,904	935,548
Operating liabilities as at 31/12/2014	5,154	6	0	0	5,160
Financial liabilities as at 31/12/2014	0	0	0	0	0
Total operating and financial liabilities	5,154	6	0	0	5,160
Difference					930,388

Table 40: Expected actual non-discounted cash flows as at 31/12/2013

in EUR 000

Item	Up to 1 year	From 1 to 5 years	Over 5 years	No maturity	Total
Investments in securities	16,190	73,575	85,585	645,129	820,479
- at fair value through profit or loss	0	0	0	0	0
- held-to-maturity	795	3,180	20,068	0	24,042
- available-for-sale	15,395	70,396	65,517	645,129	796,437
Loans and deposits	8,279	0	0	0	8,279
Cash and cash equivalents	1,721	0	0	0	1,721
Operating receivables	1,314	89	0	0	1,403
Total assets	27,504	73,665	85,585	645,129	831,883
Operating liabilities as at 31/12/2013	3,324	6	0	0	3,330
Financial liabilities as at 31/12/2013	0	0	0	0	0
Total operating and financial liabilities	3,324	6	0	0	3,330
Difference					828,553

Shares, stakes and investment coupons are disclosed under item without maturity.

15.4 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. No operating receivables and long- or short-term liabilities to the members of the Management Board and Supervisory Board were recorded in 2014.

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

In 2014, remunerations paid for the carrying out of responsibilities and duties of members of the Management Board, Supervisory Board and employees with individual contracts of employment for which the tariff section of the collective agreement does not apply, amounted to EUR 791 thousand.

Remunerations by category of beneficiaries are presented in the table below.

Table 41: Remunerations by category of beneficiaries in 2014

in EUR 000

Category of beneficiaries	Amount
Members of the Management Board	227
Members of the Supervisory Board	126
Employees with management contract	438
Total	791

No advances, loans or collateral were approved by the Company in 2014.

Receipts of the members of management and supervisory bodies

Receipts of the members of the Management Board are regulated by the ZSDH-1. Pursuant to Article 51(5) of the ZSDH-1, the same conditions and criteria as apply to the members of the Management Board of Slovenski državni holding, d.d., apply to the members of the Management Board of Kapitalska družba. By mutatis mutandis application of Article 46(7) of the ZSDH-1, the receipts of the Management Board members are set by the Supervisory Board, without considering the provisions of the act governing the remuneration of managers of companies with majority ownership held by the Republic of Slovenia or self-governing local communities. The employment contracts made with the Management Board members are consistent with the legal basis. The basic pay of the Management Board members is set as a multiple of 5 of the average gross salary paid in the Kapitalska družba Group in the previous business year, but it may not exceed 95% of the basic pay of the President of the Management Board of Slovenski državni holding, d. d., which is published. 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 2014 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 42: Receipts of members of the Management Board in 2014

EUR										
Name and surname	Fixed income	Variable income	Bonuses	Cost reimbursement	Insurance premiums (PDPZ)	Participation in profit	Options	Other rewards	Other payments	Total
Bachtiar Djalil (President)	110,465	-	55	2,216	2,819	-	-	-	789	116,344
Anja Strojnik Štampar, MSc. (Member)	103,982	-	750	2,416	2,819	-	-	-	789	110,756
Total	214,447	-	805	4,632	5,638	-	-	-	1,578	227,100

Fixed income includes gross salary. 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 43: Receipts of members of the Supervisory Board in 2014

										EUR
Name and surname	Fixed income	Variable income	Cost reimbursement	Insurance premiums	Participati- Fees on in profit	Options	Other rewards	Other payments	Total	
Samo Lozej (Chairman of the Supervisory Board)	19,855	-	-	-	-	-	-	-	19,855	
Aldo Ternovec (Deputy Chairman)	22,000	-	1,575	-	-	-	-	-	23,575	

Name and surname	Fixed income	Variable income	Cost reimbursement	Insurance premiums	Participati- Fees on in profit	Options	Other rewards	Other payments	Total
Aleksander Mervar (Member of the Supervisory Board)	19,658	-	433	-	-	-	-	-	20,091
Stane Seničar (Member of the Supervisory Board)	21,000	-	833	-	-	-	-	-	21,833
Ladislav Rožič, MSc. (Member of the Supervisory Board)	20,411	-	-	-	-	-	-	-	20,411
Ana Bilbija (Member)	19,043	-	881	-	-	-	-	-	19,924
Total	121,967	-	3,722	-	-	-	-	-	125,689

Fixed receipts of the Supervisory Board members include payment for the performance of function in the Supervisory Board (basic and extra pay for participation in the Supervisory Board committees) and session fees for attending the meetings of the Supervisory Board and its committees. Cost reimbursements include reimbursement of travel expenses.

In 2014, the members of management and supervisory bodies received no receipts for tasks performed in subsidiaries of Kapitalska družba.

Related-party transactions

In 2014 Kapitalska družba made no significant transactions with its related parties that were concluded under other than normal market conditions.

Disclosure related to the pension schemes

The new Pension and Disability Insurance Act (ZPIZ-2), which entered into force on 01/01/2013, 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 29/11/2013 based on a decision of the Minister of Labour, Family, Social Affairs and Equal Opportunities. Both pension schemes started being applied on 30/12/2013 (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 01/01/2014). Additional amendments to the ZPIZ-2 on occupational pension are being prepared. Owing to the adoption of the amendment to the ZPIZ-2 it will probably be necessary to again revise both pension schemes.

Significant events after the date of the statement of financial position

In line with the ZSDH-1, Kapitalska družba on 19/01/2015 concluded an agreement of the transfer against payment of a 66.04% equity stake in PDP, d. d., with Slovenski državni holding, d. d.

The term of office of three members of the Supervisory Board (Aldo Ternovec, Ana Bilbija, Ladislav Rožič, MSc.) expired on 31/01/2015. In the role of the General Meet-

ing of Kapitalska družba the Government of the Republic of Slovenia appointed Dr. Boris Žnidarič, Mrs. Cirila Surina Zajc, and Ladislav Rožič, MSc., members of the Supervisory Board on 29/01/2015. The term of office of the Supervisory Board members is four years and commences on 01/02/2015.

On 01/01/2015, the term of office of the Management Board President, Bachtiar Djalil, expired. At its meeting on 19/11/2014, the Supervisory Board reappointed Bachtiar Djalil as President of the Management Board. The term of office of the Management Board President is four years and commences on 02/01/2015.