

Annual

Report

2017



KAPITALSKA DRUŽBA

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List of abbreviations used

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ISA	Insurance Supervision Agency	SDH	Slovenski državni holding, d. d. (or Slovenski državni holding)
GDP	Gross domestic product	SODPZ	Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia
BVAL	Bloomberg Valuation Service	USD	US dollar
CBBT	Composite Bloomberg Bond Trader	VaR	Value At Risk
CPR	Central Population Register	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, 50/2014, 23/2015, 82/2015, 68/2016 and 69/2017)
ECB	European Central Bank	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, 10/2015 – amended, 27/2016, 31/2016 – Constitutional Court ruling, 38/2016 – Constitutional Court ruling, 63/2016 – ZD-C)
EUR	Euro – currency of the European Union	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, 55/2015, 15/2017)
FARS	Financial Administration of the Republic of Slovenia		
IASB	International Accounting Standards Board		
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		
MF	Ministry of Finance		
MKPS	Modri Umbrella Pension Fund		
IFRS	International Financial Reporting Standards		
OdsUKND	Decree on the Strategy for Managing State Capital Investments		
IFRIC	International Financial Reporting Interpretations Committee		
OTC	Over-the-counter market		
VSPI	Voluntary supplementary pension insurance		
PSŠ	Bridging insurance fund for professional athletes (bridging fund for athletes)		
RS	Republic of Slovenia		
SBI TOP	Central Slovenian stock market index		

<p>ZIPRS1617 Implementation of the Budget of the Republic of Slovenia for 2016 and 2017 Act (Official Gazette of the Republic of Slovenia, Nos. 96/2015, 46/2016, 80/2016)</p> <p>ZIPRS1718 Implementation of the Budget of the Republic of Slovenia for 2017 and 2018 Act (Official Gazette of the Republic of Slovenia, Nos. 80/2016, 33/2017, 59/2017, 71/2017 – ZIPRS1819)</p> <p>ZIPRS1819 Implementation of the Budget of the Republic of Slovenia for 2018 and 2019 Act (Official Gazette of the Republic of Slovenia, No. 71/2017)</p> <p>ZNVP-1 Book-Entry Securities Act (Official Gazette of the Republic of Slovenia, Nos. 75/2015, 74/2016 – ORZNVP48, and 5/2017)</p> <p>ZPIZ Pension and Disability Insurance Institute</p> <p>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, 95/2014 – ZUJF-C, 31/2015 – ZISDU-3, 90/2015 – ZIUPTD, 90/2015 – ZUPPJS16, 96/2015 – ZIPRS1617, 102/2015, 42/2016 – Constitutional Court decision, 80/2016 – ZIPRS1718, 88/2016 – ZUPPJS17, 40/2017, 23/2017, 75/2017 – ZIUPTD-A, 65/2017, and 71/2017 – ZIPRS1819)</p>	<p>ZPIZ-2B Act Amending the Pension and Disability Insurance Act (Official Gazette of the Republic of Slovenia, No. 102/2015)</p> <p>ZPPOGD Act Governing the Earnings of Management Staff at Companies under the Majority Ownership of the Republic of Slovenia and Self-Governing Local Communities (Official Gazette of the Republic of Slovenia, Nos. 21/2010, 8/2011 and 23/2014 – ZDIJZ-C)</p> <p>ZPZPŠ-1 Bridging Insurance for Professional Athletes Act (Official Gazette of the Republic of Slovenia, No. 82/2015)</p> <p>ZPZRTH Act Governing the Gradual 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, 46/2014 and 82/2015)</p> <p>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)</p> <p>ZSDH-1 Slovenian Sovereign Holding Company Act (Official Gazette of the Republic of Slovenia, Nos. 25/2014, 96/2015 – ZIPRS1617, 80/2016 – ZIPRS1718, and 71/2017 – ZIPRS1819)</p> <p>ZZavar-1 Insurance Act (Official Gazette of the Republic of Slovenia, No. 93/2015)</p> <p>ZZZS Zavod za zdravstveno zavarovanje Slovenije (Health Insurance Institute of Slovenia)</p>
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I

*Highlights
from the
annual report*

Total comprehensive income amounted to EUR 32.6 million in 2017 following the transfer to the ZPIZ, and to EUR 82.6 million prior to the transfer to the ZPIZ, without taking into account tax effects.

Operating revenue totalled EUR 9.5 million in 2017.

Financial revenue totalled EUR 50 million in 2017.

The net profit for the 2017 financial year totalled EUR 5.9 million. Excluding the transfer to the ZPIZ, net profit for 2017 would have been EUR 50 million higher at EUR 55.9 million, without taking into account tax effects.

Total assets stood at EUR 1.1 billion at the end of 2017.

The value of assets under management by Kapitalska družba in the SODPZ was EUR 701.2 million at the end of 2017.

A total of 46,901 policyholders held savings in the SODPZ at the end of 2017.

Kapitalska družba transferred a total of EUR 764.3 million to the budget of the ZPIZ between 1999 and 2017, including EUR 50 million in 2017.

The Company had 60 employees at the end of 2017.

II

Presentation of Kapitalska družba, d. d.

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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 2017.

The Company's share capital, amounting to EUR 364,809,523.15, is divided into 874,235 ordinary registered no-par-value shares. Each no-par-value share represents the same stake and corresponding amount in the share capital.

2.1.3 Activities of the Company

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

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2.1.4 Company bodies

2.1.4.1 Management Board

Kapitalska družba was run by its Management Board in 2017 in the following composition:

- Bachtiar Djalil, President,
- Goranka Volf, member, and
- Gregor Bajraktarević, member (since 6 February 2017).

The President and member of Kapitalska družba's Management Board were appointed by the Supervisory Board in accordance with the Company's Articles of Association and the provisions of the ZSDH-1, on the basis of a public tender procedure. In accordance with the Company's Articles of Association, the Supervisory Board also appointed a temporary member to the Management Board for a period of no more than one year from the day he assumed his function or until the transformation of Kapitalska družba into a demographic reserve fund. Gregor Bajraktarević began his term of office as member of the Management Board on 6 February 2017.¹

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 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.

¹ The term of office of member of the Management Board Gregor Bajraktarević ran from 6 February 2017 until 6 February 2018. In accordance with the Company's Articles of Association and the provisions of the ZSDH-1, and on the basis of a public call for candidates, the Supervisory Board appointed Gregor Bajraktarević to a four-year term of office, which began on 7 February 2018.

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

2.1.4.2 Supervisory Board

The Supervisory Board of Kapitalska družba functioned in the following composition in 2017²:

- Stanislav Seničar, Chairman,
- Dr Boris Žnidarič, Deputy Chairman,
- Cirila Surina Zajc, member,
- Aleksander Mervar, MSc, member,
- Ladislav Rožič, MSc, member, and
- Natalija Stošički, member.

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, while two members are appointed on the basis of a proposal by a national-level federations/organisations 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 SDH is formulated by SDH, 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 on 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 each has one representative for every ten thousand members. Members of the Supervisory Board serve a four-year term of office and may be reappointed.

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2.1.4.3 General Meeting

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

2.1.5 Diversity policy

Kapitalska družba does not implement a diversity policy in connection with representation on the Company's management and supervisory bodies in terms of gender, age and education.

² The four-year terms of office of Stanislav Seničar and Aleksander Mervar, MSc expired in 2017. Both, however, were reappointed to new one-year terms of office at the General Meeting. At the first session of the Supervisory Board following the start of its new term of office, Stanislav Seničar was reappointed Chairman of the Supervisory Board.

III

Statement of the Management Board

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The 2017 financial year was very successful for Kapitalska družba. Comprehensive income totalled EUR 82.6 million excluding the transfer to the Pension and Disability Insurance Institute, and EUR 32.6 million taking into account that transfer.

In accordance with its balanced and cost-effective governance policy, Kapitalska družba generated an operating profit of EUR 3.8, and EUR 49.8 million in revenue from the successful management of companies and financial investments. Kapitalska družba transferred EUR 50 million to the Pension and Disability Insurance Institute in 2017. Despite the high amount of that transfer for the benefit of Slovenian pensioners (which exceeded the revenue generated from financial operations in 2017), the Company generated a profit from ordinary operations in the amount of EUR 1.4 million and a net profit of EUR 5.9 million.

Kapitalska družba thus fulfilled its mission once again in 2017: the provision of supplementary funding for pension and disability insurance, and the effective management of the Compulsory Supplementary Pension Insurance Fund (SODPZ).

We fulfil our mission with a high degree of integrity and transparency. We are aware of our responsibilities in the mosaic of the Slovenian pension system. We have therefore been providing supplementary funding for the financial needs of the Pension and Disability Insurance Institute for nearly twenty years. Kapitalska družba has transferred EUR 764.3 million to the Pension and Disability Insurance Institute to date, which exceeds the two-month cost of all Slovenian pensions.

Through the sustained fulfilment of our commitments, we contribute to a reliable and sound Slovenian public pension system, although total payments to the Pension and Disability Insurance Institute exceed the assets at the Company's disposal. A significant proportion of Kapitalska družba's investments are classified as strategic investments and are thus not for sale. On the other hand, Kapitalska družba is dependent when selling companies on Slovenski državni holding, which in the name and on account of the Company conducts sales procedures involving investments to which SDH and/or the Republic of



Gregor Bajraktarević
Member of the Management Board



Goranka Volf
Member of the Management Board



Bachtiar Djalil
President of the Management Board

Slovenia are party. Notwithstanding the above facts, Kapitalaska družba remains committed to fulfilling its obligations and mission for the benefit of Slovenian pensioners.

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We are aware that our mission is in the service of the sustainable development of Slovenian society, which faces the challenge of adverse demographic trends. Our efforts are thus not simply for the benefit of the public pension system, but are also focused on providing supplementary pensions to employees in particularly difficult jobs. At the end of 2017, assets totalling EUR 701 million were under management in the SODPZ, representing the retirement savings of 46,901 policyholders. As at 31 December 2017, a total of 243 retirees received an occupational pension from the aforementioned fund, while gross pensions exceeded EUR 4 million in 2017. In accordance with the provisions of the Pension and Disability Insurance Act (ZPIZ-2), 126 retirees began receiving an occupational pension in 2017, while eight persons qualified for occupational retirement in accordance with the provisions of the Act Governing the Gradual Closure of the Trbovlje-Hrastnik Mine and the Developmental Restructuring of the Region (ZPZRTH). In 2017, a total of 574 policyholders requested a lump-sum payment or the transfer of funds to the supplementary pension insurance system, in the total amount of more than EUR 11 million. Through the successful management of the retirement savings of policyholders included in the SODPZ and the payment of occupational pensions, we perform tasks associated with the second pillar of the pension system, which is becoming increasingly important due to the rapid ageing of the Slovenian population. In the provision of compulsory supplemental 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.

Numerous challenges in the business environment require adaptations to the information system. Due to the size, complexity and risks of such projects, the upgrading of that system is being carried out gradually. The replacement of the information system will be accompanied by the optimisation of key business processes and their adaptation to changes in the business environment. Efforts to implement that project were acceler-

ated in 2017, with the partial migration to new IT support carried out on 1 January 2018. We are planning to complete the project to upgrade the information system in 2018.

The partial transition to new IT support also included adaptations to new International Financial Report Standard (IFRS) 9. Adaptations to IFRS 9 were carried out in the scope of a separately organised project due to the numerous and unclear requirements of the new standard, and short deadlines. That project included organisational, personnel and IT adaptations required by IFRS 9. We thus ensured the compliance of the Company's operations with the aforementioned standard at the beginning of 2018.

We carried out final activities in 2017 in the scope of the project to establish a bridging insurance fund for professional athletes (PSŠ). The aforementioned fund was established back in 2016 by the legally prescribed deadline. Despite tremendous efforts to introduce bridging insurance in practice, that has not happened to date. Kapitalska družba supports all efforts concerning that insurance, which would significantly improve the existential security of athletes following the end of their active careers. Nevertheless, the risks associated with the commercial success of the PSŠ remain high, and cannot be managed by Kapitalska družba, as they derive from the systemic arrangement of the area of sports in Slovenia.

Kapitalska družba not only strives for the compliance of its operations, but also aims to achieve a high level of business excellence. To that end, Kapitalska družba carried out a self-assessment in 2017 as the first step on the path to business excellence. The associated project represented the fulfilment of Recommendation no. 5 of SDH, through which Kapitalska družba aims to achieve the comprehensive and sustainable excellence of its operations, and to become a model of cultural excellence for all companies in its portfolio and the wider business environment. A management document was drafted as part of the project and includes a numerical rating of the Company's operations. Based on identified opportunities, the project team defined six priority tasks aimed at improving the effectiveness of business processes and achieving a higher level of risk management. The comprehensive and sustained achievement of business excellence remains the basic paradigm of Kapitalska družba's operations.

Together with our partners and other stakeholders, we are setting the standards for high-quality and reliable operations in the area of pension insurance. We thus remain committed to high values: stability, security, quality and integrity. We are aware of Kapitalska družba's long-term importance, mission and role in the Slovenian pension system. We achieve sustainable and future-oriented operations through efforts to achieve superior short-term and medium-term results. We see our strength and advantage in trust, diversity and continuous development.


Gregor Bajraktarević
Member of the
Management Board


Goranka Volf
Member of the
Management Board


Bachtiar Djalil
President of the
Management Board

IV

*Report of the
Supervisory Board
of Kapitalska
družba*

REPORT OF THE SUPERVISORY BOARD ON THE VERIFICATION OF THE AUDITED CONSOLIDATED ANNUAL REPORT OF THE KAPITALSKA DRUŽBA GROUP FOR 2017

Pursuant to the provisions of Article 282 of the Companies Act (hereinafter: the ZGD-1), the Supervisory Board of Kapitalska družba pokojninskega in invalidskega zavarovanja, d. d. (hereinafter: 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 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, while two members are appointed on the basis of a proposal by national-level federations/organisations of pensioners. One member is appointed on the basis of a proposal by national-level trade union federations or confederations. The same conditions and criteria that apply to members of SDH's Supervisory Board apply to the members of Kapitalska družba's Supervisory Board. Members of Kapitalska družba's Supervisory Board serve a four-year term of office and may be reappointed.

The Supervisory Board of Kapitalska družba functioned in the following composition in 2017: Stanislav Seničar (Chairman), Dr Boris Žnidarič (Deputy Chairman), Aleksander Mervar, MSc, Natalija Stošički, Cirila Surina Zajc and Ladislav Rožič, MSc. The four-year terms of office of Stanislav Seničar and Aleksander Mervar, MSc expired on 28 August 2017. Both, however, were reappointed to new one-year terms of office at the Company's 70th General Meeting held on 28 July 2017. Those terms of office began on 29 August 2017. Stanislav Seničar was reappointed Chairman of the Supervisory Board at the 129th session of the aforementioned body held on 7 September 2017, the first session following the start of his new term of office.

All members were actively included in the work of the Supervisory Board, in particular through their regular attendance at sessions, and through their participation in discussions and the adoption of decisions. In connection with the adoption of decisions by the Supervisory Board, the rules of procedure of Kapitalska družba's Supervisory Board include provisions regarding steps to be taken in the event of a potential conflict of interests.

The Supervisory Board met at 17 sessions during the 2017 financial year as follows: 11 regular session and six correspondence sessions.

The Kapitalska družba Group comprises the parent company Kapitalska družba and Modra zavarovalnica. In addition to the operations of Kapitalska družba, the Supervisory Board also continuously monitored the operations of the subsidiary Modra zavarovalnica.

A review of the important matters discussed by the Supervisory Board in 2017 follows:

- particular attention in the monitoring of Kapitalska družba, d. d.'s operations in 2017 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), which is managed by Kapitalska družba;
- confirmation of the annual reports of Kapitalska družba and the Kapitalska Družba Group for the 2016 financial year and the proposal to the General Meeting for the appointment of an auditor for the 2017 financial year;

- consent to Kapitalska družba's business-financial plan for the 2018 financial year;
- in accordance with the provisions of the Company's Articles of Association, the Supervisory Board also gave the Management Board its 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 131st session held on 7 November 2017, the Supervisory Board appointed Gregor Bajraktarevič to a four-year term as member of the Management Board based on a previous call for candidates for that function. Mr Bajraktarevič began his term of office as member of the Management Board on 7 February 2018; and
- 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. That assessment serves as the basis for the drafting of proposals to improve the future work of the Supervisory Board.

An audit committee, accreditation committee and HR committee functioned as advisory bodies to the Supervisory Board in 2017.

The Supervisory Board's audit committee functioned in the following composition in 2017: Ladislav Rožič, MSc (chair), Aleksander Mervar MSc, Cirila Surina Zajc and Natalija Stošicki (members), and Mojca Verbič (external member). The audit committee met at six sessions in 2017. In its work, the audit committee complied with the provisions of the ZGD-1 regarding its competences, as well as the provisions of 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 subsidiary and the SODPZ under Kapitalska družba's management. It also monitored the work of the internal audit department. The audit committee also carried out a self-assessment. The audit committee regularly briefed the Supervisory Board on its work during sessions of the Supervisory Board.

The Supervisory Board's accreditation committee functioned in the following composition in 2017: Dr Boris Žnidarič (chair), Aleksander Mervar, MSc and Ladislav Rožič, MSc (members), and Dr Alenka Stanič and Irena Prijović, MSc (external members). The accreditation committee met at six sessions in 2017. The accreditation 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.

The Supervisory Board's HR committee functioned in the following composition in 2017: Aleksander Mervar MSc (chair), and Cirila Surina Zajc and Natalija Stošicki (members). The HR committee met at one session in 2017. Its main tasks were to review applications and formulate a proposal for the Supervisory Board for the appointment of a member to the Management Board based on a public call for candidates.

The earnings of members of the Supervisory Board and the external members of its committees are disclosed in the annual report in Tables 81 and 82.

Assessment of the work of the Management Board and Supervisory Board

On the basis of the above-described continuous monitoring and supervision of the operations and management of Kapitalska družba and its subsidiary during the 2017 financial year, and based on a review of the consolidated annual report of the Kapitalska Družba Group for 2017 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 the Kapitalska Družba Group. The Supervisory Board finds that 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 during the 2017 financial year enabled the latter to carry out its supervisory role satisfactorily.

b) Supervisory Board's position on the audit report

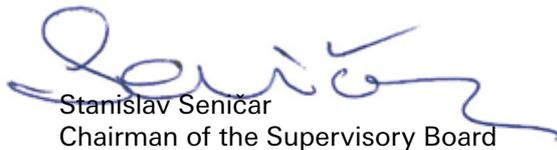
Pursuant to the second paragraph of Article 282 of the ZGD-1, the Supervisory Board reviewed and discussed the audit report relating to the audit of the financial statements of Kapitalska Družba Group for 2017, which was conducted by the audit firm Deloitte revizija d. o. o., Ljubljana. The Supervisory 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 consolidated annual report for 2017

Pursuant to the provisions of Article 282 of the Companies Act, the Supervisory Board hereby approves the consolidated annual report of the Kapitalska Družba Group for 2017.

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 2017 financial year pursuant to the provision of Article 294 of the ZGD-1.


Stanislav Seničar
Chairman of the Supervisory Board

Ljubljana, 13 June 2018



Business Report



Organisational structure of Kapitalska družba

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The existing internal organisational structure of Kapitalska družba was established in September 2017 due to necessary adaptations and changes in the area of fund management. The internal organisational structure was established as such to ensure the effective implementation of all core business processes in the context of the appropriate number of employees. Kapitalska družba's role as the parent company of the insurance group, which includes the subsidiary Modra zavarovalnica, d. d., was also taken into account. Kapitalska družba has provided IT services for the aforementioned insurance company since the latter's establishment.

The existing internal organisation provides for a flexible organisational structure that facilitates an effective decision-making process at two organisational levels and ensures optimal implementation in key work areas organised into six organisational units or sectors:

- Asset Management,
- Development and Strategic Communication,
- Insurance Services,
- Finance and Accounting,
- Legal, HR and General Affairs, and
- Information Technology.

Prior to the establishment of the Development and Strategic Communication and Insurance Services Sectors, fund-related liabilities were managed by the Fund Management and Strategic Communication Sector until September 2017.

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.

Two advisers to the Management Board, who report directly to that body in organisational terms, are also responsible for carrying out support business processes.

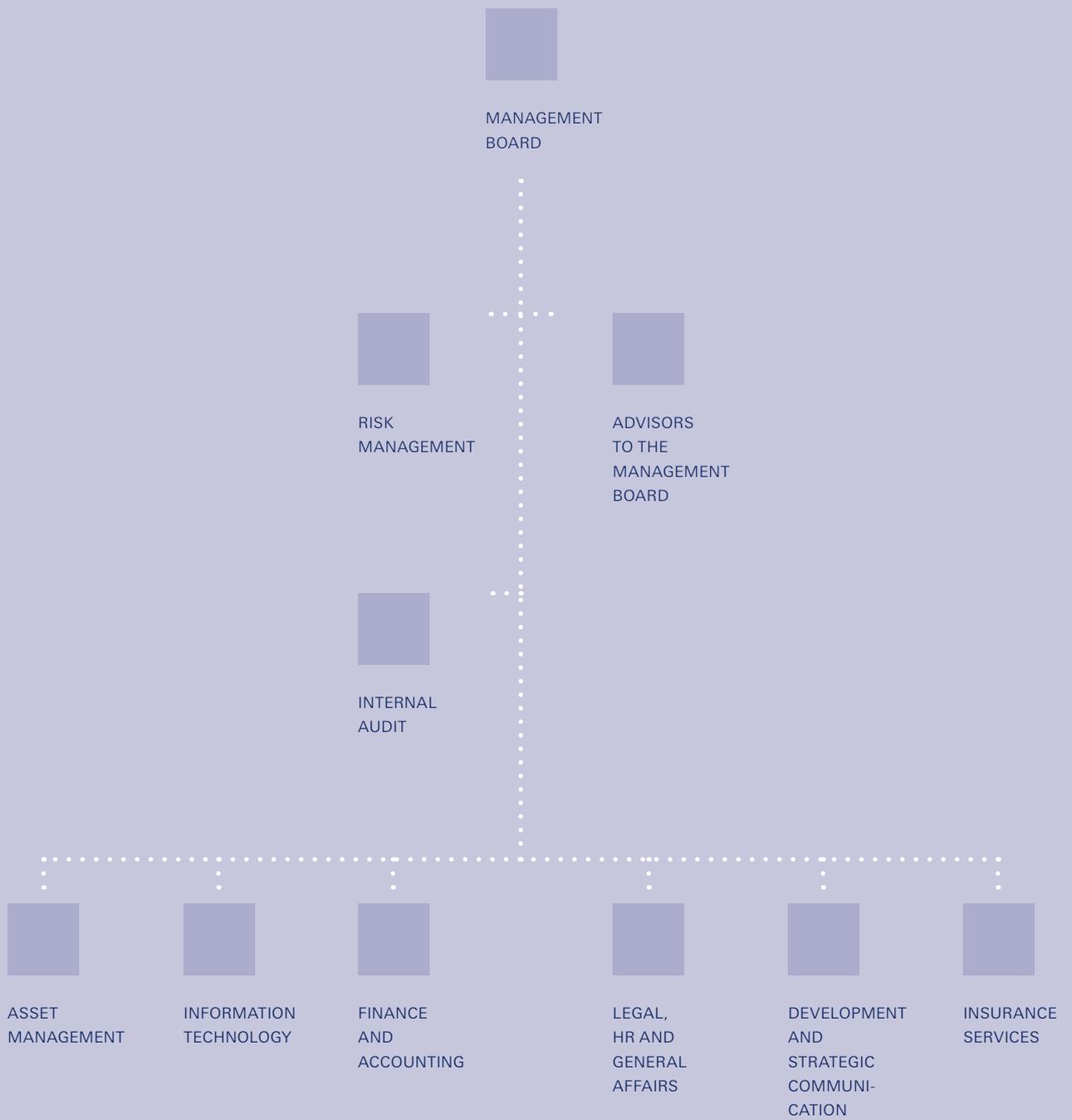


Figure 1: Organisational structure of Kapitalska družba, d. d.

5.1 Reporting on employees

The Company had 60 permanent employees as at 31 December 2017. One worker was absent in 2017 due to child care leave. That worker returned to work in September.

The employment contracts of two employees expired in 2017 through the regular termination of the employment relationship, while one worker's contract was frozen. 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 2017 and 31 December 2016

Organisational unit	31 December 2017	31 December 2016
Management Board	3	2
Advisors to the Management Board	2	2
Finance and Accounting	10	10
Asset Management	9	9
Fund Management and Strategic Communication	0	15
Development and Strategic Communication	6	0
Insurance Services	7	0
Legal, HR and General Affairs	13	11
Information Technology	7	7
Internal Audit	2	2
Risk Management	1	2
Total	60	60

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As at 31 December 2017, a total of 56.67% of Kapitalska družba's employees had completed a minimum of Level VII education. Of those, 20.00% had completed their master's degree and 1.67% their doctorate. Women account for 68.34% of employees and men for 31.67%.

The overall average length of service was 21 years, five months and 13 days as at 31 December 2017, where the average length of service amongst men was 20 years, five months and 12 days, and 22 years, five months and 13 days amongst women.

The average age of both male and female employees was 46 years.

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Operations of Kapitalaska družba

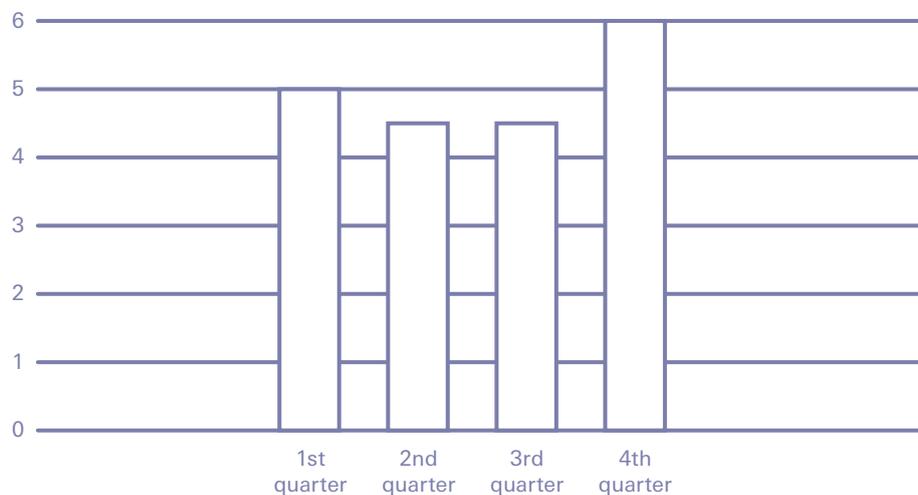
6.1 Economic environment in Slovenia

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6.1.1 Gross domestic product

Gross domestic product (GDP) measured in current prices amounted to EUR 43.3 billion in 2017, and was up by 6.0% in the final quarter of 2017 relative to the final quarter of the previous year. GDP adjusted for the season and number of working days was up by 2.0% in the final quarter of 2017 relative to the previous quarter and by 6.2% relative to the final quarter of 2016.

Figure 2: Real year-on-year growth in GDP by quarter in 2017 (in %)
Source: Statistical Office of the Republic of Slovenia



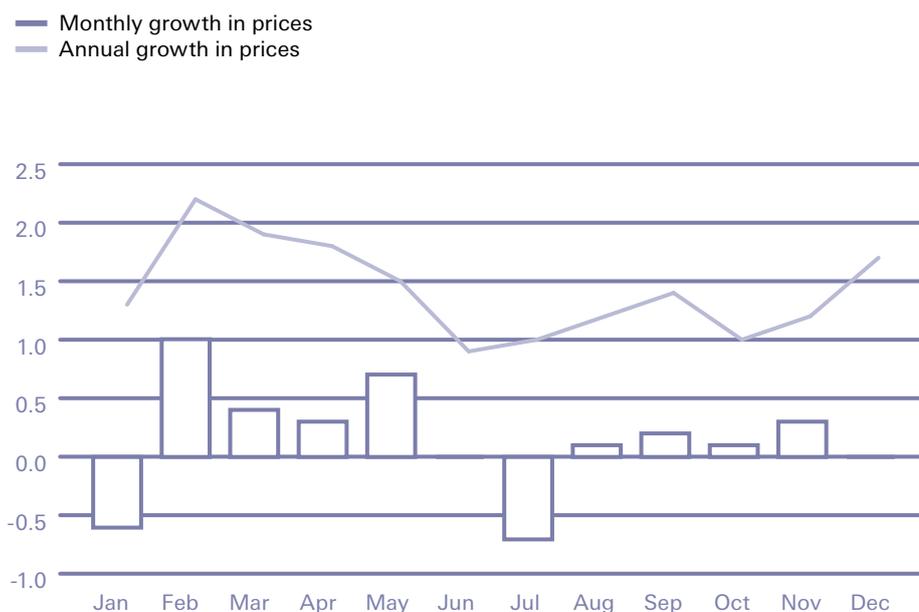
6.1.2 Inflation

Growth in consumer prices was 1.7% in 2017, while average 12-month price growth was 1.4%.

Contributing the most (0.5 percentage points) to annual inflation in 2017 were higher food prices (with fresh fruit and meat prices recording the sharpest rises, of 12.4% and 6.5% respectively) and higher prices of refined petroleum products (the prices of liquid fuels, diesel and petrol were up by 13.4%, 10.6% and 6.1% respectively).

On the other hand, lower car prices (by 2.7%) acted to reduce annual price growth in 2017.

Figure 3: Change in monthly and annual growth in consumer prices in 2017 (in %)
Source: Statistical Office of the Republic of Slovenia



6.1.3 Employment and wages

The surveyed unemployment rate was 5.8% in 2017, the first time it has been below 6% since 2009. The workforce in employment totalled 986,000 in 2017, the highest level since 2008, and an increase of 2.8% or 27,000 relative to 2016.

The average monthly gross wage was EUR 1,723.13 in December 2017, while the net wage was EUR 1,129.76.

6.2 Developments on the financial markets

6.2.1 Capital market

6.2.1.1 Equity market

The values of share indices measured in euros rose in 2017. The MSCI World Index achieved a yield of 8.0%, while the US Dow Jones achieved a yield of 9.7%, the Japanese Nikkei 225 a yield of 8.3% and the German DAX a yield of 12.5%, all measured in euros. The Slovenian SBI TOP recorded growth of 12.4% over the same period.

Figure 4: Movement in the Slovenian SBI TOP and selected foreign stock indices in 2017 in euros (index: 1 January 2017 = 100)
Source: Bloomberg



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6.2.1.2 Debt market

The monetary policies of major central banks turned less stimulating in 2017. The US Federal Reserve (FED) began implementing a restrictive monetary policy in December 2015. It raised interest rates three times in 2017, and indicated additional increases in 2018 at its meetings. The Bank of England also raised its interest rates, while the European Central Bank (ECB) announced in 2017 that it would reduce the scope of its bond purchases, beginning in January 2018.

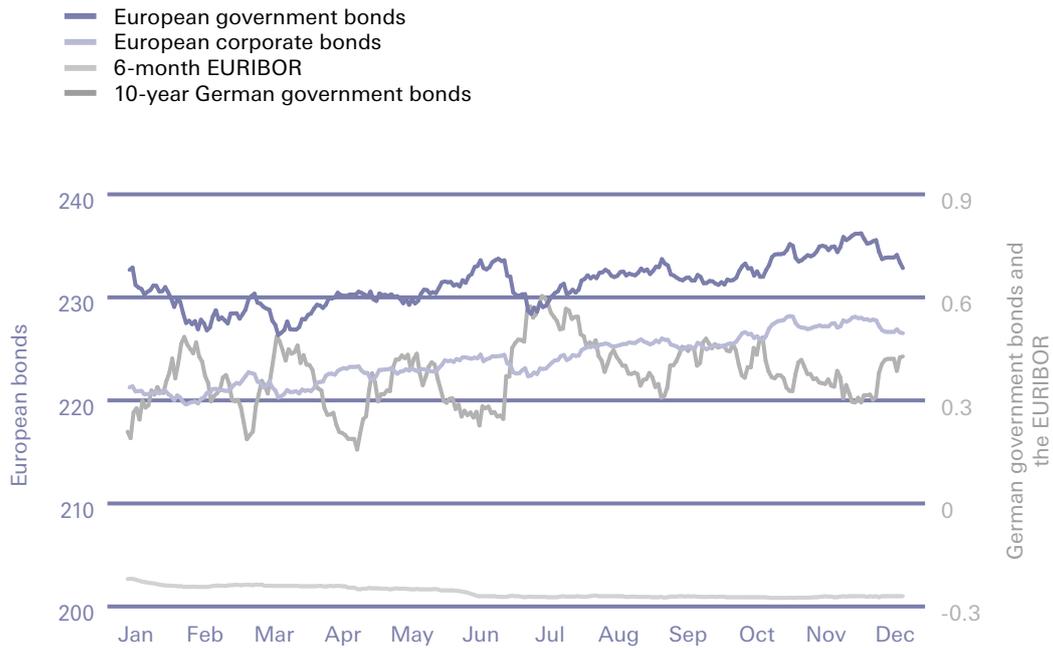
The reference interbank interest rate for the euro area, the six-month EURIBOR, fluctuated between -0.276% and -0.220% in 2017. The ECB's key interest rate was 0% in 2017, while the interest rate on the deposit facility, the rate at which excess liquidity placed at the ECB bears interest, stood at -0.4% in 2017.

The yield on 10-year German government bonds fluctuated in 2017 between its lowest value of 0.156% in April 2017 and its highest value of 0.603% in July 2017.

The IBOXX EUR Sovereigns TR government bond index gained 0.1% in 2017, while the IBOXX EUR Corporates TR corporate bond index gained 2.4%

Figure 5: Movement in the overall yield on European government bonds (IBOXX EUR Sovereigns TR) and the overall yield on European corporate bonds (IBOXX EUR Corporates TR), yield to maturity on ten-year German government bonds, and the six-month EURIBOR in 2017

Source: Bloomberg



6.2.2 Oil prices and exchange rates

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The price of West Texas Intermediate (WTI)³ crude oil rose by 12.5% in 2017 to stand at USD 60.42 per barrel. The average price of West Texas Intermediate (WTI) crude oil was USD 50.92 per barrel in 2017.

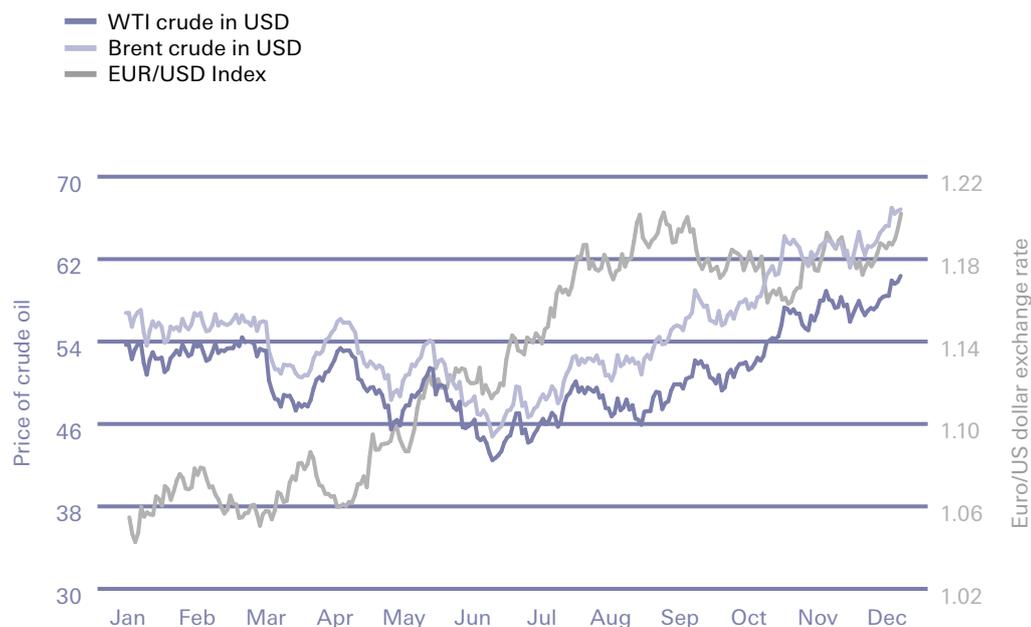
The price of Brent crude oil had risen by 17.7% by the end of 2017 to stand at USD 66.87 per barrel. The average price of Brent crude oil was USD 54.80 per barrel in 2017.

The euro/US dollar exchange rate fluctuated between 1.0427 and 1.2026 in 2017, and ended the year at 1.2022 and averaged 1.1294 during 2017.

³ Kapitalska družba monitors movement in the price of WTI crude oil using the maturity of the first generic future transaction in the Bloomberg system, designated CL1 COMB COMDTY.

Figure 6: Movement in prices of WTI crude and North Sea Brent crude (in USD per 159-litre barrel), and the euro/US dollar exchange rate in 2017

Source: Bloomberg



6.3 Investment management

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

- capital investments,
- waived securities,⁴ and
- portfolio investments.

The table below illustrates the composition of financial assets, while a detailed description of the aforementioned groups follows.

Table 2: Composition of Kapitalska družba's financial assets as at 31 December 2017 and 31 December 2016 with regard to management (in EUR 000)

Type of investment	Value	Proportion		Value	Proportion
		2017	2016		
Capital investments	552,479	57.3%		523,670	56.2%
Strategic investments ⁵	193,449	20.1%		190,535	20.5%
Material investments ⁶	297,748	30.9%		276,798	29.7%
Portfolio investments	59,859	6.2%		55,073	5.9%
Investments in bankruptcy or liquidation	1,423	0.1%		1,264	0.1%
Waived securities	217	0.0%		0	0.0%
Portfolio investments	411,011	42.7%		407,385	43.8%
Equity portfolio investments	240,054	24.9%		200,071	21.5%

4 Waived securities obtained in accordance with Article 48a of the ZNVP-1.

5 Strategic investments are classified in accordance with the Decree on the Strategy for Managing State Capital Investments.

6 Material investments are classified in accordance with the Decree on the Strategy for Managing State Capital Investments.

Type of investment	Value	Proportion	Value	Proportion
		2017		2016
Debt portfolio investments	84,436	8.8%	85,130	9.2%
Money market ⁷	52,641	5.5%	87,620	9.4%
Investments in financial claims	33,880	3.5%	34,564	3.7%
Total financial assets	963,707	100.0%	931,055	100.0%

6.3.1 Capital investment management

6.3.1.1 Composition of capital investments

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

The Company held a total of 40 such investments at the end of 2017. Of those investments, Kapitalska družba had 35 so-called active investments, including 29 investments in public limited companies and six investments in limited liability companies. In addition to active investments, Kapitalska družba also held four investments in bankruptcy proceedings and one investment in liquidation proceedings. Final bankruptcy proceeding were initiated against Casino Maribor, d. d. (in bankruptcy) on 11 March 2009.

The value of capital investments was EUR 552,479 thousand as at 31 December 2017, an increase of EUR 28,809 thousand on the previous year.

In accordance with the classification of investments set out in the Decree on the Strategy for Managing State Capital Investments (OdSUKND) adopted by the National Assembly of the Republic of Slovenia in July 2015, Kapitalska družba classifies its capital investments as strategic, material and portfolio.

Table 3: Breakdown of Kapitalska družba's capital investments as at 31 December 2017 and 31 December 2016 in accordance with the Decree on the Strategy for Managing State Capital Investments (in EUR 000)

Type of investment	No. of investments	Value	Proportion of capital investment portfolio	No. of investments	Value	Proportion of capital investment portfolio
			2017			2016
Strategic investments ⁸	10	193,449	35.0%	10	190,535	36.4%
Material investments ⁹	9	297,748	53.9%	9	276,798	52.9%
Portfolio investments ¹⁰	16	59,859	10.8%	17	55,073	10.5%
Investments in bankruptcy or liquidation	5	1,423	0.3%	5	1,264	0.2%
Total capital investments	40	552,479	100.0%	41	523,670	100.0%

7 Money market investments also include cash, which totalled EUR 33,127 thousand as at 31 December 2017.

8 Strategic investments are classified in accordance with the Decree on the Strategy for Managing State Capital Investments.

9 Material investments are classified in accordance with the Decree on the Strategy for Managing State Capital Investments.

10 Kapitalska družba holds both preference shares and ordinary shares in one company classified in portfolio investments. Both forms of shares are deemed one investment in the aforementioned company.

Table 4: Ten largest capital investments of Kapitalska družba by value as at 31 December 2017 (in %)

Seq. no.	Company name	Proportion of company's share capital
1.	Krka, d. d.	10.65
2.	Modra zavarovalnica, d.d.	100.00
3.	Petrol, d. d.	8.27
4.	Telekom Slovenije, d. d.	5.59
5.	Luka Koper, d. d.	4.98
6.	Gorenje, d. d.	16.37
7.	Loterija Slovenije, d. d.	25.00
8.	Hit, d. d.	20.32
9.	Sava, d. d.	22.56
10.	Union hoteli, d. d.	18.75

Investments in which Kapitalska družba holds a less than 20% ownership stake comprise the majority of capital investments. So-called active investments include 28 such investments, as well as three investments in bankruptcy and liquidation proceedings. A detailed overview of the composition of investments in terms of size of ownership stake is given in the table below.

Table 5: Composition of capital investments in terms of size of ownership stake as at 31 December 2017

Ownership stake in share capital	Active investments	Investments in bankruptcy or liquidation
Up to 9.99%	20	2
From 10.00% to 19.99%	8	1
From 20.00% to 49.99% (associate)	6	2
From 50.00% to 100.00% (subsidiary)	1	0
Total number of investments	35	5

6.3.1.2 Sales and deletion 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 three public tenders for the purchase of shares and participating interests in 2017.

Kapitalska družba received 25 bids from buyers for the purchase of shares and participating interests relating to 10 different capital investments held by the Company. The majority of the aforementioned bids were unacceptable for Kapitalska družba because the bid prices were too low.

Kapitalska družba sold two capital investments in their entirety in 2017 in the total amount of EUR 938 thousand, comprising a capital investment in the shares of Intertrade ITA, d. d. and a capital investment in Snežnik, d. d., which was sold based on the exclusion of minority shareholders.

Kapitalska družba also concluded an agreement on the instalment sale of shares in KDD, d. d. for consideration in the amount of EUR 675 thousand, with the final payment falling due in 2019, and an agreement on the sale and purchase of a participating interest in

Geoplin, d. o. o. for consideration in the amount of EUR 410 thousand, which is linked to the fulfilment of contractually defined suspensive conditions. Both of the aforementioned procedures were conducted by SDH in accordance with the ZSDH-1.

Two other sales procedures were in progress as at 31 December 2017. One of those procedures is being conducted by SDH in accordance with the ZSDH-1.

6.3.1.3 Purchases of companies

Kapitalska družba did not participate in any corporate recapitalisations in 2017, nor did it accept any bids for the purchase of capital investments.

Kapitalska družba received five bids from sellers for the purchase of shares and participating interests relating to four different capital investments.

Kapitalska družba acquired a strategic investment in Plinhold, d. o. o. as the result of the latter's demerger from Geoplin, d. o. o.

6.3.1.4 Dividends of domestic companies

Kapitalska družba recorded EUR 21,367 thousand in domestic corporate dividends in 2017, an increase of EUR 3,107 thousand relative to 2016, when dividends totalled EUR 18,260 thousand. The ten largest capital investments in terms of dividends accounted for 98.0% of all dividends from capital investments held by Kapitalska družba.

The payment of dividends in 2017 was approved by the general meetings of 25 companies in which Kapitalska družba held a capital investment, compared with 2016, when the payment of dividends was approved by the general meetings of 22 companies in which Kapitalska družba held a capital investment.

Table 6: Ten capital investments that generated the highest dividend income in 2017 and 2016

Seq. no.	Issuer	Dividends per share in 2017 (EUR)	Dividends per share in 2016 (EUR)	Total dividends in 2017 (in EUR 000)	Total dividends in 2016 (in EUR 000)
1.	Krka, d. d.	2.75	2.65	9,606	9,257
2.	Modra zavarovalnica, d.d.	0.01947	0.01401	2,965	2,132
3.	Petrol, d. d.	14.00	12.60	2,417	2,175
4.	Loterija Slovenije, d. d.	126.66	62.68	2,352	1,164
5.	Telekom Slovenije, d. d.	5.00	5.00	1,826	1,826
6.	Luka Koper, d. d.	1.40	1.13	975	787
7.	Gorenje, d. d.	0.10	0.00	400	0
8.	Hit, d. d.	0.20	0.20	276	276
9.	Elektro Maribor, d. d.	0.12	0.16	65	88
10.	Hoteli Union, d. d.	0.17	0.17	57	57

Kapitalska družba also received dividends in the amount of EUR 21 thousand in 2017 from three companies 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 and the payment of residual dividends on preference shares (in EUR 000)

Issuer	Dividends for the year	Dividends per share	Total dividends
TKI Hrastnik, d. d.	Distributable profit for 2012	0.16	13
Cimos, d. d.	Distributable profit for 2010	0.06	8

6.3.1.5 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 2017 to 31 December 2017, Kapitalska družba applied, *mutatis mutandis*, the Corporate Governance Code for Companies with State Capital Investments, which was adopted by SDH on 19 December 2014. In May 2017, SDH adopted certain amendments to that document (hereinafter: the Code).

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 2014, and defined the policy and procedures for exercising Kapitalska družba's management rights in companies in which it holds an ownership stake. In December 2014 SDH adopted the Code, which Kapitalska družba also applies *mutatis mutandis* to ensure uniform operations. The document is published on SDH's website.

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In addition to the Code, Kapitalska družba also applied its own bases for voting at the general meetings of companies when managing capital investments in 2017. Kapitalska družba updates the bases for voting at general meetings every year, prior to the convening thereof. These bases, *inter alia*, 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 exercised 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 SODPZ.

Kapitalska družba was entitled to participate on its own behalf and on account of the pension fund under management in 57 general meetings of shareholders or partners of companies in 2017. Representatives of Kapitalska družba participated in 18 general meetings, at which the Company independently exercised its voting rights. In accordance with Article 53 of the ZSDH-1, SDH exercised the voting rights of Kapitalska družba at 35 general meetings in the name and on account of the latter. Employees of Kapitalska družba were authorised to participate and exercise all shareholder rights, except 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 Code and the bases for voting at general meetings. With respect to the remuneration of supervisory boards and management boards, Kapitalska družba applied, *mutatis mutandis*, the recommended level of wages for the performance of a particular function and for session fees set out in the Code, 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), as regards the earnings and other rights of management boards, executive directors and the management staff of companies.

Kapitalska družba acted in accordance with the Code at all general meetings attended by its representatives in 2017. 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 and voting by employees of Kapitalska družba	18
Participation by employees of Kapitalska družba; voting by SDH	35
Cancelled or rescheduled general meetings	4
Total	57

6.3.1.6 Code of Conduct of the Kapitalska Družba Group

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

The Guidelines on the Reporting of Subsidiaries to the Parent Company also 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.

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6.3.1.7 Management taking into the account systemic regulation and transformation of Kapitalska družba into a demographic reserve fund

The new Slovenian Sovereign Holding Company Act (ZSDH-1) entered into force at the end of April 2014. The management of investments on behalf and on the account of the Republic of Slovenia remained the responsibility of SDH, even following the entry into force of the ZSDH-1. In the name of Kapitalska družba, SDH exercises voting rights and conducts sales in the event of joint investments.

Kapitalska družba's maximum annual obligation to provide funding to the ZPIZ was defined in the aforementioned act: based on the provision of the third paragraph of Article 52 of the ZSDH-1, the Company must now 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. As a result, Kapitalska družba transferred EUR 50 million to the ZPIZ in 2017 in accordance with the provisions of the ZIPRS1617 and ZIPRS1718. In accordance with Article 65 of the ZIPRS1819, Kapitalska družba must transfer EUR 50 million a year to the ZPIZ in 2018 and 2019.

Article 79 of the ZSDH-1 states that Kapitalska družba should have been 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. Alongside the formulation of a demographic reserve fund, the ZSDH-1 also envisages the transfer of the Pension and Disability

Insurance Institute's investment in Zavarovalnica Triglav, d. d. to Kapitalska družba. No act governing the transformation of Kapitalska družba into a demographic reserve fund has been adopted to date.

SDH will manage investments in accordance with the ZSDH-1, the OdSUKND, the relevant investment management policy and the Corporate Governance Code, and on the basis of the annual investment management plan. The OdSUKND also includes the classification of investments (the definition and classification of capital investments into strategic, material and portfolio investments), to which Kapitalska družba is also bound when managing investments. The annual investment management plan, which must be adopted by no later than the end of November for the next calendar year, defines SDH's precise objectives in the management of specific investments, as well as measures and guidelines for achieving those objectives.

6.3.2 Waived securities obtained in accordance with Article 48a of the ZNVP-1

The Act amending the Book-Entry Securities Act (ZNVP-1) entered into force in February 2017, and introduced a new Article 48a, which states that the Central Securities Clearing Corporation must credit all book-entry securities waived by their holders to a special account held by Kapitalska družba.

Article 48a of the ZNVP-1 also states that, notwithstanding the provisions of the act governing acquisitions, voting rights in a target company attached to book-entry securities acquired by Kapitalska družba in accordance with the aforementioned article are not taken into account in determining the proportion of voting rights held by Kapitalska družba and companies deemed to be acting in concert with Kapitalska družba. Kapitalska družba is also prohibited from exercising voting rights attached to shares that it acquired based on the aforementioned article.

From the entry into force of the ZNVP-1 until 31 December 2017, the Company received investments from 152 different issuers as the result of waived securities. Of those issuers, Kapitalska družba obtained new investments in 140 companies that were not included in its portfolio prior to the entry into force of the aforementioned act. Securities obtained from four issuers (KD Group, d. d., Kompas RAC, d. d., Ljubljana (in liquidation), Pivka, pooblaščenka, d. d. and Zdravilišče Rogaška, d. d.) included both ordinary shares and preference shares, as well as bonds.

With regard to waived securities, Kapitalska družba received 42 bids from buyers for the purchase of shares and participating interests relating to 27 different capital investments held by the Company. The majority of the aforementioned bids were unacceptable for Kapitalska družba because the bid prices were too low. The Company also received six bids for the purchase of shares relating to six different securities.

During the period, Kapitalska družba sold 22 investments acquired in connection with waived securities in the total amount of EUR 5 thousand. The Company also sold six investments (Elma TT, d. d., Gozdarstvo Grča, d. d., Gozdno gospodarstvo Novo mesto, d. d., SIP Šempeter, d. d., Telemach Pobrežje, d. d. and Telemach Tabor, d. d.) through the conclusion of a direct agreement, as well as seven investments through the acceptance of a takeover bid (Nama, d. d., Paloma, d. d., Panvita, d. d., Panvita mesnine, d. d., Telemach Tezno, d. d., Zdravilišče Dobrna d. d. and Žičnice Vogel Bohinj, d. d.) and nine investments based on the exclusion of minority shareholders (Eti, d. d., GP Ljubljana, d. d., Herz, d. d., Hidrotehnik, d. d., Kompas hoteli Bled, d. d., Koratur, d. d., Kovonoplastika Lož, d. d., Lisca, d. d. and Tekstina, d. d.)

Kapitalska družba received dividends in the amount of EUR 1,652.65 from waived securities in 2017.

The Company only participates exceptionally in the general meetings of companies that it acquired on the basis of Article 48a of the ZNVP-1. It decides on its poten-

tial participation at a general meeting based on the size of its acquired participating interest and on an assessment of the issues to be decided on by a company's general meeting (particularly if a general meeting decides on the squeeze-out of minority shareholders).

During the previous year, Kapitalska družba participated in three general meetings of shareholders (Mladina, d. d., Vizija holding, d. d. and Vizija holding ena, d. d.), at which it did not exercise its voting rights in accordance with the law. At two general meetings, Kapitalska družba announced the filing of a challenging action in connection with a general meeting resolution on the squeeze-out of minority shareholders, and announced the court verification of the price that the majority shareholder intended to pay other shareholders.

6.3.3 Management of portfolio investments

6.3.3.1 Equity portfolio investments

Equity portfolio investments also include foreign shares and investment coupons from the investment funds of domestic and foreign issuers. The value of equity portfolio investment assets was EUR 240,054 thousand as at 31 December 2017.

Table 9: Composition of equity portfolio investments as at 31 December 2017 and 31 December 2016 (in EUR 000)

Type of investment	Value	Proportion of equity portfolio investments	Value	Proportion of equity portfolio investments
		2017		2016
Foreign shares	1,947	0.8%	6,534	3.3%
Investment funds	238,107	99.2%	193,537	96.7%
Domestic investment funds	13	0.0%	12	0.0%
Foreign investment funds	238,094	99.2%	193,525	96.7%
Total equity portfolio investments	240,054	100.0%	200,071	100.0%

The five largest investments accounted for a total of 42.2% of equity portfolio investments as at 31 December 2017. These investments included index funds that track the MSCI World Index (SMSWLD GY and XMWO GY), an index fund that tracks the US S&P 500 (SPY US), an index fund that tracks the IXT technology sector index (XLK US) and an index fund that tracks the global MSCI Emerging Markets Index (MXFS LN).

6.3.3.2 Debt portfolio investments

The balance of debt portfolio investments stood at EUR 84,436 thousand at the end of 2017. At 86.6%, domestic bonds accounted for the highest proportion of debt portfolio investments. Investments in domestic bonds totalled EUR 73,142 thousand, while investments in foreign bonds totalled EUR 9,056 thousand. The remainder was accounted for by claims for accrued interest.

The primary focus of Kapitalska družba's investment activities in 2017 was on security and maintaining the value of assets due to low (negative) interest rates and low credit spreads on the bond market.

Table 10: Composition of debt portfolio investments as at 31 December 2017 and 31 December 2016 (in EUR 000)

Type of investment	Value	Proportion of debt portfolio investments	Value	Proportion of debt portfolio investments
				2017
Domestic bonds	73,142	86.6%	75,854	89.1%
Domestic government bonds	62,558	74.1%	64,838	76.2%
Domestic corporate and bank bonds	10,584	12.5%	11,016	12.9%
Foreign bonds	9,056	10.7%	6,820	8.0%
Foreign government bonds	4,931	5.8%	0	0.0%
Foreign corporate and bank bonds	4,125	4.9%	6,820	8.0%
Claims for interest	2,238	2.7%	2,456	2.9%
Total debt portfolio investments	84,436	100.0%	85,130	100.0%

The four largest investments, together with accrued interest, accounted for a total of 74.0% of debt portfolio investments as at 31 December 2017. All four investments were in different issues (nos. 66, 67, 69 and 70) of Slovenian government bonds.

6.3.3.3 Money market investments

The balance of money market investments was EUR 52,641 thousand at the end of 2017. Cash accounts for the majority of the aforementioned investments.

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Table 11: Composition of money market investments as at 31 December 2017 and 31 December 2016 (in EUR 000)

Type of investment	Value	Proportion of the portfolio of money market investments	Value	Proportion of the portfolio of money market investments
				2017
Loans granted (deposits)	18,917	35.9%	58,654	66.9%
Cash and cash equivalents	33,127	62.9%	28,138	32.2%
Cash on transaction accounts at banks	4,105	7.8%	4,689	5.4%
Euro call deposits	29,022	55.1%	23,449	26.8%
Commercial paper	597	1.2%	828	0.9%
Total money market investments	52,641	100.0%	87,620	100.00%

6.4 Transfers to the Pension and Disability Insurance Institute

In accordance with the third paragraph of Article 52 of the ZSDH-1, Kapitalska družba's annual obligation to the ZPIZ depends on the amount of the adjustment to pensions, which is limited to EUR 50 million. In accordance with the provisions of ZIPRS1617 and ZIPRS1718, Kapitalska družba transferred EUR 50 million to the ZPIZ in 2017. Kapitalska družba has transferred a total of EUR 764,321 thousand to the budget of the ZPIZ.

In accordance with Article 65 of the ZIPRS1819, Kapitalska družba must transfer EUR 50 million a year to the ZPIZ in 2018 and 2019.

6.5 Investment property

Kapitalska družba holds investment property in the following commercial buildings:

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

All of the aforementioned properties were leased out as at 31 December 2017.

6.6 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.

6.7 Pension fund management

6.7.1 Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia

6.7.1.1 Operations of the SODPZ

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 SODPZ had 46,901 policyholders as at 31 December 2017. The actual return on the SODPZ was 1.12% in 2017, compared with the guaranteed return of 0.60% in the same period. Created solidarity reserves are deducted in the calculation of the net value of SODPZ assets, which reduces the actual return of the aforementioned fund. The net value of SODPZ assets was EUR 697,016 thousand on the final accounting day of 2017 (29 December 2017), and exceeded the guaranteed value of assets (EUR 642,098 thousand) by EUR 54,918 thousand. The SODPZ held 801,050,065 units in circulation in 2017.

As the manager of the SODPZ, Kapitalska družba was entitled in 2017 to the reimbursement of subscription and redemption fees, an annual management fee and fees for the payment of occupational pensions. Subscription fees are charged as a percentage of the incoming payments and amounted to 2.3%. Redemption fees are charged as a percentage of the outgoing payments and amounted to 0.5%. Redemption fees are not charged for transfers to supplementary insurance or for the buyout of years of service. Taking into account the net value of SODPZ assets, the maximum annual management fee is equal to 1.0% of the average annual net value of fund assets. Fees for the payment of occupational pensions amounted to 0.5% of the monthly occupational pension.

Revenues from the management of the SODPZ totalled EUR 7,918 thousand in 2017, broken down as follows: EUR 6,748 thousand in management fees, EUR 1,144 thousand in subscription fees, EUR 5 thousand in redemption fees and EUR 21 thousand in fees for the payment of occupational pensions. The reason for the lower revenues generated in 2017 relative to the previous year lies primarily in lower subscription fees due to the lower value of paid-in contributions, as the result of a lower contribution rate, which has been 8% since 1 January 2017. Redemption fees were also down considerably due to fewer requests for the payment of redemption values in 2017, while fees for the payment of occupational pensions were also down due to the lower percentage of related fees in 2017.

Table 12: Kapitalska družba's revenue from management of the SODPZ in 2017 and 2016 (in EUR 000)

Revenue from management activities	2017	2016
Management fees	6,748	6,721
Subscription fees	1,144	1,250
Redemption fees	5	413
Fees for the payment of occupational pensions	21	60 ¹¹
Total	7,918	8,444

The Act Amending the Pension and Disability Insurance Act (Official Gazette of the Republic of Slovenia, No. 102/15; the ZPIZ-2B) entered into force on 1 January 2016, bringing with it significant changes to occupational insurance and occupational retirement. Kapitalska družba drafted amendments to the occupational insurance pension plan to bring the latter in line with the provisions of the ZPIZ-2B. The Minister of Labour, Family, Social Affairs and Equal Opportunities issued decision no. 1031-160/2016-3 of 23 November 2016, approving a new occupational insurance pension plan, which entered into force on 1 January 2017. Amended rules on the management of the SODPZ (to which the Securities Market Agency gave its consent on 30 November 2016) also entered into force on 1 January 2017. Payments of occupational pensions from the SODPZ began as partial redemption values on 1 January 2017, while the KS SODPZ was liquidated and its portfolio transferred to the SODPZ on the same date.

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6.7.1.2 SODPZ investments

The manager manages fund assets in such a way as to achieve, at a minimum, the guaranteed return in the context of minimal risk, while taking into account liquidity criteria. The manager allocates the investments of the fund to ensure that they are appropriately diversified and that they do 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 is the latter's guaranteed return, which is determined on a monthly and annual basis.

The main objective of management in 2017 was 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.

¹¹ Revenues in 2016 in the amount of EUR 60 thousand comprised revenues from the payment of occupational pensions from the Guarantee Fund of the SODPZ.

In assessing the success of the management of fund assets, the manager made a comparison with the relevant benchmark of success, with the fund's guaranteed return and with the success of other mutual pension fund managers.

The value of SODPZ assets stood at EUR 701,185 thousand as at 31 December 2017, an increase of 5.5% relative to 2016. The overall portfolio comprises a globally diversified portfolio of equity and debt investments, with investments in debt securities accounting for the highest proportion of assets.

Table 13: Composition of the investments of the SODPZ as at 31 December 2017 and 31 December 2016 (in EUR 000)

Class	Value		Proportion of fund assets	
	2017	2016	2017	2016
Shares	5,070	4,457	0.7%	0.7%
Debt securities	296,090	266,897	42.2%	40.2%
Loans and deposits	150,365	162,073	21.5%	24.4%
Investment coupons	197,524	188,804	28.2%	28.4%
Cash and cash equivalents	52,106	39,936	7.4%	6.0%
Other claims	30	2,189	0.0%	0.3%
Total	701,185	664,356	100.0%	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 slightly in 2017, as the proportion of securities denominated in foreign currencies rose from 2.4% to 2.9%, excluding the effect of changes in exchange rates associated with securities that form a specific investment fund. The currency in which the underlying instrument is denominated is taken into account when monitoring the composition of financial assets in terms of currency.

6.7.2 Activities in the implementation of the ZPIZ-2 in 2017

Kapitalska družba was actively involved in 2017 in the updating of the business processes of the SODPZ, in particular occupational retirement, 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 retirement issues, including communication with all occupational insurance stakeholders.

The Act Amending the Pension and Disability Insurance Act (ZPIZ-2B) entered into force on 1 January 2016, bringing with it significant changes to occupational insurance and occupational retirement, including the liquidation of the KS SODPZ. Kapitalska družba upgraded IT support in the scope of the project aimed at the implementation of the ZPIZ-2B, in which it adapted processes linked to the provision of occupational insurance and the payment of occupational pensions. The main objectives of the aforementioned project achieved by Kapitalska družba were as follows: the establishment of a system of control over the calculation and payment of contributions, the calculation of default interest and collection activities, the establishment of a system for calculating the proportionate part of the appended period, the establishment of a system of solidarity reserves, the establishment and management of records, the liquidation of the KS SODPZ, the establishment of a system for the payment of premiums from the SODPZ and IT support for processes. The achievement of those objectives required the drafting and harmonisation of legal bases, including the occupational insurance pension plan,

the rules on the management of the SODPZ, the investment policy statement and the risk management plan.

Payments of occupational pensions from the SODPZ began as partial redemption values on 1 January 2017, while the KS SODPZ was liquidated and its portfolio transferred to the SODPZ.

During the course of the project, Kapitalska družba took an active approach to the harmonisation and drafting of the appropriate bases for the dissemination and exchange of data and the associated application support, with the aim of establishing records and integrating them with the CPR and with external institutions such as the ZPIZ, ZZZS and FARS.

In order to establish a system of control over the calculation and payment of contributions, Kapitalska družba several meetings in 2017 with representatives of the MLFSAEO, MF, FARS and ZPIZ, at which it presented problems that hinder the implementation of control due to inadequate and/or insufficient legal provisions, and requested that the aforementioned stakeholders participate in the search for the appropriate solutions. Under currently valid legislation, Kapitalska družba has very limited options in terms of the control and collection of contributions.

With the entry into force of the new pension plan on 1 January 2018, urgent and immediate upgrades and amendments to application support for certain business processes associated with pension insurance (e.g. a change in the contribution rate, and management and subscription fees) were required already in 2017.

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 contact centre and through a toll-free telephone number and email.

Kapitalska družba also regularly informed the SODPZ Committee, which met five times in 2017, with regard to activities in the area of occupational insurance, the operations of the fund and issues the Company faces in the area of occupational retirement.

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6.7.3 Bridging insurance fund for professional athletes

The bridging insurance fund for professional athletes or bridging fund for athletes (PSŠ) is intended for the inclusion of professional athletes in bridging insurance, and provides for their social security following the end of their active sporting career. In accordance with the requirements of the Bridging Insurance for Professional Athletes Act (ZPZPŠ-1), Kapitalska družba carried out all necessary activities for the establishment and functioning of the PSŠ, which was established on 1 September 2016. One financing agreement was concluded in 2017. However, no contributions for bridging insurance were received by the PSŠ. The PSŠ thus had no assets at the end of 2017.

6.8 Information Technology Sector

Kapitalska družba's tasks in the area of information technology in 2017 focused first and foremost on active participation in the introduction of software support for the management of assets and funds. This ensured the high availability and reliability of the information system, which the Company achieved through highly qualified internal experts with the assistance of external contractors.

In the scope of fund management, the Company successfully established information support for the management of the PSŠ as part of new software support prior to 1 September 2016. The sector also successfully assumed a portion of software support for asset management, effective 29 December 2017. Through previously implemented changes, the aforementioned support has already facilitated the implementation of the most urgent business processes in the area of asset management. Moreover, it already

included legislative changes in connection with new IFRS 9, which entered into force on 1 January 2018. Kapitalska družba has thus fulfilled legal requirements. The migration to new software support (provided by IN2), which provides IT support for Kapitalska družba's key business processes, means a significant reduction in the Company's exposure to risks associated with ensuring the required reliability and availability of software support over the long term. The uninterrupted implementation of Kapitalska družba's long-term strategy is thus ensured. In 2017, Kapitalska družba's Information Technology Sector made great efforts to adapt the SODPZ to the ZPIZ-2B.

The performance of service centre functions for Kapitalska družba's users and the users of the subsidiary Modra zavarovalnica was important in the area of information technology in 2017. Kapitalska družba actively ensured the computerisation of current changes in business processes that were the result of legislative changes or the justified initiatives of users, and also optimised existing business processes. During the computerisation and optimisation of business processes, the Company followed the important principle of cost reduction, of course without reducing the quality of the execution of business processes. Through its service centre, the sector performed technical support tasks, and monitored the functioning of services and communication between users and information support. The service centre played a central role in the provision and improvement of high-quality IT services.

Because both Kapitalska družba and Modra zavarovalnica serve in the role of personal data processors and thus have a great deal of responsibility to society in general, the security of the information system is crucial. An external security review of the information system was thus carried out in 2017. Based on the recommendations of that review, Kapitalska družba has already rectified a portion of potential vulnerabilities and will address others in 2018. The risk of unauthorised access to the information system will thus be reduced significantly.

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Through the high-quality management of the business continuity system, the additional availability of the information system was ensured in the event of the failure of the information system at the primary location as the result of some catastrophe.

In order to ensure the 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 replaced obsolete and worn out printing equipment in 2017. The aforementioned replacement did not cause any disruptions to business processes.

Kapitalska družba's IT infrastructure is used to a certain extent by the subsidiary Modra zavarovalnica, while the latter also leases part of the Company's business software. Key business software is also maintained and developed together with the subsidiary Modra zavarovalnica. The scope of those activities is gradually diminishing due to Modra zavarovalnica's transition to independent software solutions.

6.9 Significant business events after the end of 2017

Based on a public call for candidates, Gregor Bajraktarević began his four-year term of office as member of the Management Board on 7 February 2018.

The Minister of Labour, Family, Social Affairs and Equal Opportunities approved amendments to the occupational insurance pension plan on 29 November 2017. The new pension plan entered into force on 1 January 2018, except the provisions of Article 29, which enter into force on 1 February 2018. The aforementioned amendments relate to a change in the contribution rate, a reduction in management fees with respect to the net value of assets according to the scale set out in the pension plan, and a reduction in subscription fees. Amendments to the rules on the management of the SODPZ (to which the Securities Market Agency gave its consent on 20 December 2017) also entered into force on 1 February 2018.

In February 2018, 95 SODPZ policyholders (members of the Slovenian armed forces), who were paid the redemption value of fund units based on the fifth paragraph of Article 206 of the ZPIZ-2 valid at the time of payment, filed a claim against Kapitalska družba for default interest due to the alleged late payment of the redemption value based on the decision adopted by the Constitutional Court of the Republic of Slovenia.¹² Kapitalska družba responded to all claims by the legally prescribed deadline.

Kapitalska družba signed an agreement in April 2018 on the purchase of real estate (additional business premises located at Dunajska cesta 119).

Kapitalska družba also concluded an agreement in 2017 on the sale and purchase of a participating interest in Geoplin, d. o. o. for consideration in the amount of EUR 410 thousand, which is linked to the fulfilment of contractually defined suspensive conditions. We expect the aforementioned agreement to be implemented during the first half of 2018.

¹² In its decision published on 10 June 2016, the Constitutional Court of the Republic of Slovenia ruled that the fifth paragraph of Article 206 of the ZPIZ-2, in the part stating that policyholders who have served in the Slovenian armed forces for at least 10 years and who do not intend to exercise their right to an occupational pension have the right to demand the payment of assets held on account at the fund in a lump-sum only after their employment contract with the Ministry of Defence has expired, is unconstitutional.

VII

Expected development of Kapitalska družba, d. d. in 2018

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Kapitalska družba is an important pillar of the stability of the pension system, both through the management of its own assets for the purpose of providing resources to the pension insurance fund and through the management of the Compulsory Supplementary Pension Insurance Fund, while the Kapitalska Družba Group represents the largest provider of voluntary supplementary pension insurance in Slovenia through its subsidiary Modra zavarovalnica. In 2016, the Company created a bridging insurance fund for professional athletes or bridging fund for athletes (PSŠ), which is intended for the inclusion of professional athletes in bridging insurance with the aim of providing for their social security following the end of their active sporting career.

The dynamic conditions on the financial markets, the implementation of new software to support asset and fund management, the planned amendment to the occupational insurance pension plan and the resulting harmonisation of the operations of the SODPZ, the initial application of the International Financial Reporting Standards (IFRS 9), the digitalisation of the Company's physical archive, the establishment of a documentation system and the upgrading of the remuneration system are indications that 2018 will once again be a demanding and dynamic year for Kapitalska družba.

The Implementation of the Budget of the Republic of Slovenia Act (ZIPRS1819) once again envisages the adjustment of pensions and thus transfers by Kapitalska družba to the pension fund in 2018 in the maximum possible amount envisaged by the ZSDH-1, i.e. EUR 50 million.

The business objectives of the SODPZ in 2018 will continue to focus on the optimal management of policyholders' assets, where a great deal of attention will be given to the principles of security and liquidity. The underlying objectives will be to increase the surplus of the actual value of assets over their guaranteed value, while maximising the amount of the expected surplus in the context of the targeted level of risk, and to achieve and exceed the average return of comparable pension funds in the context of minimal risk. Fundamental changes are occurring in the Slovenian pension system with the payment of occupational pensions from the SODPZ. Compulsory supplementary pension insur-

ance, which is based on the actual savings of policyholders in a given period, is replacing pensions that are financed on the fly, and therefore represents a modern form of pension payment founded on a capital basis. The aforementioned insurance facilitates early retirement for employees who perform especially difficult work and work that is harmful to their health, and work that can no longer be performed successfully after a certain age, and does not use general government and budget sources. These pensions, first paid in 2013, are one of many possible sustainable forms that will become increasingly important due to the unfavourable demographic characteristics of Slovenian society.

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.

Due to legislative changes and the optimisation of business processes that are adapted to the actual requirements of the business environment and to achieve comprehensive and sustained business excellence, we will continue with a project in 2018 aimed at the comprehensive overhaul of the information system for asset and fund management, and complete the adaptation of operations to International Financial Reporting Standard (IFRS) 9. We will optimise operations in areas that we have identified as the most important in the scope of a self-assessment project.

The development of relations between employees and the development of employees themselves will play an important role in the future. Existing work areas and development will be enhanced using various forms of training. Emphasis will be placed on the search for training programmes adapted to employees' needs and objectives, in cooperation with external experts and the Company's own employees, which will contribute to the more effective acquisition of new knowledge at reduced costs. Emphasis will also be placed on joint training programmes at the Group level with the aim of sharing specific knowledge within the Group. We will encourage the acquisition of professional licences relating to the core areas of the Company's operations and only those licences that are in the employer's interest.

Through the commitment and high level of motivation of all employees, we will fulfil our mission again in 2018, while building and increasing the Company's long-term value for its owner through prudent and reliable decisions.

VIII

Social responsibility

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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, primarily for the purpose of adjusting pensions, or a proportionally lower amount if the amount for adjusting pensions is lower.

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 of pensions, which is limited to EUR 50 million. Notwithstanding the aforementioned, Kapitalska družba transferred EUR 50,000 thousand to the ZPIZ in 2017 based on the provisions of the ZIPRS1617 and ZIPRS1718. Kapitalska družba has transferred the cumulative amount of EUR 764,321 thousand to the budget of the ZPIZ.

Table 14: Kapitalska družba's payments to the budget of the ZPIZ

Year	Amount of transfer (in EUR)
1999	7,093,974
2000	55,499,916
2001	34,948,255
2002	41,729,261
2003	26,602,404
2004	26,602,404
2005	26,602,404

Year	Amount of transfer (in EUR)
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
2015	19,000,000
2016	50,000,000
2017	50,000,000
Total	764,320,982

8.2 Responsibility to employees

8.2.1 Concern for employee training

Existing work areas and the development of new business functions at Kapitalska družba are enhanced using various forms of pre-planned 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.

Employees attended seminars in the following areas in 2017: internal auditing, finance, accounting, financial reporting, taxes, public procurement, risk management, valuation, information technology, personal data protection and business English. Special emphasis in the area of training was placed on the introduction of IFRS 9 in the Company's operations, while Kapitalska družba also organised training in this area in conjunction with Modra zavarovalnica. Special attention was also given to preparations for harmonisation with the General Data Protection Regulation (GDPR).

In accordance with its training plan, Kapitalska družba organised four internal training programmes in 2017 with regard to the implementation of due diligence measures in accordance with the Prevention of Money Laundering and Terrorism Financing Act, the latest arrangements and provision of occupational retirement processes, the risk management process and the presentation of internal public procurement rules. Those training programmes were carried out by experts from specific areas. The advantage of such training programmes lies in the rationalisation of costs and the fact that they are accessible to all employees of Kapitalska družba.

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 2017, one employee continued their Bologna master's studies at the Faculty of Economics in Ljubljana (in the business informatics programme), while another employee continued their final semester of Bologna master's studies in the field of computer and information science at The Open University in the United Kingdom, and successfully completed their studies in October 2017.

Three employees continued training in 2017 to receive professional qualifications, one to perform the tasks of certified machinery and equipment valuer, and the other two to perform the tasks of certified business valuer. In 2017, two employees passed the test of knowledge required to perform the tasks of stockbroker (investment consulting).

One employee was successfully certified in 2017 as a Veeam Certified Engineer (VMCE) in the field of computer and information science, while a second employee began their judicial apprenticeship with the aim of taking the state bar exam.

8.2.2 Concern for a safe and healthy work environment

Kapitalska družba ensures a safe and healthy work environment by respecting all regulations governing occupational health and safety, and by ensuring 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 work environment, regular periodic preventive 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, including the possibility of attending organised recreational activities, and facilitate the selection of a healthy lifestyle and promote their personal development.

Collective supplementary pension insurance is another important aspect of ensuring and increasing the future social security of employees. As a responsible company that cares for its employees, Kapitalska družba pays monthly premiums into the Modri Umbrella Pension Fund (MKPS) of the fund manager Modra zavarovalnica. The aforementioned insurance is also considered one of the most valued forms of motivation among employees. Under the agreement on the creation of a pension fund concluded in 2015, all employees are eligible for inclusion in the MKPS under the same conditions.

The costs of employee premiums for voluntary supplementary pension insurance (MKPS) totalled EUR 117 thousand in 2017.

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 is diverse, with an average employee age of 46, and includes many young parents with small and school-age children. The balancing of career development and family life has become part of the organisational culture, which today is frequently a major challenge. Kapitalska družba received the Family-Friendly Company certificate in 2010, which was subsequently upgraded to the full certificate. Following an audit of the three-year period following the receipt of the full certificate, the Company received special recognition for spreading the family-friendly company culture in Slovenia. Through the adoption of measures, the Company aims to ensure short-term and long-term positive effects on the lives of its employees. The following 13 measures were adopted during the acquisition of the basic and full certificates: 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 hiring of employees' families for temporary jobs at the Company, the giving of gifts to celebrate newborns and New Year's gifts for children, and the education of managers in the area of balancing work and family. Among the most frequently employed measures are the time account, the children's time bonus (i.e. a day off for the first day of primary school for the parents of children in grades 1 to 3), meetings between employees and the Management Board and New Year's gifts and gifts for newborns. The Company organised its first open house, intended for all children of employees, in August 2017.

8.3 Environmental responsibility

Use of electricity from renewable sources

A tender was issued in 2017 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 80% of electricity produced from renewable sources. Energy that is produced from environmentally friendly, renewable sources does not use fossil fuels, while the production of energy from renewable sources does drain natural resources. Thus, the burden on the environment from greenhouse gases, harmful emissions and radioactive waste is reduced.

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Report on relations with the subsidiary

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As the parent company, Kapitalska družba holds a 100% participating interest in Modra zavarovalnica. No transactions were executed between the parent company and the aforementioned subsidiary in 2017 under conditions that deviated from market conditions.

Lease of business premises

Modra zavarovalnica leases business premises from Kapitalska družba. The aforementioned lease agreement was concluded in 2011, and subsequently extended until 2019 with the conclusion of an annex. The monthly rent for equipped business premises measuring 1,704.23 m² amounts to EUR 27,714. The aforementioned rental fee includes 50 parking places and electricity costs.

Use of computer programs

As the exclusive holder of material copyrights for the Kad.Net software solution, Kapitalska družba allows Modra zavarovalnica to use that software under the associated agreement. As the holder of rights to use software support for asset management, Kapitalska družba also allows Modra zavarovalnica to use the AdTreasury software solution, with the consent of the exclusive holders of material rights on that program. Their use is permitted for the period of time set out in the mutual agreement on the lease of the aforementioned programs. The monthly contractual value is EUR 2,610, excluding VAT. That amount is being reduced gradually due to Modra zavarovalnica's transition to an independent software solution.

Provision of IT services

Kapitalska družba provides IT services for Modra zavarovalnica. Those services include the maintenance of workstations and other user devices, help desk services, internet access services, messaging 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 the maintenance of the latter. The monthly fee includes the cost of labour of experts, the cost of hardware maintenance, the costs of system software licences and internet costs. The monthly contractual value is EUR 8,943, excluding VAT.

Agreement on the financing of the pension plan

Kapitalska družba has an agreement with Modra zavarovalnica on the financing of the PNMZ K pension plan, which is implemented by the open Modri Umbrella Pension Fund. Kapitalska družba pays the maximum supplementary pension insurance premium for its employees in the amount of 5.844% of an employee's gross wages, or a maximum of EUR 234.92 a month.



Indicators

in EUR 000					
		Value		Value of indicator	
		2017	2016	2017	2016
1.	FINANCING RATIOS				
a)	Equity financing ratio				
	equity	978,323	945,586		
	total equity and liabilities	1,109,551	1,022,677	0.88	0.92
b)	Long-term financing ratio				
	equity + long-term liabilities (including provisions) + long-term accruals and deferred income	1,055,889	969,245		
	total equity and liabilities	1,109,551	1,022,677	0.95	0.95
2.	INVESTMENT RATIOS				
a)	Operating fixed asset investment ratio				
	fixed assets (at carrying amount)	3,627	3,711		
	total assets	1,109,551	1,022,677	0.00	0.00
b)	Long-term investment ratio				
	fixed assets + long-term deferred expenses and accrued revenue (at carrying amount) + investment property + long-term financial assets + long-term operating receivables	976,280	861,887		
	total assets	1,109,551	1,022,677	0.88	0.84

		Value		Value of indicator	
		2017	2016	2017	2016
3.	HORIZONTAL FINANCIAL STRUCTURE RATIOS				
a)	Equity to fixed assets ratio				
	equity	978,323	945,586		
	fixed assets (at carrying amount)	3,627	3,711	269.73	254.81
b)	Acid test ratio				
	liquid assets	33,127	28,138		
	short-term liabilities	53,561	53,311	0.62	0.53
c)	Quick ratio				
	liquid assets + short-term receivables	34,319	29,333		
	short-term liabilities	53,561	53,311	0.64	0.55
d)	Current ratio				
	short-term assets	58,339	90,525		
	short-term liabilities	53,561	53,311	1.09	1.70
4.	EFFICIENCY RATIOS				
a)	Operating efficiency				
	operating revenue	9,493	10,129		
	operating expenses	5,736	6,416	1.65	1.58
5.	PROFITABILITY RATIOS				
a)	net return on equity				
	net profit/loss for the period	5,864	-6,444		
	average equity (excluding net profit/loss for the period)	962,245	933,035	0.01	-0.01
b)	Dividends to share capital ratio				
	dividends for financial year	0	0		
	average share capital	364,810	364,810	0.00	0.00

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Corporate governance statement

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In accordance with the provision of the fifth paragraph of Article 70 of the ZGD-1 and point 3.4 of the Corporate Governance Code for Companies with State Capital Investments, Kapitalska družba hereby issues its corporate governance statement for the period 1 January 2017 to 31 December 2017.

I. 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 includes 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 also complies with the valid Recommendations and Expectations of SDH.

Kapitalska družba hereby issues its statement of compliance with the Corporate Governance Code for Companies with State Capital Investments, which was adopted by SDH in December 2014 and amended in part for the first time in March 2016 and for the second time in May 2017. The Code includes principles and recommended best practices for the corporate governance of companies with capital assets of the State. The Code is published on SDH's website at <http://www.sdh.si/sl-si/upravljanje-nalozb/kljucni-dokumenti-upravljanja>.

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 their work and operations (hereinafter: the Code). Deviations from individual recommendations of the Code are cited and explained below:

Point 3.1 of the Code: The core objective of a company with capital assets of the state shall be to maximise the value of the company and generate the highest possible returns for owners, unless otherwise stated by the law or articles of association. In addition to the core objective, companies shall pursue other objectives that are defined for a specific company by the law or articles of association of that company. Companies shall ensure that all objectives are clearly defined in their articles of association in order to ensure increased transparency with respect to those objectives. If a company has conflicting objectives, its articles of association or another relevant legal document (e.g. the company's governance policy) shall define the relationships between objectives and the resolution of conflicts between those objectives.

Note: Given the specific purpose of its establishment and its planned transformation into an autonomous demographic reserve fund, and taking into account the state capital investment management strategy, Kapitalska družba's primary concerns are the fulfilment of its legal obligation to provide funds to the Pension and Disability Insurance Institute, and the management of the Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia (SODPZ) and Bridging Fund for Athletes (PSŠ).

Point 3.2 of the Code: Notwithstanding the ownership structure, the management board of a public limited company with capital assets of the state and the management boards of large and medium-sized public limited companies and limited liability companies in which SDH has a controlling influence shall formulate and adopt a corporate governance policy in conjunction with the supervisory board. That policy shall define the principal guidelines regarding corporate governance and the other content set out in Chapter II of the Slovenian Corporate Governance Code as regards the definition of the concept of 'governance policy'. The governance policy shall be adopted for the future period and shall be updated by the company so that it is in line at all times with regulations, the company's article of association, the state capital asset management strategy, applying Recommendation no. 3.1.1 of this Code *mutatis mutandis*, and current corporate governance guidelines. The governance policy shall include the date of the last update and shall be accessible on a company's public website.

Note: Given its transformation into an autonomous demographic reserve fund, as envisaged by the law, Kapitalska družba has not yet adopted a corporate governance policy. That policy will be formulated taking into account the provisions of the law governing its transformation, which will define the functioning of the demographic reserve fund and additional permanent sources of financing, and taking into account the state capital investment management strategy.

Point 3.6 of the Code: The management board of a company bound by the ZGD-1 to compile a business report shall, in conjunction with the supervisory board, formulate and adopt a diversity policy in the form of a special act that is implemented in connection with representation on its management and supervisory bodies in terms of gender, age, education and professional profile. The diversity policy shall be published on the company's publicly accessible website or in another form accessible to all shareholders.

Note: Kapitalska družba is unable to formulate a diversity policy in connection with the establishment of the Supervisory Board and has not yet adopted such a policy in connection with its Management Board, as regards representation on the Company's management and supervisory bodies in terms of gender, age, education and professional experience. Nevertheless, it should be noted that the composition of the Supervisory Board is in line with the interests of stakeholders as prescribed by the law, as two of its six members are appointed on the basis of a proposal by a national-level federation/organisation of pensioners and one member is appointed on the basis of a proposal by national-level trade union federations or confederations, which indirectly facilitates the pursuit of certain elements of the diversity policy.

Point 4.3 of the Code: Management and supervisory bodies shall refrain from all communication with representatives of ministries or the State regarding matters that relate

to the exercising of membership rights arising from the capital assets of the state at a particular company with such assets.

Note: Kapitalska družba does not comply with the aforementioned provision of the Code in full because it is not a company managed by SDH. In accordance with the law, Kapitalska družba is also the manager of the SODPZ and PSS, which represent elements of compulsory insurance.

Point 6.4 of the Code: The supervisory board shall be comprised in such a way as to ensure responsible supervision and decision-making for the benefit of a company. Regardless of whether a company has adopted a diversity policy or not, the composition of the supervisory board shall take into account professional knowledge, experience and skills that differ from member to member but are complementary (in terms of knowledge and experience). The continuity and diverse composition of the supervisory board, in terms of characteristics such as age, international composition and gender representation (i.e. the heterogeneity of its composition), shall be ensured to the greatest extent possible.

Note: Kapitalska družba complies with the aforementioned provision of the Code, *mutatis mutandis*, taking into account the cogent provisions of Article 51 of the ZSDH-1 and the Company's Articles of Association, which set out a special composition of Kapitalska družba's Supervisory Board.

Point 6.7 of the Code: If the general meeting elects members of the supervisory board based on a proposal from that body, the substantiation of proposals for the adoption of resolutions shall include, in addition to the data required by the law, at a minimum information regarding each proposed candidate's membership in other management or supervisory bodies and an assessment of potential conflicts of interests, where that assessment shall also take into account the individual circumstances stated in Appendix 3 to the Code. Moreover, the supervisory board shall disclose all information regarding whether a proposed candidate is independent in terms of the definition set out in this Code and whether procedures defined by this Code have been taken into account by the supervisory board in the selection of that candidate.

Sub-point 6.7.1 of the Code: In the justification of its proposal (subject to voting), the supervisory board shall also provide a description of the competence profile for a member of the supervisory board and information regarding a candidate that allows shareholders to assess whether that candidate meets the characteristics of the profile being sought.

Note: The Company does not comply with the aforementioned provision of the Code in full due to the cogent provisions of the ZSDH-1 and Kapitalska družba's Articles of Association, which envisage a special procedure for nominating members to Kapitalska družba's Supervisory Board.

Point 6.8 of the Code: The selection procedure for supervisory board members and the formulation of a proposal for a general meeting resolution on the appointment of supervisory board members shall be transparent and defined in advance.

Sub-point 6.8.8 of the Code: Immediately following the convening of the general meeting that will vote on new supervisory board members based on a proposal of the supervisory board of a company with capital assets of the state, the chairman of that company's supervisory board shall invite candidates who have been proposed for election by the supervisory board to submit their applications to SDH's human resource committee for accreditation and nomination. Candidates may also be invited by SDH's human resource committee to submit their application for accreditation and nomination. This recommendation shall not apply when the proposal of candidates by SDH is the only recruitment channel.

Note: Kapitalska družba does not comply with the recommendation under sub-point 6.8.8 of the Code in full, because the Government of the Republic of Slovenia represents Kapitalska družba's General Meeting. In accordance with the provisions of the

ZDSH-1, three members are appointed to the Supervisory Board based on SDH's proposal. Thus, in accordance with the Articles of Association, a proposal for candidates who are representatives of SDH is drafted by the latter's Management Board and the Supervisory Board informed of its selection. Two members are appointed on the basis of a proposal by a national-level federation/organisation of pensioners, while one member is appointed on the basis of a proposal by national-level trade union federations or confederations.

Point 8.5 of the Code: Prior to the beginning of the year, large and medium-sized companies shall prepare a financial calendar of the planned dates of their significant announcements (general meetings, date of dividend payment, annual and interim reports, etc.) in the forthcoming financial year. The financial calendar shall be published and publicly accessible on a company's web site.

Note: The Company cannot comply with the aforementioned provision of the code due to the specifics set out in the provisions of the ZSDH-1 with regard to Kapitalska družba (in accordance with the second paragraph of Article 52 of the ZSDH-1, the company's distributable profit may not be allocated to shareholders, while the role of the Company's General Meeting is performed by the general meeting of SDH, i.e. the Government of the Republic of Slovenia in accordance with Article 51 of the ZSDH-1).

Point 10.2 of the Code: Companies with capital investments of the state shall establish a system of corporate integrity with as many elements of the Slovenian Corporate Integrity Guidelines as possible, taking into account the size of a company and the severity of breaches of corporate integrity (known or suspected). SDH supports the solution that, large companies in particular, shall entrust the oversight of corporate integrity, as an independent function, to an appropriately trained and qualified corporate integrity officer who will be provided assistance in the form of appropriately trained and paid experts, and the necessary material means and authorisations to ensure their unhindered work. The latter shall also include the autonomous right of reporting, first to management bodies and then to the supervisory bodies of a company, and to other internal and external bodies.

Note: Kapitalska družba complies with the essential elements set out in the Slovenian Corporate Integrity Guidelines, although it has not yet established the independent function of corporate integrity officer. Kapitalska družba plans to establish a comprehensive corporate integrity system by the end of 2019.

II. Main features of internal control systems and risk management in relation to financial reporting procedures

Note: Kapitalska družba manages risks and carries out internal controls at all levels. The purpose of internal controls is to ensure the accuracy, reliability and transparency of all processes, and to manage the risks associated with financial reporting.

Internal controls are carried out by the Finance and Accounting Sector, which is responsible for maintaining the books of account and for the compilation of financial statements in accordance with the valid financial reporting, tax and other regulations. Those regulations ensure that:

- business events are recorded on the basis of credible accounting documents, which in turn ensures that business events are recorded accurately and fairly and provides assurance that the Company disposes of its assets in an honest manner; and
- business events are recorded and the financial statements compiled in accordance with the applicable laws.

Kapitalska družba's financial statements for every financial year are verified and audited by an external auditor. On the basis of the resolution passed by General Meeting on 28 July 2017, the Company's financial statements for 2017 were audited by Deloitte revizija d. o. o., Ljubljana.

The Internal Audit Department is an independent organisational unit that reports directly to the Company's Management Board and is also subordinated in functional terms to the audit committee. This ensures the independence of its work and its segregation from the implementing functions that are subject to auditing. The verification of the Company's internal control systems and the provision of assurances regarding the functioning of those systems represent the core area of internal auditing work. Internal auditors assess the effectiveness of the functioning of internal controls in terms of the management of the risks to which the Company is exposed. In accordance with its annual work plan, which is approved by the Company's Management Board and Supervisory Board, the Internal Audit Department performs audits of individual areas of the Company's operations. The Internal Audit Department contributes to the improved performance of the Company through recommendations for improvements to business processes and procedures.

III. Significant direct and indirect ownership of the Company's securities in terms of achieving a qualifying holding as set out in the act governing takeovers

Note: Kapitalska družba's sole owner is the Republic of Slovenia, which holds all 874,235 ordinary registered no-par-value shares (100% of share capital).

IV. Holders of securities that provide special controlling rights

Note: The Company does not have securities that would provide special controlling rights.

V. Restrictions on voting rights

Note: Kapitalska družba's sole owner is the Republic of Slovenia, which holds all 874,235 ordinary registered no-par-value shares. There are no restrictions on its voting rights.

VI. Company's rules on the appointment and replacement of members of management and supervisory bodies, and change to the Articles of Association

Note: The rules on the appointment and replacement of members of the management and supervisory bodies and on status changes are defined in the Articles of Association.

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 were appointed on the basis of a proposal by SDH, while two members were appointed on the basis of a proposal by a national-level federation/organisation of pensioners. One member was appointed on the basis of a proposal by national-level trade union federations or confederations. If an individual interest group does not formulate a proposal for the appointment of members of the Supervisory Board in the manner defined below, the General Meeting of the Company appoints missing members at its own discretion. The proposal for candidates to represent SDH is formulated by SDH's Management Board, 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 on 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 shall each have one representative for every ten thousand members. Members of the Supervisory Board serve a four-year term of office and may be reappointed.

Members of the Management Board are appointed by the Supervisory Board on the basis of a public tender. 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 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 Articles of Association and amendments thereto are adopted by the General Meeting of Kapitalska družba at the proposal of the Management Board and Supervisory Board.

VII. Powers of senior management, in particular powers to issue or purchase treasury shares

Note: The powers of senior management are set out in the Company Articles of Association. The Management Board of Kapitalska družba has no powers to issue or purchase treasury shares.

VIII. Information regarding the functioning of the Company's General Meeting of Shareholders and its key competences, and a description of the rights of shareholders and how those rights are exercised

Note: The Company's sole shareholder exercises its rights arising from the ownership of shares at the General Meeting. The General Meeting is the Company's highest body and functions in accordance with the provisions of the ZGD-1, the ZSDH-1 and the Company's Articles of Association. The General Meeting is convened by the Company's Management Board, as defined by the law and the Articles of Association, and whenever its convening is in the interest of the Company. The General Meeting may also be convened by the Supervisory Board. The General Meeting must also be convened if the shareholder requests that the Management Board do so. The shareholder's written request to convene the General Meeting must include an agenda, a proposed resolution for each proposed item of the agenda to be decided upon by the General Meeting, or an explanation of the agenda item if the General Meeting will not decide on the item in question. The convening of the General Meeting must be published at least 30 days prior to the meeting. The convening of the General Meeting is published on the websites of the AJPES and Kapitalska družba. The publication of the convening of the General Meeting must also include proposed resolutions and details of the place where all materials submitted for decision-making at the General Meeting may be accessed. A shareholder who is registered as such in the central register of book-entry securities at the end of the fourth day prior to the General Meeting is entitled to participate and exercise their voting rights at the General Meeting.

The General Meeting makes decisions on basic matters relating to Kapitalska družba, in particular the adoption of the Company's Articles of Association and amendments thereto. It adopts the annual report, if the Supervisory Board has not confirmed the annual report or if the Management Board and the Supervisory Board defer the decision regarding the adoption of the annual report to the General Meeting. It decides on the use of distributable profit at the proposal of the Management Board and Supervisory Board and on the granting of discharge to members of the Management Board and Supervisory Board. It appoints and recalls members of Kapitalska družba's Supervisory Board and appoints the Company's auditor. It decides on measures to increase or reduce share capital, unless the Articles of Association or the law determine otherwise. It decides on the winding-up of Kapitalska družba and on status changes thereto, and decides on other matters in accordance with the law and the Articles of Association.

IX. Information regarding the composition and functioning of management and supervisory bodies and their committees:

Note: The governance of Kapitalska družba is based on legal provisions and the provisions of the Company's Articles of Association. The Company has a two-tier governance system under which the Company is managed by its Management Board and the work of the latter is supervised by the Supervisory Board.

a) Supervisory Board

The responsibilities of the Supervisory Board are set out in the Company's Articles of Association, while its work method is governed by the aforementioned body's rules of procedure. A detailed description of the activities and work method of the Supervisory Board in 2017 is given in the Report of the Supervisory Board. The Supervisory Board of Kapitalska družba functioned in the following composition in 2017¹³:

- Stanislav Seničar, Chairman,
- Dr Boris Žnidarič, Deputy Chairman,
- Cirila Surina Zajc, member,
- Aleksander Mervar, MSc, member,
- Ladislav Rožič, MSc, member, and
- Natalija Stošicki, member.

Three committees functioned within the Supervisory Board in 2017: an audit committee, an accreditation committee and an HR committee. The composition and work of the aforementioned committees are presented in the Report of the Supervisory Board.

b) Management Board

In accordance with the ZSDH-1 and the Company's Articles of Association, the Management Board has a minimum of two and a maximum of three members. The members of the Management Board are appointed to a four-year term of office by the Supervisory Board based on a public tender procedure. Kapitalska družba, d. d. was run by its Management Board in 2017 in the following composition:

- Bachtiar Djalil, President,
- Goranka Volf, member, and
- Gregor Bajraktarević, member (since 6 February 2017).

The President and member of Kapitalska družba's Management Board were appointed by the Supervisory Board in accordance with the Company's Articles of Association and the provisions of the ZSDH-1, on the basis of a public tender procedure. The President of the Management Board Bachtiar Djalil began his four-year term of office on 2 January 2015, while member of the Management Board Goranka Volf began her four-year term of office on 24 November 2016. Gregor Bajraktarević began his term of office as temporary member of the Management Board on 6 February 2017. That term of office was for a period of one year from the day he assumed his function or until the transformation of Kapitalska družba into a demographic reserve fund, whichever occurs first. Based on a public call for candidates, Gregor Bajraktarević began his four-year term of office as member of the Management Board on 7 February 2018.

The Management Board manages the company in the interests thereof, independently and at its own risk. The members of the Management Board represent Kapitalska družba independently and without restrictions. The company's Articles of Association set out the transactions and decisions for which the Management Board must obtain the consent of the Supervisory Board. The Management Board of Kapitalska družba is answerable to the Supervisory Board and the General Meeting for its work. In managing the Company's transactions, it must act with the due professional diligence of a good manager, safeguard the business secrets of Kapitalska družba and comply with the prohibition of competition clause.

¹³ The four-year terms of office of Stanislav Seničar and Aleksander Mervar, MSc expired in 2017. Both, however, were reappointed to new one-year terms of office at the General Meeting. At the first session of the Supervisory Board following the start of his new term of office, Stanislav Seničar was reappointed Chairman of the Supervisory Board.

The Management Board exercised its competences in 2017 in accordance with the rules of procedure of that body, reported regularly to the Supervisory Board and fulfilled its obligations to the shareholder, as set out in the ZGD-1 and ZSDH-1, in accordance with the Articles of Association.

Table 15: Composition of the Management Board during the 2017 financial year

Name	Function (President, member)	Area of work on the Management Board	First appointment to function	Completion of function / term of office	Gender
Bachtiar Djalil	President	Legal, HR and General Affairs, Internal Audit, Risk Management and advisers to the Management Board	1 January 2010	2 January 2019	M
Goranka Volf	Member	Development and Strategic Communication, Insurance, Finance and Accounting	24 November 2016	24 November 2020	F
Gregor Bajraktarević	Member	Asset Management, Information Technology	6 February 2017	7 February 2022	M

Table 16: Composition of the Supervisory Board and its committees during the 2017 financial year

Name	Function (Chairman, Deputy Chairman, member)	First appointment to function	Completion of function / term of office	Shareholder / employee representative	Participation in Supervisory Board sessions with respect to total number (e.g. 5/7)	Gender	Nationality
Stanislav Seničar	Chairman	28 August 2013	29 August 2018	Shareholder representative	17/17	M	Slovene
Boris Žnidarič	Deputy Chairman	1 February 2015	1 February 2019	Pensioner representative	17/17	M	Slovene
Aleksander Mervar	Member	28 August 2013	29 August 2018	Shareholder representative	14/17	M	Slovene
Natalija Stošički	Member	8 April 2016	8 April 2020	Shareholder representative	16/17	F	Slovene
Cirila Surina Zajc	Member	1 February 2015	1 February 2019	Pensioner representative	16/17	F	Slovene
Ladislav Rožič	Member	31 January 2011	1 February 2019	Trade union representative	17/17	M	Slovene

Table 17: External members of Supervisory Board committees during the 2017 financial year

Name	Committee	Participation in committee sessions with respect to total number (e.g. 5/7)	Gender	Nationality
Mojca Verbič	Audit	2/6	F	Slovene
Irena Prijović	Accreditation	5/6	F	Slovene
Alenka Stanič	Accreditation	6/6	F	Slovene

Nationality	Year of birth	Level of education	Professional profile	Membership in supervisory bodies of unaffiliated companies
Slovene	1975	Bachelor's degree in law	Corporate governance, management of pension and investment funds, economic and financial law	Gorenje, d. d. Loterija Slovenije, d. d.
Slovene	1959	Bachelor's degree in economics	Pension fund management, corporate governance, corporate communications	Terme Čatež, d. d.
Slovene	1975	Master's degree	Asset management, corporate governance, investment banking and corporate restructuring	Hit, d. d.

Year of birth	Level of education	Professional profile	Independence in accordance with point 6.6 of the Code (YES / NO)	Existence of conflicts of interest during the financial year (YES / NO)	Membership in supervisory bodies of other companies	Membership on committees (e.g. audit, human resource or remuneration)	Chair / member	Participation in committee sessions with respect to total number (e.g. 5/7)
1942	Bachelor's degree in sociology	Corporate governance	Yes	No	/	/	/	/
1948	Doctorate of science	Master's degree in law and other social sciences, qualified university professor	Yes	No	Krka, d. d. Modra zavarovalnica, d. d.	Accreditation	Chair	6/6
1962	Master's degree	Finance, accounting, corporate governance, governance systems	Yes	No	Stelkom, d. o. o.	HR, audit accreditation	Chair Member Member	1/1 3/6 2/6
1966	Bachelor's degree in economics	Financial services expert	Yes	No	Modra zavarovalnica, d. d.	Audit, HR	Member, Member	5/6 1/1
1949	Bachelor's degree in economics	Finance	Yes	No	/	Audit, HR	Member, Member	6/6 1/1
1957	Master's degree	Finance, corporate governance	Yes	No	/	Audit, accreditation	Chair Member	6/6 5/6

Level of education	Year of birth	Professional profile	Membership in supervisory bodies of unaffiliated companies
Bachelor's degree in economics	1975	Director of Finance and Business Support Sector	/
Master's degree	1968	Corporate governance	Petrol, d. d. (until April 2017)
Doctorate	1963	Adviser for key personnel	/

X. Description of the diversity policy that is implemented in connection with representation on the Company's management and supervisory bodies

Kapitalska družba is unable to formulate a diversity policy in connection with the establishment of the Supervisory Board and has not yet adopted such a policy in connection with its Management Board, as regards representation on the Company's management and supervisory bodies in terms of gender, age, education and professional experience. Nevertheless, it should be noted that the composition of the Supervisory Board is in line with the interests of stakeholders as prescribed by the law, as two of its six members are appointed on the basis of a proposal by a national-level federation/organisation of pensioners and one member is appointed on the basis of a proposal by national-level trade union federations or confederations, which indirectly facilitates the pursuit of certain elements of the diversity policy.



Gregor Bajraktarević
Member of the
Management Board



Goranka Volf
Member of the
Management Board



Bachtiar Djali
President of the
Management Board

Ljubljana, 24 April 2018



Financial Report

XII

Statement of management's responsibility

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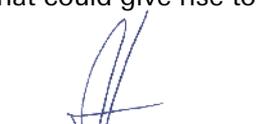
The Management Board of Kapitalska družba pokojninskega in invalidskega zavarovanja, d. d., approves the financial statements of the Company for the year ended 31 December 2017, and the accompanying notes and disclosures thereof on pages 74 to 143, which are an integral part of the financial statements.

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 2017.

The Management Board is also responsible for an appropriate accounting system and adoption of suitable measures to secure assets and other funds and hereby confirms that financial statements and therewith related notes have been compiled under the assumption of going concern and in accordance with the applicable 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 could give rise to material liability in this respect.


Gregor Bajraktarević
Member of the
Management Board


Goranka Volf
Member of the
Management Board


Bachtiar Djalil
President of the
Management Board

Ljubljana, 24 April 2018

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Auditor's report

INDEPENDENT AUDITOR'S REPORT to the owners of Kapitalska družba pokojninskega in invalidskega zavarovanja, d.d.

Opinion

We have audited the accompanying financial statements of the company Kapitalska družba pokojninskega in invalidskega zavarovanja, d.d. (hereinafter 'the Company'), which comprise the statement of financial position as at 31 December 2017, and the income statement, statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance and cash flow statement for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU (hereinafter 'IFRSs').

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and other ethical requirements that are relevant to our audit of the financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Consolidated financial statements

We draw your attention to Note 15.1. 'General disclosures' to the financial statements where it is explained that Kapitalska družba pokojninskega in invalidskega zavarovanja d.d. is the parent company in the Kapitalska družba pokojninskega in invalidskega zavarovanja Group and that the consolidated financial statements of the Group prepared in accordance with International Financial Reporting Standards as adopted by the EU have not been issued yet. Note 15.1 to the financial statements also explains when the consolidated financial statements and other disclosures regarding unconsolidated statements of the subsidiary will be issued. Our opinion is not modified in respect of this matter.

Other information

The other information comprises the information, included in Annual report, other than the financial statements and our auditor's report thereon. Other information were obtained prior to the date of this auditor's report, except Report from Supervisory Board, which is expected to be made available to us after that date. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, assess whether the other information is materially inconsistent with the financial statements, legal requirements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Company obtained in the audit, on whether the other information contains any material misstatement of fact. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

Responsibilities of Management and Supervisory Board for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so

Supervisory Board is responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the organization to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

With Supervisory Board we communicate the planned scope and timing of the audit and significant findings from the audit, including significant deficiencies in internal control we have identified during our audit.

DELOITTE REVIZIJA d.o.o.

Barbara Žibret Kralj
Certified auditor

For signature please refer to the original Slovenian version.

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

Ljubljana, 24th April 2018

TRANSLATION ONLY, SLOVENE ORIGINAL PREVAILS

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Financial statements for 2017

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14.1 Income statement for the period from 1 January 2017 to 31 December 2017

		in EUR 000	
Item	Note	1 Jan.–31 Dec. 2017	1 Jan.–31 Dec. 2016
1.	Net revenue from sales	1	
a)	Sales to local companies in the Group	473	539
c)	Revenue from sales on the domestic market	9,013	9,522
	Total revenue from sales	9,486	10,061
4.	Other operating revenue (including revaluation revenue)	2	7
	Total revenue	9,493	10,129
5.	Costs of goods, materials and services	3	
b)	Costs of materials	-123	-120
c)	Costs of services	-1,456	-1,391
	Total costs of goods, materials and services	-1,579	-1,511
6.	Labour costs	4	
a)	Payroll costs	-2,440	-2,336
b)	Social security insurance costs	-394	-377
c)	Pension insurance costs	-117	-117
d)	Other labour costs	-231	-252

Item	Note	1 Jan.–31 Dec. 2017	1 Jan.–31 Dec. 2016
Total labour costs		-3,182	-3,082
7. Amortisation, depreciation and write-offs	5		
a) Amortisation and depreciation		-974	-1,052
b) Operating expenses from revaluation of fixed assets		0	-771
Total write-downs		-974	-1,823
8. Other operating expenses	6	-1	0
Total costs		-5,736	-6,416
Operating profit/loss		3,757	3,713
9. Financial revenue from shares and interests	7		
Shares and interests in the Group		2,965	2,132
Shares and interests in associates		2,624	3,749
Financial revenue from other shares and interests		38,481	21,508
Financial revenue from other investments		5,418	5,328
Total financial revenue from shares and interests		49,488	32,717
10. Financial revenue from loans	7		
b) Financial revenue from loans to others		282	635
Total financial revenue from loans		282	635
Total financial revenue		49,770	33,352
12. Financial expenses from impairment and write-off of investments	8		
b) Financial expenses from impairment and write-off of other investments		-2,091	-568
Total financial expenses from impairment and write-off of investments		-2,091	-568
13. Financial expenses for financial liabilities	8		
d) Financial expenses for other financial liabilities		-50,005	-50,003
Total financial expenses for financial liabilities		-50,005	-50,003
Total financial expenses		-52,096	-50,571
Profit (loss) from ordinary activities		1,431	-13,506
15. Other revenue	9	230	51
16. Other expenses	10	-60	-5
Total profit (loss)		1,601	-13,460
17. Income tax	11	0	0
18. Deferred tax	12	4,263	7,016
19. Net profit or loss for the period	13	5,864	-6,444

Disclosures and notes on pages 85 to 143 are an integral part of these financial statements.

*14.2 Statement of other comprehensive income for the period
from 1 January 2017 to 31 December 2017*

		in EUR 000	
		1 Jan.–31 Dec. 2017	1 Jan.–31 Dec. 2016
19.	Net profit or loss for the period	5,864	-6,444
21.	Changes in reserves arising from valuation at fair value of available-for-sale financial assets	26,731	273
23.	Other components of comprehensive income	0	-61
24.	Total comprehensive income for the period	32,595	-6,232

Disclosures and notes on pages 85 to 143 are an integral part of these financial statements.

14.3 Statement of financial position as at 31 December 2017

in EUR 000

Item	Note	31 Dec. 2017	31 Dec. 2016
ASSETS			
A. Long-term assets			
I.	Intangible fixed assets and long-term accrued revenues and deferred costs	14	
1.	Long-term property rights		245
5.	Other long-term accrued revenues and deferred costs		50,000
	Total intangible assets		50,245
II.	Property, plant and equipment	15	
2.	Buildings		3,236
4.	Other plant and equipment		146
	Total property, plant and equipment		3,382
III.	Investment property	16	16,020
IV.	Long-term financial assets		
1.	Long-term financial assets, except loans		
a.	Shares and interests in the Group	17	152,200
b.	Shares and interests in associated companies	17	36,962
c.	Other shares and interests	19	601,648
d.	Other long-term financial assets	19	115,750
	Total long-term financial assets, except loans		906,560
2.	Long-term loans		
b.	Long-term loans to others	20	0
	Total long-term loans		0
	Total long-term financial assets		906,560
V.	Long-term operating receivables	21	
3.	Long-term operating receivables due from others		73
	Total long-term operating receivables		73
VI.	Deferred tax assets	12	24,908
	Total fixed assets		1,001,188
B. Short-term assets			
I.	Assets held for sale	18	1,940
III.	Short-term financial assets		
1.	Short-term financial assets except loans	19	
d.	Other short-term financial assets		3,163
	Total short-term financial assets, except loans		3,163
2.	Short-term loans	20	
b.	Short-term loans to others		18,917
	Total short-term loans		18,917
	Total short-term financial assets		22,080

Item	Note	31 Dec. 2017	31 Dec. 2016
IV. Short-term operating receivables	21		
1. Short-term operating receivables from group companies		31	34
2. Short-term operating trade receivables		807	847
3. Short-term operating receivables due from others		354	314
Total short-term operating receivables		1,192	1,195
V. Cash	22	33,127	28,138
Total short-term assets		58,339	90,525
C. Short-term accrued revenue and deferred costs	30	50,024	50,042
Total assets		1,109,551	1,022,677
EQUITY AND LIABILITIES			
A. Equity			
I. Called-up capital	23	364,810	364,810
II. Capital surplus	24	216,761	216,619
III. Revenue reserves	25	0	0
V. Revaluation revenue	26	313,011	286,280
VI. Retained earnings		77,877	77,877
VII. Net profit/loss for the year		5,864	0
Total equity		978,323	945,586
B. Provisions and long-term accrued costs and deferred revenue	27		
I. Provisions for pensions and similar obligations		213	214
II. Other provisions		538	538
III. Long-term accrued costs and deferred revenue		1,544	2,672
Total provisions and long-term accrued costs and deferred revenues		2,295	3,424
C. Long-term liabilities			
I. Long-term financial liabilities	29		
4. Other long-term financial liabilities		50,000	0
Total long-term financial liabilities		50,000	0
II. Long-term operating liabilities	28		
4. Long-term operating liabilities from advances		364	12
Total long-term operating liabilities		364	12
III. Deferred tax liabilities	12	24,908	20,223
Total long-term liabilities		75,272	20,235
D. Short-term liabilities			
II. Short-term financial liabilities	29	0	0
III. Short-term operating liabilities	28		
2. Short-term operating trade liabilities		3,239	2,996
5. Short-term liabilities to the State		50,009	50,011
6. Other short-term operating liabilities		313	304
Total short-term operating liabilities		53,561	53,311

Item	Note	31 Dec. 2017	31 Dec. 2016
Total short-term liabilities		53,561	53,311
E. Short-term accrued costs and deferred revenue	30	100	121
Total equity and liabilities		1,109,551	1,022,677

Disclosures and notes on pages 85 to 143 are an integral part of these financial statements.

14.4 Cash flow statement for the period from 1 January 2017 to 31 December 2017

in EUR 000

Item	1 Jan.–31 Dec. 2017	1 Jan.–31 Dec. 2016
A. Cash flows from operating activities		
a) Net profit or loss and adjustments		
Profit or loss before tax	1,601	-13,460
Adjustments for amortisation and depreciation	974	1,052
Adjustments for financial revenue from financing	-49,770	-30,897
Adjustments for financial expenses from financing	52,328	50,571
Total cash flow derived from the income statement items	5,133	7,266
b) Changes in net operating assets in the balance sheet items		
Opening less closing operating receivables	47	1,693
Opening less closing deferred costs and accrued revenues	18	-50,001
Opening less closing deferred tax assets	-4,757	-11,358
Opening less closing assets (disposal groups) held for sale	5,367	-733
Closing less opening operating liabilities	251	50,030
Closing less opening accrued costs and deferred revenues, and provisions	-3,797	2,731
Closing less opening deferred tax liabilities	4,757	11,358
Total net operating assets in the operating balance sheet items	1,886	3,720
c) Net cash from operating activities	7,019	10,986
B. Cash flows from investing activities		
a) Cash receipts from investing activities		
Interest and dividends received from investing activities	25,781	25,943
Cash receipts from disposal of property, plant and equipment	7	0
Cash receipts from disposal of long-term financial investments	32,552	23,909
Cash receipts from disposal of short-term financial assets	58,616	9,465
Total cash receipts from investing activities	116,956	59,317
b) Cash disbursements from investing activities		
Cash disbursements to acquire intangible assets	-218	-54
Cash disbursements to acquire property, plant and equipment	-35	-124
Cash disbursements to acquire investment property	-324	0
Cash disbursements to acquire long-term financial assets	-66,946	-34,445
Cash disbursements to acquire short-term financial assets	-4,000	0
Total cash disbursements from investing activities	-71,523	-34,623
c) Net cash from investing activities	45,433	24,694
C. Cash flows from financing activities		
a) Cash receipts from financing activities		
Capital increase and effect of free acquisition of investments	141	206
Cash from increase in long-term financial liabilities	2,396	3,650
Total cash receipts from financing activities	2,537	3,856

in EUR 000

Item	1 Jan.–31 Dec. 2017	1 Jan.–31 Dec. 2016
b) Cash disbursements from financing activities		
Cash repayments of long-term financial liabilities	-50,000	-50,000
Total cash disbursements from financing activities	-50,000	-50,000
c) Net cash from financing activities	-47,463	-46,144
D. Closing balance of cash		
a) Net cash for the period	4,989	-10,464
b) Opening balance of cash	28,138	38,602
c) Total closing balance of cash	33,127	28,138

Disclosures and notes on pages 85 to 143 are an integral part of these financial statements.

14.5 Statement of changes in equity for the period from 1 January 2017 to 31 December 2017

in EUR 000

	Share capital	Capital surplus	Revaluation reserve	Retained earnings	Net profit or loss for the year	Total
A. 1. As at 31 December 2016	364,810	216,619	286,280	77,877	0	945,586
A. 2. As at 1 January 2017	364,810	216,619	286,280	77,877	0	945,586
B. 1. Changes in equity – transactions with owners	0	142	0	0	0	142
d) Additional paid-in capital	0	142	0	0	0	142
B. 2. Total comprehensive income for the period	0	0	26,731	0	5,864	32,595
a) Net profit or loss for the period	0	0	0	0	5,864	5,864
d) Financial assets revaluation reserve	0	0	26,731	0	0	26,731
B. 3. Changes in equity	0	0	0	0	0	0
C. Closing balance as at 1 December 2017	364,810	216,761	313,011	77,877	5,864	978,323

Disclosures and notes on pages 85 to 143 are an integral part of these financial statements.

In 2017, the capital surplus increased by EUR 142 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 1 January 2016 to 31 December 2016

in EUR 000

		Share capital	Capital surplus	Revaluation reserve	Retained earnings	Net profit or loss for the year	Total
A. 1.	As at 31 December 2015	364,810	216,413	286,068	46,749	37,572	951,612
A. 2.	As at 1 January 2016	364,810	216,413	286,068	46,749	37,572	951,612
B. 1.	Changes in equity – transactions with owners	0	206	0	0	0	206
d)	Additional payments of capital	0	206	0	0	0	206
B. 2.	Total comprehensive income for the period	0	0	212	0	-6,444	-6,232
a)	Net profit or loss for the period	0	0	0	0	-6,444	-6,444
d)	Financial assets revaluation reserve	0	0	273	0	0	273
d)	Other components of comprehensive income of the reporting period	0	0	-61	0	0	-61
B. 3.	Changes in equity	0	0	0	31,128	-31,128	0
a)	Allocation of the remaining net profit for the comparative period to other equity components	0	0	0	37,572	-37,572	0
b)	Allocation of a portion of net profit for the period to other components of equity under the decision of management and supervisory body	0	0	0	-6,444	6,444	0
C.	Closing balance as at 1 December 2016	364,810	216,619	286,280	77,877	0	945,586

Disclosures and notes on pages 85 to 143 are an integral part of these financial statements.

14.7 Distributable profit for 2017

		in EUR 000	
		31 Dec. 2017	31 Dec. 2016
a	Net profit/loss for the year	5,864	-6,444
b	+ Retained net profit/loss	77,877	84,321
e	Distributable profit (a+b), distributed by the AGM	83,741	77,877

In 2017, Kapitalska družba disclosed distributable profit in the amount of EUR 83,741 thousand.

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Disclosures and notes

15.1 General disclosures

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Company profile

Kapitalska družba is a public limited company with its registered office at Dunajska cesta 119, Ljubljana, Slovenia. The sole shareholder of Kapitalska družba 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.

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.

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 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. (Slovenian Sovereign Holding – SDH), 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 SDH are proposed by the Management Board of the Slovenian Sovereign 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.

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Information about the controlling company

Kapitalska družba does not have a controlling company.

Information on subsidiary

Subsidiary of Kapitalska družba as at 31 December 2017 is presented in the table below.

Subsidiary	Country	Share in equity	in EUR 000	
			Equity of the Company as at 31 Dec. 2017	Net profit for 2017
Modra zavarovalnica, d. d.	Slovenia	100.00%	244,040	7,780

As the parent company, Kapitalska družba consolidates Modra zavarovalnica, d. d.

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 December 2017, 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 (ZZavar-1) 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 7, paragraph 2, item 1 of the ZZavar;
- life insurance – Article 7, paragraph 2, item 19 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. Furthermore, 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 subsidiary.

Data on consolidation

Kapitalska družba is, as the controlling company, obligated to prepare consolidated financial statements. The consolidated financial statements of the Kapitalska družba Group for 2017 are presented in a special document entitled the Consolidated Annual Report of the Kapitalska družba Group for 2017.

The Annual Report of Kapitalska družba, d. d. for 2017 has to be read in conjunction with the Consolidated Annual Report of the Kapitalska družba Group for 2017, which will be prepared upon the drafting of the Annual Report of Kapitalska družba for 2017 and the annual report of its subsidiary for 2017.

The consolidated Annual Report of the Kapitalska družba Group will be published at http://www.kapitalska-druzba.si/o_kapitalski_druzbi/letna_porocila by the end of August 2018.

Information about employees

At the end of 2017, Kapitalska družba had 60 employees inclusive of the two members of the Management Board. In 2017, the Company had 60 employees on average. The number of employees of Kapitalska družba as at 31 December 2017 and the average number of employees in 2017 according to the level of education is presented in the table below.

Table 18: Number of employees and average number of employees by educational level in 2017

Level of education	Number of employees as at 31 Dec. 2017	Average number of employees in 2017
Level 8 (8/1, 8/2)	13	13
Level 7	21	21
Level 6 (6/1, 6/2)	13	12
Level 5	12	13
Level 4	1	1
Total	60	60

15.2 Accounting policies

Basis for preparation

The financial statements for 2017 have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the EU, and the Companies Act.

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.

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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 2017. It did not apply any standard or interpretation before its application became obligatory in 2017.

Amendments to standards and interpretations

Initial application of new amendments to the existing standards effective for the current reporting period

The following amendments to the existing standards and new interpretation issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:

- Amendments to IAS 7 "Statement of Cash Flows" – Disclosure Initiative – adopted by EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017).

- Amendments to IAS 12 “Income Taxes” – Recognition of Deferred Tax Assets for Unrealised Losses – adopted by EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017).
- Amendments to various standards – “Improvements to IFRSs (2014–2016)”, resulting from the annual improvement project of IFRSs (IFRS 1, IFRS 12 and IAS 28), primarily with a view to remove inconsistencies and to clarify wording, adopted by the EU on 8 February 2018 (IFRS 12 amendments are to be applied for annual periods beginning on or after 1 January 2017).

Standards and amendments to the existing standards issued by the IASB and adopted by the EU but not yet effective

At the date of authorisation of these financial statements, the following new standards issued by IASB and adopted by the EU are not yet effective:

- IFRS 9 “Financial Instruments” – adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018).

IFRS 9, effective for annual periods beginning on 1 January 2018, will bring about changes in the classification and measurement of financial instruments, which will depend on the characteristics of cash flows and the business model for managing them. It introduces a new impairment method in relation to the expected loss or recognition of expected credit losses from the first recognition and for the lifetime period. It also introduces a significantly amended hedge accounting model with the disclosures of hedging activities. The new standard requires extensive additional disclosures on risk management.

In 2017, the Company started to prepare for the implementation of the new standard, introduced the project and adjusted its IT support and policies. Assessments of the impact of the transition to a new standard have also been drawn up, showing that the new standard will have no material impact on the Company’s total equity.

- IFRS 15 “Revenue from Contracts with Customers” and amendments to IFRS 15 ‘Effective date of IFRS 15’, adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 15 “Revenue from Contracts with Customers” - Clarifications to IFRS 15 Revenue from Contracts with Customers – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018).
- IFRS 16 - “Leases” – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019).
- Amendments to IFRS 4 “Insurance Contracts” – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – adopted by the EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 “Financial Instruments” is applied for the first time).
- Amendments to various standards – “Improvements to IFRSs (2014–2016)”, resulting from the annual improvement project of IFRSs (IFRS 1, IFRS 12 and IAS 28), primarily with a view to remove inconsistencies and to clarify wording, adopted by the EU on 8 February 2018 (effective for annual periods beginning on or after 1 January 2018).

New standards and amendments to the existing standards 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 the regulations adopted by the International Accounting Standards Board (IASB), except for the following new standards, amendments to the existing standards and new interpretations, which were not endorsed for use in the EU as at the issuing date of these financial statements (the effective dates indicated below apply for entire IFRS):

- IFRS 14 “Regulatory Deferral Accounts” (effective for annual periods beginning on or after 1 January 2016) – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard.
- IFRS 17 “Insurance Contracts” (effective for annual periods beginning on or after 1 January 2021).

- Amendments to IFRS 2 “Share-based Payment” – Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 9 “Financial Instruments” – Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019).
- Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date was deferred indefinitely until the research project on the equity method has been concluded).
- Amendments to IAS 19 “Employee Benefits” – Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 28 “Investments in Associates and Joint Ventures” – Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 40 “Investment Property” – Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018).
- Amendments to various standards due to “Improvements to IFRSs (cycle 2015–2017)” resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019).
- IFRIC 22 “Foreign Currency Transactions and Advance Consideration” (effective for annual periods beginning on or after 1 January 2018).
- IFRIC 23 “Uncertainty over Income Tax Treatments” (effective for annual periods beginning on or after 1 January 2019).

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

Hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted by the EU, is still unregulated.

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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.

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 Companies 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 Kapitalska 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	Depreciation/amortisation rate (in %)
Software	10
Software applications obtained after 1 Jan. 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 1 January January 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	Depreciation/amortisation rate (in %)
Buildings	3.00–3.33
Equipment	16.67–33.33
Building parts	6.00

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 and equipment are derecognised when the relevant asset is disposed of or when the Company no longer expects economic benefits from the asset's continued 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 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

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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 percent annually and the estimated useful life is 33.33 or 30 years. The depreciation rate of parts of investment property is 6.00 percent annually and the estimated useful life is 16.67 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.

The cash generating unit includes investment property by locations.

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.

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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 available-for-sale financial assets revaluation reserve until the investment is sold or disposed of in some other manner. If an investment is impaired, the impairment loss 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. Investments in 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.

The Company allocates and measures subsidiaries in accordance with IAS 27 and values them at cost and impairs them in accordance with IAS 36.

The Company allocates and measures associates and joint ventures in accordance with IAS 39 and values them at fair value.

Kapitalska družba, d. d., may not exercise voting rights arising from dematerialized securities acquired on the basis of the Dematerialized Securities Act (ZNVP-1), in accordance with the said law. Due to the above, investments in these companies are not consolidated.

Determining fair value of investments

Pursuant to IFRS 13, the Company determines fair value of investments as if it were the amount received from disposal of an asset or paid for transfer of liabilities in regular transaction between market participants on the measurement day. The measurement date is the date of preparation of financial statements of Kapitalska družba. In case of such a transaction, fair value is measured based on the assumption that the transaction is taking place on the principal market or, if principal market does not exist, on the most advantageous market.

Upon investment acquisition, the Company determines one of the following as the principal market for that investment:

- stock exchange market (for equity and debt instruments and collective investment trusts), or
- traders' market or OTC¹⁴ (market for debt investments).

At the measurement date, the Company checks again the market that was defined as the principal market of that investment upon acquisition.

At the measurement date, the Company verifies if the relevant market is active.

In case of exchange trading, the assumption of active market is fulfilled if the average amount of individual investment traded in a day over the last 180 days from the date of fair value measurement exceeds EUR 0.5 million by taking into account the number of trading days (in case of Ljubljana Stock Exchange the average daily turnover of EUR 0.1 million is taken into account). In the event of an active exchange, fair value is measured using the last known quoted price. In the event of less liquid exchange markets, fair value is measured using the most recent quoted price of not more than 90 days. If neither of the above applies, fair value of the investment is measured on the basis of the valuation technique.

In the event of off-exchange trading, i.e. OTC market, the assumption of active market is fulfilled if the CBBT¹⁵ price is quoted for at least a half of trading days in the last 30 days from the measurement date. In the event of an active OTC market, fair value is measured using the last known CBBT price. If the OTC market is less liquid, fair value is measured using the most recent CBBT price of not more than 90 days. When the CBBT price is not available, fair value may be measured using the BVAL¹⁶ price, if available. If neither of the above applies, fair value of the investment is measured on the basis of the valuation technique.

For bonds, valuation model is used which includes benchmark against the current fair value of another instrument with similar main characteristics. Amortised cost model is applied when determining fair value of treasury and commercial bills.

Value of shares can be estimated using the following valuation techniques: market based valuation approach, income approach and, in certain cases, asset approach. Valuation is based on the most recent information on the Company's performance, which must not be older than 3 to 6 months from the fair value measurement date to which the value estimate will be applied. Market data and parameters used in the valuation process must include the most recent information and must be compliant with the date the estimated value will be applied to. If 3 to 6 months old information on the Company's performance cannot be obtained, or if the information does not suffice for valuation, the value can be exceptionally estimated by using older data, which however must not be older than 12 months. When applying the market approach, comparative companies should be selected taking into account their comparability in the context of industry, size, growth potential,

¹⁴ OTC (Over-The-Counter) market, transactions involving securities and agreed bilaterally between two parties outside the organised market.

¹⁵ Composite Bloomberg Bond Trader is Bloomberg information on real-time prices of bonds. Bloomberg calculates the price of a bond based on the weighted average price (both indicative and binding) drawn from by a number of different dealers.

¹⁶ Bloomberg Valuation Service refers to Bloomberg information about the price of an individual bond at the end of trade date. The BVAL price is calculated based on the information about the price of concluded transactions and binding quotations, whereas the majority of BVALs is calculated applying models.

the availability of historical data on operations and other possible elements affecting comparability of individual companies.

In line with IFRS 13.69, the Company measures fair value applying unadjusted, quoted prices in active markets.

For valuation, the Company uses as unadjusted, quoted price exclusively the closing quote on stock exchange or closing CBBT or BVAL price.

Criteria for classification of investments based the level of the fair value hierarchy

Investments at fair value are classified based on the fair value level pursuant to IFRS 13. To increase consistency and comparability in fair value measurements, IFRS 13 defines fair value hierarchy, which categorises the inputs used in valuation techniques into three levels:

- Level 1 inputs are (unadjusted) quoted prices in active markets for identical investments that the entity can access at the measurement date;
- Level 2 inputs are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Pursuant to IFRS 13.82, level 2 inputs include:
 - quoted prices for similar investments in active markets,
 - quoted prices for identical or similar assets in less liquid markets,
 - inputs other than quoted prices that are observable for the asset or liability, for example: interest rates and yield curves observable at commonly quoted intervals (implied volatiles, credit spreads, etc.),
 - inputs corroborated by market;
- Level 3 inputs are unobservable inputs.
 - BVAL price.

Pursuant to IFRS 13.74, in measuring fair value the Company favours the inputs used in valuation techniques rather than valuation techniques.

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In line with IFRS 13.97, the fair value hierarchy includes also the investments that are not measured at fair value in the statement of financial position (normally measured at amortised cost) but for which the fair value is disclosed.

Investments are classified into levels based on the characteristics of the input used to determine fair value of investments and to assess whether the principal market is active.

Classification of equity investments

Table 19: Equity investment classification in case of exchange as the principal market (quoted equity investments)

Level 1	Equity investments with fair value measured on the basis of quoted prices in active markets
Level 2	Equity investments with fair value measured on the basis of quoted prices in less liquid markets Equity investments for which quoted prices are not available and their fair value is measured using the valuation technique (taking into account level 2 inputs)
Level 3	Equity investments for which quoted prices are not available and their fair value is measured using the valuation technique (taking into account level 3 inputs) or prices provided by third parties

Table 20: Classification of unquoted equity investments

Level 1	-
Level 2	Equity instruments with fair value measured using the valuation technique (taking into account level 2 inputs)
Level 3	Equity instruments with fair value measured using the valuation technique (taking into account level 3 inputs) or prices provided by third parties

Table 21: Classification of collective investment funds

Level 1	Collective investments with fair value measured on the basis of quoted prices in active markets
Level 2	Collective investments with fair value measured on the basis of quoted prices in less liquid market
Level 3	Collective investment funds for which quoted prices are not available and their fair value is measured on the basis of quoted value per subfund unit

Table 22: Classification of mutual funds coupons

Level 1	Mutual fund units with fair value measured on the basis of quoted value per subfund unit
Level 2	-
Level 3	-

Classification of debt investments

The fair value hierarchy includes also debt instruments which are not measured at fair value in the statement of financial position otherwise. These normally include bonds at amortised cost that are measured at fair value for disclosure purposes. For these bonds, the same classification rules apply as for debt securities measured at fair value in the statement of financial position.

Table 23: Classification of debt investments with exchange as the principal market

Level 1	Debt investments with fair value measured on the basis of quoted prices in active markets
Level 2	Debt investments with fair value measured on the basis of quoted prices in less liquid markets Debt securities measured using the valuation technique (taking into account level 2 inputs)
Level 3	Debt securities measured using the valuation technique (taking into account level 3 inputs) or prices provided by third parties

Table 24: Classification of debt investments with OTC market as the principal market

Level 1	Debt investments with fair value measured using CBBT price in active markets
Level 2	Debt investments with fair value measured using CBBT price in less liquid markets Debt investments with fair value measured on the basis of transaction prices in less liquid markets Debt securities without CBBT price in (in)active markets and fair value measured using the valuation technique (taking into account level 2 inputs)
Level 3	Debt securities without CBBT price in (in)active markets and with fair value measured using the BVAL valuation technique (taking into account level 3 inputs) or prices provided by third parties

For debt securities whose principal is due in the current year and for which market price, CBBT price or BVAL price of less than 90 days are not available, are valued at the last available price and classified as Level 3.

Commercial bills of Slovenian issues are valued at amortised cost and classified as Level 3.

Classification of loans and deposits

Bank deposits are disclosed at amortised cost in the statement of financial position. As there is no market for deposit interest rates with directly observable prices, the Company measures deposits for the fair value disclosure purposes using the initial or contractual interest rate, which are categorised within level 3 as unobservable inputs.

Interest is accrued daily on debentures, certificates of deposits, loans and cash deposits in line with the underlying contractual provisions.

Impairment of financial assets

The Company is regularly checking if there is a need for impairment of financial assets. 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 in the value of equity investments to be one in which the amount of the negative revaluation and exchange rate differences recognised in the equity reach 20% of the investment's cost. In this case such equity investments are impaired in the total amount of the cumulative unrealised net loss and exchange rate differences. When the amount of revaluation due to impairment and exchange rate differences recognised in the equity equals between 10% and 20%, the Company considers the need for impairment based on the time component and the relevance of investments in terms of the portfolio size. When the negative revaluation recognised in the equity equals between 10 and 20% 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.

The above does not apply to non-marketable investments whose fair value is determined by model. These investments are always subject to permanent impairment recognised in the income statement.

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.

Impairment and reversal of impairment of financial assets carried at cost

If there is objective evidence that an impairment loss has incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for similar financial assets. Such impairment losses shall not be reversed. Kapitalska družba is using the valuation model to determine if there is objective evidence of impairment.

Impairment and reversal of impairment of available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in other comprehensive income shall be removed from equity and recognised in profit or loss even though the financial asset has not been derecognised.

The amount of the cumulative loss that is removed from equity and recognised in profit or loss shall be the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available for sale shall not be reversed through profit or loss.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in profit or loss.

Recoverable amount of non-current assets

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

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

Non-current 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, 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.

The total equity consists of: called-up capital, capital surplus, revenue reserves, retained net earnings or retained net loss, reserve from valuation at fair value 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.

Reserves from valuation at fair value

Reserves from valuation at fair value arises solely from effects of valuation of financial assets available for sale at fair value. Amounts of reserves from valuation at fair value are disclosed in the statement of financial position 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

Revenues 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 statement of financial position 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.

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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 December 2017 and 31 December 2016, income statement data for the year 2017, and additional data necessary for the adjustment of revenue and expenditure and for the appropriate breakdown of significant items.

Risk management

Risk management is a crucial activity in performing the activities of Kapitalska družba. Particularly in the economic crisis, efficient risk management is a condition for successful and stable operations. 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. Kapitalska družba has organised a Risk Management Department, subordinate directly to the Company's Management Board, coordinating and monitoring the risk management process. At the end of 2017, the process of updating the register of risks was initiated. On the basis of the risk inventory and updated risk assessments as well as the consequences of loss events, the process will update the register of risks to which the Company is or could be exposed in its operations.

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 issuers' financial position, 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 decreases 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 portfolios. 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 instruments 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 debt securities portfolios, by classifying investments in the group of assets held to maturity, 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.

Foreign exchange 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 by taking into account the currency in which the instrument is denominated initially, while changes in the exchange rates of securities that constitute a specific instrument or investment fund are not monitored.

Credit risk

Credit risk is related to investments in debt instruments (investments in bonds, treasury bills, commercial papers, deposits, 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 and complying with investment limits with regard to exposure to individual investments. Credit risk is managed also by dispersion of investments and regular monitoring of credit margins and credit ratings of investments and issuers or contractual partners. According to internal acts, the business partners' and assets' 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, and units or shares of open-end investment funds investing in such debt securities.

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 a large share of investments of Kapitalska družba, which includes 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 more liquid foreign instruments. 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 also a system of recording loss events and regular monitoring of the implementation of measures adopted. Internal audit function performs regular examinations of operating processes and provides recommendations to help strengthening internal controls and mitigating risks.

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 business goals 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 2017, three actions were brought against Kapitalska družba, d. d. in connection with the exercise of the right to pay a one-off redemption value on a personal capital account on the basis of the previously valid Paragraph 5 of Article 206 of ZPIZ-2 (until the entry into force of amendment ZPIZ-2B). Kapitalska družba, d. d., responded to all the actions within the legal deadline. In 2017, all legal proceedings of the policyholders of SODPZ, members of the Slovenian Armed Forces, where the policyholders, after withdrawing the action, lodged an appeal against the decision on the payment of the litigation costs. In 2017, a procedure of a SODPZ policyholder, a member of the Slovenian Armed Forces, who demanded Kapitalska družba, d. d., to pay default interest due to an alleged delay in the payment of redemption value on the basis of a previously valid Paragraph 5 of Article 206 of ZPIZ-2. Kapitalska družba, d. d., filed an appeal against the final judgement order-

ing Kapitalska družba, d. d., to pay default interest, on which the Supreme Court of the Republic of Slovenia has not yet decided.

In 2017, five appeals of the SODPZ policyholders were received and resolved.

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 for the first time adopted the Corporate Governance Code of the Group in March 2012, which includes the Group's governance policies and as such provides the basis for efficient management of subsidiary company. 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 Subsidiary's Reporting to the Parent Company, which specifically define the reporting type and method as well as deadlines. The business of the subsidiary 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 Subsidiary's Reporting to the Parent Company. The Management Board of the subsidiary company is in charge of reporting. It presents various reports at meetings of the Management Board and the Supervisory Board the parent company. 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 December 2014, SDH adopted and amended in May 2016 the Corporate Governance Code for Companies with a State Capital Investment, which has been 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 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	
	2017	2016
Revenue from fund's management	7,918	8,444
- management fee	6,748	6,721
- entry fee	1,144	1,250
- exit fee	5	413
- revenues from pension annuities	21	60
Revenue from lease payments	1,426	1,410
Other revenue from sales	142	207
Total	9,486	10,061

Net sales of EUR 9,486 thousand were realised on the domestic market. Revenue from fund's management decreased in 2017 compared to the previous year, mainly due to lower entry fees resulting from the lower value of the paid contributions, which is a consequence of a decreased contribution rate, which amounted to 8% as of 1 January 2017, revenue from exit fees decreased due to a lower number of redemption value payment claims in 2017, while the income from occupational pensions decreased due to a lower percentage of payment expenses in 2017.

A major part of revenue from lease payments represents lease payments for investment property.

Other revenue from sales means revenue from information services provided for Modra zavarovalnica, d. d., which was lower compared to 2016 due to the transition of the subsidiary to a self-contained fund management information system.

Note no. 2

Other operating revenue (including revaluation revenue)

	in EUR 000	
	2017	2016
Revenue from reversal of long-term provisions	0	68
Revaluation operating revenue	7	0
Total	7	68

Revaluation operating revenue in the amount of EUR 7 in 2017 thousand represents gains from the sale of fixed assets.

In 2016, Kapitalska družba reversed provisions for onerous contracts in the amount of EUR 30 thousand, provisions for non-achievement of guaranteed rate of return of the SODPZ pension fund in the amount of EUR 13 thousand, and provisions for severance pay and jubilee benefits in the amount of EUR 25 thousand.

Note no. 3

Costs of goods, materials and services

	in EUR 000	
	2017	2016
Costs of materials	123	120
Costs of services	1,456	1,391
Total	1,579	1,511

Costs of materials

Costs of materials comprise costs of power supply, write-off of low value assets, costs of office supplies and professional literature, and other costs of materials, the predominant part of which refers to energy costs in the amount of EUR 70 thousand.

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 entertainment, costs of services provided by natural persons, and costs of other services, the major part of which comprises costs of maintenance of office buildings and fixed assets in the amount of EUR 382 thousand, costs of intellectual services in the amount of EUR 313 thousand, and costs of other services, such as managing the KDD register and ATVP control (Securities Market Agency) in the amount of EUR 220 thousand.

Costs of companies sales procedures amounted to EUR 30 thousand in 2017.

Costs of audit

The cost of the 2017 Annual Report audit amounted to EUR 16,982. The amount paid for the auditor for non-audit services in 2017 amounted to EUR 23,017. The cost of the auditor for tax consultancy services in 2017 amounted to EUR 2,440.

Note no. 4

Labour costs

	in EUR 000	
	2017	2016
Payroll costs	2,393	2,303
Salary substitutes	47	33
Supplementary pension insurance costs	117	117
Pay for annual leave, reimbursements and other receipts	231	252
Other employer's contributions on salaries, salary substitutes, bonuses, reimbursements and other receipts of employees	394	377
Total	3,182	3,082

Note no. 5

Amortisation, depreciation and write-offs

	in EUR 000	
	2017	2016
Amortisation/Depreciation	974	1,052
Amortisation of long-term intangible assets	61	118
Depreciation of buildings	158	159
Depreciation of garages	11	11
Depreciation of equipment and spare parts	106	107
Depreciation of investment property	638	657
Revaluation operating expenses related to fixed assets	0	771
Impairment of investment property	0	771
Total	974	1,823

Amortisation of long-term intangible assets

Total amortisation expense of EUR 61 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 158 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 91 thousand), wooden furniture (EUR 7 thousand), and other equipment (EUR 8 thousand).

Depreciation of investment property

Investment property depreciation charge refers to the depreciation of business premises leased out in the amount of EUR 602 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 7 thousand.

Revaluation operating expenses related to fixed assets

In 2016, Kapitalska družba impaired the investment property in the amount of EUR 771 thousand.

Note no. 6

Other operating expenses

	in EUR 000	
	2017	2016
Costs of a pupil on compulsory practical training	1	0
Total	1	0

Note no. 7

Financial revenue

	in EUR 000	
	2017	2016
Financial revenue from shares and interests	44,070	27,389
Financial revenue from other investments and loans	5,700	5,963
Financial revenue from other investments	5,418	5,328
Financial revenue from loans	282	635
Total	49,770	33,352

Financial revenues from shares and interests increased in 2017 compared to 2016 due to recognized effects from the sale of foreign shares and investment coupons, which amounted to EUR 18,309 thousand in 2017 and only EUR 675 thousand in 2016.

Financial revenue from shares and interests

	in EUR 000	
	2017	2016
Dividends and shares in profits	23,544	20,998
Revaluation financial revenue	196	27
Revenue from the sale of financial assets available for sale	18,973	679
Revenue from the sale of financial assets at fair value through profit and loss	6	0
Revenues from reversal of impairments	0	2,228
Revenue from transfer of accrued costs and deferred revenue, and acquisition of shares	1,128	3,457
Revenue from the acquisition of abandoned securities	223	0
Total	44,070	27,389

Revaluation operating revenue in the amount of EUR 196 thousand comprises revenue from exchange rate differences on receivables and liabilities.

Revenues from sale of financial assets in the amount of EUR 18,973 thousand constitute realized capital gains from the disposal of available-for-sale financial assets, which increased compared to 2016 mostly due to the recognized effects from the sale of foreign shares and investment coupons, which in 2017 amounted to EUR 18,309 thousand and in 2016 only to EUR 675 thousand.

The amount of EUR 1,128 thousand represents the value of the transfer of a proportionate part of the difference between the fair value and transaction value of the investment in the financial asset into revenues.

Revenues from the acquisition of abandoned securities in the amount of EUR 223 thousand are recognized in accordance with Article 48a of ZNVP-1, which stipulates that the Central Securities Depository shall credit all dematerialized securities cancelled by the holders to a special account held by Kapitalska družba, d. d.

Financial revenue from other investments and loans

	in EUR 000	
	2017	2016
Interest income	4,527	4,969
Revenue from the revaluation of receivables, liabilities and loans to retain their value	165	108
Exchange rate gains	165	108
Revenue from realised gains	1,008	886
Revenue from the sale of financial assets available for sale	1,008	886
Total	5,700	5,963

Interest income

	in EUR 000	
	2017	2016
Deposits	282	635
Bonds	3,757	4,311
Available for sale	2,703	3,262
Held to maturity	1,054	1,049
Other securities	14	23
At fair value through profit or loss	11	18
Held to maturity	3	5
Other	474	0
Total	4,527	4,969

The second refers to interest arising from investments in financial receivables.

Revenue from sale of financial assets

	in EUR 000	
	2017	2016
Revenue from realised gains	19,987	1,565
Available-for-sale financial assets	19,981	1,565
At fair value through profit or loss	6	0

Note no. 8

Financial expenses

	in EUR 000	
	2017	2016
Interest expense	5	3
Revaluation financial expenses	2,091	568
Expenses from the sale of equity investments available for sale	15	0
Impairment of equity investments at fair value through equity	1,398	413
Expenses from the valuation of financial assets at fair value through profit and loss	79	0
Expenses from the cancellation of shares	0	86
Foreign exchange losses	443	39
Other revaluation expenses	156	30
Expenses for ZPIZ	50,000	50,000
Total	52,096	50,571

All impairments of financial assets in the amount of EUR 1,398 thousand refer to available-for-sale financial assets.

Shares and stakes classified as available-for-sale financial assets were impaired in the total amount of EUR 1,398 thousand. The Company assessed that there was objective evidence of impairment of these financial assets. The fair value of assets was estimated based on internal valuations. 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 determined based on the comparison of performance indicators and stock price of comparable companies.

Pursuant to provision of ZIPRSS1617 and ZIPRS1718 respectively, Kapitalska družba credited EUR 50 million to ZPIZ in 2017. These payments were included in the financial expenses from other financial liabilities in the income statement.

Foreign currency translation

	in EUR 000	
	2017	2016
Exchange rate gains	165	108
Exchange rate losses	443	39
Net exchange rate gains/losses	-278	69

In 2017, the net exchange rate loss amounted to EUR 278 thousand.

Profit or loss from financial assets

	in EUR 000	
	2017	2016
Income from financial assets	49,770	33,352
Expenses from financial assets	-52,096	-50,571
Net profit or loss financial asset	-2,326	-17,219

Note no. 9

Other revenue

	in EUR 000	
	2017	2016
Other items	230	51
Total	230	51

The largest portion of other items are revenues from monetary compensations in the amount of EUR 161 thousand, revenues from the previous years in the amount of EUR 30 thousand and revenues in the amount of EUR 34 thousand paid to the Company from SODPZ arising from the retained earnings of KS SODPZ.

Note no. 10

Other expenses

	in EUR 000	
	2017	2016
Other items	60	5
Total	60	5

The majority of other items are the expenses for the non-achievement of guaranteed rate of return and expenses for tax paid on dividends from abroad.

Note no. 11

Income tax

	in EUR 000	
	2017	2016
Profit or loss before tax	1,601	-13,460
Non-deductible expenses	2,705	1,610
Allowances for bad debt and inventories	0	0
Provisions formation	0	0
Non-taxable revenue	25,042	40,425
Tax allowance	0	0

in EUR 000

	2017	2016
Tax loss	0	0
Total	-20,736	-52,275
Tax rate	-	-
Income tax	-	-

The largest items of untaxed revenue are excluded received and paid domestic dividends in 2017 and a decrease due to expenses for impairments from investments in previous years, which were deleted from the records of Kapitalska družba in 2017.

At 31 December 2017 Kapitalska družba reported no 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 loss of EUR 20,736 thousand.

The Management Board believes that the calculation of the tax liability for 2017 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 provision of ZIPRSS1617 and ZIPRS1718 respectfully, Kapitalska družba credited EUR 50 million to ZPIZ in 2017. To date, Kapitalska družba has already paid EUR 764,321 thousand to the ZPIZ. These payments were recognised in the income statement under other financial expenses and as tax deductible expenses in the calculation of the tax liability.

The effective tax rate (as the ratio between the corporate income tax and profit or loss before tax) was not calculated, because Kapitalska družba disclosed tax loss in 2017.

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

in EUR 000

	2017	2016
Profit or loss before tax	1,601	-13,460
Tax calculated at the general tax rate	304	-2,288
Change in tax based on:		
1. Revenue exempt from the tax base	4,758	6,872
Untaxed dividends received	4,071	3,104
Adjustment of revenues to the level recognised for tax purposes (decrease)	687	3,768
2. Expenses exempt from the tax base	514	274
Increase in expenses (unrecognised in previous periods)	687	3,375
Adjustment of expenses to the level recognised for tax purposes (decrease)	-173	-3,102
3. Tax reliefs used in current year	0	0
4. Other changes in differed taxes in the income statement	0	0
Total corporate income tax in the income statement	0	0
Total effective tax	0	0

In 2017, Kapitalska družba disclosed no corporate income tax liabilities, because a tax loss was identified for 2017.

Note no. 12

Deferred tax

As at 31 December 2017, deferred corporate income tax included the following:

	Statement of financial position		Income statement	
	31 Dec. 2017	31 Dec. 2016	2017	2016
Deferred income tax liabilities	47,509	43,246	0	0
Total deferred income tax liabilities	47,509	43,246	0	0
Deferred income tax assets	47,509	43,246	4,263	7,017
Loss brought forward to be used as tax allowance	24,835	20,113	4,722	11,348
Value adjustments of fixed assets	0	0	0	0
Value adjustment of receivables	0	0	0	0
Dividend adjustment	0	38	-38	4
Value adjustment of investments	22,601	23,022	-421	-4,342
Provisions	73	73	0	7
Total deferred income tax assets	47,509	43,246	4,263	7,017
Netting of deferred tax assets and liabilities arising from financial assets	24,908	20,224	-	-

In 2017, Kapitalska družba had a negative tax base of EUR 20,736 thousand. As at 31 December 2017, the unused tax loss totalled EUR 497,284 thousand and is freely transferable.

Disclosure of changes in deferred tax recognised in equity

	in EUR 000	
Changes in deferred tax	2017	2016
Balance as at 1 Jan.	43,246	36,230
Changes as at 1 Jan.	0	0
Changes during the year	4,263	7,016
Balance as at 31 Dec.	47,509	43,246

Deferred tax liabilities of EUR 47,509 thousand at 31 December 2017 arose on revaluation of financial assets at fair value through equity.

Note no. 13

Net profit or loss for the period

Basic earnings per share are calculated by dividing net profit for the accounting period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the accounting 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 earnings per share depend also on any ordinary shares from convertible bonds, options and forward contracts. When

calculated, earnings 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.

	2017	2016
Net profit or loss attributable to holders of ordinary shares (000 EUR)	5,864	-6,444
Diluted net profit or loss attributable to holders of ordinary shares (000 EUR)	5,864	-6,444
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 per share (EUR)	6.7	-7.4

At 31 December 2017, 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.

15.3.2 Notes to the statement of financial position

Note no. 14

Intangible assets and long-term deferred costs and accrued revenues

Table 25: Changes in intangible assets and long-term accrued revenue and deferred costs in 2017

	Software and other intangible assets	Long-term accrued revenue and deferred costs	Total
in EUR 000			
31 Dec. 2017			
COST			
Cost as at 1 Jan. 2017	3,077	0	3,077
Additions	218	50,000	50,218
Disposals	0	0	0
Cost as at 31 Dec. 2017	3,295	50,000	53,295
VALUE ADJUSTMENT			
Value adjustment as at 1 Jan. 2017	2,989	0	2,989
New purchases, transfers	0	0	0
Disposals, write-offs	0	0	0
Amortisation	61	0	61
Value adjustment as at 31 Dec. 2017	3,050	0	3,050
CARRYING AMOUNT			
Carrying amount as at 1 Jan. 2017	88	0	88
Carrying amount as at 31 Dec. 2017	245	50,000	50,245

Long-term deferred costs and accrued revenues in the amount of EUR 50,000 thousand relate to long-term deferred costs in connection with settling the liabilities of Kapitalska družba, d. d., to ZPIZ for 2019, pursuant to Paragraph 2 of Article 65 of ZIPRS1819.

Intangible assets refer to software and licenses.

Table 26: Changes in intangible assets and long-term accrued revenue and deferred costs in 2016

in EUR 000

31 Dec. 2016	Software and other intangible assets
COST	
Cost as at 1 Jan. 2016	3,023
Additions	54
Disposals	0
Cost as at 31 Dec. 2016	3,077
VALUE ADJUSTMENT	
Value adjustment as at 1 Jan. 2016	2,871
New purchases, transfers	0
Disposals, write-offs	0
Amortisation/depreciation	118
Value adjustment as at 31 Dec. 2016	2,989
CARRYING AMOUNT	
Carrying amount as at 1 Jan. 2016	152
Carrying amount as at 31 Dec. 2016	88

Note no. 15

Property, plant and equipment

Table 27: Changes in property, plant and equipment in 2017

in EUR 000

31 Dec. 2017	Buildings	Other plant and equipment	Total
COST			
Cost as at 1 Jan. 2017	5,408	2,085	7,493
New acquisitions	0	35	35
Disposals	0	-284	-284
Cost as at 31 Dec. 2017	5,408	1,836	7,244
VALUE ADJUSTMENT			
Value adjustment as at 1 Jan. 2017	2,003	1,867	3,870
Additions, transfers	0	0	0
Disposals, write-offs	0	-284	-284
Depreciation	169	107	276
Value adjustment as at 31 Dec. 2017	2,172	1,690	3,862
CARRYING AMOUNT			
Carrying amount as at 1 Jan. 2017	3,405	218	3,623
Carrying amount as at 31 Dec. 2017	3,236	146	3,382

Table 28: Changes in property, plant and equipment in 2016

in EUR 000

31 Dec. 2016	Buildings	Other plant and equipment	Total
COST			
Cost as at 1 Jan. 2016	5,408	2,533	7,941
New purchases	0	124	124
Disposals	0	-572	-572
Cost as at 31 Dec. 2016	5,408	2,085	7,493
VALUE ADJUSTMENT			
Value adjustment as at 1 Jan. 2016	1,833	2,332	4,165
Additions, transfers	0	0	0
Disposals, write-offs	0	-572	-572
Amortisation/depreciation	170	107	277
Value adjustment as at 31 Dec. 2016	2,003	1,867	3,870
CARRYING AMOUNT			
Carrying amount as at 1 Jan. 2016	3,575	201	3,776
Carrying amount as at 31 Dec. 2016	3,405	218	3,623

*Note no. 16**Investment property*

Table 29: Changes in property, plant and equipment in 2017

in EUR 000

31 Dec. 2017	Buildings
COST	
Cost as at 1 Jan. 2017	23,115
New acquisitions, transfers	324
Disposals, transfers, impairments	0
Cost as at 31 Dec. 2017	23,439
VALUE ADJUSTMENT	
Value adjustment as at 1 Jan. 2017	6,781
Additions, transfers	0
Disposals, write-offs	0
Depreciation	638
Value adjustment as at 31 Dec. 2017	7,419
CARRYING AMOUNT	
Carrying amount as at 1 Jan. 2017	16,334
Carrying amount as at 31 Dec. 2017	16,020

The fair value of investment property does not significantly deviate from the carrying amount as at 31 December 2017, except for the Nebotičnik office building, whose fair value exceeds its carrying amount. The fair value of investment property was estimated

based on internal appraisal. The estimated value of investment property as at 31 December 2017 amounts to EUR 17,717 thousand. The comparison of carrying amounts and assessed value of the investment property items as at 31 December 2017 showed that impairments of investment property are not necessary.

Table 30: Changes in investment property in 2016

31 Dec. 2016	in EUR 000 Buildings
COST	
Cost as at 1 Jan. 2016	23,849
New acquisitions, transfers	37
Disposals, transfers, impairments	-771
Cost as at 31 Dec. 2016	23,115
VALUE ADJUSTMENT	
Value adjustment as at 1 Jan. 2016	6,124
Additions, transfers	0
Disposals, write-offs	0
Amortisation/depreciation	657
Value adjustment as at 31 Dec. 2016	6,781
CARRYING AMOUNT	
Carrying amount as at 1 Jan. 2016	17,725
Carrying amount as at 31 Dec. 2016	16,334

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Table 31: Rental income investment property and costs related to investment property

	in EUR 000	
	2017	2016
Rental income from investment property	1,415	1,399
Costs related to investment property	843	823

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. Fixed assets have not been pledged.

Note no. 17

Investments in subsidiary and associated companies

Investments in the subsidiary as at 31 December 2017 include:

No.	Subsidiary	Registered office	Equity stake in %
1.	Modra zavarovalnica, d. d.	Dunajska cesta 119, Ljubljana	100.00

in EUR 000

	31 Dec. 2017	31 Dec. 2016
Shares and interests in group companies	152,200	152,200
Total	152,200	152,200

Investments in associates as at 31 Dec. 2017 include:

No.	Associated company	Registered office	Equity stake in %
1.	Casino Maribor, d. d. – v stečaju ¹⁷	Glavni trg 1, Maribor	20.00
2.	Gio, d. o. o. – v likvidaciji	Dunajska cesta 160, Ljubljana	28.68
3.	Gospodarsko razstavišče, d. o. o.	Dunajska cesta 18, Ljubljana	29.51
4.	Hit, d. d. ¹⁸	Delpinova ulica 7a, Nova Gorica	20.32
5.	Loterija Slovenije, d. d.	Gerbičeva ulica 99, Ljubljana	25.00
6.	Sava, d. d.	Dunajska cesta 152, Ljubljana	22.56
7.	Terme Čatež, d. d.	satež ob Savi, Topliška cesta 35, Brežice	23.79
8.	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:

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

At the end of 2017, Kapitalska družba used internal valuation models and internal valuations to verify the value as at 31 December 2017, taking into account the most recent available data on companies' performance.

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in EUR 000

	31 Dec. 2017	31 Dec. 2016
Shares and interests in associated companies	36,962	32,168
Total	36,962	32,168

Note no. 18

Assets held for sale

Non-current assets held for sale include the following items as at 31 December 2017:

in EUR 000

	31 Dec. 2017	31 Dec. 2016
Assets held for sale	1,940	7,307
Total	1,940	7,307

Non-current assets held for sale in the amount of EUR 1,940 thousand as at 31 Dec. 2017 include equity investments for sale.

¹⁷ Pursuant to the ZFPPIPP, the bankruptcy manager deleted these shares from KDD. Prior to the Company's bankruptcy, Kapitalska družba held the stake as presented above.

¹⁸ The share in Hit, d. d., includes 33.33% of voting rights. Preference shares do not hold any voting rights, as the dividend was paid in 2017.

Note no. 19

Financial assets, excluding loans

	in EUR 000			
	Long-term		Short-term	
	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
Other shares and interests	601,648	532,067	0	0
Other financial assets	115,750	110,386	3,163	10,135
Total	717,398	642,453	3,163	10,135

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 Dec. 2017, financial assets except loans were classified into the following categories:

	in EUR 000					
	Long-term		Short-term		Total	
	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
Financial assets measured at fair value through profit or loss	4,761	0	597	622	5,358	622
Financial assets held to maturity	16,800	16,953	720	927	17,520	17,880
Available-for-sale financial assets	884,999	809,868	3,786	15,893	888,785	825,761
Total	906,560	826,821	5,103	17,442	911,663	844,263

Investments in securities

	in EUR 000	
	31 Dec. 2017	31 Dec. 2016
Financial assets measured at fair value through profit or loss	5,358	622
Equity securities	4,759	0
Debt securities	599	622
Financial assets held to maturity	17,520	17,880
Available-for-sale financial assets	854,905	791,197
Equity securities	787,991	723,741
Debt securities	66,914	67,456
Total	877,783	809,699

Financial assets at carrying amount and fair value as at 31 December 2017

in EUR 000

Financial asset	Carrying amount	Fair value
Financial assets measured at fair value through profit or loss	5,358	5,358
Financial assets held to maturity	17,520	22,268
Available-for-sale financial assets	888,785	888,785
Loans	18,917	18,917
Cash and cash equivalents	33,127	33,127
Total	963,707	968,455

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.

Financial assets at carrying amount and fair value as at 31 December 2016

in EUR 000

Financial asset	Carrying amount	Fair value
Financial assets measured at fair value through profit or loss	622	622
Financial assets held to maturity	17,880	23,313
Available-for-sale financial assets	825,761	825,761
Loans	58,654	58,654
Cash and cash equivalents	28,138	28,138
Total	931,055	936,488

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 2017

in EUR 000

	31 Dec. 2016	Acquisitions	Disposals, maturity	Revaluation	31 Dec. 2017
Financial assets measured at fair value through profit or loss	622	6,303	1,507	-60	5,358
Financial assets held to maturity	17,880	0	1,416	1,056	17,520
Available-for-sale financial assets	791,197	71,673	57,642	49,677	854,905
Total	809,699	77,976	60,565	50,673	877,783

Changes in securities investments in 2016

in EUR 000

	31 Dec. 2015	Acquisitions	Disposals, maturity	Revaluation	31 Dec. 2016
Financial assets measured at fair value through profit or loss	362	3,610	3,368	18	622
Financial assets held to maturity	17,890	206	1,270	1,054	17,880
Available-for-sale financial assets	787,657	19,387	29,344	13,497	791,197
Total	805,909	23,203	33,982	14,569	809,699

Financial assets by type of interest rate as at 31 December

in EUR 000

	31 Dec. 2017	31 Dec. 2016
Investments in debt instruments	118,317	119,694
Fixed interest rate	118,317	119,472
Variable interest rate	0	222
Loans and deposits	47,935	82,103
Fixed interest rate	47,935	82,103
Variable interest rate	0	0
Total	166,252	201,797

Fair value hierarchy as at 31 December 2017

in EUR 000

Item	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value through profit or loss	4,759	2	596	5,357
Shares and other equity instruments	4,759	0	0	4,759
Debt securities	0	2	0	2
Money market instruments	0	0	596	596
Available-for-sale financial assets	521,367	120,653	246,766	888,786
Shares and other equity instruments	261,192	89,370	202,134	552,696
Debt securities	56,162	0	10,752	66,914
Units and shares of open-end funds	204,013	31,283	0	235,296
Investment in financial receivable	0	0	33,880	33,880
Total	526,126	120,655	247,362	894,143

The valuation of certain shares at Level 2 of the fair value hierarchy 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.

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.

The fair value of ordinary shares of Elektro Gorenjska, d. d., Elektro Primorska, d. d., Elektro Celje, d. d., Elektro Ljubljana, d. d., Elektro Maribor, d. d., and Perutnina Ptuj, d. d., was estimated by applying the market approach and using the comparable listed companies approach. Adjusted ratios were applied.

The used fair value of the shares of Perutnina Ptuj, d. d., was determined by applying the market approach and using the method of comparable transactions.

The fair value of ordinary shares of HIT, d. d. was estimated on the basis of the income-based approach and using the discounted free cash flow method. The estimated free cash flow was discounted at an 8.30% 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 6.37% 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, which was classified as non-core property. The estimated value of this real estate is set using the regular liquidation method. The liquidation period is expected to last for 24 months and risk-free interest rate used for discounting is 1.427%.

The fair value of the shares of Terme Olimia, 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 6.97% discount rate. The remaining growth rate of normalised free cash flow is 2%.

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The fair value of the shares of Talum, 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 8.71% discount rate. The remaining growth rate of normalised free cash flow is 2%.

The fair value of the holding in GIO, d. o. o. – v likvidaciji (in liquidation) was estimated by applying the asset-based approach according to the regular liquidation method.

The fair value of the business interest in Elan Inventa, d. o. o. was estimated on the basis of the income-based approach and using the discounted free cash flow method. The estimated free cash flow was discounted at a 11.54% discount rate. The remaining growth rate of normalised free cash flow is 2.0%.

The fair value of the shares of Loterija Slovenije, 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 8.20% discount rate. The remaining growth rate of normalised free cash flow is 2%.

The fair value of shares of Sava, d. d. was estimated on the basis of the asset-based approach and using the net value of assets method upon the assumption of regular liquidation of the Company. The estimated cash flow was discounted at a 10.2% discount rate.

The investment in shares of Modra zavarovalnica, d. d. is disclosed at cost. A test was carried out to ascertain the need for impairment, which showed that impairments of the investment are not necessary. The fair value of the shares of Modra zavarovalnica, d. d. was estimated on the basis of the income-based approach and using the discounted free cash flow method. The estimated free cash flow was discounted at a 9.80% discount rate. The remaining growth rate of normalised free cash flow is 3%.

The fair value of investments in financial receivables is determined on the basis of the estimated fair value of pledged assets by taking into account the nominal amount of individual financial receivables. The fair value of pledged assets was assessed based on the

income approach, the discounted free cash flow method, the market approach, and the comparable listed companies approach.

The fair value of investments in financial receivables is measured at Level 3 of the fair value hierarchy.

Gains from the Level 3 financial assets comprise dividends, coupons received from bonds and profits from the sale of investments disclosed under financial revenues.

Table 32: Transition between the levels of fair value hierarchy as at 31 December 2017

in EUR 000

Transition between levels, portfolio as at 31 Dec. 2017	from Level 1 to Level 2	from Level 2 to Level 1	from Level 2 to Level 3	Total
Financial assets measured at fair value through profit or loss	0	0	0	0
Shares and other equity instruments	0	0	0	0
Debt securities	0	0	0	0
Units and shares of open-end funds	0	0	0	0
Money market instruments	0	0	0	0
Available-for-sale financial assets	71	16,731	16,966	33,768
Shares and other equity instruments	0	16,731	12,911	29,642
Units and shares of open-end funds	71	0	0	71
Debt securities	0	0	4,055	4,055
Total	71	16,731	16,966	33,768

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Fair value hierarchy as at 31 December 2016

in EUR 000

Item	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value through profit or loss	0	0	622	622
Shares and other equity instruments	0	0	0	0
Debt securities	0	0	0	0
Money market instruments	0	0	622	622
Available-for-sale financial assets	448,678	149,977	227,107	825,761
Shares and other equity instruments	247,178	97,457	185,569	530,204
Debt securities	56,046	4,436	6,974	67,456
Units and shares of open-end funds	145,454	48,083	0	193,537
Investment in financial receivable	0	0	34,564	34,564
Total	448,678	149,977	227,729	826,383

The valuation of certain shares at Level 2 of the fair value hierarchy 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.

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.

The fair value of ordinary shares of Elektro Gorenjska, d. d., Elektro Primorska, d. d., Elektro Celje, d. d., Elektro Ljubljana, d. d., Elektro Maribor, d. d., and Perutnina Ptuj, d. d., was estimated by applying the market approach and using the comparable listed companies approach. Adjusted ratios were applied.

The fair value of ordinary shares of HIT, d. d. was estimated on the basis of the income-based approach and using the discounted free cash flow method. The estimated free cash flow was discounted at a 7.90% 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 6.7% 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, which was classified as non-core property. The estimated value of this real estate is set using the regular liquidation method. The liquidation period is expected to last for 24 months and risk-free interest rate used for discounting is 2.04%.

The fair value of the shares of Terme Olimia, 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 8.25% discount rate. The remaining growth rate of normalised free cash flow is 2%.

The fair value of the shares of Talum, 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 8.24% discount rate. The remaining growth rate of normalised free cash flow is 2%.

The fair value of the shares of TKI Hrastnik, 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 11.00% discount rate. The remaining growth rate of normalised free cash flow is 2%.

The fair value of the holding in GIO, d. o. o. – v likvidaciji (in liquidation) was estimated by applying the asset-based approach according to the regular liquidation method.

The fair value of the business interest in Elan Inventa, d. o. o. was estimated on the basis of the income-based approach and using the discounted free cash flow method. The estimated free cash flow was discounted at a 9.44% discount rate. The remaining growth rate of normalised free cash flow is 1.0%.

The fair value of the business interest in Geoplin, d. o. o. was estimated based on the received proposal for acquisition/exchange of a part of the business share.

The fair value of ordinary shares of KDD, d. d. was estimated on the basis of the income-based approach and using the capitalisation of normalised free cash flow method, which is a shorter version of the present value of future cash flows method. The required rate of return on equity was 11.20%, while the applied growth rate of normalised cash flow amounted to 1.5%.

The fair value of the shares of Loterija Slovenije, 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 7.90% discount rate. The remaining growth rate of normalised free cash flow is 2%.

The fair value of shares of Sava, d. d. was estimated on the basis of the asset-based approach and using the net value of assets method upon the assumption of regular liquidation of the Company. The estimated cash flow was discounted at a 11.6% discount rate.

The investment in shares of Modra zavarovalnica, d. d. is disclosed at cost.

The fair value of investments in financial receivables is determined on the basis of the estimated fair value of pledged assets by taking into account the nominal amount of individual financial receivables. The fair value of pledged assets was assessed based on the income approach, the discounted free cash flow method, the market approach, and the comparable listed companies approach.

The fair value of certain shares, which represent pledged assets, 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. The fair value of investments in financial receivables is measured at Level 3 of the fair value hierarchy.

Gains from the Level 3 financial assets comprise dividends, coupons received from bonds and profits from the sale of investments disclosed under financial revenues.

Table 33: Fair value hierarchy as at 31 December 2017 in the event the assets classification method does not change

in EUR 000				
Item	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value through profit or loss	0	0	622	622
Shares and other equity instruments	0	0	0	0
Debt securities	0	0	0	0
Money market instruments	0	0	622	622
Available-for-sale financial assets	531,446	10,526	283,789	825,761
Shares and other equity instruments	334,795	9,204	186,205	530,204
Debt securities	3,114	1,322	63,020	67,456
Units and shares of open-end funds	193,537	0	0	193,537
Investment in financial receivable	0	0	34,564	34,564
Total	531,446	10,526	284,411	826,383

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Table 34: Transition between the levels due to change of methodology

in EUR 000						
Transition between levels, portfolio as at 31 Dec. 2016	from Level 1 to Level 2	from Level 1 to Level 3	from Level 2 to Level 3	from Level 3 to Level 1	from Level 3 to Level 2	Total
Financial assets measured at fair value through profit or loss	0	0	0	0	0	0
Shares and other equity instruments	0	0	0	0	0	0
Debt securities	0	0	0	0	0	0
Money market instruments	0	0	0	0	0	0
Available-for-sale financial assets	135,862	2,953	1,014	56,046	4,603	200,478
Shares and other equity instruments	84,664	2,953	1,014	0	4,603	93,235
Debt securities	3,114	0	0	56,046	0	59,160
Units and shares of open-end funds	48,083	0	0	0	0	48,083
Total	135,862	2,953	1,014	56,046	4,603	200,478

The most frequent reclassifications was from Level 1 to Level 2, and from Level 3 to Level 1.

The Level 1 to Level 2 reclassification is due to the fact that the scope of trading of a particular instrument did not meet the active market requirement.

The reclassification from Level 3 to Level 1 arises from reclassification of debt securities which, as a result of change in the methodology, were measured at the CBBT price and traded on a market that meets the active market requirements; these securities were previously valued using the Bloomberg Generic rate (BGN) or Bloomberg Valuation Service (BVAL) and classified as Level 3.

Table 35: Effective interest rate by investment groups

	2017	2016
Financial assets held to maturity	6.32%	6.21%
Loans given	0.26%	0.42%
Available-for-sale financial assets	5.24%	5.19%
Cash and cash equivalents	0.00%	0.00%

Table 36: Yield by investment groups

	2017	2016
Financial assets measured at fair value through profit or loss	3.22%	1.75%
Financial assets held to maturity	4.07%	6.21%
Available-for-sale financial assets	8.81% ¹⁹	4.51% ²⁰
Loans and deposits	0.46%	0.65%
Total	5.74%	3.99%

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Note no. 20

Loans to others

	in EUR 000					
	Long-term		Short-term		Total	
	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
Loans to others	0	14,904	18,917	43,750	18,917	58,654
Total	0	14,904	18,917	43,750	18,917	58,654

At the end of 2017, Kapitalska družba had no long-term deposits disclosed in its books of account.

Short-term loans to others comprise short-term part of long-term deposits, which were given to Abanka, d. d., Sberbanka, d. d., and Nova Ljubljanska banka, d. d., and a loan given to PS za avto, d. o. o. At the end of 2017, short-term loans to others totalled EUR 18,917 thousand.

Deposits were not pledged.

¹⁹ Without investments in accounts receivable.

²⁰ Without investments in accounts receivable.

Note no. 21

Operating receivables

	Long-term		Short-term	
	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
Receivables due from the Group companies	0	0	31	34
Receivables due from local customers	0	0	807	847
Operating receivables due from others	73	117	354	314
Total	73	117	1,192	1,195

EUR 73 thousand of non-current operating receivables due from others represent EUR 39 thousand paid into the reserve fund for the maintenance of real estate and receivables from a company in compulsory settlement proceedings equalling EUR 34 thousand.

In 2018, EUR 1,192 thousand of operating receivables will fall due, whereas operating receivables of EUR 73 thousand mature in future years.

Operating receivables of Kapitalska družba are not secured. The Company's operating receivables are not subject to material risk.

Breakdown of operating trade receivables by maturity

31 Dec. 2017	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
807	794	3	0	0	0	10

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Note no. 22

Cash and cash equivalents

	in EUR 000	
	31 Dec. 2017	31 Dec. 2016
Cash on transaction bank account	4,105	4,689
Euro redeemable deposits	29,022	23,449
Total	33,127	28,138

Note no. 23

Equity

	31 Dec. 2017	31 Dec. 2016
Share capital (000 EUR)	364,810	364,810
Ordinary shares (number)	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

in EUR 000

Capital surplus

1 Jan. 2017	216,619
Increase in capital surplus	142
31 Dec. 2017	216,761

In 2017, the capital surplus increased by EUR 142 thousand on account of additional assets received in accordance with the Ownership Transformation of Companies Act. As at 31 Dec. 2017, capital surplus totalled EUR 216,761 thousand.

Note no. 25

Revenue reserves

As at 31 December 2017, Kapitalska družba reported no other revenue reserves.

Note no. 26

Changes in reserves from valuation at fair value

in EUR 000

Changes in reserves from valuation at fair value and deferred tax in equity	2017	2016
Balance as at 1 Jan. – gross reserves from valuation at fair value (gross revaluation reserve)	329,526	322,298
Balance as at 1 Jan. – deferred tax	43,246	36,230
Balance as at 1 Jan. – net reserves from valuation at fair value	286,280	286,068
Changes during the year – gross increase in reserves	87,869	108,445
Changes during the year – gross decrease in reserves	-56,875	-101,217
Balance as at 31 Dec. – gross revaluation reserve	360,520	329,526
Adjustments (criteria: 8%, 6 months)	-110,473	-101,915
Balance as at 31 Dec. – gross balance after adjustment	250,047	227,611
Balance as at 31 Dec. – deferred tax	47,509	43,246
Balance as at 31 Dec. – net revaluation reserve	313,011	286,280

Note no. 27

Provisions and long-term accrued costs and deferred revenue

in EUR 000

	Provisions for pensions and similar obligations	Other provisions	Accrued costs and deferred revenue	Total
1 Jan. 2017	214	538	2,672	3,424
New provisioning through P&L	0	0	0	0

	Provisions for pensions and similar obligations	Other provisions	Accrued costs and deferred revenue	Total
New provisioning through equity	0	0	0	0
Creation of accrued costs and deferred revenue	0	0	0	0
Utilisation of provisions	1	0	0	1
Reversal of provisions through P&L	0	0	0	0
Reversal of provisions through equity	0	0	0	0
Transfer of accrued costs and deferred revenue in P&L	0	0	1,128	1,128
31 Dec. 2017	213	538	1,544	2,295

At the end of 2017, provisions for non-achievement of guaranteed rate of return of the SODPZ pension fund amounted to EUR 2 thousand. At the end of 2017, provisions for legal actions and legal disputes reached EUR 536 thousand.

Kapitalska družba utilised the provisions for severance pay and jubilee benefits in the amount of EUR 1 thousand. At the end of 2017, provisions for severance pay and jubilee benefits amounted to EUR 213 thousand.

Provisions for retirement benefits and long-service awards are calculated according to expected staff turnover, period of service and an estimated number of years until retirement, taking into account the regulations of individual and collective employment agreements as well as the Company's internal rules.

The Company utilised EUR 1 thousand of provisions for severance pay on retirement and jubilee benefits, which were not planned in 2017. As for other provisions, there is no difference between the planned and actual utilisation or provisioning.

Accrued costs and deferred revenue comprise deferred revenue from the acquisition of the investment in accounts receivable and are calculated as the difference between the historical cost of that investment in its fair value. Long-term deferred revenues are proportionally recognised in the income statement throughout the repayment period. A total of EUR 1,128 thousand of accrued costs and deferred revenue were transferred to or reversed from the income statements in 2017, which at the end of the year amount to EUR 1,544 thousand.

Note no. 28

Operating liabilities

	in EUR 000				
		Long-term		Short-term	
	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016	
Operating liabilities to suppliers	0	0	3,239	2,996	
Operating liabilities from advances	364	12	0	0	
Payables to the state	0	0	50,009	50,011	
Other operating liabilities	0	0	313	304	
Total	364	12	53,561	53,311	

EUR 12 thousand of long-term operating liabilities relates to collateral deposit from the lessee of business premises and an advance received for the purchase of securities of KDD in the amount of EUR 352 thousand.

Short-term operating liabilities comprise: EUR 3,239 thousand of liabilities to suppliers, the majority of which, EUR 2,849 thousand, arise from the purchase of investment property; payables to the state in the amount of EUR 50,009 thousand, the majority of which, EUR 50,000 thousand, regard the payment made to ZPIZ in 2018; and other operating liabilities in the amount of EUR 313 thousand.

Maturity structure of operating liabilities

in EUR 000

31 Dec. 2017	Operating liabilities to suppliers	Operating liabilities from advances	Liabilities to the state	Other operating liabilities	Total
Up to 1 year	3,239	0	50,009	313	53,561
1 to 2 years	0	6	0	0	6
2 to 5 years	0	358	0	0	358
Over 5 years	0	0	0	0	0
Total	3,239	364	50,009	313	53,925
Collateralised liabilities (pledges and similar)	0	0	0	0	0

Note no. 29

Financial liabilities

in EUR 000

	Long-term		Short-term	
	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
Other financial liabilities	50,000	0	0	0
Total	50,000	0	0	0

As at 31 December 2017, Kapitalska družba discloses EUR 50,000 thousand of financial liabilities, which relate to settling the liabilities of Kapitalska družba, d. d., to ZPIZ for 2019 pursuant to Paragraph 2 of Article 65 of ZIPRS1819. The financial liability to ZPIZ is non-interest bearing.

Financial liabilities maturity

	31 Dec. 2017	31 Dec. 2016
Up to 1 year overdue	0	0
1 to 2 years	50,000	0
2 to 5 years	0	0
Over 5 years	0	0
Total	50,000	0

Collateralised loans

As at 31 December 2017, Kapitalska družba disclosed no loans.

Note no. 30

Short-term accruals and deferrals

Short-term accruals and deferrals in the amount of EUR 50,024 thousand relate mainly to the recognized liability to ZPIZ in the amount of EUR 50,000 thousand for 2018.

Short-term accrued costs and deferred revenue in the amount of EUR 100 thousand relate to accrued costs and deferred revenue from lease payments.

Off-balance sheet receivables

As at 31 December 2017, Kapitalska družba had no off-balance sheet receivables.

15.3.3 Management of risks arising from financial assets

All risks Kapitalska družba is exposed to, as well as the risk management measures and criteria are described in detail in chapter 15.2 Accounting policies. According to our assessments, financial assets are exposed to credit, market (interest, currency, price) and liquidity risks.

Credit risk

Credit risk is related to investments in debt instruments (investments in bonds, treasury bills, commercial papers, deposits, cash assets) and entails the possibility of investments being only partly repaid or not at all. The credit rating of investments and business partners is determined based on the 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 37: Exposure of financial assets to credit risk, excluding any collateral as at 31 December 2017

in EUR 000

Financial asset group	Secure investments – high rating of the borrower	Medium secure investments – medium rating of the borrower	Less secure investments	Total
Financial assets measured at fair value through profit or loss	0	0	599	599
Financial assets held to maturity	17,520	0	0	17,520
Available-for-sale financial assets	55,294	7,476	38,024	100,794
Loans	0	0	18,917	18,917
Cash and cash equivalents	0	0	33,127	33,127
Total	72,814	7,476	90,667	170,957

Table 38: Exposure of financial assets to credit risk, excluding any collateral as at 31 December 2016

in EUR 000

Financial asset group	Secure investments – high rating of the borrower	Medium secure investments – medium rating of the borrower	Less secure investments	Total
Financial assets measured at fair value through profit or loss	0	0	622	622
Financial assets held to maturity	0	17,674	206	17,880
Available-for-sale financial assets	1,645	55,489	44,886	102,020
Loans	0	0	58,653	58,653
Cash and cash equivalents	0	0	28,138	28,138
Total	1,645	73,163	132,505	207,313

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 include assets of Slovenian corporate and banking issuers and the investment in accounts receivable.

Loans represent deposits in banks in Slovenia. Deposits and cash are classified into the rating class of the bank at which the respective assets are held.

Table 39: Geographical concentration of credit exposure of financial assets

in EsUR 000

Region	31 Dec. 2017	31 Dec. 2016
Slovenia	161,841	200,263
Other countries	9,116	7,050
Total	170,957	207,313

The share of financial assets exposed to credit risk in Slovenia decreased from 97% to 95% in 2017.

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. Sector concentration of assets influences credit and market risk of the portfolio.

Table 40: Sector concentration of financial assets

in %

Industry	31 Dec. 2017	31 Dec. 2016
Financial	28	31
Pharmaceutical	24	23
Cyclical consumer goods	9	14
Government securities	8	9
Other industries	26	19

Industry	in %	
	31 Dec. 2017	31 Dec. 2016
Undefined	5	4
Total	100	100

At the end of 2017, 28% of financial assets were invested in the financial sector, 24% in the pharmacy industry, 9% in cyclical consumer goods, 8% in government securities (bonds, treasury bills, investment coupons linked to government bonds) and 31% in other sectors (including undefined).

Currency risk

Table 41: Currency structure of financial assets

Currency	in EUR 000	
	31 Dec. 2017	31 Dec. 2016
Assets denominated in EUR	838,390	832,727
Assets denominated in USD	122,628	96,005
Assets denominated in other currencies	2,689	2,323
Total	963,707	931,055

As at 31 December 2017, 87.0% of financial assets were denominated in euro, 12.7% in US dollars and 0.3% in other currencies. Currency structure of financial assets is monitored considering the currency in which original instrument is denominated. Currency risk increased because of higher exposure of financial assets in foreign currencies, whereas the effect of currency fluctuation for securities constituting a specific instrument or investment fund was not taken into account.

Table 42: Currency risk of financial assets as at 31 December 2017

USD exchange rate fluctuation in %	in EUR 000	
	Effect on P&L	Effect on equity
+/- 10%	+/- 0	+/- 12,263

Table 43: Currency risk of financial assets as at 31 December 2016

USD exchange rate fluctuation in %	in EUR 000	
	Effect on P&L	Effect on equity
+/- 10%	+/- 0	+/- 9,601

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 44: Sensitivity analysis of investments according to changes in market interest rates as at 31 December 2017 – 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 measured at fair value through profit or loss	+/- 0.5%	+/- 0	+/- 128	+/- 128
Financial assets held to maturity	+/- 0.5%	+/- 0	+/- 0	+/- 0
Available-for-sale financial assets	+/- 0.5%	+/- 0	+/- 1,927	+/- 1,927
Loans	+/- 0.5%	+/- 0	+/- 0	+/- 0
Total		+/- 0	+/- 2,055	+/- 2,055

Table 45: Sensitivity analysis of investments according to changes in market interest rates as at 31 December 2016 – 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 measured 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%	+/- 0	+/- 1,887	+/- 1,887
Loans	+/- 0.5%	+/- 0	+/- 0	+/- 0
Total		+/- 0	+/- 1,887	+/- 1,887

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The calculation of the sensitivity of interest income was made by taking into account the investments subject to variable interest rate, whereas the fair value impact was calculated by taking into account the investments subject to fixed interest rate. If market interest rates change by 50 basis points, the value of the assets would change by EUR 2,055 thousand as at 31 December 2017. Interest rate risk increased in 2017 thanks to increased exposure to the investments sensitive to changes in market interest rates.

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 46: Market risk of the equity securities portfolio as at 31 December 2017

in EUR 000

Index change in %	Effect on P&L	Effect on equity
+/- 10%	+/- 0	+/- 37,301

Table 47: Market risk of the equity securities portfolio as at 31 December 2016

in EUR 000

Index change in %	Effect on P&L	Effect on equity
+/- 10%	+/- 0	+/- 48,022

All of the Company's investments in equity instruments are taken into account in the table. 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. The risk was calculated in 2017 using the beta indicator against the world stock index, while in 2016 the beta indicator is calculated according to local indices. If the beta indicator in 2016 was calculated using the same method as in 2017, the impact on equity in 2016 would amount to EUR 29,013 thousand, meaning that the risk in 2017 increased, mainly as a result to higher exposure to investments in equity instruments.

Table 48: Financial instruments in terms of marketability

in EUR 000		
Financial instrument	31 Dec. 2017	31 Dec. 2016
Securities traded on the regulated market	668,991	601,478
Financial assets at fair value through profit or loss	5,358	622
Financial assets held to maturity	17,520	17,880
Available-for-sale financial assets	646,113	582,976
Securities not traded on the regulated market	208,792	208,221
Financial assets at fair value through profit or loss	0	0
Financial assets held to maturity	0	0
Available-for-sale financial assets	208,792	208,221
Total	877,783	809,699

At the end of 2017, assets traded on regulated stock markets accounted for 76% of financial instruments or 76% of all assets of Kapitalska družba (this group includes OTC investments and investments on the interbank market). 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 December 2017, Kapitalska družba recorded a total of EUR 867,231 thousand of surplus of expected non-discounted cash inflows over outflows.

Table 49: Expected actual non-discounted cash flows as at 31 December 2017

in EUR 000					
Item	Up to 1 year	From 1 to 5 years	Over 5 years	No maturity	Total
Investments in securities	4,009	53,077	34,068	792,750	883,903
- at fair value through profit or loss	600	0	2	4,759	5,361
- held-to-maturity	817	14,764	7,161	0	22,741
- available-for-sale	2,592	38,313	26,905	787,991	855,801
Investment in financial receivable	0	33,880	0	0	33,880
Loans and deposits	18,981	0	0	0	18,981
Cash and cash equivalents	33,127	0	0	0	33,127
Operating receivables	1,192	73	0	0	1,265
Total assets	57,309	87,029	34,068	792,750	971,156

Item	Up to 1 year	From 1 to 5 years	Over 5 years	No maturity	Total
Operating liabilities	53,561	364	0	0	53,925
Financial liabilities	0	50,000	0	0	50,000
Total operating and financial liabilities	53,561	50,364	0	0	103,925
Difference	3,748	36,665	34,068	792,750	867,231

Table 50: Expected actual non-discounted cash flows as at 31 December 2016

Item	Up to 1 year	From 1 to 5 years	Over 5 years	No maturity	Total
Investments in securities	11,405	52,218	30,782	724,028	818,433
- at fair value through profit or loss	629	0	0	0	629
- held-to-maturity	1,026	15,289	7,661	0	23,975
- available-for-sale	9,750	36,930	23,122	724,028	793,829
Investment in financial receivable	0	34,564	0	0	34,564
Loans/deposits given	44,043	14,952	0	0	58,995
Cash and cash equivalents	28,138	0	0	0	28,138
Trade receivables	1,195	117	0	0	1,312
Total assets	84,780	101,851	30,782	724,028	941,442
Operating liabilities	53,311	12	0	0	53,323
Financial liabilities	0	0	0	0	0
Total operating and financial liabilities	53,311	12	0	0	53,323
Difference	31,469	101,839	30,782	724,028	888,119

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

15.4 Other disclosures

Information on employee groups

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 Kapitálska družba, d. d. The Company did not approve any advance payments or loans to members of management nor assumed any obligations in their 2017.

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

In 2017, remunerations paid for carrying out of responsibilities and duties of members of the Management Board, Supervisory Board and employees with management contracts for which the tariff section of the collective agreement does not apply, amounted to EUR 995 thousand.

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

Table 51: Receipts by category of beneficiaries in 2017

Category of beneficiaries	Amount
Members of the Management Board	365
Members of the Supervisory Board	132
Employees with individual contract	498
Total	995

in EUR 000

No advances, loans or collateral were approved or issued by the Company in 2017.

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 concluded with the 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, however, the basic pay of the President of the Board calculated that way may not exceed 95% of the basic pay of the President of the Management Board of SDH, d. d., as published, while the basic pay of members of the Management Board amounts to 95% of individual basic pay of the President of the Board of Kapitalska družba. 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 2017 in line with the aforementioned criteria. Pursuant to the contract, each member of the Management Board is 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.

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Table 52: Receipts of members of the Management Board 2017

Name and surname	Fixed income	Variable income	Fringe benefits	Cost reimbursement	Insurance premiums (PDPZ)	Participation in profit	Options	Other rewards	Other payments	Total gross	Total net	Deferred payment
Bachtiar Djalil (President)	124,450	8,285	55	1,715	2,819	-	-	-	1,000	138,324	71,632	3,128
Goranka Volf (Member)	117,593	-	55	2,414	2,819	-	-	-	1,000	123,881	62,985	-
Gregor Bajraktarević (Member since 6 February 2017)	97,562	-	32	1,717	2,349	-	-	-	901	102,561	54,197	-
Total	339,605	8,285	142	5,846	7,987	-	-	-	2,901	364,766	188,814	3,128

in EUR

Fixed income includes gross salary. Variable income includes performance bonus, which equals up to 30% of the annual basic gross salary for the business year, taking into account the performance criteria. The variable income received by the President of the Management Board refers to the income from business performance for 2014, which was paid in 2017 on the basis of a combination of quantitative and qualitative criteria. Cost reimbursements include reimbursement of meal and travel and/or accommodation expense and/or per diems. Bonuses include collective accident insurance premiums. Insurance premiums (PDPZ) represent payments for voluntary supplementary pension insurance. Other payments include pay for annual leave. The deferred income received by the President of the Management Board refers to the deferred payment which will be received by the President in 2018 arising from business performance for 2015.

Table 53: Receipts of the members of the Supervisory Board 2017

in EUR

Name and surname	Fixed income – payment for the performance of duties	Fixed income – attendance fees	Variable income	Cost reimbursement	Insurance premiums	Commissions	Participation in profit	Options	Other rewards	Other payments	Total gross	Total net
Stanislav Seničar (President of the Supervisory Board)	16,364	4,345	-	611	-	-	-	-	-	-	21,320	15,506
dr. Boris Žnidarič (Deputy Chair and President of the Accreditation Committee)	16,224	5,500	-	83	-	-	-	-	-	-	21,807	15,860
Cirila Surina Zajc (Member of the Supervisory Board, Member of the Audit Committee, Member of the HR Committee)	16,500	5,500	-	810	-	-	-	-	-	-	22,810	16,590
Aleksander Mervar MSc (Member of the Supervisory Board, Member of the Audit Committee, President of the HR Committee)	16,500	4,840	-	366	-	-	-	-	-	-	21,706	15,787
Ladislav Rožič, MSc (Member of the Supervisory Board, President of the Audit Committee, Member of the Accreditation Committee since 23 February 2017)	16,500	5,500	-	0	-	-	-	-	-	-	22,000	16,001
Natalija Stošički (Member of the Supervisory Board, Member of the Audit Committee, Member of the HR Committee)	16,500	5,390	-	673	-	-	-	-	-	-	22,563	16,410
Total	98,588	31,075	-	2,543	-	-	-	-	-	-	132,206	96,154

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.

Table 54: Receipts of the external members of the Supervisory Board committees in 2017

in EUR

Name and surname	Fixed income – payment for the performance of duties	Fixed income – attendance fees	Variable income	Cost reimbursement	Insurance premiums	Commissions	Participation in profit	Options	Other rewards	Other payments	Total gross	Total net
Mojca Verbič (External Member of the Audit Committee)	3,600	440	-	67	-	-	-	-	-	-	4,107	2,987
Irena Prijović, MSc (External Member of the Accreditation Committee)	3,600	1,100	-	0	-	-	-	-	-	-	4,700	3,418
Alenka Stanič, PhD (External Member of the Accreditation Committee)	3,600	1,320	-	0	-	-	-	-	-	-	4,920	3,578
Total	10,800	2,860	-	67	-	-	-	-	-	-	13,727	9,983

Fixed income of the external members of the Supervisory Board committees consists of the remuneration for the work performed in the relevant committee of the Supervisory Board and attendance fees for attendance at the Supervisory Board committees' meetings. Cost reimbursements include reimbursement of travel expenses.

The table below discloses the members of the management or supervisory bodies who in 2016 received remuneration for their work in the subsidiary Modra zavarovalnica, d. d. Goranka Volf and Natalija Stošicki were respectively appointed the President and the Member of Modra zavarovalnica, d. d. Supervisory Board on 9 December 2017. Goranka Volf resigned from the Supervisory Board of Modra zavarovalnica, d. d. On 9 June 2017 at the General Meeting of the Company, dr. Boris Žnidarič was appointed a member of the Supervisory Board of Modra zavarovalnica, d. d.

Table 55: Receipts of the members of management and supervisory bodies of Modra zavarovalnica, d. d. in 2017

Name and surname	in EUR										Total gross	Total net
	Fixed income – payment for the performance of duties	Fixed income – attendance fees	Variable income	Cost reimbursement	Insurance premiums	Commissions	Participation in profit	Options	Other rewards	Other payments		
Goranka Volf (President of the Supervisory Board of Modra zavarovalnica until 9 June 2017)	6,880	2,420	-	-	-	-	-	-	-	-	9,300	6,764
Natalija Stošicki (Member of the Supervisory Board of Modra zavarovalnica until 27 August 2017, President of the Supervisory Board of Modra zavarovalnica since 28 August 2017 and Member of the Audit Committee of Modra zavarovalnica)	14,872	5,005	-	433	-	-	-	-	-	-	20,310	14,771
dr. Boris Žnidarič (Member of the Supervisory Board of Modra zavarovalnica since 9 June 2017)	5,864	1,320	-	9	-	-	-	-	-	-	7,193	5,231
Total	27,616	8,745	-	442	-	-	-	-	-	-	36,803	26,766

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Fixed income consists of the remuneration for the work performed in the Supervisory Board and its Committees and attendance fees for attendance at the meetings. Cost reimbursements include reimbursement of travel expenses.

Activities of the Supervisory Board and its Committees of Kapitalnska družba, d. d.

The Supervisory Board held 17 meetings in 2017. The members attended the Supervisory Board meetings regularly; Members Cirila Surina Zajc and Natalija Stošicki, MSc, could not attend one of the meetings due to justifiable reasons. Aleksander Mervar was absent three times.

The Audit Committee had six meetings. The members attended the Audit Committee meetings regularly. For justifiable reasons, Member of the Audit Committee and Supervisory Board Natalija Stošicki could not attend one of the meetings, Aleksander Mervar was absent three times and External Member of the Committee Mojca Verbič could not participate at four meetings.

The Accreditation Committee held 6 meetings. The members attended the Accreditation Committee meetings regularly. For legitimate reasons, the external member, Irena Prijo- vič, MSc, and Aleksander Mervar, MSc, could not attend one and four of the meetings, respectively.

The HR Committee had one meeting, which was attended by all three members.

Related-party transactions

In 2017, Kapitalska družba made no significant transactions with its related parties that were concluded under other than normal market conditions.

Disclosure related to the pension scheme

Pursuant to the Act Amending the Pension and Disability Insurance Act (Official Gazette of the Republic of Slovenia, No. 102/15; ZPIZ-2B), Kapitalska družba, d. d., drew up amendments and supplements to the Occupational Retirement Pension Scheme. Pursuant to the decision on approving the amendments and supplements to the Occupational Health Insurance Plan No. 1031-160/2016-3 of 23 November 2016, issued by the Ministry of Labor, Family, Social Affairs and Equal Opportunities, a new Occupational Retirement Pension Scheme entered into force on 1 January 2017. On that date, the amended Rules on the Management of the SODPZ entered into force, to which the Securities Market Agency issued a consent on 30 November 2016.

Events after the date of the statement of financial position

Since the end of 2017, Kapitalska družba, d. d., recorded no significant business events prior to the preparation of the annual report, which could have an impact on its 2017 financial statements.