CONSO LIDATED ANNUAL REPORT OF KAD GROUP 2014



KAPITALSKA DRUŽBA

Tables List of abbreviations used Capital Assets Management Agency Insurance Supervision Agency Gross domestic product Bank Assets Management Company European Central Bank Effective interest rate Euro – currency of the European Union Financial Administration of the Republic of Slovenia International Accounting Standards Board Kapitalska družba pokojninskega in invalidskega zavarovanja, d. d. Central Securities Clearing Corporation Collective agreement for the non-economic sector of the Republic of Slovenia Collective agreement on the creation of a pension plan for public-sector employees AUKN Table 1: Composition of the Management Board of PDP in 2014 Table 2: Number of employees in the Kapitalska Družba Group Table 3: Composition of Kapitalska družba's investments as at 31 December 2014 with regard to management Table 4: Breakdown of Kapitalska družba's capital investments as at 31 ISA GDP 20 BAMC ECB EIR EUR Table 4: Breakdown of Kapitalska družba's capital investments as at 31 December 2014 in accordance with Kapitalska družba's asset management strategy Table 5: Ten largest capital investments of Kapitalska družba by value as at 31 December 2014 Table 6: Composition of capital investments in terms of size of ownership stake as at 31 December 2014 Table 7: Capital investments that generated the highest dividend income in 2014 and 2013 Table 8: Dividend income based on claims received for the distribution of profit Table 9: Participation at general meetings Table 10: Composition of equity portfolio investments as at 31 December 2014 Table 11: Composition of debt investments as at 31 December 2014 Table 12: Composition of moey market investments as at 31 December 2014 Table 13: Kapitalska družba's revenues from management of the SODPZ as at 31 December 2014 Table 14: Composition of the investments of the SODPZ as at 31 December 2014 Table 15: Composition of Modra zavarovalnica Table 16: Financial assets of Modra zavarovalnica Table 17: Composition of Modra zavarovalnica's financial assets Table 19: Composition of flancial assets Table 19: Composition of financial assets Table 20: Composition of KS MR assets Table 21: Basic data regarding the guarantee funds of Modra zavarovalnica Table 22: Composition of KS MR assets Table 24: Number of policyholders/participants and amount paid into the KS MR in 2014 December 2014 in accordance with Kapitalska družba's asset management 20 KDD Collective agreement for the non-economic sector of the Republic of Slovenia Collective agreement on the creation of a pension plan for public-sector employees Modra Renta Guarantee Fund First Pension Fund Guarantee Fund Guarantee Fund of the Compulsory Supplementary Pension Insurance e Republic of Slovenia Mutual Equity Pension Fund Ministry of Labour, Family, Social Affairs and Equal Opportunities Modri Umbrella Pension Fund Ministry of Defence of the Republic of Slovenia International Financial Reporting Standards International Financial Reporting Interpretations Committee Posebna družba za podjetniško svetovanje, d. d. Voluntary supplementary pension insurance Pension plan for collective voluntary supplementary pension insurance Pension plan for individual voluntary supplementary pension insurance Pension plan for collective voluntary supplementary pension insurance for public-sector employees First Pension Fund of the Republic of Slovenia Republic of Slovenia Central Slovenian stock market index Slovenski državni holding, d. d. (or Slovenski državni holding) Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia KS MR KS PPS KS SODPZ Fund of the Fund of the KVPS MLFSAEO MKPS MDRS IFRS IFRIC PDP VSPI PN1 K PN1 P PN.IU K Table 24: Number of policyholders/participants and amount paid into the KS MR in 2014 Table 25: Structure of KS MR supplementary pension annuities as at 31 December 2014 Table 26: Composition of KS MR assets Table 27: Geographical distribution of KS MR investments as at 31 December 2014 Table 28: Data regarding mutual pension funds managed by Modra zavarovalnica as at 31 December 2014 Table 29: Kapitalska družba's payments to the budget of the ZPIZ Table 30: Number of employees of the Kapitalska družba Group Table 31: The effect of transition to IFRS – statement of financial position as at 01/01/2013 according to IFRS and as at 31/12/2012 according to SAS Table 32: Changes in intangible assets and deferred costs and accrued revenues in 2014 Table 33: Changes in intangible 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– ZSDH-B, 33/2007 – ZSReg-B, 67/2007 – ZTFI, 10/2008, 68/2008, 42/2009, 33/2011, 91/2011, 100/2011 – Constitutional Court ruling, 82/2013, 11/2011, 100/2011 – Constitutional Court ruling, 82/2013, 21/2014, 24/2013 – Constitutional Court ruling, 82/2013, 101/2013 – ZDAVBERT (Official Gazette of the Republic of Slovenia for 2013 and 2014 Act (Official Gazette of the Republic of Slovenia, Nos. 104/2012, 46/2013, 56/2013 – ZStip-1, 61/2013, 82/2013, 101/2013 – ZIPRS1415, 101/2013 – ZDAVBERT, 111/2013 – ZOPSPU-A) ZIPRS1415 Implementation of the Budget of the Republic of Slovenia for 2014 and 2015 Act (Official Gazette of the Republic of Slovenia, Nos. 101/2013, 9/2014 – ZRTVS-1A, 25/2014 – ZSDH-1, 38/2014, 84/2014, 95/2014, 95/2014 – ZBAVBERT (C., and 14/2015) ZKDPZJU Act Governing Collective Supplementary Pension Insurance for Public Sector Employees (Official Gazette of the Republic of Slovenia, Nos. 126/2003) ZPIZ Pension and Disability Insurance Act (Official Gazette of the Republic of Slovenia, Nos. 101/2017, 5/2008, 10/2008 – ZVarDod, 73/2008, 53/2009, 98/2009 – ZUCRK, 27/2010 – Constitutional Court ruling, 31/2010 – ZVKPPP, 40/2011 – ZSVarPre-A, 110/2011 – ZDIU12, 40/2012 – ZUJF, 98/2012 – 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-A, 97/2014 – ZMEPIZ-1, 48/2014, 85/2014 – ZUJF-B, 95/2014 – ZIPRS1415, 111/2 revenues in 2014 Table 33: Changes in intangible assets and deferred costs and accrued revenues in 2013 Table 34: Changes in property, plant and equipment in 2014 Table 35: Changes in property, plant and equipment in 2013 Table 36: Changes in investment property in 2014 Table 37: Changes in investment property in 2013 Table 38: Rental income investment property and costs related to investment property. 100 102 103 property Table 39: Changes in investments in associates Table 40: Effective interest rates by asset group Table 40: Effective interest 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(Official Gazette of the Republic of Slovenia, Nos. 79/2010, 26/2011 and 105/2012 – ZSDH) 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) 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 and 46/2014) 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) Slovenian Sovereign Holding Company Act (Official Gazette of the Republic of Slovenia, No. 25/2014) Act Governing the Promotion of Public Interest in Culture (Official Gazette of the Republic of Slovenia, Nos. 96/2002, 123/2006 – ZFO-1, 7/2007 – Constitutional Court ruling, 53/2007, 65/2007 – Constitutional Court ruling, 53/2007, 65/2007 – Constitutional Court ruling, 10/2011 – Constitutional Court ruling, 11/2013) Closed Mutual Pension Fund for Public-Sector Employees Insurance Act (Official Gazette of the Republic of Slovenia, Nos. 13/2000, 31/2000 – ZP-L, 91/2000 – amended, 12/2001 – Constitutional Court ruling, 29/2003 – Constitutional Court ruling, 29/2003 – Constitutional Court ruling, 9/2004 – Constitutional Court ruling, 29/2003 – Constitutional Court ruling, 69/2008, 19/2009, 83/2009, 79/2006, 114/2006 – ZUC, 99/2001, 102/2007, 69/2008, 19/2009, 83/2009, 79/2010, 90/2012, 102/2012, 56/2013, 63/2013 – ZS-K, 66/2014 and 92/2014) Table 61: Expected actual non-discounted cash flows as at 31/12/2014 Table 62: Receipts in Kapitalska družba in 2014, by type of recipient Table 63: Receipts of the members of the Management Board of Kapitalska 123 družba in 2014 Table 64: Receipts of the members of the Supervisory Board of Kapitalska ZPPOGD 125 125 Table 64: Receipts of the members of the Supervisory Board of Kapitalska družba in 2014 125 Table 65: Gross receipts in Modra zavarovalnica in 2014, by type of recipient 126 Table 66: Receipts of the members of the Management Board of Modra zavarovalnica in 2014 126 Table 67: Receipts of the members of the Supervisory Board of Modra zavarovalnica in 2014 127 Table 68: Receipts in PDP in 2014, by type of recipient 127 Table 69: The receipts of the Board of Directors of PDP in 2014 ZPZRTH

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PRESENTA-TION OF THE KAPITALSKA DRUŽBA GROUP

The Kapitalska Družba Group comprises the parent company Kapitalska družba, d. d., Modra zavarovalnica, d. d., the PDP Group and Steklarska nova Rogaška Slatina, d. o. o. (in bankruptcy). Each of the aforementioned companies is described briefly below.

11 Kapitalska družba, d. d.

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

Ownership structure and data regarding capital

The Republic of Slovenia was Kapitalska družba's sole shareholder as at 31 December 2014.

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

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 Guarantee Fund of the Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia (hereinafter: the KS SODPZ). Kapitalska družba also performs other activities related to asset management and asset management support services.

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

58.110 Book publishing

58.120 Publishing of directories and mailing lists

58.130 Publishing of newspapers

58.140 Publication of magazines and other periodicals

58.190 Other publishing activities

58.290 Other software publishing

59.200 Sound recording and music publishing activities

62.010 Computer programming activities

62.020 Computer consultancy activities

62.030 Computer facilities management activities

62.090 Other information technology and computer service activities

63.110 Data processing, hosting and related activities

63.120 Web portals

64.200 Activities of holding companies

64.300 Trusts, funds and similar financial entities

64.990 Other financial service activities, except insurance and pension funding activities n.e.c.

65.300 Pension fund activities

66.210 Risk and claims assessment

66.290 Other auxiliary activities for insurance and pension funding

68.100 Buying and selling of own real estate

68.200 Renting and operating of own or leased real estate

69.200 Accounting, bookkeeping and auditing activities; tax consultancy

70.100 Activities of head offices

70.220 Business and other management consultancy activities

73.200 Market research and public opinion polling

85.590 Other education n.e.c.

85.600 Educational support activities

Company bodies

Management Board

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

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

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

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

Supervisory Board

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

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

The Supervisory Board of Kapitalska družba is appointed by the Company's General Meeting. The Supervisory Board comprises six members in accordance with the sixth paragraph of Article 51 of the ZSDH-1. Three members of the Supervisory Board are appointed on the basis of a proposal by SDH,1 while two members are appointed on the basis of a proposal by a national-level federation/ organisation of pensioners. One member is appointed on the basis of a proposal by national-level trade union federations or confederations. If an individual interest group does not formulate a proposal for the appointment of members of the Supervisory Board in the manner defined below, the General Meeting of the Company appoints missing members at its own discretion. The proposal for candidates to represent Slovenski državni holding is formulated by Slovenski državni holding, which informs the Supervisory Board of its choice. The proposal for candidates to represent pensioners is formulated by national-level federations/organisations of pensioners, which inform the Supervisory Board of their choice. The proposal for a candidate to represent trade unions is voted upon by representatives (electors) of national-level representative federations/confederations, which inform the Supervisory Board of their choice. Each representative federation/confederation has as many representatives as the number of representative trade unions amalgamated within them. In addition to the representatives referred to in the preceding sentence, a federation/confederation each has one representative for every 10 thousand members. Members of the Supervisory Board serve a four-year term of office and may be reappointed.

General Meeting

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

1.2 Modra zavarovalnica, d. d.

General information

Company name: Modra zavarovalnica, d. d.

(hereinafter: Modra zavarovalnica)

Registered office: Dunajska cesta 119, Ljubljana

Registration number: 6031226 **VAT ID number:** SI21026912

Ownership structure and data regarding capital

Kapitalska družba was Modra zavarovalnica's sole shareholder as at 31 December 2014.

The insurance company's share capital amounts to EUR 152,200,000 and is divided into 152,200,000 no-par-value shares. Each share represents the same stake and corresponding amount in the share capital. The stake of individual no-par-value shares in the nominal capital is determined with respect to the number of no-par-value shares issued.

Activities of the company

Modra zavarovalnica provides life insurance services in accordance with the Insurance Act (ZZavar) and the decision issued by the Insurance Supervision Agency (hereinafter: the ISA), by which it authorised the former to provide the following types of insurance transactions:

- accident insurance point 1 of the second paragraph of Article 2 of the ZZavar; and
- 2 Slovenska odškodninska družba, d. d. performed the tasks of the General Meeting until the entry into force of the ZSDH-1.

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

 life insurance – point 19 of the second paragraph of Article 2 of the ZZavar.

Modra zavarovalnica's activities are defined by the law and the company's Articles of Association, according to which Modra zavarovalnica performs the following activities:

- 65.110 Life insurance
- 65.120 Non-life insurance (only accident and health insurance transactions)
- 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

Company bodies

Management Board

Modra zavarovalnica was run by its Management Board in 2014 in the following composition:

- Borut Jamnik, President, and
- Matija Debelak, MSc, member.

Supervisory Board

Policyholders or their representatives help co-formulate the business policy of Modra zavarovalnica.

The Supervisory Board comprises six members appointed to a five-year terms of office by the insurance company's General Meeting on 9 December 2011. Half of the members of the supervisory board were proposed by policyholders based on a public call to propose candidates. Two members were proposed by the Committee of the Closed Mutual Pension Fund for Public-Sector Employees (hereinafter: the ZVPSJU) on behalf ZVPSJU policyholders, while a third member was proposed by the Committee of the Mutual Equity Pension Fund (hereinafter: the KVPS) on the behalf of other policyholders.

The Supervisory Board comprises the following members:

- Dr Aleš Groznik was Chairman from 23 December 2013 to 22 December 2014, while Branimir Štrukelj has been Chairman and Dr Aleš Groznik has been Deputy Chairman since 23 December 2014;
- Bojan Zupančič was Deputy Chairman from 23 December 2013 to 22 December 2014, and a member of the supervisory board (policyholder representative) since 23 December 2014;
- Branimir Štrukelj member (policyholder representative) and Chairman since 23 December 2014;
- Dario Radešič, member,
- Goran Bizjak (policyholder representative), member, and
- Marino Furlan, member.

General Meeting

Kapitalska družba exercised its rights in 2014 at the General Meeting as the company's sole shareholder.

1.3 PDP Group

General information about the parent company PDP, d. d.

Company name: PDP, Posebna družba za

podjetniško svetovanje, d. d.

Abbreviated company

name: PDP, d. d. (hereinafter: PDP)

Business address: Dunajska cesta 160,

1000 Ljubljana

Registration number: 3545962 **VAT ID number:** SI11010371

Entry in the companies

register: Srg 2009/12666 of 18 May 2009

Transaction account

numbers: 0310 0100 2277 335 at SKB, d. d.

0600 0036 1163 988 at Banka

Celje, d. d.

Ownership structure and data regarding the capital of the parent company PDP

In July 2014 Slovenski državni holding concluded an agreement with D. S. U., d. o. o. on the purchase of a 13.47% participating interest in PDP and thus increased its participating interest to 33.96%.

Shareholders of PDP: Kapitalska družba – 66.04%

Slovenski državni holding, d. d.

- 33.96%

Activities of the company

The activities of PDP are set out in the company's Articles of Association.

The principal registered activity of the company is 64.200 – Activities of holding companies.

Its other registered activities are as follows:

- 64.910 Financial leasing
- 64.920 Other credit granting
- 64.990 Other financial service activities, except insurance and pension funding n.e.c.
- 66.190 Other activities auxiliary to financial services, except insurance and pension funding
- 68.100 Buying and selling of own real estate
- 68.200 Renting and operating of own or leased real estate
- 68.320 Management of real estate on a fee or contract basis

- 69.200 Accounting, bookkeeping and auditing activities; tax consultancy
- 70.100 Activities of head offices
- 70.210 Public relations and communication activities
- 70.220 Business and other management consultancy activities

Company bodies

The company has a single-tier system of corporate governance. The company's governing bodies are:

- the Management Board, and
- General Meeting.

The term of office of members of the Management Board is five years, while the term of office of executive directors is six years.

The company is managed by Executive Director Metka Kandrič who began her term of office on 9 September 2010.

Table 1: Composition of the Management Board of PDP in 2014

Full name	Function of the Management Board	Term of office
Borut Jamnik	President	from 23 May 2009 to 23 May 2014, and from 24 May 2014 to 23 May 2019
Tomaž Kuntarič, MSc	Deputy President	from 23 May 2009 to 23 May 2014
Melita Malgaj	Deputy President	from 24 May 2014 to 23 May 2019
Dr Janez Prašnikar	Member	from 29 July 2010 to 28 July 2015
Leonida Klemenčič Podmiljšak	Member	from 24 May 2014 to 23 May 2019
Metka Kandrič	Member	from 29 July 2010 to 28 July 2015

1.4 Steklarska nova RogaškaSlatina, d. o. o. (in bankruptcy)

General information

Company name: Steklarska nova, proizvodnja

stekla Rogaška Slatina, d. o. o.

Abbreviated company

name: Steklarska nova Rogaška

Slatina, d. o. o.

(hereinafter: Steklarska nova

Rogaška Slatina)

Registered office: Steklarska ulica 1, 3250

Rogaška Slatina

Registration number: 18606674 **Tax number:** 30186323

Entry in companies

register: Celje District Court,

reg. no. 1/07987/00

Ownership structure

Kapitalska družba was 100% owner of Steklarska nova Rogaška Slatina on 21 May 2009, when bankruptcy proceedings were initiated against the latter.

Company bodies

Bankruptcy proceedings were initiated against Steklarska nova Rogaška Slatina on 21 May 2009. Štefan Rola, s.p. was initially appointed official receiver, but was relieved of his function on 6 July 2011. Dr Irena Lesjak was appointed as replacement on the same day. Bankruptcy proceedings are still in progress.

Kapitalska družba does not include the subsidiary Steklarska nova Rogaška Slatina in its consolidated financial statements, as the inclusion of the financial statements of the aforementioned subsidiary is not materially significant for a true and fair presentation of the financial statements of the Kapitalska Družba Group as a whole.

STATEMENT
OF THE
MANAGEMENT
BOARD OF
THE PARENT
COMPANY

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

We can also thank the compulsory supplementary insurance segment for the Company's outstanding results. The Compulsory Supplementary Pension Insurance Fund is the second largest pension fund in Slovenia, with over 45 thousand policyholders. It remains the fastest growing pension fund in Slovenia. The pension savings of policyholders has already exceeded EUR 624.5 million. Kapitalska družba achieved a return of 8.16% in 2014 through the management of the aforementioned assets. The Company thus continued its long tradition as the most successful manager of pension funds in Slovenia, ranking first in terms of return achieved over the last three- and five-year periods. With a three-year return of 20.82% and a five-year return of 26.39%, Kapitalska družba has proven itself to be the most successful manager of pension savings.

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

The Company is aware of its responsibility to policyholders, their employers and occupational pensioners. We therefore manage the assets of the fund responsibly, and resolve claims for occupational pensions in a friendly and efficient manner, despite the lack of legal provisions. To that end, we work with employers and the relevant external institutions. The Company strives to optimise the regulations governing this area in an effort to optimise procedures. In the provision of compulsory 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.

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

In 2014 Kapitalska družba justified the trust of its owner, policyholders of the Compulsory Supplementary Pension Insurance Fund, occupational pensioners and employees. Despite the challenges posed by the adverse economic conditions, Kapitalska družba successfully managed and

justified the expectations of all stakeholders through the targeted development of the Company, and through creativity and a large amount of innovation. Through its major successes in the area of compulsory supplementary pension insurance and achieved operating results, Kapitalska družba represents a developmental, organisational and professional haven of pension solutions for the future.

Modra zavarovalnica was again the largest provider of supplementary pension insurance in Slovenia in 2014, as it maintained its market share of the voluntary pension savings segment, which was 45% in terms of assets under management. Around 260 thousand individuals held savings in the company's three mutual pension funds at the end of the year. Modra zavarovalnica thus enjoys a leading position in the pension annuities market, as well. Supplementary pensions were paid to nearly 16 thousand policyholders in the total amount of EUR 12.9 million.

Modra zavarovalnica is the strongest among all specialised providers of supplementary pension insurance in terms of capital. This represents an important factor in terms of the security of savings in adverse economic conditions. Modra zavarovalnica's capital, which ensures the security of policyholders' assets, amounted to EUR 209 million at the end of 2014, which is EUR 66 million more than when the insurance company began operating three years ago. The value of assets under management also recorded growth to stand at EUR 1.2 billion at the end of 2014: assets under management in mutual pension funds totalled EUR 894 million, while assets under management in guarantee funds totalled EUR 130 million. The company's own financial assets amounted to EUR 224 million.

The annual returns on pension funds were up sharply in 2014 compared with the returns recorded in 2013. The actual return was higher than the guaranteed return for all pension funds on the Slovenian market. The returns on the KVPS and ZVPSJU, which are managed by Modra zavarovalnica, were consistently high and stood at 6.52% and 5.43% respectively in 2014. The two aforementioned funds achieved cumulative returns of more than 16% and 18% respectively over the last three years, which translates to annual returns of 5.1% for the KVPS and 5.7% ZVPSJU.

At the beginning of 2015 Modra zavarovalnica was the first on the market to offer the possibility of supplementary pension savings in the Modri Umbrella Pension Fund, which comprises three sub-funds that pursue a life-cycle investment policy. The investment policies of the subfunds are adapted to the age of participants with the aim of achieving a higher return on paid in supplementary pension savings. Taking into account age limitations, sav-

ers may invest in dynamic, prudent or guaranteed subfunds. Through intensive marketing of this new product, the company expects to increase its market share further in 2015 in terms of assets under management. The company's marketing efforts will also focus on increasing the individual premiums of policyholders in the fund for public-sector employees. Analyses indicate that paying the legally prescribed minimum premium is not enough to ensure sufficient supplementary pension savings. Only an appropriately high premium can compensate for a lower first-pillar pension.

We have noted that awareness among policyholders about the importance of a supplementary pension is on the rise. Thus, an increasing proportion of beneficiaries are opting for the payment of savings in the form of a supplementary pension at retirement. Intensive communication and training activities will continue in 2015 at companies that pay premiums for their employees and at the individual level to stimulate an increase in the number of beneficiaries to select Modra zavarovalnica for their supplementary pension needs.

One of Modra zavarovalnica's core projects in 2015 will be the upgrading and adaptation of business processes and the corporate structure to the provisions of the new act governing insurance, which is being debated in the scope of the transposition of the European Solvency II directive into Slovenian law. To that end, Modra zavarovalnica will also continue its project to implement integrated information support for pension funds under management.

The security of policyholders' assets and the high-quality of its services will continue to be the insurance company's trademark. Modra zavarovalnica will operate as a transparent and socially responsible company. That will be demonstrated not only by highly qualified and motivated employees, but also with respect to the wider social community and environment.

In the scope of managing investments, the PDP focused the majority of activities on the search for and inclusion of strategic partners in the companies Elan, d. o. o. and Adria Airways Tehnika, d. d., and on the completion of the sale of Fotona, d. d.

Following the auction to sell 70.48% of all shares issued by Fotona, d. d., PDP signed an agreement at the end of January 2014 with the buyer Gores Laser Holdings, L.P. on the sale of the aforementioned shares, bringing to a close a process that started back in September 2011. At the General Meeting of PDP held on 4 March 2014, the company's shareholders gave their consent to the agreement on the sale of shares in Fotona, d. d. of 30 January 2014,

thus fulfilling one of the conditions for the successful completion of the transaction. Consideration was paid and the shares transferred to their new owner in March 2014.

Shareholders had received several binding offers by the end of 2014 in the sale of Adria Airways Tehnika, d. d. The sales process continues in 2015. The success of the sale of Elan, d. o. o., which had not been completed by the end of 2014, largely depends on the aforementioned company's creditors, as potential investors are demanding the partial write-off Elan's financial debt as a condition for ownership participation.

PDP's activities in 2014 were also focused on ensuring the liquidity of Adria Airways Tehnika, d. d. and Elan, d. o. o. Certain claims against and participating interests of banks in Aero, d. d. and Elan, d. o. o. were transferred to the BAMC at the end of 2013, which brought a new dimension to the rolling over of financing required for the working capital of the aforementioned companies and extended certain ongoing proceedings.

PDP's activities were also linked to the resolution of the situation at Elan, d. o. o. regarding the European Commission's decision requiring the repayment of incompatible state aid granted to Elan in 2008. At the beginning of July 2014, the European Commission published a decision in which it found that restructuring measures adopted by the Slovenian government in favour of the national airline were in line with the Commission's rules. The European Commission thus confirmed that PDP, which actively led the procedure to increase Adria Airways, d. d.'s capital in 2011, performed its tasks professionally and in accordance with European legislation. The decision also states that PDP purchased a majority interest in Adria Airways Tehnika, d. d. in 2010 (the seller of that interest was Adria Airways, d. d.) under market conditions. Adria Airways, d. d. did not gain any undue advantage over the competition through sale of the aforementioned participating interest.

At the general meeting of Aero, d. d., PDP voted in favour of measures relating to a reduction in the aforementioned company's share capital and a simultaneous increase in share capital through the subscription of newly issued shares. PDP reduced its participating interest in Aero, d. d. to just 1.44% following the successful subscription and paying up of shares.

In the scope of its powers, PDP worked with the competent repressive bodies with the aim of addressing the potential suspicion of damage to Elektrooptika, d. d. and its shareholders through the use of an electronic enforcement institute. In November 2014 the company received a report from the National Bureau of Investigation on the

completion of the police investigation into the suspicion of a criminal offence and notification of the filing of criminal charges with the Specialised State Prosecutor General of the Republic of Slovenia against those parties involved.

On 23 March 2014 the National Assembly of the Republic of Slovenia adopted the Slovenian Sovereign Holding Company Act (hereinafter: the ZSDH-1), which entered into force on 26 April 2014. In accordance with Article 81 of the ZSDH-1, Slovenski državni holding must ensure the transfer of all shares and participating interests in companies owned by D.S.U., d. o. o. (including D.S.U., d. o. o.'s participating interest in PDP) within six months from the entry into force of the aforementioned act. In accordance with Article 82 of the aforementioned act, Slovenski državni holding has one year following the entry into force of the ZSDH-1 to ensure that Kapitalska družba transfers its participating interest in PDP to the former, and must do everything necessary to ensure PDP's merger with Slovenski državni holding. PDP operates as an independent legal entity until that merger.

In July 2014 Slovenski državni holding informed PDP about the setting of the cut-off date for the merger and the drafting of a final report on PDP. A cut-off date of 31 July 2014 was set. Because no sales agreement was concluded between the buyer and seller by the aforementioned date, the cut-off date for the merger was postponed for the foreseeable future.

On 31 July 2014 Slovenski državni holding concluded an agreement with D. S. U., d. o. o. on the purchase of a 13.47% participating interest in PDP and thus increased its participating interest to 33.96%. No agreement between Slovenski državni holding and Kapitalska družba on the purchase of shares had been concluded by the end of 2014. This was not done until 19 January 2015. As a result, a new cut-off date of 31 January 2015 was set for the merger.

PDP believes that the 2014 financial year was very difficult for its subsidiaries, associates and other companies. All of those companies faced challenges in securing financing. Nevertheless, some of them saw positive shifts in their core activity, which provides the basis for bolder plans for the future.

Member of the Management Board

President of the

Management Board

REPORT OF THE SUPERVISORY BOARD OF THE PARENT COMPANY

REPORT OF THE SUPERVISORY BOARD ON THE VERIFICATION OF THE AUDITED CONSOLIDATED ANNUAL REPORT OF THE KAPITALSKA DRUŽBA GROUP FOR 2014

Pursuant to 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:

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

The Supervisory Board of Kapitalska družba functioned in the following composition in 2014:Samo Lozej (Chairman), Aldo Ternovec (Deputy Chairman), Aleksander Mervar, Stanislav Seničar, Ana Bilbija and Ladislav Rožič, MSc.

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

The Kapitalska Družba Group comprises the parent company Kapitalska družba, d. d., Modra zavarovalnica, d. d., the PDP Group and Steklarska nova Rogaška Slatina, d. o. o. (in bankruptcy). In particular, the Supervisory Board continuously monitored the operations of Modra zavarovalnica, d. d., PDP, Posebna družba za podjetniško svetovanje, d. d. and the companies in the latter's portfolio.

A review of the important matters discussed by the Supervisory Board in 2014 follows:

- Particular attention in the monitoring of Kapitalska družba's operations in 2014 was given to monitoring the management of the Company's assets, and to monitoring the management of the Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia (SODPZ) and the Guarantee Fund of the Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia (KS SODPZ), which are managed by Kapitalska družba.
- Confirmation of the annual reports of Kapitalska družba and the Kapitalska Družba Group for the 2013 financial year and the proposal to the general meeting for the appointment of an auditor for the 2014 financial year.
- Consent to Kapitalska družba's business-financial plan for 2015.
- 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.
- In 2014 the Supervisory Board made a decision on the appointment of the President and member of the Management Board, both of whom were appointed to a four-year term of office. Both members

- of the Management Board were selected on the basis of a public tender procedure. The Supervisory Board appointed a human resource committee before the announcement of each tender to review applications, conduct the relevant interviews and formulate a proposal for the Supervisory Board.
- For the needs of formulating a proposal for the General Meeting on the appointment of three new members (stakeholder representatives) to the Supervisory Board (due to the expiration of the previous members' term of office) and based on the proposal of candidates formulated in accordance with the provisions of Article 51 of the ZSDH-1 and Article 19 of the Company's Articles of Association, the Supervisory Board formulated a proposal for the General Meeting for the appointment of two members to the Supervisory Board based on the proposal of a national-level federation/organisation of pensioners and the appointment of one member based on a proposal by a national-level trade union federation or confederation.

An accreditation committee also functioned as an advisory body to the Supervisory Board in 2014. The aforementioned committee's task was to provide support to the Supervisory Board in the supervision of the management of the Company's transactions as they relate to the governance of companies in which Kapitalska družba holds capital investments.

The four-member audit committee, comprising Ladislav Rožič, MSc (chairman), Aleksander Mervar, Ana Bilbija and Mojca Verbič (external member), represented a permanent working body of the Supervisory Board, and closely monitored the operations of the Company and the work of the Management Board during the financial year for the needs of the Supervisory Board's decisions. The audit committee met at nine sessions in 2014. In its work, the audit committee applied the recommendations of the Slovenian Directors' Association for audit committees and the recommendations of the Slovenian Institute of Auditors, as well as the rules of procedure of the audit committee as adopted by the Supervisory Board. The audit committee verified the annual reports of the Company and Group, together with the accompanying audit reports of the external auditor, as well as Kapitalska družba's business-financial plan for 2015, to which the Supervisory Board gave its consent. In addition to the tasks set out in the ZGD-1, the audit committee also reviewed the interim reports on the operations of Kapitalska družba, its subsidiaries PDP, d. d. and Modra zavarovalnica, d. d. and the pension funds under the management of Kapitalska družba (SODPZ and KS SODPZ). It also monitored the work of the internal audit department. The audit committee regularly briefed the Supervisory Board on its work during sessions of the Supervisory Board.

Assessment of the work of the Management Board and Supervisory Board

On the basis of the aforementioned continuous monitoring and supervision of the operations of Kapitalska družba and its subsidiaries during the 2014 financial year, and based on a review of the consolidated annual report of the Kapitalska Družba Group for 2014 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 2014 financial year enabled the latter to carry out its supervisory role satisfactorily.

Supervisory Board's position on the audit report b)

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 the Kapitalska Družba Group for 2014, which was conducted by the audit firm Deloitte revizija d. o. o., Ljubljana. The Supervisory Board finds that the auditor performed its task in accordance with the law, auditing rules and international auditing standards. The Supervisory Board has no remarks regarding the audit report.

Decision regarding the approval of the annual report for 2014

Pursuant to Article 282 of the Companies Act, the Supervisory Board hereby approves the consolidated annual report of the Kapitalska Družba Group for 2014.

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

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

Samo Lozej Chairman of the Supervisory Board Ljubljana & July 2015

ORGANISATIONAL STRUCTURE OF THE KAPITALSKA DRUŽBA GROUP

The Kapitalska Družba Group comprises the parent company Kapitalska družba, Modra zavarovalnica, the PDP Group and Steklarska nova Rogaška Slatina.

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

Kapitalska družba does not include the subsidiary Steklarska nova Rogaška Slatina in its consolidated financial statements, as the inclusion of the financial statements of the aforementioned subsidiary is not materially significant for a true and fair presentation of the financial statements of the Kapitalska Družba Group as a whole.

4.1 Reporting on employees

At the end of 2014 the Kapitalska Družba Group had 1,673 employees broken down as follows: 56 employees at Kapitalska družba, 54 employees at Modra zavarovalnica 1,563 employees in the PDP Group.

Table 2: Number of employees in the Kapitalska Družba Group

Balance as at 31 December 2014

Kapitalska Družba Group

1,673

MACROECONOMIC BACKGROUND OF OPERATIONS

5.1 Inflation

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

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

Figure 1: Change in monthly and annual growth in consumer prices in 2014 (in %)
Source: Statistical Office of the Republic of Slovenia

Monthly growth rate



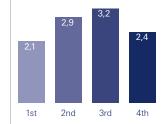
Annual growth rate



5.2 Gross domestic product

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

Figure 2: Real year-on-year growth in GDP by quarter in 2014 (in %)
Source: Statistical Office of the Republic of Slovenia



5.3 Employment and wages

According to figures from the Statistical Office of the Republic of Slovenia, the total workforce stood at 919 thousand in December 2014. The workforce in employment totalled 799 thousand, up 1.1% on the end of December 2013. The number of registered unemployed persons stood at 119 thousand at the end of December 2014, a decrease of 3.7% on the number of registered unemployed persons a year earlier. The registered unemployment rate stood at 13.0% in December 2014, compared with 13.5% in the final guarter of 2013.

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

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

5.4 Money market

541 Interest rates

The reference interbank interest rate for the euro area, the six-month EURIBOR, was stable in 2014, fluctuating between 0.171% and 0.444%. The key interest rate of the European Central Bank (ECB), which in the past had a significant impact on the movement in interbank interest rates, had no effect on the EURIBOR in 2014. The ECB cut its reference interest rate twice in 2014, from 0.25% to 0.05%. This, however, had no impact on interbank interest rates.

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

Figure 3: Movement in the yield-to-maturity on 10-year German government bonds and the 6-month EURIBOR in 2014 (in %)
Source: Bloomberg

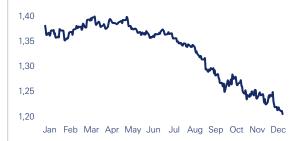
■ 10-year German bonds



5.4.2 Exchange rate

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

Figure 4: Movement in the US dollar/ euro exchange rate in 2014 Source: Bloomberg



5.5 Capital market

5.5.1 Equity market

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

Figure 5: Movement in the Slovenian SBI TOP and selected foreign stock indices in 2014 in euros (index: 1 January 2014 = 100)
Source: Bloomberg

004.00. 5.00....

- SBI TOP
- DOW JONES INDUS. AVG
- __ DAX
- MSCI



5.5.2 Debt market

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

Figure 6: Movement in the IBOXX EUR Corporates TR corporate bond index and the IBOXX EUR Sovereigns TR government bond index in 2014 (index: 1 January 2014 = 100)

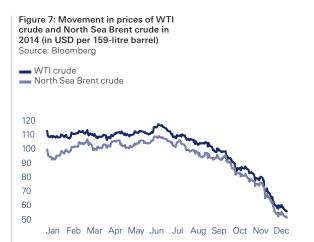
Source: Bloomberg

Government bondsCorporate bonds



5.6 Price of oil

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



PERFORMANCE OF THE KAPITALSKA DRUŽBA GROUP BY SEGMENT IN 2014

The Kapitalska Družba Group comprises the parent company Kapitalska družba, Modra zavarovalnica, the PDP Group and Steklarska nova Rogaška Slatina (in bankruptcy).

6.1 Kapitalska družba

6.1.1 Capital investment management

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

- capital investments, and
- portfolio investments.

Table 3 illustrates the composition of financial investments, while a detailed description of the aforementioned groups follows.

Table 3: Composition of Kapitalska družba's investments as at 31 December 2014 with regard to management (in 000 EUR)

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

Composition of capital investments

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

The Company held a total of 51 such investments at the end of 2014. Of those investments, Kapitalska družba had 42 so-called active investments, including 37 investments in public limited companies and five investments in limited liability companies. In addition to active investments, Kapitalska družba also held seven investments in bankruptcy proceedings and two investments in liquidation proceedings.

The value of capital investments was EUR 560,332 thousand as at 31 December 2014, an increase of EUR 32,570 thousand on the previous year.

Table 4: Breakdown of Kapitalska družba's capital investments as at 31 December 2014 in accordance with Kapitalska družba's asset management strategy (in 000 EUR)

Type of investment	No. of investments	Value	Proportion of capital investment portfolio
Strategic investments	2	360,385	64.3%
Marketable investments	15	168,562	30.1%
Non-marketable investments	25 ³	30,106	5.4%
Investments in bankruptcy or liquidation	9	1,279	0.2%
Total capital investments	51	560,332	100%

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

Table 5: Ten largest capital investments of Kapitalska družba by value as at 31 December 2014 (in %)

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

Investments in which Kapitalska družba holds a less than 20% ownership stake comprise the majority of capital investments. So-called active investments include 39 such investments, as well as four investments in bankruptcy and liquidation proceedings. A detailed overview of the composition of investments in terms of size of ownership stake is given in Table 6.

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

Table 6: Composition of capital investments in terms of size of ownership stake as at 31 December 2014

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

Sales of companies by Kapitalska družba

With the aim of ensuring the transparency of sales procedures and the equal treatment of bidders, the sale of capital investments is carried out via public tender. Kapitalska družba published two public tenders for the purchase of shares and participating interests in 2014.

Despite the Company's efforts, interest in the purchase of corporate shares and participating interests was down again in 2014 due to the continuation of the adverse economic conditions. Also contributing to the decline in the number of sales of corporate shares and participating interests was the failure to adopt a strategy for managing the capital investments of the Republic of Slovenia.

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

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

Purchases of companies

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

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

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

Based on decisions by the Bank of Slovenia of 16 December 2014 on the adoption of specific extraordinary measures aimed at maintaining the stability of the Slovenian financial system, the KDD deleted from the central register of book-entry securities the shares and subordinated bonds of one Slovenian bank: Banka Celje, d. d. Prior to deletion, Kapitalska družba held the shares and subordinated bonds of the aforementioned bank. The value of write-offs made by Kapitalska družba due to the deletion of the shares and subordinated bonds of the aforementioned bank is disclosed in the financial report section of the annual report. Because an initiative was sent to the Constitutional Court to assess the constitutionality of certain articles of the law governing banking, the Company's Management Board will closely monitor legislative proceedings and activities in this area, and act accordingly to protect the assets of Kapitalska družba.

Dividends of domestic companies

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

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

Table 7 illustrates the highest dividend income generated in 2014 by capital investments held by Kapitalska družba.

Table 7: Capital investments that generated the highest dividend income in 2014 and 2013

Issuer	Dividends per share in 2014 (EUR)	Dividends per share in 2013 (EUR)	Total dividends in 2014 (in 000 EUR)	Total dividends in 2013 (in 000 EUR)
Krka, d. d.	2.10	1.61	7,335	5,624
Telekom Slovenije, d. d.	10.00	12.00	3,652	4,382
Aerodrom Ljubljana, d. d.	9.16	0.63	2,561	176
Petrol, d. d.	10.10	10.00	1,744	1,726
Hoteli Union, d. d.	0.85	1.12	286	377
Luka Koper, d. d.	0.16	0.17	111	118
Elektro Maribor, d. d.	0.09	0.09	49	49

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

Table 8: Dividend income based on claims received for the distribution of profit (in EUR)

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

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

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

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

As an active player on the Slovenian capital market, Kapitalska družba strives to introduce in practice a contemporary form of corporate governance, the aim of which is to ensure clear, predefined and publicly known principles, procedures and criteria by which the Company acts in exercising its ownership rights. To that end, the Corporate Governance Code of Kapitalska družba was used from 2009 until December 2013, and defined the policy and procedures for exercising Kapitalska družba's management rights in companies in which it holds an ownership stake. In 2013 Slovenska odškodninska družba adopted the Corporate Governance Code for Companies with State Capital Investments, which Kapitalska družba has applied mutatis mutandis since December 2013 to ensure uniform operations. The aforementioned document is published on Kapitalska družba's website.

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

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

Kapitalska družba was entitled to participate on its own behalf and on account of the pension fund under management in 65 general meetings of shareholders or partners of companies in 2014. Representatives of Kapitalska družba participated in 26 general meetings with authorisation to vote. In accordance with Article 53 of the ZSDH-1 Slovenski državni holding, d. d. (hereinafter: Slovenski državni holding or SDH) exercised the voting rights of Kapitalska družba at 35 general meetings in the name and on account of Kapitalska družba. Of those general meetings, Kapitalska družba participated at 34 general meetings at which it did not exercise voting rights. Four general meetings were cancelled prior to the date of the meeting or rescheduled to another date. When assessing proposed general meeting resolutions and formulating opinions for voting at general meetings, Kapitalska družba complied with the Corporate Governance Code for Companies with State Capital Investments and internal bases for voting at general meetings, as well as the provisions of the Company's Articles of Association relating to the performance of corporate governance tasks. With respect to the remuneration of supervisory boards and management bodies, Kapitalska družba applied, mutatis mutandis, the Recommendations of the Manager of Direct and Indirect Capital Assets of the Republic of Slovenia, which were published by Slovenska odškodninska družba, and took into account the Act Governing the Earnings of Management Staff at Companies under the Majority Ownership of the Republic of Slovenia and Self-Governing Local Communities (ZPPOGD) with respect to the earnings and other rights of management boards, executive directors and the management staff of companies.

Kapitalska družba acted in accordance with the Corporate Governance Code for Companies with State Capital Investments at all general meetings attended by its representatives in 2014. Disclosures regarding Kapitalska družba's conduct at general meetings are published on the Company's website.

Table 9: Participation at general meetings

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

Code of Conduct of the Kapitalska Družba Group

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

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

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

Management of capital investments in the future

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

Article 79 of the ZSDH-1 states that Kapitalska družba must be transformed into an independent and autonomous demographic reserve fund by no later than 31 December 2015, as set out in the law governing pension and disability insurance, following the prior adoption of the relevant law. The same article also states that 10%

of proceeds from the sale of capital investments held by the Republic of Slovenia must be transferred to a special account at the Ministry of Finance. The aforementioned funds may be used exclusively to finance the demographic reserve fund.

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

SDH will manage investments in accordance with guide-lines on the management of investments, the relevant investment management strategy and the Corporate Governance Code, and on the basis of the annual investment management plan. Kapitalska družba is also bound to the investment management strategy, which will include the classification of investments (the definition and classification of SDH, d. d.'s capital investments, excluding equity portfolio investments, to investment categories, target participating interests in capital investments and the sales methods). The aforementioned strategy and classification of investments were not adopted in 2014.

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

6.1.2 Management of portfolio investments

Equity portfolio investments

Equity portfolio investments include foreign shares and investment coupons from the investment funds of domestic and foreign issuers. The value of equity portfolio investment assets was EUR 140,603 thousand as at 31 December 2014.

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

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

The five largest investments accounted for a total of 52.2% of equity portfolio investments as at 31 December 2014. These investments included index funds represented by MSCI World global stock indices (XMWO GY and SMSWLD GY), an index fund represented by the US S&P 500 (SPY US), an index fund represented by the US IXT technology sector index (XLK US), and an index fund represented by euro area government bonds (XGLE GY).

Debt portfolio investments

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

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

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

Type of investment	Value	Proportion of debt portfolio investments (in %)
Domestic bonds	93,767	84.6
- domestic government bonds	77,276	69.7
- domestic corporate and bank bonds	16,491	14.9
Foreign bonds	13,953	12.6
- foreign government bonds	1,183	1.1
- foreign corporate and bank bonds	12,770	11.5
Claims for interest	3,101	2.8
Total debt portfolio investments	110,821	100

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

Money market investments

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

Table 12: Composition of money market investments as at 31 December 2014 (in 000 EUR)

Type of investment	Value	Proportion of the portfolio of money market investments (in %)
Loans granted (deposits)	61,400	64.1
Cash and cash equivalents	34,453	35.9
- Cash on transaction accounts at banks, and cash in hand	653	0.7
- Euro call deposits	33,800	35.3
Total money market investments	95,853	100

6.1.3 Transfers to the ZPIZ

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

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

6.1.4 Investment property

Kapitalska družba holds investment property in the following commercial buildings:

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

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

6.1.5 Pension fund management

Operations of the SODPZ

Pursuant to the law, Kapitalska družba has been the manager of SODPZ since its establishment in 2001. The SODPZ is a mutual pension fund that provides occupational insurance in accordance with the ZPIZ-2.

The SODPZ is intended for policyholders who perform especially difficult work and work that is harmful to the health, and for policyholders who perform work that can no longer be performed successfully after a certain age. The SODPZ comprises assets that are financed by funds collected through the payment of occupational insurance contributions and revenues generated by the management of those funds, and are earmarked exclusively to cover liabilities to occupational insurance policyholders.

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

The SODPZ had 45,444 policyholders as at 31 December 2014. The actual return on the SODPZ was 8.16% in 2014, compared with the guaranteed return of 2.30% in the same period. The net value of SODPZ assets was EUR 624,567 thousand at the end of 2014, and exceeded the guaranteed value of assets (EUR 568,935 thousand) by EUR 55,631 thousand. The SODPZ held 755,947,189 units in circulation in 2014.

As the manager of the SODPZ, Kapitalska družba is entitled to the reimbursement of subscription and redemption costs, and annual management fees. Revenues from the management of the SODPZ totalled EUR 7,073 thousand

in 2014, broken down as follows: EUR 5,834 thousand in management fees, EUR 1,210 thousand in subscription fees and EUR 29 thousand in redemption fees.

Table 13: Kapitalska družba's revenues from management of the SODPZ in 2014 (in 000 EUR)

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

SODPZ investments

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

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

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

 to increase the actual value of assets over their guaranteed value, while maximising the amount of the expected surplus in the context of the targeted level of risk.

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

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

The value of assets in the SODPZ stood at EUR 626,373 thousand as at 31 December 2014, an increase of 13.9% relative to 2013.

Investments in debt securities account for the highest proportion (49.8%) of SODPZ assets. The proportion accounted for by the aforementioned assets was down slightly in 2014 compared with the previous year. Bonds

account for the majority of this class of investments, followed by investments in loans and deposits (25.2%) and investment coupons (21.7%). The proportion accounted for by the two aforementioned classes was up relative to 2013. The proportions accounted for by other forms of investments were also up relative to 2013.

Table 14: Composition of the investments of the SODPZ as at 31 December 2014 (in 000 EUR)

Class	Value	Proportion of fund assets (in %)
Shares	6,333	1.0
Debt securities	311,964	49.8
Loans and deposits	157,932	25.2
Investment coupons	135,822	21.7
Cash and cash equivalents	13,996	2.2
Other claims	326	0.1
Total	626,373	100

Due to the limited size of the Slovenian financial market and a wider selection of investment opportunities, a portion of the fund's assets were initially channelled abroad. The fund's exposure to currency risk was up in 2014, as the proportion of securities denominated in foreign currencies rose from 6.5% to 7.4%.

Operations of the KS SODPZ

With the transfer of the first policyholder to the KS SODPZ in May 2013, Kapitalska družba created and became the manager of the KS SODPZ. The Company began paying occupational pensions in June 2013. An occupational pension provides social security to employees who perform especially difficult work and work that is harmful to the health, and work that can no longer be performed successfully after a certain age. An occupational pension is paid from the time that right is earned until old-age or early retirement.

SODPZ policyholders earn the right to an occupational pension when they fulfil the conditions set out in the plan for the payment of occupational pensions. When policyholders exercise their rights to an occupational pension, the funds on their personal account in the SODPZ are transferred to the KS SODPZ and the policyholders are issued an occupational pension policy. A total of 44 policyholders were transferred to the KS SODPZ in 2014. The total value of funds transferred for those policyholders was EUR 1,328 thousand.

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

KS SODPZ investments

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

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

Table 15: Composition of the KS SODPZ investments as at 31 December 2014 (in EUR)

Class	Value	Proportion of fund assets (in %)
Debt securities	628,911	59.6
Loans and deposits	231,006	21.9
Cash and cash equivalents	7,710	0.7
Other claims	187,262	17.8
Total	1,054,889	100

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

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

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

The number of requests for information regarding occupational pension and thus the number of requests to exercise the right to an occupational pension was up sharply in 2014. Kapitalska družba carried out tasks in connection with occupational retirement, such as verification of the

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

Since the entry into force of the ZPIZ-2, Kapitalska družba has warned of the need to establish a system for verifying the accuracy of paid in contributions for occupational insurance. This need derives from the fact that a policyholder who was included in compulsory supplementary pension insurance under the ZPIZ-1 or in occupational insurance under the ZPIZ-2 has one quarter of the period in which they were included in compulsory supplementary pension insurance or occupational insurance added to the actual period for the fulfilment of conditions to earn the right to an early or old-age pension from compulsory insurance under the ZPIZ-2. Only the periods for which a liable person paid contributions in full count towards the period in which an occupational insurance policy holder was included in occupational insurance. With the aim of collecting unpaid contributions for occupational insurance, Kapitalska družba reported defaulters to the FARS in August 2014, and also notified the Labour Inspectorate of the Republic of Slovenia accordingly.

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

In cooperation with the MLFSAEO, Kapitalska družba resolved certain open issues regarding the occupational retirement of MDRS policyholders. It thus warned of the problem faced by policyholders who are unable to enjoy

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

The new Act Governing the Gradual Closure of the Trbovlje-Hrastnik Mine and the Developmental Restructuring of the Region (hereinafter: the ZPZRTH) entered into force in June 2014 and set out the conditions for obtaining the right to an occupational pension for specific categories of employees of the Trbovlje-Hrastnik mine. All activities in connection with the drafting of the aforementioned act were carried out in a very short period of time. Thus, Kapitalska družba was unable to participate in that process. Nevertheless, after a quick review of the act and amendments thereto, the Company proposed changes crucial to the act's implementation. Due to the short deadline to adopt the aforementioned act, Kapitalska družba's comments were not taken into account. The competent ministry therefore requested an additional interpretation regarding the implementation of the ZPZRTH. Kapitalska družba is working intently to carry out activities that would facilitate the unimpeded occupational retirement of Trbovlje-Hrastnik mine policyholders on the basis of the ZPZRTH. Those activities include personal and written communication with representatives of the Trbovlje-Hrastnik mine, representatives of several ministries and trade unions, and the ZPIZ. The Republic of Slovenia will provide co-financing in accordance with the law for policyholders with insufficient funds on their personal account for the payment of occupational pensions, and ensure that those policyholders are able to exercise all rights to which they are entitled based on the ZPZRTH.

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

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

Kapitalska družba informs all occupational insurance stakeholders regularly via its website about all of the latest developments and the operations of the fund. The Company communicates with policyholders and liable persons throughout the year, both personally through the call centre and through a toll-free telephone number and email. In 2014 Kapitalska družba also organised presentations for policyholders, liable persons, trade unions and human resource departments. There were ten such meetings in 2014.

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

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

6.2 Modra zavarovalnica

Modra zavarovalnica's financial assets include the insurance company's own assets and the assets of both guarantee funds.

Table 16: Financial assets of Modra zavarovalnica (in 000 EUR)

Financial assets	31 December 2014
Own financial assets	224,001
KS PPS assets	101,698
KS MR assets	28,073
Total	353,772

Management of own financial assets

Modra zavarovalnica's own financial assets totalled 224,001 thousand euros at the end of 2014. The company breaks down its financial assets by the items shown in the table below. The largest proportion is accounted for by the portfolio of equity investments, followed by debt investments.

Table 17: Composition of Modra zavarovalnica's financial assets (in 000 EUR)

Financial assets	31 December 2014
Equity portfolio investments	108,392
Equity non-portfolio investments	32,982
Portfolio of debt investments	81,302
Cash and cash equivalents	1,325
Total	224,001

Equity portfolio investments

Equity portfolio investments include foreign shares and investment coupons from the investment funds of domestic and foreign issuers. The value of equity portfolio investment assets was EUR 108,392 thousand as at 31 December 2014. The five largest investments in the portfolio of equity investments as at 31 December 2014 were as follows: an index fund represented by the MSCI global index (XMWO GY), an index fund represented by the European government bonds (XGLE GY), the shares of Coca-Cola Company, an index fund that invests in the shares of emerging markets (MXFS LN) and an index fund that invests in the agriculture sector (MOO US).

Table 18: Assets of equity portfolio investments (in 000 EUR)

Investment	31 December 2014
Shares	29,335
· Domestic shares	0
· Foreign shares	29,335
Investment funds	79,057
· Domestic investment funds	488
· Foreign investment funds	78,569
Total	108,392

The values of share indices measured in euros rose by 16% on average in 2014. The highest return of 23% was achieved by US shares; at just under 20%, Slovenian shares were not far behind their US counterparts. Japanese and European shares achieved returns of 7% and 3% respectively.

The insurance company's portfolio of equity investments was most exposed to the financial sector as at 31 December 2014, followed by the sectors of non-cyclical consumer goods and information technology. In terms of currencies, the portfolio was most exposed to the US dollar and the euro at the end of 2014. Nearly half of the aforementioned portfolio is invested in the equities of issuers from North America, while close to one third is invested in European issuers. The remainder is accounted for by investments in issuers from the most developed Asian countries and from emerging economies.

Non-portfolio investments

At the end of 2014, Modra zavarovalnica also held the shares of three domestic issuers that require a different approach to management than portfolio investments on account of the size of the associated participating interest: Cinkarna Celje, d. d., Žito, d. d. and Pozavarovalnica Sava, d. d. The total value of the aforementioned investments was EUR 32,982 thousand as at 31 December 2014. The sale of shares in Helios, d. d. was completed on 3 April 2014 with the transfer of those shares to the buyer's account and the receipt of consideration.

On 20 June 2014 a consortium of sellers signed an agreement with Mahle Holding Austria GmbH on the sale of shares in Letrika, d. d. The sale was completed on 10 September 2014 with the transfer of those shares to the buyer's account and the receipt of consideration. Together with a consortium of sellers, Modra zavarovalnica began the active sale of its non-portfolio investments in Cinkarna Celje, d. d. and Žito, d. d. in the third quarter of 2014. The aforementioned sales are expected to be completed in 2015.

Debt investments

The balance of debt investments stood at EUR 81,302 thousand at the end of 2014. Government bonds accounted for the highest proportion of debt investments, followed by corporate bonds and deposits.

Table 19: Composition of debt investments (in 000 EUR)

Investment	31 December 2014
Bonds	48,854
- Government bonds	24,745
Domestic government bonds	9,678
Foreign government bonds	15,067
- Corporate bonds	24,109
Domestic corporate bonds	4,622
Foreign corporate bonds	19,487
Deposits	31,102
Commercial paper	1,346
Total	81,302

European government bonds were very profitable in 2014, as they gained more than 13% in terms of value as measured by the IBOXX Sovereign tenderer index. Slovenian government bonds also gained more than 12% in terms of value. Corporate bond indices recorded somewhat lower growth. Investment-grade corporate bonds gained 8% in 2014, as measured by the IBOXX Corporate tenderer index, while sub-investment-grade corporate bonds gained 4% over the same period, as measured by the IBOXX Liquid High Yield index. The market prices of Slovenian corporate bonds were relatively stable.

The government bond portfolio primarily comprises the government bonds of euro area countries. The proportion of bonds accounted for by domestic issuers was 40% at the end of 2014, while foreign issuers accounted for 60%. More than 90% of bonds are denominated in euros, while the remainder are denominated in US dollars and Norwegian kroner.

The majority of investments are accounted for by bonds issued by the Slovenian, Austrian and Polish governments, and by index funds of euro area government bonds. Around half of bonds have a maturity of between five and 10 years, while the majority of bonds bear a fixed coupon rate.

The majority of corporate bond issuers are likewise from euro area countries. Domestic corporate bonds accounted for 19% of the corporate bond portfolio at the end of the year, while foreign corporate bonds accounted for 81%. All corporate bonds and funds that invest in corporate

bonds are denominated in euros. Modra zavarovalnica was most exposed to issuers from the sectors of finance, energy and public services.

The five largest investments in the portfolio of debt investments were accounted for by the following as at 31 December 2014: index funds represented by European corporate bonds (EUN5 GY, ALLCBPI LX and ALEHYIT LX), SPPEUS 3 3/4 07/20 bonds and an index fund that invests in the bonds of global issuers (DWEMFCH LX).

Investments in cash and cash equivalents

Modra zavarovalnica held EUR 1,325 thousand in cash and cash equivalents at the end of 2014. The majority of the aforementioned assets were accounted for by euro call deposits.

Table 20: Composition of financial assets (in 000 EUR)

Investment	31 December 2014
Cash on accounts at banks and cash in hand	37
Euro call deposits	1,288
Total	1,325

Management of guarantee funds

The gap between an individual's income before and after retirement continues to widen due to declining pensions from compulsory pension insurance. A supplementary pension in the form of a monthly pension annuity is becoming an increasingly important source of income for individuals and eases their transition to retirement. A supplementary pension in the form of a monthly pension annuity accounts for between 6% and 14% of the total income of a retiree. For the majority of recipients, this is only true for the period of accelerated payment. An analysis of data regarding retired policyholders/participants indicates that the proportion of retirees who opt to increase funds in a lump sum is declining, while the proportion of those who opt for a pension annuity at retirement is on the rise. Following the introduction of indexed pension plans with the entry into force of the ZPIZ-2, only those policyholders/participants in pension funds with less than EUR 5 thousand on their pension account will be able to opt for a lump-sum payment, with legal bases themselves encouraging the specific-purpose use of savings.

Official data regarding the number of supplementary pension recipients for 2014 is not yet available. According to available data, around 10 thousand retirees received a supplementary pension in Slovenia. In addition to the aforementioned supplementary pension recipients, more

than 10 thousand former holders of pension certificates receive a supplementary pension in Slovenia. Those persons obtained the right to a supplementary pension through the exchange of the aforementioned certificates for a supplementary pension insurance policy when they reached the age of 60.

Modra zavarovalnica manages two guarantee funds intended for the payment of supplementary pensions:

- the First Pension Fund Guarantee Fund (hereinafter: the KS PPS), from which supplementary pension annuities are paid since August 2004 from converted pension certificates: and
- the Modra Renta Guarantee Fund (hereinafter: the KS MR), which offers a comprehensive selection of supplementary pension insurance annuities since December 2011.

Modra zavarovalnica paid the net amount of EUR 12.9 million in supplementary pension to 15,717 policyholders in 2014. A total of 5,253 policyholders received a pension annuity from second-pillar supplementary pension insurance (modra renta), while 10,464 policyholders received a pension annuity from supplementary pension insurance in the scope of the First Pension Fund (in exchange for pension certificates).

Table 21: Basic data regarding the guarantee funds of Modra zavarovalnica

Guarantee fund	Number of recipients of annuities in 2014	Assets under management as at 31 December 2014 (in EUR million)	Value of net payments in 2014 (in EUR million)
KS PPS	10,464	102	5.8
KS MR	5,253	28	7.1
Total	15,717	130	12.9

First Pension Fund Guarantee Fund

The KS PPS comprises separate assets formulated on 13 July 2004 for all policyholders who have reached a minimum of 60 years of age and thus obtained the right to an annuity. When they obtain the right to an annuity on the basis of an informative calculation by Modra zavarovalnica, each policyholder selects the relevant form of pension annuity. Policyholders with 2,000 or less points may receive a pension annuity in a lump-sum amount. A policyholder with more than 2,000 points on his or her insurance policy may choose between a lifetime pension annuity and a lifetime pension annuity with a guaranteed payment period. Policyholders with between 2,000 and 5,000 points may also be paid an annual pension annuity. The guaranteed payment period is set at 5, 10 or 15 years. Should the policyholder die during the guaranteed

payment period, the pension annuity is paid to his or her beneficiaries or heirs until the expiration of that period.

A total of 24,525 policyholders had exercised their right to a pension annuity by 31 December 2014, of which 14,295 policyholders opted for a lump-sum payment, 1,195 for an annual pension annuity and 9,035 for a monthly annuity.

A total of 1,330 policyholders who reached the age of 60 years obtained the right to an annuity in 2014. Those persons paid a total of EUR 3,976 thousand into the KS PPS for supplementary pensions.

The value of fund assets stood at EUR 101,773 thousand as at 31 December 2014. The majority of assets are accounted for by bonds and deposits.

Table 22: Composition of KS MR assets (in 000 EUR)

Assets	31 December 2014
Shares	16,476
Bonds	56,704
Commercial paper	2,067
Loans and deposits	17,550
Investment coupons	7,962
Cash and cash equivalents	939
Other claims	75
Total	101,773

As at 31 December 2014, a total of 69% of KS PPS assets were invested in the Republic of Slovenia, while 31% of all assets were invested in foreign issuers. Bonds account for the highest proportion of investments in foreign issuers.

Table 23: Geographical distribution of KS PPS investments (in 000 EUR)

Area	31 December 2014
Domestic investments	69,733
Foreign investments	32,040
Total	101,773

Modra renta guarantee fund

Annuity pension insurance is intended for the payment of pension annuities from the supplementary pension insurance scheme. When concluding an annuity pension insurance policy, each policyholder may choose one form of lifetime annuity, and thus exercise their right to a supplementary old-age pension. Policyholders may choose from 24 different supplementary pension forms.

The traditional Modra renta is a lifetime pension annuity paid on a monthly basis without a guaranteed payment period. Modra renta with a guaranteed payment period is a lifetime pension annuity paid on a monthly basis with a guaranteed payment period of 5, 10, 15 or 20 years.

The accelerated Modra renta with a full guarantee is a lifetime pension annuity with a guaranteed monthly payment period of between 1 and 10 years (accelerated monthly payment and guarantee in the event of death), followed by the annual payment of an annuity equal to the previous month's amount.

The accelerated Modra renta with a limited guarantee is a lifetime pension annuity with a guaranteed monthly payment period of between 2 and 10 years (accelerated monthly payment and guarantee in the event of death in between 1 to 9 years), followed by the annual payment of an annuity in the amount of EUR 12.

Only supplementary pension insurance policyholders who fulfil the conditions for regular termination and exercise their right to a supplementary old-age pension may be insured via the ZPIZ. By 31 December 2014, a total of 5,759 policyholders/participants had exercised their right to a supplementary old-age pension and opted to receive a monthly pension annuity, 1,855 of those policyholders in 2014. Those persons paid a total of EUR 15,826 thousand to the guarantee fund.

Table 24: Number of policyholders/participants and amount paid into the KS MR in 2014

Pension fund	Number of partici- pants/policyholders	Redemption value of assets (in 000 EUR)
KVPS	331	3,430
ZVPSJU	1,346	8,386
Pension funds of other managers	178	4,010
Total	1,855	15,826

The amount of an individual's pension annuity depends on the selected assets of the supplementary pension insurance, the technical interest rate, mortality tables separated by gender, the policyholder's date of birth, the policyholder's age when the annuity insurance entered into force and the costs of the payment of the annuity. The average age of annuity recipients is 61 years, while a total of 53% of annuity recipients are male.

Table 25: Structure of KS MR supplementary pension annuities as at 31 December 2014

Type of annuity	Proportion of policyholders (in %)	Average amount of annuity (in EUR)
Traditional Modra renta	1	50
Modra renta with guarantee	2	61
Accelerated Modra renta with full guarantee	19	105

Type of annuity	Proportion of policyholders (in %)	Average amount of annuity (in EUR)
Accelerated Modra renta with limited guarantee	78	177
Total	100	159

The value of fund assets stood at EUR 28,301 thousand as at 31 December 2014. The majority of assets are accounted for by bonds and deposits.

Table 26: Composition of KS MR assets (in 000 EUR)

Assets	31 December 2014
Bonds	15,065
Commercial paper	759
Loans and deposits	6,761
Investment coupons	5,165
Cash and cash equivalents	323
Other claims	228
Total	28,301

Table 27: Geographical distribution of KS MR investments as at 31 December 2014 (in 000 EUR)

Area	Amount
Domestic investments	13,586
Foreign investments	14,715
Total	28,301

As at 31 December 2014, a total of 48% of KS PPS assets were invested in the Republic of Slovenia, while 52% of all assets were invested in foreign issuers.

Management of mutual equity pension funds

Modra zavarovalnica is the largest provider of supplementary pension insurance in Slovenia, and is an important provider of old-age savings in the scope of the second pension pillar. Slightly less than 260 thousand individuals held savings in the company's three mutual pension funds in December 2014, while the assets of the aforementioned funds totalled EUR 894 million. Paid up supplementary pension insurance premiums totalled EUR 43 million in 2014.

Modra zavarovalnica manages three mutual pension funds. Those funds are managed and disclosed separately as assets held by the policyholders/participants in the following three funds:

- the Closed Mutual Pension Fund for Public-Sector Employees,
- the Mutual Equity Pension Fund, and
- the First Pension Fund of the Republic of Slovenia.

The PPS provides a special form of supplementary pension insurance and is classified as third pillar pension insurance, while the other two pension funds make up the second pension pillar.

Table 28: Data regarding mutual pension funds managed by Modra zavarovalnica as at 31 December 2014

Figures for December 2014	Number of participants/policyholders	Number of employers/liable persons	Amount of assets under management (in EUR million)
KVPS – Mutual Equity Pension Fund	27,216	294	172
ZVPSJU – Closed Mutual Pension Fund for Public- Sector Employees,	207,345	1,926	692
PPS – First Pension Fund	25,042	Intended only for individuals	30
Total	259,603	2,220	894

Pursuant to Article 313 of the ZPIZ-2, Modra zavarovalnica must create provisions if the actual net value of pension fund assets is lower than the guaranteed value of fund assets during the accounting period by charging equity for the difference between the guaranteed and actual net value of assets. At the end of 2014 Modra zavarovalnica created provisions in the amount of EUR 10,576 thousand for failure to achieve the guaranteed return on mutual pensions funds; EUR 10,575 thousand of that amount related to the PPS.

Closed Mutual Pension Fund for Public-Sector Employees

The ZVPSJU is a closed mutual pension fund intended exclusively for public-sector employees. The ZVPSJU is the largest Slovenian pension fund, both in terms of the number of policyholders and assets under management. The aforementioned fund had 207,345 members and assets totalling EUR 692 million at the end of 2014. The ZVPSJU achieved a return of 5.43% in 2014.

The ZVPSJU was established through the collection of assets from the accounts of public-sector employees, which ensures the right to a supplementary old-age pension and other rights defined in the pension plan. In addition to the premiums paid into the fund by employers, public-sector employees may also pay premiums themselves, thus ensuring a higher supplementary pension and the exploitation of tax relief in the calculation of personal income tax. As fund manager, Modra zavarovalnica ensures a minimum guaranteed return on savings, which was 1.94% in 2014. The methodology for setting the minimum guaranteed return is determined by the minister responsible for finance.

Pursuant to the ZKDPZJU and KPOPNJU, collective insurance under the PNJU K pension plan included all persons with the status of public-sector employee as at 1 August 2003 or to whom the KPNG applied. Individuals who concluded an employment contract with the Republic of Slovenia, a local community or public law entity as employer after 1 August 2003 are included in the PNJU K pension plan on the day the relevant employment contract is concluded or on the day the person in questions receives the status of public-sector employee.

The consequences of the adverse economic conditions included numerous fiscal balancing measures. The Slovenian government and representatives of public-sector unions reached an agreement on additional fiscal balancing measures in the areas of wages and other labour costs in the public sector in the period from 1 July 2013 to 31 December 2014. That agreement also affected the amount of premiums for collective supplementary pension insurance for public-sector employees. In the period 1 January 2014 to 30 June 2014, public-sector employees received a premium that was 75% lower than the total amount of premiums according to premium classes valid on 1 January 2013, and a premium that was 70% lower in the period 1 July 2014 to 31 December 2014. The average monthly premium was reduced from EUR 33.19 to EUR 6.7 and to EUR 8.03 during the second half of the year. The result of the aforementioned cut in premiums was a reduction in total savings for supplementary pensions, which is becoming an increasingly important source of income and makes the transition to retirement easier.

Supplementary pension insurance for public-sector employees may be terminated under regular or extraordinary circumstances. Regular termination of collective insurance under the PNJU K pension plan takes effect when the participant of the ZVPSJU exercises their right to a supplementary old-age pension or the right to an early supplementary old-age pension. Extraordinary termination may take effect when a public-sector employment contract is terminated, provided that 120 months have passed since an employee's inclusion in the insurance scheme, or by beneficiaries/heirs in the event of death. Special arrangements applied until 1 August 2013 for all ZVPSJU participants, who on 1 August 2003 were less than 10 years shy of fulfilling the minimum criteria to obtain the right to an old-age pension. In such cases, participants chose between the right to a supplementary old-age pension or the lump-sum payment of the redemption value under compulsory insurance at the time of retirement.

The insurance of 4,274 participants was terminated in 2014. Of that number, 1,348 were cases of regular termination, while the redemption value paid was EUR 21 million.

On the basis of the PNJU K pension plan and ZVPSJU rules, Modra zavarovalnica, as manager of the ZVPSJU, is entitled to subscription and management fees associated with the ZVPSJU. Subscription fees are charged as a percentage of the paid-in premium at the time of payment and are transferred to the fund manager's account. The fee amounted to 0.5% in 2014. The annual management fee for the ZVPSJU is 0.50% of the average annual net value of ZVPSJU assets. All other operating costs of the fund are borne by Modra zavarovalnica.

Management of the ZVPSJU in 2014 was aimed at security, profitability, liquidity, the diversification of investments and long-term growth in the value of ZVPSJU assets. The most significant change in 2014 was an increase in the proportion of equities and the proportion of deposits at Slovenian banks, as a result of the restoration of confidence in the Slovenian banking system and a simultaneous decrease in the proportion of treasury bills and commercial paper. At 44%, the majority of ZVPSJU assets are accounted for by investments in bonds, followed by investment coupons at 31% and loans and bank deposits, which account for 21% of fund assets.

Mutual Equity Pension Fund

The KVPS is an open mutual pension fund intended for the implementation of voluntary supplementary pension insurance plans. The KVPS achieved a return of 6.52% in 2014, which is significantly higher than the guaranteed return of 1.94% during the same period. The value of fund assets stood at EUR 172 million as at 31 December 2014. Policyholders' assets increased in 2014, while the number of withdrawals following the expiration of the 10-year savings period was down considerably.

Any employees included in the compulsory pension insurance scheme may participate in the KVPS. Since 2002 the KVPS includes separate pension plans for individual and collective voluntary supplementary pension insurance, designated PN1 P and PN1 K. As fund manager, Modra zavarovalnica ensures a minimum guaranteed return on savings, which was 1.94% in 2014. The methodology for setting the minimum guaranteed return is determined by the minister responsible for finance.

Supplementary pension insurance can be terminated under regular or extraordinary circumstances. Insurance is terminated under regular conditions when a policy-

holder obtains the right to a pension under compulsory insurance. Extraordinary termination applies when a fund participant withdraws from the insurance scheme on the basis of a written statement regarding withdrawal, or upon the death of the participant. The transfer of assets to another person represents a special way to terminate insurance. A participant/policyholder may exercise their right to the payment of funds paid in by their employer until 31 December 2012 when 10 years have passed since their inclusion in the insurance scheme.

The insurance of 1,180 participants/policyholders was terminated in 2014. Of that number, 340 were cases of regular termination. Pay-outs totalled EUR 6.3 million. A total of 717 participants/policyholders opted for the payment of the redemption value of fund units financed by the employer until 31 December 2012, in the total amount of EUR 5.1 million.

In accordance with the PN1 P and PN1 K pension plans and the KVPS rules, the fund manager is entitled to subscription, redemption and fund management fees. The fund management fee was 1% in 2014 of the average annual net value of KVPS funds. Subscription fees are charged as a percentage of the paid-in premium at the time of payment and amounted to 3% in 2014. Redemption fees are charged as a percentage of the paid-out value of funds and amounted to 1% in 2014.

As manager of the KVPS, Modra zavarovalnica actively managed the portfolio of the aforementioned fund in 2014. The most significant change in 2014 was an increase in the proportion of equities and the proportion of deposits at Slovenian banks, as a result of the restoration of confidence in the Slovenian banking system and a simultaneous decrease in the proportion of treasury bills and commercial paper. At 40%, the majority of fund assets are accounted for by investments in bonds, followed by investment coupons at 31% and bank deposits, which account for 22% of fund assets.

First Pension Fund of the Republic of Slovenia

The PPS is a closed mutual pension fund intended for the coverage of pension annuity payments. It achieved a return of -1.04% in 2014. The fund's negative return is the result of the impairment of fund investments in the shares of those domestic companies that generated poor operating results. PPS assets totalled EUR 30 million at the end of 2014.

The PPS is intended exclusively for the coverage of payments of pension annuities from supplementary pension insurance policies that were created through the conversion of pension certificates. Since 1 January 2003, the

PPS is a closed mutual pension fund, to which additional payments or the inclusion of additional participants is not possible. Since August 2004, the accumulated assets of all policyholders/participants at least 60 years of age are transferred to the KS PPS, the purpose of which is to cover payments of supplementary pension annuities. If a PPS policyholder/participant dies before they obtain the right to a pension annuity, their heirs have the right to the payment of the redemption value of the policy in question.

Modra zavarovalnica is entitled to an annual fee for managing the PPS, which amounted to 1% of the average annual net value of assets in 2014. It is also entitled to a redemption fee, which is calculated as a percentage of the redemption value paid to heirs.

The manager's main objective in 2014 was to restructure the PPS's portfolio, primarily by reducing the fund's exposure to non-marketable equity investments. On 17 February 2014 Modra zavarovalnica received a decision from the ISA, under which the deadline for the harmonisation of the structure of the PPS's investments with legal requirements was extended until 31 October 2016, except for the investments in Certa, d. d. and Premogovnik Velenje, d. d., for which the deadline was extended until 31 May 2014. The majority of investments in participating interests in limited liability companies will have to be sold off. A significant proportion of the fund's investments were harmonised with legal requirements during 2014. At 63%, the majority of PPS assets were accounted for by shares at the end of 2014.

Provisions for failure to achieve the guaranteed return on the PPS were reduced by EUR 337 thousand in 2014, bringing the total to EUR 10,575 thousand at the end of the year.

6.3 PDP Group

The PDP Group comprises the parent company PDP and its subsidiaries: Adria Airways Tehnika, d. d., Elektrooptika, d. d., the Elan Group and the Paloma Group. The principle activity of the PDP Group is business consultancy, which is carried out by the parent company PDP.

PDP's portfolio as at 31 December 2014 comprised ten companies representing its investments. Nine of the investments were transferred to the company in the form of non-cash contributions as part of increases in its capital at the end of 2009, while one investment was entered into in 2010. Of the aforementioned companies, six are going concerns, while the operations of one are suspended. Bankruptcy proceedings (which are still in progress) have been initiated against three companies. PDP sold one investment in 2014.

The parent company PDP actively managed investments, and was exclusively responsible for the corporate governance of those companies given its equity holding in individual companies.

PDP's active management is characterised by the following activities:

- monthly, quarterly, half-yearly and annual monitoring of a company's operations;
- regular (monthly) communication with a company's management;
- continuous monitoring of a company's operations and the performance of its management;
- active participation in the financial and business reorganisation of a company and the offering of PDP's services; and;
- the monitoring of a company's operations in terms of the Financial Operations, Insolvency and Compulsory Dissolution Act.

PDP agreed in the past on regular monthly meetings with group companies, at which the companies' current operating results, deviations from plans, actual problems and planned activities in the coming period are discussed.

6.3.1 Sales activities of PDP

Adria Airways, d. d.

In August 2012 the Capital Assets Management Agency (hereinafter: the AUKN), which conducted the sale of the Slovenian government's participating interest in Adria Airways, d. d. in the name and on behalf of the latter, published a call for bids for the sale of 74.87% of all of the aforementioned company's shares. That package included all shares held by PDP (2.08%). Slovenska odškodninska družba took over the sales process following the winding up of the AUKN. The sales process was halted at the end of 2013 before a transaction was successfully concluded. A new agreement on the joint representation of stakeholders in the sale of shares was signed at the beginning of 2015.

Adria Airways Tehnika, d. d.

In May 2012 the company's two shareholders, PDP and Aerodrom Ljubljana, d. d., published a joint public tender for the collection of bids for the sale of the shares in Adria Airways Tehnika, d. d. There was no response whatsoever from potential investors to the published invitation.

In autumn 2013 the company's shareholders restarted the sales process. By the end of 2014 they had received several binding offers for the purchase of participating interests and both shareholders' claims against the company. The sales process continues in 2015.

Aero, d. d.

At the end of 2010 the company's two shareholders, Probanka, d. d. and PDP, d. d., signed an agreement on the joint sale of their combined 55% participating interest. Non-binding offers were collected in the public sales process, which began in the middle of 2011. The sale of the aforementioned majority interest was halted in March 2012 due to a lack of cooperation on the part of Aero, d. d.'s management board.

In August 2014 the company's general meeting voted on resolutions relating to a reduction in share capital and a simultaneous increase in share capital through the subscription of newly issued shares. Those shares were paid up in the form of a non-cash contribution. PDP reduced its participating interest in Aero, d. d. to 1.44% following the successful subscription and paying up of shares. PDP (or its legal successor) will offer its minority package of shares for sale, if and when those shares will be sold by the company's current majority owners.

Elan, d. o. o.

The sale of Elan, d. o. o. was restarted in June 2013, and had not yet been completed by the end of 2014. The entry of an investor into the ownership structure of Elan, d. o. o. was envisaged through the purchase of the company from existing shareholders and the provision of funds in an amount necessary to repay unauthorised aid. Elan, d. o. o. would use the aforementioned inflow to repay unauthorised funds to the companies that paid up capital in 2008 (Kapitalska družba, D.S.U., d. o. o. and Triglav Naložbe, d. d.). It became clear during the sale that the success of the process depends on Elan, d. o. o.'s major creditors (the BAMC and Gorenjska banka, d. d.), as potential investors are demanding the partial write-off of the company's financial debt as a condition for assuming a role in the ownership structure. The sales process continues in 2015.

Fotona, d. d.

The final activities to complete the sale of PDP's participating interest in this company were carried out during the first guarter of 2014.

On 30 January 2014 an agreement was signed with Gores Laser Holdings, L.P. on the purchase of 463,570 shares in Fotona, d. d. PDP's shareholders gave their consent to the aforementioned agreement at the company's 11th general meeting held on 4 March 2014. Consideration was paid on 6 March 2014.

In April 2014 the buyer published a takeover bid to purchase the company's remaining shares. The acquiring

party published notification in May 2014 that the takeover bid was successful.

Paloma, d. d.

The preparation and procedures to increase the company's capital (the selection of a financial and legal advisor, the drafting of presentation materials, the preparation of a data room, a vendor due diligence report, etc.) were initiated in 2014. A public call to submit statements of interest to participate in the increase in Paloma, d. d.'s share capital was published on 3 February 2015. The process of increasing the company's capital continues in 2015.

6.3.2 Transfer of PDP to SDH

In accordance with Article 82 of the ZSDH-1, Slovenski državni holding has one year following the entry into force of the aforementioned act to ensure that Kapitalska družba transfers its participating interest in PDP to the former, and must do everything necessary to ensure PDP's merger with Slovenski državni holding. PDP operates as an independent legal entity until that merger.

Kapitalska družba and Slovenski državni holding concluded an agreement on 19 January 2015 on the purchase of 1,322,037 shares in PDP, making Slovenski državni holding PDP's sole owner. The conditions were thus established to begin the merger process. A cut-off date of 31 January 2015 has been set for the merger.

Following its merger with Slovenski državni holding, PDP will transfer all of its assets, including all rights and obligations, to the former according to the universal legal succession process. At that point, PDP will be wound up without liquidation proceedings.

6.4 Steklarska nova Rogaška Slatina

Pursuant to the Financial Operations, Insolvency and Compulsory Dissolution Act, bankruptcy proceedings were initiated against Steklarska nova Rogaška Slatina, d. o. o. on 21 May 2009. Štefan Rola, s.p. was initially appointed official receiver, but was relieved of his function on 6 July 2011. Dr Irena Lesjak was appointed as replacement on the same day.

The official receiver Dr Irena Lesjak drafted four periodic reports in 2014 regarding the progress of bankruptcy proceedings against Steklarska nova Rogaška Slatina, d. o. o. Current activities linked to the sale of assets and activities associated with litigation, etc., were carried out in 2014. The priority claims of employees were also repaid in part.

The unredeemed bankruptcy estate comprises a commercial building and holiday facilities that have not yet been entered in the land register. The estimated value of unredeemed assets is around EUR 340,000. It is evident from the final list of verified claims of 3 June 2014 that claims totalling EUR 9,765,732.25 were registered. Of that amount, claims totalling EUR 209,800.27 were contested.

The company recorded inflows of EUR 740,193.01 and outflows of EUR 1,375,687.02 from 1 January to 31 December 2014. The largest outflow and inflow in the amount of EUR 710,000.00 was the placement and call of a deposit at Banka Celje. The second largest outflow was the payment of employees' priority claims in the amount of EUR 596,021.64.

The company has an account balance of EUR 77,819.05 as at 31 December 2014.

RISK MANAGEMENT

SIGNIFICANT BUSINESS EVENTS AFTER THE END OF 2014

Risk management is explained in Chapter 17.2 *Accounting policies* in the financial report section of Kapitalska družba's annual report.

In accordance with the provisions of the ZSDH-1, Kapitalska družba and Slovenski državni holding concluded an agreement on 19 January 2015 on the transfer of the entire 66.04% participating interest in PDP. Following its merger with Slovenski državni holding, PDP will transfer all of its assets, including all rights and obligations, to the former according to the universal legal succession process. At that point, PDP will be wound up without liquidation proceedings.

The terms of office of three members of Kapitalska družba's Supervisory Board (Aldo Ternovec, Ana Bilbija and Ladislav Rožič, MSc) expired on 31 January 2015. The Slovenian government, in its role as Kapitalska družba's General Meeting, appointed the following members to the Supervisory Board on 29 January 2015: Dr Boris Žnidarič, Cirila Surina Zajc and Ladislav Rožič, MSc. The aforementioned members of the Supervisory Board will serve a four-year term of office that began on 1 February 2015.

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

In November 2014 Modra zavarovalnica obtained all requisite authorisations to manage the MKPS umbrella fund, and is the first manager (since the end of last year) to offer the possibility of supplementary pension savings in an umbrella pension fund that pursues a life-cycle investment policy. The first participants/policyholders were included in the MKPS on 1 January 2015.

EXPECTED
DEVELOPMENT
OF THE
KAPITALSKA
DRUŽBA GROUP
FOR 2014

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

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

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

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

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

A fourth, very important area of Kapitalska družba's operations in 2015 will be the continuing transformation of the Company into a portfolio investor through the sale of state equity investments and the placement of proceeds into liquid investments. Kapitalska družba will participate in sales of companies under direct or indirect state ownership, a process that will be headed by Slovenski državni holding. In the scope of the aforementioned activities Kapitalska družba's participating interest in PDP was transferred to SDH in January 2015. Sales of companies will continue based on the strategy on the sale of state-owned companies, which is being drawn up by the government and had not yet been adopted at the time the annual report was compiled. The aforementioned strategy will also include the classification of investments. Until the first classification enters into force, Kapitalska družba requires the consent of the National Assembly based on the government's proposal to dispose of investments whose total carrying amount exceeds EUR 20 million or investments in which it has an equity holding of at least 25% or 25% of voting rights. The activities described above will accelerate Kapitalska družba's transformation into a portfolio asset manager.

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

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

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

One of the key challenges Modra zavarovalnica will face in 2015 is how to effectively attract, raise the interest of and motivate policyholders to make more active decisions regarding supplementary pension insurance and changes in this area. Marketing activities are crucial to this end, and will increase the involvement, motivation and awareness of policyholders. The ratio between the average net wage and the average old-age pension is falling, with pensions from compulsory insurance expected to be equal to less than half of net wages in the future. Through the appropriate communication tools and marketing mix elements, we will promote proactive behaviour and ensure the increased awareness of existing and potential policyholders.

Modra zavarovalnica has set itself the objective of increasing its market share in 2015. This will be achieved through the intensive marketing of the Modri Umbrella Pension Fund, which pursues a life-cycle investment policy. Offering a life-cycle fund means that a great deal of attention will have to be given to B2C communication, as such a fund requires the active inclusion of individuals in decisions regarding their insurance. Individuals will have more opportunities to select forms of supplementary pension insurance (with a guaranteed return or higher-risk forms that bring higher returns). The opportunity must also be seized to attract the maximum number of persons who showed no interest in pension fund savings in the past due to the relatively low return.

The migration of employers and participants/policyholders from the existing KVPS is also planned, meaning that the size of the aforementioned fund will contract. Existing agreements must be harmonised or new agreements on financing, adapted to the new pension plan and fund rules, must be signed with employers who do not opt to migrate to the MKPS this year. All of the aforementioned activities must be carried out within six months from the receipt of the requisite authorisations. In 2014 Modra zavarovalnica drew up all necessary documentation and submitted adaptations to the KVPS rules in a timely man-

ner for confirmation in accordance with the new law, but has yet to receive that confirmation. The MLFSAEO approved changes to pension plans, which are an integral part of the request for the approval of the fund rules. However, the existing pension plans apply until the confirmation of fund rules.

The company's marketing efforts in 2015 will also focus on increasing the individual premiums of ZVPSJU policyholders. In addition to the premiums paid by their employers, which have been cut for three straight years as the result of austerity measures, public-sector employees may also save for a supplementary pension on their own, but individually and no longer on account of a reduction in gross wages. The same conditions that apply to employers apply for the payment of individual premiums by ZVPSJU participants, and thus provide public-sector employees a more affordable form of individual supplementary pension insurance.

Modra zavarovalnica's corporate image and reputation as a secure and reliable financial institution serve as the basis for the successful sales activities of all pension funds. Thus activities will also focus on the systematic and proactive building of the insurance company's image in the public eye, the exploitation of all opportunities to improve its reputation and recognition, and the strengthening of trust.

Modra zavarovalnica has been paying pension annuities for three years already, an indication of the successful dissemination of information to and communication with the target public. Increased awareness among policyholders about the importance of a supplementary pension is also seen in an increasing proportion of persons who opt for payment in the form of a supplementary pension at retirement. Those persons continue to opt for accelerated annuities to a larger extent. The introduction of new features in the setting of supplementary pensions has been postponed until the end of 2015. Activities will therefore continue to provide comprehensive information and present the advantages of supplementary pensions, with the aim of ensuring that an increasing number of retirees select Modra zavarovalnica for their supplementary pension.

A difficult year is expected in terms of fund management, as bank interest rates and the returns on bonds are at record lows, while assessments of high-risk investment classes are relatively high. It will therefore be difficult to repeat the results achieved in 2014.

The successful achievement of established objectives is also closely linked to the management of business risks, where special attention will be given to the pru-

dent planning of business processes and their financial consequences. The upgrading of the risk management process is also envisaged as part of the implementation of Solvency II, which will be one of the core projects in 2015. To that end, Modra zavarovalnica will also continue its project to implement integrated information support for pension funds under management. Special attention will also be dedicated to the professional and personal development of employees, who ensure the success, growth and development of the insurance company. Modra zavarovalnica will continue to operate as a family-friendly company, while demonstrating its social responsibility through its responsibility for the environment, its transparent and responsible operations and its charitable activities.

In accordance with Article 82 of the ZSDH-1, which entered into force in April 2014, Slovenski državni holding has one year to ensure that Kapitalska družba transfers its participating interest in PDP to the former, and must do everything necessary to ensure PDP's merger with Slovenski državni holding. PDP operates as an independent legal entity until that merger.

Kapitalska družba and Slovenski državni holding concluded an agreement on 19 January 2015 on the purchase of 1,322,037 shares in PDP, making Slovenski državni holding PDP's sole owner. The conditions were thus established to begin the merger process. A cut-off date of 31 January 2015 has been set for the merger.

PDP (as the acquired company) and Slovenski državni holding (as the acquiring company) signed a merger agreement on 23 March 2015. The aforementioned merger agreement was concluded under a suspensive condition that applies when the general meetings of both parties to the agreement adopt a resolution approving the conclusion thereof. The consent of the general meetings of both companies for the conclusion of the agreement represents the basis for the entry of the merger in the companies register.

Following its merger with Slovenski državni holding, PDP will transfer all of its assets, including all rights and obligations, to the former according to the universal legal succession process. At that point, PDP will be wound up without liquidation proceedings.

SOCIAL RESPONSIBILITY

The Group is aware of its social responsibility in various areas of operations, in its relationships with the environment and with employees, and in the development of services. Social responsibility is included in strategic management and the Group's operations.

As socially responsible entities, the companies of the PDP Group demonstrate their concern and responsibility for people and the environment in which they live. Social responsibility includes responsibility to the wider social community, concern for employees and active concern for the environment. The company strives to develop the values required for long-term commercial success, encourages employees to protect the environment, and ensures the long-term personal growth of employees through training and providing good working conditions.

10.1 Responsibility to the wider social community

Kapitalska družba's mission is the provision of supplementary funding for compulsory pension and disability insurance. Kapitalska družba transfers funds in the amount of EUR 50 million to the ZPIZ every year by no later than 29 September, primarily for the purpose of adjusting pensions, or a proportionally lower amount if the amount for adjusting pensions is lower.

In accordance with the provisions of the ZSDH, Kapitalska družba was obliged to transfer EUR 50,000 thousand to the budget of the ZPIZ in 2013. The ZSDH-1 resulted in a change to previous arrangements regarding the transfer to the budget of the ZPIZ. In accordance with the third paragraph of Article 52 of the ZSDH-1, the annual obligation to the ZPIZ depends on the amount of the adjustment

pensions, which is limited to EUR 50 million. In accordance with the provisions of the ZIPRS1415, which did not envisage any adjustment to pensions in 2014, Kapitalska družba did to make a transfer to the ZPIZ during the year. Kapitalska družba has transferred a total of EUR 645,321 million to the budget of the ZPIZ.

Table 29: Kapitalska družba's payments to the budget of the ZPIZ

Year	Amount of transfer (in 000 EUR)
1999	7,094
2000	55,500
2001	34,949
2002	41,729
2003	26,602
2004	26,602
2005	26,602
2006	39,121
2007	39,121
2008	49,000
2009	49,000
2010	100,000
2011	50,000
2012	50,000
2013	50,000
2014	0
Total	645,320

As a socially responsible company, Modra zavarovalnica also responds to the needs of the environment. Children are our greatest treasure. The company therefore earmarked donations to this group in 2014. At the end of 2014 a portion of funds was donated to the Viški Gaj daycare centre, which was hit hard by autumn floods and required new equipment. Other funds were donated to the *Srečna hiša* (Happy House) project in Lukovica. The primary aim of the project is to offer children and youth a place to learn and play, and to offer assistance to the disadvantaged children and children in foster care. Donated funds were used to equip a unique playground for children, and to provide state-of-the-art equipment for a learning area for youth and somewhat older visitors.

In addition to funds, the company donated 17 computers that were replaced with new high capacity computers due to the needs of work processes. Six computers were given to *Srečna hiša* for children from the Domžale area whose parents cannot afford to buy a computer. Eleven computers were donated to the Association of Pensioner Societies of Slovenia for the purpose of providing computer training for older persons.

The company also responded throughout the year to the requests of individual associations and organisations that were provided promotional materials for raffles and gifts (sports associations and clubs, retiree associations, fire-fighter associations, etc.). Through the purchase of New Year greeting cards, some funds were contributed to the Mavrica daycare fund in Vojnik. The aforementioned fund is used to finance other activities and provide assistance to families in financial distress.

Modra zavarovalnica focuses a significant portion of its communication activities on raising the awareness of savers regarding the importance of supplementary pension insurance. Supplementary pension insurance is still relatively unknown to the Slovenian population. Even those who have insurance, are unaware of this fact or do not know through which provider they save. Part of the reason is that 95% of all supplementary pension insurance participants/policyholders are included via collective schemes and a portion or all of their premium is paid by their employers. The following activities have been carried out with the aim of improving awareness about supplementary pension insurance: the organisation of numerous consultations, the drafting of information for publication on corporate websites and in internal newsletters, and the offering of professional help in the preparation of responses to questions about supplementary pension insurance posed to employers and unions by employees. The human resource and accounting departments of customers have been educated about the possibilities and advantages of pay-outs in the form of a supplementary pension, while the introduction of information offices at corporate headquarters has been offered. Last year representatives of the company attended the annual conference of companies under the auspices of the Family-Friendly Company Association and the financial days organised by Unicredit banka in the autumn.

Modra zavarovalnica also dedicates special attention to the web and social networks (Facebook, Twitter, LinkedIn and YouTube), where it shares its experiences, knowledge, ideas and increasingly important information regarding supplementary pension insurance, the functioning of funds, the pension system, frequently asked questions and answers, and all forms required to exercise rights to supplementary pension insurance. On its websites, the company offers an informative calculation of supplementary pension, the calculation of tax allowances, as well as 24-hour personal access to information regarding insurance policies for all participants/policyholders. With the help of the free Modri e-account web service, savers can access data regarding their own monthly contributions and the contributions of their employers at any time, and monitor the balance of supplementary pension savings.

The company carried out a customer satisfaction survey again at the end of 2014. The results of the survey motivate us to continue improving our work. A total of 185 representatives of companies and 671 individuals responded to the company's invitation to participate. Their responses are confirmation that the company is on the right path. The results of the research indicate that the level of satisfaction has risen considerably since measurement began. We are pleased that customers see the company as a secure and trustworthy company.

10.2 Responsibility to employees

10.2.1 Concern for employee training

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

During 2014 employees attended seminars on the following topics: the compilation of corporate annual reports, the latest changes in the area of taxation, accounting and international accounting standards, corporate governance, business valuations, labour law, commercial law, management, public procurement, auditing, information technology, paperless operations, the management of documentary material and archiving, and training in the scope of the Family-Friendly Company certificate.

In accordance with its education and training plan, Kapitalska družba organised several internal training programmes in 2014 on the following topics: the prevention of money laundering, personal data protection, recommendations to contract administrators for the liquidation of invoices, successful communication with problematic clients, information security management and the management of the risks to which Kapitalska družba is exposed. Kapitalska družba organised a workshop for all employees in October 2014 on the subjects of effective cooperation and team work. All employees were also afforded the opportunity to build on their knowledge of business English and German.

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

Modra zavarovalnica is aware that only qualified employees are capable of achieving the insurance company's objectives and that the work of employees contributes to more successful operations. Modra zavarovalnica encourages its employees to continuously educate themselves in all areas, as the insurance company's success depends on their motivation, qualifications and knowledge. Education and training facilitate the acquisition of strategically important knowledge, more efficient work and the successful achievement of objectives, while in the long term they affect the commitment of employees and increase their loyalty to the insurance company, which in turn results in a lower or nearly zero turnover rate.

Almost 75% of employees attended various forms of education and training in 2014. Three employees were included in undergraduate studies, one in specialised studies and one in doctoral studies. In additional to external training, Modra zavarovalnica also organises internal employee training carried out independently by the company's experts.

Employees attended seminars, consultations, conferences and workshops at external institutions, primarily with the aim of enhancing their existing knowledge and acquiring new technical knowledge. Education and training are adapted to the needs of the individual job and to the specific knowledge required by each employee, and are coordinated with the development-oriented tasks of Modra zavarovalnica. The emphasis was primarily on the development of managerial and sales skills and skills required for improved effectiveness, and on increasing awareness regarding exposure to operational risks and training for the professional performance of all activities at the insurance company that ensure operational compliance with the law and mitigate all types of operational risks.

10.2.2 Concern for a safe and healthy work environment

Kapitalska družba ensures a safe and pleasant work environment by respecting all regulations governing workplace safety and by providing the appropriate working conditions. Tasks relating to occupational health and safety, and fire safety are carried out regularly. Among the most important tasks in this area are regular employee training in the area of occupational health and safety, par-

ticipation in the assessment of risks in the workplace and working environment, regular periodic preventative medical examinations, the review of declarations of workplace safety, studies of the work environment (measurements of the micro-climate, lighting and noise in the workplace), measurements of electrical installations, inspections of work equipment and examinations of compliance with fire safety measures.

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

Collective voluntary supplementary pension insurance is another important aspect of ensuring and increasing the future social security of employees. The aforementioned area is governed by an agreement on the creation of a pension plan, which provides all employees insurance under the same conditions. The provider of the aforementioned insurance is the open mutual equity pension fund of Modra zavarovalnica. Since 2009 Kapitalska družba has paid the maximum supplementary pension insurance premium for its employees in the amount of 5.844% of an employee's gross wages, taking into account limitations regarding the maximum possible tax relief for voluntary supplementary pension insurance, as set out in the applicable legislation for a specific year. The costs of employee premiums for voluntary supplementary pension insurance totalled EUR 104 thousand in 2014.

A family-friendly company

Kapitalska družba is aware of the importance and advantages of an active family-friendly policy at the Company that facilitates the balancing of work and family life. The Kapitalska družba team comprises numerous young, highly qualified and educated employees, including many young parents with small children. The Company constantly strives to further improve the working environment and to make it possible for all employees to balance their career development and family life, which has become

part of the organisational culture. We thus continued activities in the scope of the family-friendly company project in 2014.

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

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

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

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

Modra zavarovalnica provides its employees a safe work environment and stimulating work conditions. Employees conduct themselves in accordance with the declaration of safety with risk assessment, the primary aim of which is to prevent workplace injuries, health issues, occupational diseases and work-related diseases. Employees regularly participate in occupational health and safety training and fire safety training, and are also included in a programme of preventive health examinations.

The company is aware of the importance of ensuring the health of all employees. Through the implementation of an action plan to promote health, employees are encouraged to pursue a healthy lifestyle and reduce the risks of disease, both in the workplace and in their private lives.

Fresh seasonal fruit is available to all employees twice a week, while vaccinations against the flu and tick-borne meningoencephalitis are organised. Information on current health topics and useful articles about exercise and healthy eating are available on the ModriNet intranet site.

Modra zavarovalnica is the proud holder of the full Family-Friendly Certificate. Concern for the right family and work life balance has become a part of the company's organisational culture. The company believes that satisfied employees are more successful and that they feel greater loyalty to the company, and that satisfaction helps reduce the burden of stress, all of which contributes to better work results. The company also ensures the good flow of information, employee satisfaction and a positive work climate. All elements included in the measurement of the organisational climate received a high assessment, in some cases even higher than the previous year.

The company provides all of its employees social security following retirement, under the same conditions, through the payment of the maximum tax-deductible premiums into the collective voluntary pension insurance plan of the KVPS managed by the insurance company, which further increases loyalty and product recognition.

11.3 Environmental responsibility

Waste separation

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

Particular attention is also given to the collection of plastic bottle caps, which are forwarded onward for charitable purposes.

Collection of printer cartridges

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

Use of electricity from renewable sources

A tender was issued in 2014 for the supply of electricity in accordance with the Decree on Green Public Procurement. The Company took into account the provisions and requirements of the aforementioned decree and signed

an agreement on the supply of 100% of electricity from renewable sources. Energy that is produced from environmentally friendly, renewable sources does not use fossil fuels. Thus, the burden on the environment from greenhouse gases, harmful emissions and radioactive waste is reduced.

As a socially responsible company, Modra zavarovalnica supports environmentally oriented activities. The company separates waste, works to reduce the use of paper, collects used printer cartridges and responds to charitable campaigns. To that end, it is also developing various web applications that reduce the need for printing and that facilitate faster and more reliable notification procedures.

A large quantity of plastic bottle caps were collected in 2014 as part of a campaign to help five-year Linda, a girl suffering from cerebral palsy. Employees responded to the 'Santa Clause for a Day' project to help numerous well-intentioned people provide Christmas presents to more than a 1,000 children from Slovenia, Kosovo and Bosnia and Herzegovina. Employees were also actively involved in the collection of aid for socially disadvantaged families, and also remembered their four-legged animal friends.

REPORT ON RELATIONS WITH SUBSIDIARIES

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

11.1 Report on relations with Modra zavarovalnica.

Lease of business premises

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

Use of computer programs

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

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

Provision of IT services

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

11.2 Report on relations with PDP

Provision of financial-accounting services

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

Provision of HR services

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

Provision of IT services

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

INDICATORS

					in 000 EUR
		2014	2013	2014	2013
1.	FINANCING RATIOS				
a)	Equity financing ratio				
	equity	997,917	856,523		
	total equity and liabilities	1,249,082	1,132,701	0.80	0.76
b)	Non-current financing ratio				
	equity + non-current liabilities (including provisions) + non-current accruals and deferred income	1,146,088	1,018,770		
	total equity and liabilities	1,249,082	1,132,701	0.92	0.90
2.	INVESTMENT RATIOS				
a)	Operating fixed asset investment ratio				
	fixed assets (at carrying amount)	7,919	8,251		
	total assets	1,249,082	1,132,701	0.01	0.01
b)	Non-current investment ratio				
	fixed assets + non-current deferred expenses and accrued revenues (at carrying amount) + investment property + non-current financial assets + non-current operating receivables	851,402	791,746		
	total assets	1,249,082	1,132,701	0.68	0.70
3.	HORIZONTAL FINANCIAL STRUCTURE RATIOS				
a)	Equity to fixed assets ratio				
	equity	997,917	856,523		
	fixed assets (at carrying amount)	7,919	8,251	126.02	103.81
b)	Acid test ratio				
	liquid assets	37,040	7,903		
	current liabilities	102,994	113,931	0.36	0.07

	2014	2013	2014	2013
	2014	2013	2014	2013
c) Quick ratio				
liquid assets + current receivables	39,424	11,386		
current liabilities	102,994	113,931	0.38	0.10
d) Current ratio				
current assets	391,102	306,141		
current liabilities	102,994	113,931	3.80	2.69
4. EFFICIENCY RATIOS				
a) Operating efficiency				
operating revenues	36,041	32,326		
operating expenses	39,220	40,434	0.92	0.80
5. PROFITABILITY RATIOS				
a) Net return on equity				
net profit for the period	73,460	-93,983		
average equity (excluding net profit/loss for period)	937,482	952,900	0.08	-0.1
b) Dividends to share capital ratio				
dividends for financial year	0	0		
average share capital	364,810	364,810	0.00	0.00

CORPORATE GOVERNANCE STATEMENT

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

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

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

The statement of compliance with the Corporate Governance Code for Companies with State Capital Investments is published on the Company's website at http://www.kapitalska-druzba.si.

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

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

Provision no. 65 of the code: Pursuant to the ZGD-1, companies with state capital investments must indicate in their annual report a true picture regarding the development of their business activities, and their current status and achievements in accordance with legislation and national practice. This, in addition to legally prescribed financial and non-financial disclosures, includes:

- disclosures regarding risks and the risk management system:
- the Company's research and development efforts;
- reporting about corporate governance (the corporate governance statement) including the fulfilment of provisions of this code and any other relevant codes; and
- reporting about the sustainable development of the Company (which may be a separate document or a part of an annual report), which comprises for example:
 - a report and a short analysis on the questions concerning sustainable development that are important for the Company,
 - a clear report about the risks and opportunities that the Company handles within the framework of sustainable development, in particular regarding non-financial risks and opportunities that are necessary for the understanding of its development, business performance and the position of the Company,
 - a review of the Company's strategy and adaptation to the requirements for sustainable development, and how strategies and adaptations have influenced achievements in the operations of the Company and its current position and position in the future, and
 - a clear report about achievements and goals that are based on selected performance indicators.

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

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

Note: The Company does comply with the aforementioned provisions of the code in full due to the cogent provisions of the Slovenian Sovereign Holding Company Act (ZSDH-1) and Kapitalska družba's Articles of Association, which envisage a special procedure for nominating members to Kapitalska družba's Supervisory Board.

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

Note: The Company complies with the aforementioned provisions of the code mutatis mutandis, taking into

account the cogent provisions of the ZSDH-1 and Kapital-ska družba's Articles of Association, which set out a special composition of the Company's Supervisory Board.

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

Note: The Company complies with the aforementioned provisions of the code *mutatis mutandis*, taking into account the provisions of the Slovenian Sovereign Holding Company Act.

STATEMENT OF THE MANAGEMENT'S RESPONSIBILITY

The Management Board of Kapitalska družba pokojninskega in invalidskega zavarovanja, d. d., approves the financial statements of the Kapitalska družba Group for the year ended 31/12/2014, and the accompanying notes and disclosures thereof on pages 65 to 128, 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 financial position of the Kapitalska družba Group and the results of its operation for the year ended 31 December 2014.

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

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 Kapitalska družba Group's operations, which may lead to assessment of additional tax liabilities, default interest, and penalties with regards to corporate income tax or other taxes and duties. The Management Board is not aware of any circumstances that may result in a significant tax liability.

mag. **Anja Strojin Štampar**, mba Member of the Management Board

President of the Management Board

AUDITOR'S REPORT

Deloitte.

Deloitte Revizija d.o.o. Dunajska cesta 165 1000 Ljubljana Slovenija

Tel: + 386 (0)1 3072 800 Fax: + 386 (0)1 3072 900 www.deloitte.si

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the KAD Group, which comprise the balance sheet as at 31 December 2014, the income statement, statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Ime Deloitte se nanaā na Deloitte Touche Tohmatsu Limited, pravno osebo, ustanovljeno v skladu z zakonodajo Združenega kraljestva Velike Britanije in Severne Irske (v izvirniku sUK) private company limited by guaranteey, in mrežo hjeniti Daini, od kateriji je visako ločena in samostipa pravna oseba. Podroben opis pravne organiziranosti združenja Deloitte Touche Tohmatsu Limited in njenih družb Čdanic je na vojip on avvovučelottic comišfinasa-funkti.

Member of Deloitte Touche Tohmatsu Limited

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the KAD Group as at 31 December 2014 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Emphasis of matter

The company KAD, d. d. is the controlling company in the KAD Group. Unconsolidated financial statements of the KAD Group, prepared in accordance with International Financial Reporting Standards as adopted by the EU, are presented separately. We have audited the unconsolidated financial statements of the company KAD, d.d. and issued an unqualified opinion on 11 May 2015.

Our opinion is not modified in respect of this matter.

Report on Other Legal and Regulatory Requirements

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

DELOITTE REVIZIJA d.o.o.

Bojan Bodnaruk Certified Auditor

Deloitte.

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

Yuri Sidorovich President of the Board

For signature please refer to the original Slovenian version.

Ljubljana, 11 June 2015

TRANSLATION ONLY - SLOVENIAN ORIGINAL PREVAILS

FINANCIAL STATEMENTS FOR 2014

16.1 Consolidated income statement for the period from 01/01/2014 to 31/12/2014

			in EUR 000
Item	Notes	01/01- 31/12/2014	01/01- 31/12/2013
Continued operations			
Net revenue from sales	1		
c) Revenue from sales on the domestic market		35,297	32,020
Total revenue from sales		35,297	32,020
4. Other operating revenue (including revaluation revenue)	2	744	306
Total revenue		36,041	32,326
5. Costs of goods, materials and services	3		
b) Costs of materials		-240	-284
c) Costs of services		-3,837	-3,583
Total costs of goods, materials and services		-4,077	-3,867
6. Labour costs	4		
a) Payroll costs		-4,042	-4,028
b) Social security insurance costs		-650	-649
c) Pension insurance costs		-206	-210
d) Other labour costs		-438	-400
Total labour costs		-5,336	-5,287

Item	Notes	01/01- 31/12/2014	01/01- 31/12/2013
7. Amortisation, depreciation and write-offs	5		
a) Depreciation and amortisation		-1,168	-1,207
c) Operating expenses from revaluation of current assets		-22	0
Total write-downs		-1,190	-1,207
8. Other operating expenses	6	-28,617	-30,073
Total expenses		-39,220	-40,434
Operating profit (loss)		-3,179	-8,108
Financial revenue from shares and interests	7		
b) Shares and interests in associates		3,046	1,952
c) Financial revenue from other shares and interests		57,450	21,735
d) Financial revenue from other investments		11,456	12,226
Total financial revenue from shares and interests		71,952	35,913
10. Financial revenue from loans	7		
b) Financial revenue from loans to others		2,280	3,387
Total financial revenue from loans		2,280	3,387
Total financial revenue		74,232	39,300
12. Financial expenses due to write-off and impairment of financial assets	8		
b) Financial expenses due to impairment and write-off of other investments		-5,513	-68,187
b) Financial expenses due to impairment and write- off of associated companies		0	-9,974
Total financial expenses due to impairment and write-off of financial assets		-5,513	-78,161
13. Financial expenses for financial liabilities	8		
b) Financial expenses for bank loans		0	-1,085
d) Financial expenses for other financial liabilities		0	-50,000
Total financial expenses for financial liabilities		0	-51,085
Total financial expenses		-5,513	-129,246
Profit (loss) from ordinary activity		65,540	-98,054
15. Other revenue	9	51	787
16. Other expenses	10	-3	-34
Total profit (loss) from continued operations		65,588	-97,301

Item	Notes	01/01- 31/12/2014	01/01- 31/12/2013
17. Income tax	11	-2,804	-56
18. Deferred tax	12	10,273	9,182
19. Net profit/loss from continued operations for the period		73,057	-88,175
Discontinued operations			
20. Profit or loss from discontinued operations	13.1	403	-5,808
21. Net profit or loss for the period	13	73,460	-93,983
a) Net profit or loss of the majority shareholder for the period		72,751	-92,011
b) Net profit or loss of the minority shareholder for the period		709	-1,972

Disclosures and notes on pages 65 to 128 are a constituent part of financial statements.

16.2 Consolidated statement of other comprehensive income for the period from 01/01/2014 to 31/12/2014

in EUR 000

	01/01- 31/12/2014	01/01- 31/12/2013
19. Net profit or loss for the period	73,460	-93,983
Net profit or loss of the majority shareholder for the period	72,751	-92,011
Net profit or loss of the minority shareholder for the period	709	-1,972
21. Gains (losses) on revaluation of AFS financial assets	76,971	58,035
Gains (losses) on revaluation of AFS financial assets	76,971	58,035
24. Total comprehensive income for the period	150,431	-35,948
Total comprehensive income of the majority shareholders for the period	149,722	-33,976
Total comprehensive income of the minority shareholders for the period	709	-1,972

Disclosures and notes on pages 65 to 128 are a constituent part of financial statements.

16.3 Consolidated statement of financial position as at 31/12/2014

					in EUR 000
Iter	n	Notes	31/12/2014	31/12/2013	01/01/2013
AS	SETS				
Α.	Non-current assets	14			
I.	Intangible assets and long-term deferred costs and accrued revenues				
1.	Long-term property rights		0	0	308
2.	Goodwill		0	0	3,996
4.	Long-term deferred development expenses		0	0	799
5.	Other long-term deferred costs and accrued revenues		464	595	729
	Total intangible assets		464	595	5,832
II.	Property, plant and equipment	15			
1.	Land		0	0	4,010
2.	Buildings		7,180	7,498	26,139
3.	Production plant and machinery		0	0	10,053
4.	Other plant and equipment		275	158	1,093
5.	Property, plant and equipment under construction or development		0	0	523
6.	Advances for property, plant and equipment		0	0	161
	Total property, plant and equipment		7,455	7,656	41,979
III.	Investment property	16	14,842	15,273	16,140
IV.	Long-term financial assets				
1.	Long-term financial assets, except loans				
b.	Shares and interests in associated companies	17	21,334	13,391	89,500
C.	Other shares and interests	19	599,281	529,518	538,268
d.	Other long-term financial assets	19	198,593	221,374	236,178
	Total long-term financial assets, except loans		819,208	764,283	863,946
2.	Long-term loans	20			
b.	Long-term loans to others		9,380	3,850	13,171
	Total long-term loans		9,380	3,850	13,171
	Total long-term financial assets		828,588	768,133	877,117
V.	Long-term operating receivables	21			
3.	Long-term operating receivables due from others		53	89	932
Tot	al long-term operating receivables		53	89	932
VI.	Deferred tax assets		6,578	34,814	25,589
	al fixed assets		857,980	826,560	967,589

Item	Notes	31/12/2014	31/12/2013	01/01/2013
B. Current assets				
I. Assets held for sale	18	197,739	208,573	75,612
II. nventories				
1. Material		0	0	5,919
2. Work-in-progress		0	0	1,626
3. Products and merchandise		0	0	5,401
4. Advances for inventories		0	0	52
Total inventories		0	0	12,998
III. Short-term financial assets				
Short-term financial assets except loans	19			
d. Other short-term financial assets		46,262	52,495	56,676
Total short-term financial assets, except loans		46,262	52,495	56,676
2. Short-term loans	20			
b. Short-term loans to others		107,432	33,447	80,504
Total short-term loans		107,432	33,447	80,504
Total short-term financial assets		153,694	85,942	137,180
IV. Short-term operating receivables	21			
2. Short-term operating trade receivables		1,660	1,732	12,370
3. Short-term operating receivables due from others		724	1,751	6,955
Total short-term operating receivables		2,384	3,483	19,325
V. Cash	22	37,040	7,903	7,728
Total current assets		390,857	305,901	252,843
C. Short-term deferred costs and accrued revenues		245	240	395
Total assets		1,249,082	1,132,701	1,220,827
EQUITY AND LIABILITIES				
A. Equity				
I. Called-up capital	23	364,810	364,810	364,810
II. Capital surplus	24	215,953	215,867	290,234
III. Revenue reserves	25	0	0	0
IV. Revaluation surplus		350,916	277,932	221,381
V. Retained earnings		-9,447	4,155	-4,115
VI. Net profit/loss for the year		72,751	-17,589	7,379
Total majority interest		994,983	845,175	879,689
VII. MINORITY INTEREST		2,934	11,348	15,508
Total capital		997,917	856,523	895,197

B. Provisions and long-term accrued costs and deferred revenues 29 I. Provisions for pensions and similar obligations 315 294 II. Other provisions 137,920 126,525 III. Long-term accrued costs and deferred revenues 0 0 Total provisions and accrued costs and deferred revenues 138,235 126,819 C. Long-term liabilities I. Long-term financial liabilities 26 2. Long-term financial liabilities 0 0 0 4. Other long-term financial liabilities 0 0	3,249 111,683 1,826 116,758
III. Other provisions III. Long-term accrued costs and deferred revenues Total provisions and accrued costs and deferred revenues Total provisions and accrued costs and deferred revenues 138,235 126,819 C. Long-term liabilities 1. Long-term financial liabilities 26 2. Long-term financial liabilities to banks 0 0 0	111,683 1,826
III. Long-term accrued costs and deferred revenues 0 0 0 Total provisions and accrued costs and deferred revenues 138,235 126,819 C. Long-term liabilities 1. Long-term financial liabilities 26 2. Long-term financial liabilities to banks 0 0	1,826
Total provisions and accrued costs and deferred revenues 138,235 126,819 C. Long-term liabilities 1. Long-term financial liabilities 26 2. Long-term financial liabilities to banks 0 0 0	
and deferred revenues 138,235 126,819 C. Long-term liabilities I. Long-term financial liabilities 26 2. Long-term financial liabilities to banks 0 0 0	116,758
I. Long-term financial liabilities 26 2. Long-term financial liabilities to banks 0 0	
2. Long-term financial liabilities to banks 0 0	
4. Other long-term financial liabilities 0 0	22,856
	4,116
Total long-term financial liabilities 0 0	26,972
II. Long-term operating liabilities 27	
4. Long-term operating liabilities from advances 6 6	6
5. Other long-term operating liabilities 12 42	160
Total long-term operating liabilities 18 48	166
III. Deferred tax liabilities 9,918 35,380	24,027
Total long-term liabilities 9,936 35,428	51,165
D. Short-term liabilities	
I. Liabilities included in disposal groups 28 92,784 107,386	65,821
II. Short-term financial liabilities 26	
2. Short-term financial liabilities to banks 0 0	57,337
4. Other short-term financial liabilities 0 0	1,160
Total short-term financial liabilities 0 0	58,497
III. Short-term operating liabilities 27	
2. Short-term operating trade payables 6,169 4,123	25,892
4. Short-term operating liabilities from advances 6 4	49
5. Short-term liabilities to the State 2,792 102	129
6. Other short-term operating liabilities 520 478	5,039
Total short-term operating liabilities 9,487 4,707	31,109
Total short-term liabilities 102,271 112,093	155,427
E. Short-term accrued costs and deferred revenues 723 1,838	2,280
Total equity and liabilities 1,249,082 1,132,701	1,220,827

Disclosures and notes on pages 65 to 128 are a constituent part of financial statements.

16.4 Consolidated cash flow statement for the period from 01/01/2014 to 31/12/2014

			in EUR 000
		2014	2013
Α.	Cash flows from operating activities		
a)	Net profit or loss and adjustments		
	Profit or loss before tax	65,991	-103,109
	Income tax and other taxes not included in operating expenses	-2,804	-56
	Adjustments for amortisation and depreciation	1,179	1,207
	Adjustments for shares and interests in associates	0	-1,844
	Adjustments for impairment of financial assets	0	78,161
	Adjustments for revaluation operating expenses	2,999	0
	Adjustments for financial revenue from financing	-21,309	-37,256
	Adjustments for financial expenses from financing	11,404	51,085
	Total cash flow derived from the income statement items	57,460	-11,812
b)	Change in net current assets – operating items in the balance sheet		
	Opening less closing operating receivables	1,135	17,831
	Opening less closing deferred costs and accrued revenues	-5	155
	Opening less closing deferred tax assets	28,236	9,225
	Opening less closing assets (disposal groups) held for sale	-13,429	0
	Opening less closing inventories	0	12,998
	Closing less opening operating liabilities	4,780	-26,402
	Closing less opening accrued costs and deferred revenues, and provisions	10,301	9,619
	Closing less opening deferred tax liabilities	-25,462	-11,353
	Total items of net current assets – operating items in the balance sheet	5,556	12,073
c)	Net cash from (used in) operating activities	63,016	261
В.	Cash flows from investing activities		
a)	Cash receipts from investing activities		
	Interest and dividends received from investing activities	41,317	36,656
	Cash receipts from disposal of property, plant and equipment	0	25
	Cash receipts from disposal of long-term financial assets	44,071	9,156
	Cash receipts from disposal of short-term financial assets	0	58,556
	Total cash receipts from investing activities	85,388	104,393
b)	Cash disbursements from investing activities		
	Cash disbursements to acquire intangible assets	-156	-218
	Cash disbursements to acquire property, plant and equipment	-179	-83
	Cash disbursements to acquire investment property	-70	0
	Cash disbursements to acquire long-term financial assets	-46,742	-3,009

		2014	2013
	Cash disbursements to acquire short-term financial assets	-72,206	0
	Total cash disbursements from investing activities	-119,353	-3,310
c)	Net cash from (used in) investing activities	-33,965	101,083
C.	Cash flows from financing activities		
a)	Cash receipts from financing activities		
	Receipts from paid up capital	86	0
	Total cash receipts from financing activities	86	0
b)	Cash disbursements from financing activities		
	Interest paid on financing activities	0	-1,169
	Cash repayments of long-term financial liabilities	0	-50,000
	Cash repayments of short-term financial liabilities	0	-50,000
	Total cash disbursements from financing activities	0	-101,169
c)	Net cash from (used in) financing activities	86	-101,169
D.	Closing balance of cash		
a)	Net cash for the period	29,137	175
b)	Opening balance of cash	7,903	7,728
c)	Total closing balance of cash	37,040	7,903

Disclosures and notes on pages 65 to 128 are a constituent part of financial statements.

16.5 Consolidated statement of changes in equity for the period from 01/01/2014 to 31/12/2014

B. 2. Total comprehensive income for the period		0 0	76,971	0	72,751	149,722	709	150,431
j) Other changes in equ	iity	0 0	0	0	0	0	-9,123	-9,123
d) Additional payments	of capital	0 86	0	0	0	86	0	86
B. 1. Changes in equity – transactions with ov		0 86	0	0	0	86	-9,123	-9,037
A. 2. As at 01/01/2014	364,81	0 215,867	277,932	4,155	-17,589	845,175	11,348	856,523
A. 1. As at 31/12/2013	364,81	0 215,867	277,932	4,155	-17,589	845,175	11,348	856,523
	Shar capita		Revaluation surplus	Retained earnings	Net profit or loss for the year	Majority interest	Minority interest	in EUR 000

		Share capital	Capital surplus	Revaluation surplus	Retained earnings	Net profit or loss for the year	Majority interest	Minority interest	Total
a)	Net profit or loss for the period	0	0	0	0	72,751	72,751	709	73,460
e)	Gains (losses) on revaluation of financial assets	0	0	77,440	0	0	77,440	0	77,440
f)	Gains (losses) on revaluation of financial assets – associated companies	0	0	-469	0	0	-469	0	-469
В. 3	. Movements in equity	0	0	-3,987	-13,602	17,589	0	0	0
a)	Allocation of the remaining net profit for the comparative period to other equity components	0	0	-3,987	-13,602	17,589	0	0	0
C.	Closing balance as at 31/12/2014	364,810	215,953	350,916	-9,447	72,751	994,983	2,934	997,917

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

Disclosures and notes on pages 65 to 128 are a constituent part of financial statements.

16.6 Consolidated statement of changes in equity for the period from 01/01/2013 to 31/12/2013

in EUR 000 Net profit Share Capital Revaluation Retained or loss for Majority Minority capital surplus surplus earnings the year interest interest Total 879,689 A. 1. As at 31/12/2012 364,810 290,234 221,381 -4,115 7,379 15,508 895,197 A. 2. As at 01/01/2013 364,810 290,234 221,381 -4,115 7,379 879,689 15,508 895,197 B. 1. Changes in equity -0 55 0 -593 0 -538 -2,188 -2,726 transactions with owners 0 55 0 0 0 55 1,200 1,255 d) Additional payments of capital 0 0 0 -593 0 -593 -3,388 -3,981 j) Other changes in equity B. 2. Total comprehensive income for the period 0 0 58,035 0 -92,011 -33,976 -1,972 -35,948 0 0 0 Net profit or loss for the period 0 -92,011 -92,011 -1,972 -93,983 a) Gains (losses) on revaluation e) 0 0 0 0 0 of financial assets 43,841 43,841 43,841 Gains (losses) on revaluation of financial assets -0 14,194 0 0 0 14,194 0 14,194 associated companies B. 3. Movements in equity 0 -74,422 -1.484 8,863 67,043 0 0 0 Allocation of the remaining net profit for the comparative period 0 0 -1,484 8,863 -7,379 0 0 0 to other equity components Loss settlement as a 0 -74,422 0 0 74,422 0 0 0 deductible item 215,867 277,932 -17,589 845,175 856,523 C. Closing balance as at 31/12/2013 364,810 4,155 11,348

Disclosures and notes on pages 65 to 128 are a constituent part of financial statements.

DISCLOSURES AND NOTES

171 General disclosures

Parent company profile

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

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

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

Board members is four years with the possibility of re-appointment. The Management Board or any of its members may be dismissed early only due to the reasons referred to in Article 268(2) of the ZGD-1. The breach of the Articles of Association of Kapitalska družba representing a severe dereliction of duties may constitute cause for dismissal.

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

The Supervisory Board of Kapitalska družba is appointed by the Company's Annual General Meeting. In compliance with Article 51(6) of the ZSDH-1, the Supervisory Board is composed of six members. Three members of the Supervisory Board are appointed on the proposal of Slovenski državni holding, d. d.⁵, two members on the proposal of the pensioners' governmental organisations and one member on the proposal of trade union associations or confederations which are representative of the country. If stakeholders do not formulate a proposal for the appointment of Supervisory Board members as defined below, the missing members of the Supervisory Board are appointed at the discretion of the Annual General Meeting. The candidates from among the representatives of the Slovenian Sovereign Holding are proposed by the Holding, which informs the Supervisory Board about the selection. The candidates from among the representatives of the pensioners are proposed by the pensioners' governmental organisations and associations, which inform the Supervisory Board about the selection. The candidates from among the representatives of the trade unions are elected by the representatives (electors) of the representative government-level trade union associations or confederations, which inform the Supervisory Board about the selection. Any representative association or confederation has the number of representatives equal to the number of the representative trade unions it comprises. In addition to the representatives referred to in the previous sentence, the association or confederation elects another representative for every ten thousand members. The term of office of the Supervisory Board members is four years with the possibility of re-appointment.

Information about subsidiaries

Subsidiaries of Kapitalska družba are presented in the table below.

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

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

Kapitalska družba does not consolidate the subsidiary Steklarska nova Rogaška Slatina, d. o. o. in consolidated financial statements, since the integration of subsidiary's financial statements in consolidated statements is not relevant for a true and fair view of the financial statements of the Kapitalska družba Group as a whole. Kapitalska družba is subject to no restrictions related to the payment of dividend to which it is entitled as the controlling company. Moreover, Kapitalska družba is not obligated to provide financial support to companies in the future.

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

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

Data on consolidation

Kapitalska družba is, as the controlling company, obligated to prepare consolidated financial statements and for 2014 it compiled them according to the IFRS for the first time.

Consolidation of financial data is carried out at two levels: for Posebna družba za podjetniško svetovanje, d. d., at the lower level, and for Kapitalska družba, at the higher level. The consolidated Annual Report of the PDP Group is available at http://www.pdp.si/zainvestitorje. The consolidated Annual Report of the Kapitalska družba Group is available at http://www.kapitalska-druzba.si/o_kapitalski_druzbi/letna_porocila.

Information about treasury shares

The Group has no treasury shares.

Information about employees

At the end of 2014, the Kapitalska družba Group had 1,675 employees, of whom 56 in Kapitalska družba, 54 in Modra zavarovalnica and 1,563 in the PDP Group.

Table 30: Number of employees of the Kapitalska družba Group

As at 31/12/2014

The Kapitalska družba Group 1,673

17.2 Accounting policies

Basis of preparation

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

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

Significant accounting estimates and judgements

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

The adequacy of used assumptions and estimates is checked periodically.

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

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

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

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

Statement of compliance

The consolidated financial statements of Kapitalska družba and all its subsidiaries (hereinafter: the Group) 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, the Group applied all IFRS and IFRIC required in 2014. It did not apply any standard or interpretation before its application became obligatory in 2014.

Amendments to standards and interpretations

Standards and interpretations effective for the current period

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

- IFRS 10 "Consolidated Financial Statements", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IFRS 11 "Joint Arrangements", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IFRS 12 "Disclosures of Interests in Other Entities", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IAS 27 (revised in 2011) 'Separate financial statements', adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IAS 28 (revised in 2011) 'Investments in associates and joint ventures', adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IFRS 10 'Consolidated financial statements', IFRS 11 'Joint arrangements' and IFRS 12 'Disclosure of interests in other entities' - Transition Guidance, adopted by the EU on 4 April 2013 (effective for annual periods beginning on or after 1 January 2014),

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

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

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

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

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

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

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

- IFRS 9 'Financial Instruments' (effective for annual periods starting on or after 1 January 2018),
- IFRS 14 'Regulatory Deferral Accounts' (effective for annual periods starting on or after 1 January 2016),
- IFRS 15 'Revenue from Contracts with Customers' (effective for annual periods starting on or after 1 January 2017),

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

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

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

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

Foreign currency translation

The financial statements of the Group 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 meas-

ured at fair value in foreign currency are translated at the exchange rate effective on the day when the fair value was established.

Transition to International Financial Reporting Standards

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

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

			in EUR 000
lt	rem	01/01/2013 IFRS	31/12/2012 SAS
ASSE	ETS		
A. N	lon-current assets		
	ntangible assets and long-term deferred osts and accrued revenues		
1. L	ong-term property rights	308	308
2. G	Goodwill	3,996	3,996
4. L	ong-term deferred development expenses	799	799
5. C	Other long-term deferred costs and accrued revenues	729	729
Т	otal intangible assets	5,832	5,832
II. P	Property, plant and equipment		
1. L	and	4,010	4,010
2. B	Buildings	26,139	26,139
3. P	Production plant and machinery	10,053	10,053
4. C	Other plant and equipment	1,093	1,093
5. P	Property, plant and equipment under construction or development	523	523
6. A	dvances for property, plant and equipment	161	161
Т	otal property, plant and equipment	41,979	41,979
III. Ii	nvestment property	16,140	16,140
IV. L	ong-term financial assets		
1. L	ong-term financial assets, except loans		
b. S	hares and interests in associated companies	89,500	89,500
c. C	Other shares and interests	538,268	538,268

	Item	01/01/2013 IFRS	31/12/2012 SAS
d.	Other long-term financial assets	236,178	236,178
	Total long-term financial assets, except loans	863,946	863,946
2.	Long-term loans		
b.	Long-term loans to others	13,171	13,171
	Total long-term loans	13,171	13,171
	Total long-term financial assets	877,117	877,117
V.	Long-term operating receivables		
3.	Long-term operating receivables due from others	932	932
	Total long-term operating receivables	932	932
VI	Deferred tax assets	25,589	25,589
	Total fixed assets	967,589	967,589
В.	Current assets		
I.	Assets held for sale	75,612	75,612
II.	Inventories		
1.	Material	5,919	5,919
2.	Work-in-progress	1,626	1,626
3.	Products and merchandise	5,401	5,401
4.	Advances for inventories	52	52
	Total inventories	12,998	12,998
III.	Short-term financial assets		
1.	Short-term financial assets except loans		
d.	Other short-term financial assets	56,676	56,676
	Total short-term financial assets, except loans	56,676	56,676
2.	Short-term loans		
b.	Short-term loans to others	80,504	80,504
	Total short-term loans	80,504	80,504
	Total short-term financial assets	137,180	137,180
IV.	Short-term operating receivables		
2.	Short-term operating trade receivables	12,370	12,370
3.	Short-term operating receivables due from others	6,955	6,955
	Total short-term operating receivables	19,325	19,325
V.	Cash	7,728	7,728

	Item	01/01/2013 IFRS	31/12/2012 SAS
_	Total current assets	252,843	252,843
C.	Short-term deferred costs and accrued revenues	395	395
To	tal assets	1,220,827	1,220,827
EC	DUITY AND LIABILITIES		
Α.	Equity		
I.	Called-up capital	364,810	364,810
П.	Capital surplus	290,234	290,234
III.	Revenue reserves	0	0
IV.	Revaluation surplus	221,381	221,381
V.	Retained earnings	-4,115	-4,115
VI	Net profit/loss for the year	7,379	7,379
	Total majority interest	879,689	879,689
VI	I. MINORITY INTEREST	15,508	15,508
	Total capital	895,197	895,197
В.	Provisions and long-term accrued costs and deferred revenues		
l.	Provisions for pensions and similar obligations	3,249	3,249
П.	Other provisions	111,683	111,683
III.	Long-term accrued costs and deferred revenues	1,826	1,826
	Total provisions and accrued costs and deferred revenues	116,758	116,758
C.	Long-term liabilities		
l.	Long-term financial liabilities		
2.	Long-term financial liabilities to banks	22,856	22,856
4.	Other long-term financial liabilities	4,116	4,116
	Total long-term financial liabilities	26,972	26,972
11.	Long-term operating liabilities		
4.	Long-term operating liabilities from advances	6	6
5.	Other long-term operating liabilities	160	160
	Total long-term operating liabilities	166	166
Ш	Deferred tax liabilities	24,027	24,027
	Total long-term liabilities	51,165	51,165

	Item	01/01/2013 IFRS	31/12/2012 SAS
D.	Short-term liabilities		
I.	Liabilities included in disposal groups	65,821	65,821
II.	Short-term financial liabilities		
2.	Short-term financial liabilities to banks	57,337	57,337
4.	Other short-term financial liabilities	1,160	1,160
	Total short-term financial liabilities	58,497	58,497
III.	Short-term operating liabilities		
2.	Short-term operating trade payables	25,892	25,892
4.	Short-term operating liabilities from advances	49	49
5.	Short-term liabilities to the State	129	129
6.	Other short-term operating liabilities	5,039	5,039
	Total short-term operating liabilities	31,109	31,109
	Total short-term liabilities	155,427	155,427
E.	Short-term accrued costs and deferred revenues	2,280	2,280
To	tal equity and liabilities	1,220,827	1,220,827

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.

Basis of consolidation

The consolidated financial statements comprise eh financial statements of Kapitalska družba and its subsidiaries as at 31 December of a year. The financial statements of the subsidiaries have been prepared for the same financial year as those of the parent company and by applying the uniform accounting policies. In the event of any inconsistency of accounting policies, suitable adjustments have been made in consolidated financial statements.

All intra-group balances and transactions, including any unrealised income arising from intra-group balances and transactions, are eliminated in full.

All subsidiaries become subject to consolidation when control is transferred to the Group and the consolidation is abandoned when control of a subsidiary is transferred outside the Group. If the Group loses control of a subsidiary during the year, the consolidated financial statements include the results of such subsidiary up to the last day on which the control over it still existed.

Intangible assets

Intangible assets, acquired individually, are recognised at cost. After initial recognition the cost model is applied. The useful life of an item of intangible assets is limited. The amortisation of intangible assets is recognised in profit or loss. Intangible assets generated within the Group, other than 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.

The Group uses the straight line amortisation method for intangible assets according to the estimated useful life:

Asset

Software

Software applications obtained after 01/01/2008

Amortisation/Depreciation rate in %
20.00–33.33

The amortisation of intangible assets is calculated on the straight-line basis over the estimated useful lives of the assets, which is 10 years. The estimated useful life of software applications acquired after 01/01/2008 is 3 to 5 years.

The Group 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.

Profit and loss arising from retirement or disposal of an intangible asset is determined as the difference between the sale value on disposal and the book value. The difference is recognised as income or expense in the income statement, when the underlying intangible asset is retired or disposed.

Property, plant and equipment

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

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

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

Buildings or equipment are derecognised when the relevant asset is sold or when the Group no longer expects economic benefits from the asset's continuing use. Profit and loss arising from derecognition of the asset is included in the income statement in the year when the asset is written off the books.

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

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

Maintenance Costs and Increase in Fixed Assets Value

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

Criteria for the Deferral of Maintenance Costs and the Increase in Fixed Assets Value

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

Investment property

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

The Group 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 Group 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.

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 Group 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 properly are determined as the difference between the net return on disposal and the carrying amount, and are recognised in the profit or loss.

Financial assets

Classification of Financial Assets

The Group classifies financial assets in the following categories:

- financial assets measured at fair value through profit or loss;
- held-to-maturity financial investments;
- available-for-sale financial assets;
- loans.

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 of assets of the Group are classified under available-for-sale financial assets.

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

Recognition of financial assets

Initially, all the Group's investments except financial assets classified at fair value through profit or loss are recognised at fair value, including the directly related costs of acquisition. Investments classified at fair value through profit or loss are recognised at fair value (direct costs of acquisition are not included in the cost).

1. Financial assets 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 Group has a positive intention and the ability to hold the investment to maturity. Investments held for an indefinite period of time are not classified in 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 initial recognition all investments classified by the company within available-for-sale financial assets are carried at fair value or purchase cost if fair value cannot be determined reliably. Gains and losses on available-for-sale financial assets are recognised in the statement of comprehensive income as the net unrealised capital gains until the investment is sold or disposed of in some other manner. If an investment is impaired, the impairment is recognised in profit or loss.

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

4. Loans

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

Financial assets measured at cost

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

Available-for-sale financial assets are measured at stock prices. If a stock price is not available for a particular asset, the fair value is determined using the valuation models taking into account subjective variables that are not publicly available on

markets or by making value estimates of particular assets. The following methods are applied in making the value estimates of particular assets: income-based valuation, asset-based valuation and the comparison approach, involving a comparison with the comparable listed companies.

Investments in associated companies

Investments in associates are recognised according to the equity method. An associate is a company over which the parent company has significant influence and that is neither a subsidiary nor a joint venture. A joint venture is an investment in jointly controlled entities on the basis of a founding contract. The financial statements of associated companies provide the basis for equity method. The reporting date of the associated companies is the same as the reporting date of the Group.

Investments in associates are carried in the statement of financial position at cost as adjusted by (post-acquisition) changes in the equity of the associate, less any impairment. The income statement presents the contribution of an associate to the profit/loss. If the changes are recognised directly in the equity of the associate, the Group recognises the share of these changes and discloses major changes in the statement of changes in equity.

Financial asset valuation methods

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

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

Determination of fair value

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

Level 1 input comprises quoted (unadjusted) prices for identical assets or liabilities in an active market which are available to the Company on the measurement date;

This group includes the assets of Modra Zavarovalnica, d. d., valued based on the prices obtained in the Bloomberg system, if the market value verification model indicated that model prices are set on the basis of market data. The prices obtained from the Bloomberg system, are not directly the prices at which the insurance company could, on the valuation date, sell securities, but their application provides for objective evaluation and the price reflects the actual market transactions and is an appropriate indicator of the price that the insurance company would gain upon the sale of the bond on the market. The providers' prices do not materially differ from the price applied. Assets were classified into Level 1, if the price was entirely based on market data and in

more than 50% on directly enforceable quotations. This group does not include the assets owned by Kapitalska družba valued based on the prices adopted from the Bloomberg system.

- Level 2 input includes inputs other than the quoted prices included in Level 1 and which are observable either directly or indirectly for an asset or liability; Level 2 assets include the assets valued based on comparable market data (other than quoted prices of identical assets) obtained indirectly or directly for an identical or similar asset; the basis of valuation is the yield curve of comparable financial assets with similar maturity and credit risk. Moreover, Level 2 also includes the investments in debt instruments owned by Modra zavarovalnica, d. d., valued based on the data from the Bloomberg system, for which the said market value verification model indicated that the price was mainly set on the basis of market data and in less than 50% based on directly enforceable quotations. The second group does not include the assets owned by Kapitalska družba valued based on the prices adopted from the Bloomberg system.
- Level 3 input includes unobservable inputs for an asset or liability.

 Level 3 includes the assets whose fair value was assessed based on own valuation models, taking into account subjective variables that are not publicly available on markets, and those investments in debt instruments of Modra zavarovalnica, d. d., which have been valued on the basis of data from the Bloomberg system, where the said market value verification model indicated that the prices were based on unobservable inputs. In addition to all these assets, Level 3 fair value includes all assets owned by Kapitalska družba where fair value of debt financial instruments is determined using the Bloomberg Generic prices (BGN) and the Bloomberg Valuation Services prices (BVAL). This methodology and assumptions of price calculation are not available to the public, so all these assets owned by Kapitalska družba are classified into Level 3 fair value hierarchy.

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

Impairments

Impairment of available-for-sale financial assets

The Group regularly reviews the requirement for impairment of financial assets classified as available for sale. Investments whose value has significantly declined in the reporting period and/or such a decline is prolonged are impaired. The Group estimates that the assumption is met of a significant decline in the value of equity investments whose negative revaluation in equity, inclusive of exchange rate differences, reaches 40% of their cost. In this case such equity investments are impaired in the total amount of the cumulative unrealised net loss and exchange rate differences. When the amount of revaluation due to impairment and exchange rate differences recognised in the equity equals between 10 and 39 percent, the need for

impairment based on the time component is considered. When the negative revaluation recognised in the equity equals between 10 and 39 percent of the investment's cost and the investment is not impaired, there must be relevant indicators to show that impairment is not required. The need for impairment is reviewed as and when necessary or at least on the balance sheet date. Once an investment has been impaired, total amount of the negative revaluation recognised in equity inclusive of exchange rate differences is impaired in future periods.

The Group only impairs debt instruments classified as available-for-sale whose principal amounts will not be recovered or will not be recovered in full on maturity according to the estimate made by the Company as a prudent manager. In the former case such debt instruments are impaired to zero, while in the latter case, debt instruments are impaired to the percentage of the principal which the Company estimates with certainty to be repaid on maturity. In the latter case, debt instruments that have no material effect on the financial statements are not carried at amortised costs but rather at estimated realisable value. The need for impairment of such financial assets is reviewed at least on the date of the statement of financial position or more often if necessary.

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

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

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

Recoverable amount of non-current assets

As at the reporting date the Group estimates if there exist any factors indicating that non-current assets need to be impaired. When as a result of certain events the carrying amount of an asset exceeds its estimated recoverable amount, the asset is impaired to the recoverable amount of the asset or money-generating unit. The recoverable amount is the greater of an asset's (or cash generating unit's) net selling price and value in use. In assessing the value in use, the estimated future cash flows are discounted to their net 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. Losses arising from impairment are recognised under operating expenses from revaluation.

Derecognition of financial instruments

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

Non-current assets (disposal groups) held for sale

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

When an asset is designated as held for sale or classified as a disposal group held for sale or when the asset is derecognised, depending on the order of the events, the asset is no longer amortised or depreciated. Such non-current asset or disposal group held for sale shall be measured at the lower of its carrying amount or fair value, less costs to sell.

Operating and other receivables

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

Cash and cash equivalents

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

Deferred costs and accrued revenues

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

Equity

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

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

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

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

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

Revaluation surplus

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

Provisions

Provisions are recognised for current liabilities (legal or constructive) arising from past events when it is likely that an outflow of assets that generate economic benefits will be required to settle such an obligation, and when the amount of the liability can be reliably estimated. The amount recorded as a provision is the best estimate of expenses required to settle existing liabilities on the balance sheet date. When the time value of money is relevant, the provisions are determined on the basis of discounted cash flows at the discount rate (pre-tax) reflecting the time value of money; where appropriate, any risks specific to the liability are included. If the Group sets provisions based on discounted cash flows, the increases in net present value are over the years recognised 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 change in mathematical provisions is disclosed in the income statement as increase or decrease in other operating expenses.

The Group 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 the Company 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.

Insurance contracts - guarantee funds

According to the International Financial Reporting Standard 4 (IFRS 4) and the International Actuarial Standard of Practice No. 3 (IASP 3), the Guarantee Fund of the PPS (First Pension Fund) and the Guarantee Fund of MR (Modra zavarovalnica) are classified among insurance contracts. An insurance contract is a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

Under IFRS 4, an event is uncertain, if at least one of the following is uncertain at the inception of an insurance contract:

- whether an insured event will occur;
- when it will occur; or
- how much the insurer will need to pay if it occurs.

Insurance contracts entailing significant insurance risk are in books of account treated according to IFRS 4. If insurance contracts do not entail significant insurance risk, they are in books of account treated as financial contracts under IAS 39.

Insurance contract liabilities - technical provisions

Technical provisions for insurance contracts are set aside in accordance with the Insurance Act and its implementing regulations, as well as in compliance with IFRS 4.

Modra zavarovalnica, d. d. is required to make an adequate amount of technical provisions which are designed to cover future liabilities from insurance contracts and potential risk losses arising from insurance operations.

Mathematical provisions are calculated for every insurance contract separately. The prospective method is applied in the calculation of these provisions.

The calculations take into account actuarial assumptions, the provisions of the applicable legislation and all contractual obligations to the insured persons according to the content of insurance contracts.

Net technical provisions of the Guarantee Fund of MR

Net technical provisions of the KS MR (Guarantee Fund Modra renta) represent mathematical provisions for the insurance policies of the KVPS (Capital Mutual Pension Fund) and the ZVPSJU (Closed Mutual Pension Fund for Civil Servants). The mathematical provisions are calculated for the policies of the KVPS and the ZVPSJU according to Article 117 of the Insurance Act, the Decision on detailed rules and minimum standards to be applied in the calculation of technical provisions and the Technical basis for annuity pension insurance of Modra zavarovalnica, d. d.

The calculation is based on the most recent annuity mortality tables approved by the Insurance Supervision Agency.

The accrued interest rate, the mortality tables and the costs are the same as applied in the premium calculation.

Net technical provisions of the Guarantee Fund of the PPS

Net technical provisions of the KS PPS (Guarantee Fund of the First Pension Fund) represent mathematical provisions composed of:

- mathematical provisions for policies of the PPS;
- provisions for equalisation of the mortality experience of the PPS; and
- provisions for equalisation of the yield experience of the PPS.

Mathematical provisions for the policies of the PPS

Mathematical provisions for the policies of the PPS are calculated based on Article 117 of the Insurance Act and the Rules on the Calculation of Mathematical Provisions.

The calculation is based on the most recent annuity mortality tables approved by the Insurance Supervision Agency.

The accrued interest rate and the costs are the same as applied in the annuity calculation. The mortality tables used in the calculation of mathematical provisions are more conservative than those used in annuity allocation.

Provisions for equalisation of the mortality experience of the PPS

Provisions for equalisation of the mortality experience are determined upon the initial calculation of the mathematical provision as the difference between the value of the transferred assets and the value of mathematical provisions set aside for the PPS policy.

Provisions for equalisation of the mortality experience that are calculated per individual policies upon transfer increase the provisions for equalisation of the mortality experience of the PPS and are created aggregately for all insured persons.

They are calculated and recognised monthly upon the calculation of the mathematical provisions for the policies of the KS PPS for the current month. They are recorded on the mathematical provisions account under subgroup "provisions for equalisation of the mortality experience".

The provisions for equalisation of the mortality experience may be additionally established at the year-end from the surplus funds of the KS PPS, i.e.:

- if mathematical provisions are not established according to the most recent annuity tables, the following is entirely allocated to provisions:
- a) surplus assets from return of the Guarantee Fund in excess of the guaranteed return;
- b) surplus assets resulting from mortality of population with annuity insurance policies;
- however, if mathematical provisions are consistent with the most recent annuity tables, the surplus assets resulting from mortality of population with annuity insurance policies are allocated to provisions.

Provisions for equalisation of the yield experience of the PPS

Provisions for equalisation of the yield experience are established at the year-end if mathematical provisions for the PPS policies are set aside according to the most recent annuity tables. If so, the surplus assets resulting from the surplus return of the KS PPS over the guaranteed return, are allocated to permanent increases of annuities or the whole or part of them are used for creating provisions for equalisation of the yield experience. The share of surplus earmarked for annuities is set by the management of the administrator.

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 Group.

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. Revenues from insurance premiums

Net revenues from insurance premiums are identical to gross premium written. Gross premium written is recognised in accounting records in the day it is accounted and not on the day it is paid.

2. Revenue from fees

The Group 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 average annual net asset value of an individual fund during the saving period.

a. Entry fee

The Group 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 Group manages mutual pension funds and charges management fee, thus the monthly value of assets of the funds 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 Group is entitled to exit fees, whereby the redemption value is reduced by the exit fees and the net value is paid to the individual who terminated the scheme. Exit fees are calculated in a percentage of the redemption value when the policy is paid.

3. Revenue from lease payments

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

Financial revenue

1. 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.

2. Dividends

Dividends are recognised when the Group obtains the right to payment.

3. Revenue from sale of financial assets

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

Costs

Costs of materials and services

Costs of materials and services are classified by primary types. The Group does not classify costs by functional type, because the entire Group 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 Group also recognises potential future employee-related costs based on the Collective Agreement. These costs 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 Group expects to pay to or receive from the tax administration. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date.

2. Deferred tax

Deferred income tax assets and liabilities are calculated according to the balance sheet liability method. Only deferred tax assets and liabilities arising from temporary differences are recognised.

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

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

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

Deferred tax is charged or credited directly to comprehensive income, if it relates to items that are credited or charged directly to comprehensive income.

Cash flow statement

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

Segment reporting

In 2014, the Kapitalska družba Group had no business segments, because the operations of the PDP Group or corporate consulting are reported under assets held for sale. PDP as the parent of the PDP Group is to be sold in the following 12 months. In line with the ZSDH-1, Kapitalska družba on 19/01/2015 concluded an agreement of the transfer against payment of a 66.04% equity stake in PDP, d. d., with Slovenski državni holding, d. d.

Risk management

In the economic crisis, risk management proved to be a very important area, because efficient risk management is a condition for successful and stable operations. Therefore, risk management is crucial in performing activities to achieve the goals of the Group. 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. The Group 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.

With the aim of improving asset management in the long-term, the Group continues to develop and upgrade the entire risk management system. Especially in Modra zavarovalnica, d. d., the project of Solvency II is important, the strategic goal of which is to protect the assets of the insured persons and also to meet capital requirements, improve risk management, provide conditions for better capital allocation, increase transparency of operations and similar.

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

Risk of securities price change

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

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

Interest rate risk

The very nature of investments in debt securities and deposits exposes the Group to interest rate risk resulting from the risk that investment values will fluctuate due to changes in market interest rates. Owing to the decrease in interest rates the assets were exposed to reinvestment risk. The exposure to interest rate risk is regularly measured by the modified duration indicator. Furthermore, the Company's internal committees monitor the fluctuation in interest rates and market forecasts and analysis on a weekly basis, providing investment recommendations on this basis.

The Group minimises the risks arising from interest rates by restructuring the portfolio based on market conditions, by reducing the average maturity of bond portfolios, by restructuring assets with fixed interest rate into assets with variable interest rate or vice versa, depending on the expected movement in market interest rates and by classifying assets into the group of financial assets held to maturity according to the IFRS. In 2014, the Group did not use derivative financial instruments for interest rate risk hedging.

Currency risk

In managing a part of financial assets invested in foreign currencies, the Group is also exposed to currency risk.

Currency risk is monitored and managed daily by matching the currencies of financial assets with legal and internal restrictions. The basis for measuring currency risk is the monitoring and calculation of exposure to individual currencies. In 2014, the Group did not use derivative financial instruments for currency risk hedging.

Credit risk

Credit risk is related to investments in debt instruments (investments in bonds, commercial papers, certificates of deposit, 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 investment limits with regard to exposure to individual investments. Credit risk is also managed by dispersion of investments in terms of issuers, industries and geographical areas, by regular monitoring of credit margins and ratings of investments and issuers or contractual partners. According to internal acts, business partners' credit rating is determined by ratings assigned by Standard&Poor's, Fitch and Moody's, and in-house analyses. The maximum exposure, i.e. high yield, is set for debt securities.

With regards to investments in deposits, debentures and certificates of deposits, an internal model has been developed for determination of limits of such investments in individual banks. Internal limits for individual banks are regularly updated. The total exposure to a single bank is monitored on a regular basis and complies with the legal regulations.

Liquidity risk

Liquidity risk is the risk related to the liquidity of the capital market or investment and the risk of solvency of the Group. The Group manages its assets and liabilities in such a manner as to be able at any time to settle its liabilities as they fall due. The policy prescribing regular liquidity management is pursued according to the law and secondary regulations.

Due to the low liquidity of the Slovenian capital market, liquidity risk is encountered in the majority of investments in association with domestic equity and debt securities, with the highest risk posed by non-listed investments. By dispersing a portion of investments abroad, the Group is able to reduce liquidity risk by investing only in the most liquid securities. Moreover, liquidity risk is managed by daily monitoring of the inflows and outflows 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. Operational risk is managed through a system of appropriate authority, internal controls and by defining business processes and ensuring the suitable employee qualifications. In order to minimise operational risks, companies established a system of recording loss events and regularly monitoring the implementation of the measures adopted.

In addition to the Risk Management Department there is also the Internal Audit Department, paying special attention to verifying the internal control system and making proposals for its improvement.

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 the Group holds interests, the amount of liabilities to the pension budget and consequently the management of financial assets.

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

17.3 Disclosures and notes to the financial statements

17.3.1 Notes to the income statement

Note no. 1

Net sales revenues

		in EUR 000
	2014	2013
Revenues from the sales of services	27,226	22,758
Revenues from management	7,079	8,077
Revenue from lease payments	992	1,185
Total	35,297	32,020

Revenues from the sale of services mostly refer to revenues from insurance premiums.

		in EUR 000
	2014	2013
Revenue from the sales on the domestic market	35,297	32,020
Total	35,297	32,020

Note no. 2

Other operating revenue (including revaluation revenue)

		in EUR 000
	2014	2013
Revenues from reversal of long-term provisions	716	230
Other operating revenues	28	76
Total	744	306

Revenue from reversal of long-term provisions in the amount of EUR 716 thousand relates to the reversal of provisions established for non-realisation of the guaranteed return on the pension funds managed by Kapitalska družba and Modra zavarovalnica, d. d., in the amount of EUR 370 thousand and the reversal of provisions made for legal disputes and litigation based on the best estimate of the probability of payment in the amount of EUR 346 thousand.

Note no. 3

Costs of goods, materials and services

		in EUR 000
	2014	2013
Costs of materials	240	284
Costs of services	3,837	3,583
Total	4,077	3,867

Costs of materials

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

Costs of services

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

Costs of audit

The costs of auditing the 2014 financial statements of Kapitalska družba totalled EUR 23 thousand. An agreement on auditing the Annual Report worth EUR 21 thousand and an agreement on conducting the agreed procedures in the amount of EUR 2 thousand were concluded with auditors for 2014. The costs of audit will be fully paid in 2015.

The costs of audit of Modra zavarovalnica, d. d., totalled EUR 18 thousand.

Note no. 4 Labour costs

		in EUR 000
	2014	2013
Payroll costs	4,042	4,028
Social security costs	650	649
Pension insurance costs	206	210
Other labour costs	438	400
Total labour costs	5,336	5,287

Note no. 5

Amortisation, depreciation and write-offs

		in EUR 000
	2014	2013
Depreciation/amortisation	1,168	1,207
Amortisation of intangible assets	287	310
Depreciation of buildings	308	308
Depreciation of garages	11	11
Depreciation of equipment and spare parts	62	79
Depreciation of investment property	500	499
Revaluation operating expenses	22	0
Revaluation operating expenses associated with current assets	22	0
Total	1,190	1,207

Amortisation of intangible assets

The costs refer to the amortisation of computer software and licences.

Depreciation of buildings

These costs include the costs of depreciation of business premises owned by Kapitalska družba.

Depreciation of equipment and spare parts

Depreciation of equipment and spare parts represents depreciation of electronic equipment, wooden furniture, cars and other equipment.

Note no. 6

Other operating expenses

		in EUR 000
	2014	2013
Provisions	13,166	18,093
Other operating expenses	15,451	11,980
Total	28,617	30,073

In 2014, Modra zavarovalnica established provisions for pensions and jubilee awards in the amount of EUR 26 thousand and increased mathematical provisions totalling EUR 13,140 thousand.

The major portion of other operating expenses includes gross claims paid of Modra zavarovalnica equalling EUR 13,917 thousand, consisting of accounted pension annuities.

Note no. 7

Financial revenue

		in EUR 000
	2014	2013
Financial revenue from shares and interests	60,496	23,687
Financial revenue from other investments and loans	13,736	15,613
Financial revenue from other investments	11,456	12,226
Financial revenue from loans	2,280	3,387
Total	74,232	39,300
In 2014, financial revenue from participations grew owing to hi from the sale of financial assets.	gher capital gains	
Financial revenue from shares and interests		in EUR 000
	2014	2013
Dividends and shares in profits	25,234	17,042
Revaluation financial revenue from shares and interests	5,747	2,227
The effect of restatement of financial revenue from shares and interests due to the adjustment of associates to equity method	1,203	1,844
Gains from the disposal of financial assets	28,312	2,574
- available-for-sale financial assets	28,295	2,573
- financial assets measured at fair value through profit or loss	17	1
Total	60,496	23,687
Financial revenue from other investments and loans		
i manetar revenue from etner investments una louns		in EUR 000
	2014	2013
Interest income	9,730	15,593
Revenue from the revaluation of receivables, liabilities and loans to retain their value	22	11
Exchange rate gains	22	11
Revenue from realised gains	3,984	8

Total	13,736	15,613
Other financial revenue	0	1
Revenue from the sale of financial assets measured at fair value through profit or loss	3	0
Revenue from the sale of financial assets available for sale	3,981	8
Revenue from realised gains	3,984	8
Exchange rate gains	22	11
Revenue from the revaluation of receivables, liabilities and loans to retain their value	22	11
Interest income	9,730	15,593
	2014	2013

Revenue from sale of financial assets

		in EUR 000
	2014	2013
Revenue from realised gains	32,296	2,582
- available-for-sale financial assets	32,276	2,581
- financial assets measured at fair value through profit or loss	20	1

Revenue from the sale of financial assets in the amount of EUR 32,276 thousand constitute realised capital gains from the disposal of available-for-sale financial assets. Revenue from the sale of financial assets in the amount of EUR 20 thousand constitute realised capital gains from the disposal of financial assets measured at fair value through profit or loss.

Interest income

Total	9,730	15,593
- financial assets measured at fair value through profit or loss	13	138
Other securities	13	138
- financial assets held to maturity	2,968	2,921
- available-for-sale financial assets	4,469	8,177
- financial assets measured at fair value through profit or loss	0	971
Bonds	7,437	12,069
Deposits	2,280	3,386
	2014	2013
		in EUR 000

Note no. 8

Financial expenses for long-term and short-term financial asset write-offs

747	53,109
10,864	3,356
0	671
82	11,076
1,827	1,871
13,594	70,381
0	1,085
349	137
275	298
18	8
642	443
2014	in EUR 000 2013
	642 18 275 349 0 13,594 1,827 82

Expenses from the sale of financial assets in the amount of EUR 642 thousand constitute realised capital losses from the disposal of financial assets.

Impairment loss was recognised on available-for-sale equity investments carried at fair value through equity and classified under available-for-sale financial assets in the total amount of EUR 82 thousand. The Group estimated that the assumption was met of a significant decline in the value of equity investments whose negative revaluation in equity, inclusive of exchange rate differences, was between 10% and 39% of their cost while considering time component. These equity investments were impaired in the total amount of the cumulative negative revaluation in equity and exchange rate differences.

Impairment loss was recognised on available-for-sale equity shares and interests carried at fair value through equity and classified under available-for-sale financial assets in the total amount of EUR 10,864 thousand. The Company assessed that there was impartial evidence of impairments of these assets. The value of assets was estimated based on internal valuations and one external valuation, and in one internal valuation the real property was appraised by an external valuer. Asset valuations were made according to the following methods: income-based approach, the discounted free cash flow method, the asset-based approach, the net asset valuation method under the assumption of a going concern and regular liquidation and the peer comparison method (comparable listed companies), where the procedure is based on selected multipliers and the value of the relevant company is assessed based on the comparison of performance indicators and stock price of comparable companies.

On the basis of the decision of the Bank of Slovenia on extraordinary measures imposed on 16/12/2014 on Banka Celje, d. d., the Company deleted the subordinated bonds of Banka Celje, d.d., in the amount of EUR 675 thousand and the pertaining interest totalling EUR 72 thousand. In 2013, the expenses from the deletion of shares and subordinated bank bonds were higher owing to the orders of the Bank of Slovenia on extraordinary measures related to some Slovenian banks, dated 17 and 18 December 2013, based on which Kapitalska družba cancelled shares and subordinate bonds of some Slovenian banks in the total amount of EUR 53,109 thousand.

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

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

Foreign currency translation

		in EUR 000
	2014	2013
Exchange rate gains	22	11
Exchange rate losses	-50	-172
Net exchange rate gains/losses	-28	-161

In 2014, the net exchange rate loss amounted to EUR 28 thousand.

Profit or loss from financial assets

		in EUR 000
	2014	2013
Income from financial assets	74,232	39,300
Expenses from financial assets	-5,513	-129,246
Net profit or loss financial asset	68,719	-89,946

Note no. 9

Other revenue

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

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

Note no. 10

Other expenses

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

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

Note no. 11

Income tax

The Kapitalska družba Group does not prepare a consolidated tax balance sheet. In 2014, its corporate income tax liabilities totalled EUR 2,804 thousand, composed of income tax of Kapitalska družba in the amount of EUR 1,899 thousand and Modra zavarovalnica, d. d., in the amount of EUR 905 thousand.

Corporate income tax is posted based on the sum of profits of consolidated companies considering the revenue and expenses included in the income statement of a company in accordance with the IFRS and the Corporate Income Tax Act (ZDDPO-2). Tax rate applied in the calculation of corporate income tax is 17% of the tax base.

In the Management Board's opinion the calculation of tax liability is suitable and made on the basis of views presented below and in accordance with the opinions provided by tax consultants. 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 of consolidated companies and the amount assessed by the tax authorities.

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

The effective tax rate (as the ratio between the corporate income tax and profit or loss before tax) was 4.21% in 2014.

Note no. 12

Deferred tax

Deferred corporate income tax as at 31/12/2014 includes the items presented in the table below.

in EUR 000

		Balance sheet		Income statement
	31/12/2014	31/12/2013	2014	2013
Deferred income tax liabilities	48,408	35,380	19	358
Total deferred income tax liabilities	48,408	35,380	19	358
Deferred income tax assets	45,068	34,814	10,254	8,824
Loss brought forward which can be used as tax allowance	4,167	3,895	272	-85
Value adjustments of fixed assets	0	0	0	0
Value adjustment of investments	40,828	30,554	10,274	9,167
Value adjustment of receivables	0	0	0	0
Dividend adjustment	34	297	-263	136
Provisions	39	68	-29	7
Other	0	0	0	-401
Total deferred income tax assets	45,068	34,814	10,254	8,824
Netting of deferred tax assets and liabilities	3,340	-566	10,273	9,182

Disclosure of tax loss

		in EUR 000
	2014	2013
Tax loss as at 31 December of the reporting period	405,855	437,243
Tax loss not considered in the calculation of deferred taxes	401,688	437,243
Tax loss considered in the calculation of deferred taxes	4,167	0

Tax loss amounting to EUR 401,688 thousand does not comprise deferred tax assets, whereas tax loss of EUR 4,167 thousand includes deferred tax assets. Tax losses are transferable without time limitation.

Disclosure of changes in deferred tax recognised directly in the statement of comprehensive income

		in EUR 000
Changes in deferred tax	2014	2013
Balance as at 01/01	35,380	24,027
Changes during the year	13,028	11,353
Balance as at 31/12	48,408	35,380

Deferred tax liabilities of EUR 48,408 thousand at 31/12/2014 arose on revaluation of financial assets measured at fair value through the statement of comprehensive income. Total change in deferred taxes recognised directly in the statement of comprehensive income refers to Kapitalska družba and Modra zavarovalnica.

Net earnings/loss per share

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

	2014	2013
Net profit or loss attributable to holders of ordinary shares of the parent company (000 EUR)	72,751	-92,011
Diluted net profit or loss attributable to holders of ordinary shares of the parent company (000 EUR)	72,751	-92,011
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)	83.3	-105.2

As at 31/12/2014, the Group held no financial instruments that would require adjustment of either the net profit or loss or the weighted average number of ordinary shares.

Note no. 13

Net profit or loss

If the net profit for the year totalling EUR 73,460 thousand was restated using the consumer price index to retain the purchasing power of equity, the net profit would be increased by EUR 1,162 thousand.

Note no. 13.1

Profit or loss from discontinued operations

The loss from discontinued operations totalling EUR 403 thousand refers to the companies that are intended to be sold.

17.3.2 Notes to the statement of financial position

Note no. 14

Intangible assets and long-term deferred costs and accrued revenues

Table 32: Changes in intangible assets and deferred costs and accrued revenues in 2014

in EUR 000 Other long-term deferred 31/12/2014 costs and accrued revenues Total Cost as at 01/01/2014 3,196 3,196 Additions 156 156 Disposals 0 0 Cost as at 31/12/2014 3,352 3,352 Value adjustment Value adjustment as at 01/01/2014 2,601 2,601 Additions, transfers 0 0 Disposals, write-offs 0 0 Depreciation/amortisation 287 287 Value adjustment as at 31/12/2014 2,888 2,888 Carrying amount Carrying amount as at 01/01/2014 595 595 Carrying amount as at 31/12/2014 464 464

Table 33: Changes in intangible assets and deferred costs and accrued revenues in 2013

in EUR 000 Other long-Long-term term deferred deferred costs and Long-term development accrued 31/12/2013 property rights Goodwill expenses revenues Total Cost Cost as at 01/01/2013 3,015 843 3,038 6,936 13,832 -3,015 -10,854 Adjustment for consolidation -6,936 -843 -60 Additions 0 0 0 218 218 **Disposals** 0 0 0 0 0 Cost as at 31/12/2013 0 0 0 3,196 3,196 Value adjustment Value adjustment as at 01/01/2013 2,309 2,707 2,940 44 8,000 Adjustment for consolidation -2,707 -2,940 -18 -5,709 -44 0 0 Additions, transfers 0 0 0 Disposals, write-offs 0 0 0 0 0 Depreciation/amortisation 0 0 0 310 310 Value adjustment as at 31/12/2013 0 0 0 2,601 2,601

31/12/2013	Long-term property rights	Goodwill	Long-term deferred development expenses	Other long- term deferred costs and accrued revenues	Total
Carrying amount	<u>``_``</u>		<u>-</u>		
Carrying amount as at 01/01/2013	308	3,996	799	729	5,832
Carrying amount as at 31/12/2013	0	0	0	595	595

Note no. 15

Property, plant and equipment

Table 34: Changes in property, plant and equipment in 2014

in EUR 000

		Other plant and	
31/12/2014	Buildings	equipment	Total
Cost			
Cost as at 01/01/2014	10,217	2,538	12,755
Additions	0	179	179
Disposals	0	-47	-47
Cost as at 31/12/2014	10,217	2,670	12,887
Value adjustment			
Value adjustment as at 01/01/2014	2,719	2,380	5,099
Additions, transfers	0	0	0
Disposals, write-offs	0	-47	-47
Depreciation/amortisation	318	62	380
Value adjustment as at 31/12/2014	3,037	2,395	5,432
Carrying amount			
Carrying amount as at 01/01/2014	7,498	158	7,656
Carrying amount as at 31/12/2014	7,180	275	7,455

Table 35: Changes in property, plant and equipment in 2013

in EUR 000

31/12/2013	Land	Buildings	Production equipment			Advances for property, plant and equipment	Total
Cost							
Cost as at 01/01/2013	6,310	64,834	148,778	6,666	556	161	227,305
Adjustment for consolidation	-6,310	-54,617	-148,778	-4,186	-556	-161	-214,608
Additions	0	0	0	83	0	0	83
Disposals	0	0	0	-25	0	0	-25
Cost as at 31/12/2013	0	10,217	0	2,538	0	0	12,755
Value adjustment							
Value adjustment as at 01/01/2013	2,300	38,695	138,725	5,573	33	0	185,326

31/12/2013	Land	Buildings	Production equipment		Property, plant and equipment in acquisition		Total
Adjustment for consolidation	-2,300	-36,295	-138,725	-3,247	-33	0	-180,600
Additions, transfers	0	0	0	0	0	0	0
Disposals, write-offs	0	0	0	25	0	0	25
Depreciation/amortisation	0	319	0	79	0	0	398
Value adjustment as at 31/12/2013	0	2,719	0	2,380	0	0	5,099
Carrying amount							
Carrying amount as at 01/01/2013	4,010	26,139	10,053	1,093	523	161	41,979
Carrying amount as at 31/12/2013	0	7,498	0	158	0	0	7,656

Note no. 16

Investment property

Table 36: Changes in investment property in 2014

in EUR 000

31/12/2014	Buildings
Cost	
Opening balance as at 01/01/2014	18,869
Acquisitions	70
Disposals	0
Revaluation	0
Other	0
Closing balance as at 31/12/2014	18,939
Value adjustment	
Opening balance as at 01/01/2014	3,596
Depreciation/amortisation	501
Disposals	0
Revaluation	0
Other	0
Closing balance as at 31/12/2014	4,097
Carrying amount	
Opening balance as at 01/01/2014	15,273
Closing balance as at 31/12/2014	14,842

The fair value of investment property does not significantly deviate from its carrying amount as at 31/12/2014. The estimated fair value of investment property was assessed based on internal valuation. The appraised value of investment property was EUR 16,220 thousand as at 31/12/2014. The carrying amount of investment property was verified against the market value.

Table 37: Changes in investment property in 2013

		in EUR 000
31/12/2013		Buildings
Cost		
Opening balance as at 01/01/2013		19,957
Adjustment for consolidation		-1,088
Acquisitions		0
Disposals		0
Revaluation		0
Other		0
Closing balance as at 31/12/2013		18,869
Value adjustment		
Opening balance as at 01/01/2013		3,817
Adjustment for consolidation		-720
Depreciation/amortisation		499
Disposals		0
Revaluation		0
Other		0
Closing balance as at 31/12/2013		3,596
Carrying amount		
Opening balance as at 01/01/2013		16,140
Closing balance as at 31/12/2013		15,273
Table 38: Rental income investment property and costs related to investment property		
		in EUR 000
	2014	2013
Rental income from investment property	982	1,176

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Information about encumbrances

Costs related to investment property

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 the Group 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.

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Note no. 17

Investments in subsidiaries, associates and joint ventures

Investments in subsidiaries as at 31/12/2014 include:

No	Subsidiary	Registered office	Equity stake in %
1.	Modra zavarovalnica, d. d.	Dunajska cesta 119, Ljubljana	100.00
2.	PDP, Posebna družba za podjetniško svetovanje, d. d.	Dunajska cesta 160, Ljubljana	66.04
3.	Steklarska nova Rogaška Slatina, d. o. o. – in bankruptcy ⁶	Steklarska ulica 1, Rogaška Slatina	100.00

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

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

As at 31/12/2014, the Company held interests in the following associated companies:

No	. Associated company	Registered office	Equity stake in %
1.	Casino Ljubljana, d. d. – in bankruptcy ⁷	Miklošičeva cesta 9, Ljubljana	47.01
2.	Casino Maribor, d. d. – in bankruptcy ⁸	Glavni trg 1, Maribor	20.00
3.	Gio, d. o. o. – in liquidation	Dunajska cesta 160, Ljubljana	28.68
4.	Gospodarsko razstavišče, d. o. o.	Dunajska cesta 18, Ljubljana	29.51
5.	Hit, d. d. ⁹	Delpinova ulica 7a, Nova Gorica	20.32
6.	Kli Logatec, d. d. – in liquidation ¹⁰	Tovarniška cesta 36, Logatec	27.70
7.	Loterija Slovenije, d. d.	Gerbičeva ulica 99, Ljubljana	25.00
8.	Terme Čatež, d. d.	Čatež ob Savi, Topliška cesta 35, Brežice	23.79
9.	Terme Olimia, d. d.	Zdraviliška cesta 24, Podčetrtek	24.79

Kapitalska družba consolidates the following companies in the consolidated financial statements using the equity method:

- Hit, d. d.,
- Gospodarsko razstavišče, d. o. o.,
- Loterija Slovenije, d. d., and
- Cinkarna Celje, d. d.

Cinkarna Celje, d. d., is an associate of Modra zavarovalnica, d. d., and is not preparing consolidated financial statements.

Other associated companies are not consolidated using the equity method, since the integration of their financial statements in consolidated financial statements

⁶ Pursuant to the ZFPPIPP, the bankruptcy administrator removed shares from the KDD records; prior to the bankruptcy procedure, Kapitalska družba held the equity stake as shown in the table above

⁷ The shares were according to the ZFPPIPP deleted from the KSS by the receiver. Prior to bankruptcy, Kapitalska družba held a stake presented in the table above

⁸ The shares were according to the ZFPPIPP deleted from the KSS by the receiver. Prior to bankruptcy, Kapitalska družba held a stake presented in the table above.

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

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

is not relevant for a true and fair view of the financial statements of the Kapitalska družba Group as a whole.

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

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

The following associate has a material influence on the true and fair view of the Company's financial position. The equity and net profit/loss of other associates are not reported for 2014 as they are not material for the presentation of the Company's financial position.

in EUR 000

Associated company	Equity of the company as at 31/12/2014	Net profit of the company in 2014
Hit, d. d.	41,892 ⁷	1,398 ⁸

Table 39: Changes in investments in associates

		in EUR 000
	2014	2013
Carrying amount as at 1/1	13,391	89,500
Changes	1,557	-25,389
- Attribution of net profit due to the acquisition of associates using the equity method	1,203	-8,130
- Exclusion of dividends	-836	-1,636
- Exclusion of revaluation surplus	-469	2,001
- Impairments	1,659	-17,624
Transfer of associates from available-for-sale assets	6,386	0
Reclassification of associates to other companies	0	-50,720
Carrying amount as at 31/12	21,334	13,391

Total	21,334	13,391
Shares and interests in associated companies	21,334	13,391
	31/12/2014	31/12/2013
		in EUR 000

Note no. 18

Assets held for sale

in EUR 000

	31/12/2014	31/12/2013
Assets held for sale	197,739	208,573
Total	197,739	208,573

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

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

Non-current assets held for sale in the amount of EUR 197,739 thousand as at 31/12/2014 are held for sale in the next 12 months. They include PDP, d. d., for which Kapitalska družba on 19/01/2015 concluded an agreement of the transfer against payment of a 66.04% equity stake with Slovenski državni holding, d. d. according to the ZSDH-1.

Note no. 19
Financial assets, excluding loans

in EUR 000

		Long-term		Short-term		Total
	31/12/2014	31/12/2013	31/12/2014	31/12/2013	31/12/2014	31/12/2013
Shares and interests in associated companies	21,334	13,391	0	0	21,334	13,391
Other shares and interests	599,281	529,518	0	0	599,281	529,518
Other financial assets	198,593	221,374	46,262	52,495	244,855	273,869
Assets held for sale	0	0	197,739	208,573	197,739	208,573
Total	819,208	764,283	244,001	261,068	1,063,209	1,025,351

Financial assets of the Group 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.

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

in EUR 000

		Long-term		Short-term		Total
	31/12/2014	31/12/2013	31/12/2014	31/12/2013	31/12/2014	31/12/2013
Financial assets measured at fair value through profit or loss	36,080	35,555	16,796	18,900	52,876	54,455
Financial assets held to maturity	62,803	55,484	7,277	8,705	70,080	64,189
Available-for-sale financial assets	698,004	659,853	220,915	233,463	918,919	893,316
Investments in associates under the equity method	21,334	13,391	0	0	21,334	13,391
Total	818,221	764,283	244,988	261,068	1,063,209	1,025,351

Investments in securities

in EUR 000

	31/12/2014	31/12/2013
Financial assets measured at fair value through profit or loss	52,876	54,455
Equity securities	29,603	26,320
Debt securities	23,273	28,135
Financial assets held to maturity	70,080	64,189
Available-for-sale financial assets	940,253	906,707
Equity securities	797,989	733,346
Debt securities	142,264	173,361
Total	1,063,209	1,025,351

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

		in EUR 000
Asset	Carrying amount	Fair value
Financial assets at fair value through profit or loss	52,876	52,876
Financial assets held to maturity	70,080	81,082
Available-for-sale financial assets	940,253	940,253
Loans	116,812	116,812
Cash and cash equivalents	37,040	37,040
Total	1,217,061	1,228,063

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

		2011 000
Asset	Carrying amount	Fair value
Financial assets at fair value through profit or loss	54,455	54,455
Financial assets held to maturity	64,189	67,571
Available-for-sale financial assets	906,707	906,707
Loans	37,297	37,297
Cash and cash equivalents	7,903	7,903
Total	1,070,551	1,073,933

According to its accounting policy, the Kapitalska družba Group 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.

Changes in securities investments in 2014

in EUR 000

in EUR 000

	31/12/2013	Acquisitions	Disposals, maturity	Revaluation	31/12/2014
Financial assets measured at fair value through profit or loss	54,455	29,940	-24,028	-7,491	52,876
Financial assets held to maturity	64,189	14,338	-9,781	1,334	70,080
Available-for-sale financial assets	906,707	55,014	17,989	-39,457	940,253
Total	1,025,351	99,292	-15,820	-45,614	1,063,209

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

		in EUR 000
	31/12/2014	31/12/2013
Investments in debt instruments	235,617	265,686
- Fixed Rate	229,877	259,307
- Variable interest rate	5,740	6,379
Loans and deposits	150,612	40,476
- Fixed Rate	150,612	40,476
- Variable interest rate	0	0
Total	386,229	306,161

Fair value hierarchy as at 31/12/2014

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	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value through profit or loss	40,395	10,176	2,305	52,876
Available-for-sale financial assets	705,047	13,222	221,984	940,253
Total	745,442	23,398	224,289	993,129

Level 1

Level 1 comprises assets whose fair value is determined based on quoted prices of identical assets on an active market. This group includes the assets of Modra Zavarovalnica, d. d., valued based on the prices obtained from the Bloomberg system, if the market value verification model indicated that model prices are set on the basis of market data. The prices obtained from the Bloomberg system, are not directly the prices at which the insurance company could, on the valuation date, sell securities, but their application provides for objective evaluation and the price reflects the actual market transactions and is an appropriate indicator of the price that the insurance company would gain upon the sale of the bond on the market. The providers' prices do not materially differ from the price applied. Assets were classified into Level 1, if the price was entirely based on market data and in more than 50% on directly enforceable quotations.

This group does not include the assets owned by Kapitalska družba valued based on the prices adopted from the Bloomberg system.

Level 2

Level 2 assets include the assets valued based on comparable market data (other than quoted prices of identical assets) obtained indirectly or directly for an identical or similar asset; the basis of valuation is the yield curve of comparable financial assets with similar maturity and credit risk.

Moreover, Level 2 also includes the investments in debt instruments owned by Modra zavarovalnica, d. d., valued based on the data from the Bloomberg system, for which the said market value verification model indicated that the price was mainly set on the basis of market data and in less than 50% based on directly enforceable quotations. Investments in debt instruments of Modra zavarovalnica, d. d., classified into Level 2 based on the market value verification model account for EUR 8,118,341. On 31/12/2014, these investments were transferred from Level 1. This transfer did not have an effect on the profit/loss. Among the investments of Modra zavarovalnica, d. d., the BCE14 bond was valued at EUR 2,053,337 on the basis of comparable market data. The price of the BCE14 bond is calculated according to the discount rate of bonds from a comparable industry, credit rating and currency. The discount rate is calculated based on average credit spreads of comparable bonds and the comparable Euro Swap curve taking into account the modified term of the BCE14 bond. Level 1 also includes assets investments of Modra zavarovalnica, d. d., in the shares of the companies Elektro Gorenjska Kranj, Elektro Maribor, Elektro Celje and Elektro Primorska totalling EUR 1,856,877. They are valued based on the market data of comparable companies listed on the stock market. The total capital approach and the EV/EBITDA multiplier were applied in the valuation. On 31/12/2014, these investments owned by Modra zavarovalnica, d. d., were re-classified from Level 3 to Level 2. This re-classification did not have an effect on the profit/loss. In addition to all the said investments owned by Modra zavarovalnica, d. d., Level 2 also includes commercial papers GEN02 and IML01 worth EUR 4,172,352. Both investments are owned by Modra zavarovalnica, d. d. The prices are calculated based on the theoretical (amortised) value of commercial papers in view of the interest rate applicable to the relevant purchase.

The second group does not include the assets owned by Kapitalska družba valued based on the prices adopted from the Bloomberg system.

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

Level 3

Level 3 includes the assets whose fair value was assessed based on own valuation models, taking into account subjective variables that are not publicly available on markets, and those investments in debt instruments of Modra zavarovalnica, d. d., which have been valued on the basis of data from the Bloomberg system, where the said market value verification model indicated that the prices were based on unobservable inputs.

On the basis of the market value verification model, Level 3 comprised bonds of some Slovenian banks and illiquid Slovenian government bonds owned by Modra zavarovalnica, d. d., totalling EUR 7,777,094. On 31/12/2014, these bonds were transferred from Level 1. This re-classification did not have an effect on the profit/ loss. Level 3 also includes the shares of some Slovenian companies owned by Modra zavarovalnica, d. d., in the total amount of EUR 1,552,128. The major are the investments in Hit, d. d., Elektro Ljubljana, d. d., and Certa, d. d. The value of the said investments was primarily set by the present value of expected free cash flow model. The fair value of the investment in Hit, d. d., was EUR 780,656 as at 31/12/2014. The valuation was made based on a 7.8% discount rate. The fair value of the shares of Certa, d. d., was EUR 280,566 as at 31/12/2014; the valuation was made by taking into account a 2% long-term growth rate and a 15% discount rate. The fair value of the investment in Elektro Ljubljana, d. d., was EUR 260,126 as at 31/12/2014; the valuation was made by taking into account an 8.56% discount rate and a 2.5% long-term growth rate.

The fair value valuation of Level 3 assets involving the shares owned by Kapitalska družba 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.

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

The fair value of shares owned by Kapitalska družba is determined using the valuation models taking into account subjective variables that are not publicly available on markets. Certain data for valuation are obtained form 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.

In 2014, assets owned by Kapitalska družba whose fair value was calculated based on the assumptions stated below were impaired on the basis of the valuations made. The fair value of ordinary shares of HIT, d. d., was estimated by applying the income-based approach, and using the discounted free cash flow method. The estimated free cash flow was discounted at a 8.6% discount rate. The remaining growth rate of normalised free cash flow is 2%. The fair value of the shares of Pomurske mlekarne, d. d., was estimated by applying the income-based approach, and using the discounted free cash flow method. The estimated free cash flow was discounted at a 8.9% discount rate. The remaining growth rate of normalised free cash flow is 2%. The fair value of the equity stake in Gospodarsko razstavišče, d. o. o., was estimated by applying the income-based approach, using the discounted free cash flow method, and the asset-based approach to company valuation, according to the regular liquidation method. The estimated free cash flow was discounted at a 7.8% discount rate. The remaining growth rate of normalised free cash flow is 2%. A significant item in the valuation of Gospodarsko razstavišče, d. o. o., is the value of the company's real estate. The valuation of real estate was made by using the incomebased method, the income capitalisation approach and the development method. The direct sales comparison approach was also used in the valuation of real estate. The discount rate of 8.71% was applied under the income capitalisation approach. The discount rates applied in the development method were 10.19%, 8.71% and 7.64%. The fair value of the shares of Elektro Gorenjska, d. d., was estimated by applying the market comparison valuation method, involving a comparison with the comparable listed companies. The fair value of the shares of Elektro Primorska, d. d., was estimated by applying the market comparison valuation method, involving a comparison with the comparable listed companies. The fair value of the shares of PDP, d. d., was estimated by applying the asset-based approach according to the regular liquidation method. The companies owned by PDP, d. d., were valued by applying the income-based approach, and using the discounted free cash flow method. The fair value of the shares of Cimos, d. d., was estimated by applying the asset-based approach to company valuation. Compulsory settlement proceedings were initiated against the company on 03/06/2014. There is a high probability that the existing shareholders will be expropriated in the scope of the compulsory settlement proceedings. The report on the operations of the insolvent debtor Cimos, d. d., shows that in 2014 the company continued operating at a loss and the company's equity as at 30/11/2014 was EUR -131.7 million.

Fair value hierarchy as at 31/12/2013

Total	663,586	8,148	289,428	961,162
Available-for-sale financial assets	615,088	6,063	285,556	906,707
Financial assets measured at fair value through profit or loss	48,498	2,085	3,872	54,455
	Level 1	Level 2	Level 3	Total
				in EUR 000

Level 1

Level 1 comprises assets whose fair value is entirely determined based on quoted prices of identical assets on an active market. This group includes the financial assets for which there are market prices available on an active market. This group does not include the assets owned by Kapitalska družba valued based on the prices adopted from the Bloomberg system. This group includes the assets owned by Modra zavarovalnica, d. d., valued based on the prices adopted from the Bloomberg system.

Level 2

Level 2 assets include the assets valued based on comparable market data (other than quoted prices of identical assets) obtained indirectly or directly for an identical or similar asset; the basis of valuation is the yield curve of comparable financial assets with similar maturity and credit risk.

Level 3

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

In 2013, the assets owned by Kapitalska družba whose fair value was calculated based on the assumptions stated below were impaired on the basis of the valuations made. The fair value of the shares of Cimos, d. d., was estimated by applying the income-based approach, and using the discounted free cash flow method. The estimated free cash flow was discounted at a 13.3% discount rate until and including 2018. The calculation of residual value after 2018 on the present value was made by taking into account a 12% discount rate and a 2.5% growth rate in normalised cash flow.

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

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

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

Level 3 includes the assets owned by Modra zavarovalnica, d. d., the fair value of which is determined using the valuation models taking into account subjective variables that are not publicly available on markets. Major investments of Modra zavarovalnica, d. d., comprise investments in the shares of three Slovenian electricity distribution companies worth in total EUR 1,995,638; their fair value was determined using the discounted cash flow model by applying discount rates ranging between 7.6% and 8.2%.

Table 40: Effective interest rates by asset group

	2014	2013
Financial assets held to maturity	4.60%	4.66%
Financial investments in loans and deposits	1.83%	3.01%

Table 41: Return by asset group

	2014	2013
Financial assets measured at fair value through profit or loss	10.69%	3.55%
Financial assets held to maturity	4.47%	4.75%
Available-for-sale financial assets	18.97%	3.45%
Financial investments in loans and deposits	2.23%	3.38%

Note no. 20

Loans to others

in EUR 000

		Long-term		Short-term		Total
	31/12/2014	31/12/2013	31/12/2014	31/12/2013	31/12/2014	31/12/2013
Loans to others	9,380	3,850	107,432	33,447	116,812	37,297
Total	9,380	3,850	107,432	33,447	116,812	37,297

At the end of 2014, Kapitalska družba had no long-term deposits disclosed in its books of account. As at 31/12/2014, Modra zavarovalnica, had long-term deposits with banks in Slovenia in the amount of EUR 9,380 thousand.

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

As at 31/12/2014, Modra zavarovalnica had short-term deposits with banks in Slovenia in the amount of EUR 46,032 thousand.

Note no. 21
Operating receivables

in EUR 000

		Long-term		Short-term		Total
	31/12/2014	31/12/2013	31/12/2014	31/12/2013	31/12/2014	31/12/2013
Operating trade receivable	0	0	1,660	1,732	1,660	1,732
Operating receivables due from others	53	89	724	1,751	777	1,840
Total	53	89	2,384	3,483	2,437	3,572

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

Short-term operating trade receivables of EUR 1,660 thousand relate to operating receivables from customers of Kapitalska družba equalling EUR 848 thousand and operating receivables from customers of Modra zavarovalnica totalling EUR 812 thousand.

Short-term operating receivables from others of EUR 724 thousand relate to operating receivables from others of Kapitalska družba equalling EUR 359 thousand and operating receivables from others of Modra zavarovalnica totalling EUR 365 thousand.

The Group has no value adjustments of receivables.

The Group has no collateralised receivables.

The Group's receivables are not subject to material risk.

The Group has no operating receivables due from the members of the Management Board, Supervisory Board and employees with special powers.

Breakdown of operating trade receivables by maturity

in EUR 000

31/12/2014	Outstanding	Up to 30 days	From 31 to 60 days	From 61 to 90 days	From 91 to 180 days	From 181 to 365 days
1,660	1,590	12	0	0	1	57

Note no. 22

Cash and cash equivalents

in EUR 000

	31/12/2014	31/12/2013
Bank balances and cash on hand	1,952	852
Call deposit	35,088	7,051
Total	37,040	7,903

Note no. 23

Equity

	31/12/2014	31/12/2013
Share capital (000 EUR)	364,810	364,810
Number of ordinary shares	874,235	874,235
Uncalled capital	0	0

The Group has no treasury shares. The share capital of EUR 364,810 thousand is divided into 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	
01/01/2014	215,867
Increase in capital surplus	86
Decrease in capital surplus	0
31/12/2014	215,953

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

Note no. 25

Revenue reserves

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

Note no. 26

Financial liabilities

As at 31/12/2014, the Kapitalska družba Group had no financial liabilities.

Note no. 27

Operating liabilities

in EUR 000

		Long-term		Short-term		Total
	31/12/2014	31/12/2013	31/12/2014	31/12/2013	31/12/2014	31/12/2013
Operating liabilities to suppliers	0	0	6,169	4,123	6,169	4,123
Operating liabilities from advances	6	6	6	4	12	10
Payables to the state	0	0	2,792	102	2,792	102
Other operating liabilities	12	42	520	478	532	520
Total	18	48	9,487	4,707	9,505	4,755

Long-term operating liabilities from advances in the amount of EUR 6 thousand relate to a security deposit from the lessee of business premises of Kapitalska družba.

Other long-term operating liabilities of Modra zavarovalnica in the amount of EUR 12 thousand comprise liabilities for the payment of variable remuneration of the Management Board members.

Short-term operating liabilities in the amount of EUR 9,487 thousand comprise liabilities to domestic and foreign suppliers, liabilities from advances received and other short-term operating liabilities mainly including liabilities to employees, the state and other short-term liabilities.

in EUR 000

31/12/2014	Maturity of up to 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Operating liabilities to suppliers	6,169	0	0	0	6,169
Operating liabilities from advances	6	6	0	0	12
Payables to the state	2,792	0	0	0	2,792
Other operating liabilities	520	12	0	0	532
Total	9,487	18	0	0	9,505

Note no. 28

Liabilities included in disposal groups

in EUR 000

	31/12/2014	31/12/2013
Liabilities included in disposal groups	92,784	107,386

Liabilities included in disposal groups totalling EUR 92,784 thousand comprise liabilities from non-current assets held for sale in the next 12 months. They include PDP, d. d., for which Kapitalska družba on 19/01/2015 concluded an agreement of the transfer against payment of a 66.04% equity stake with Slovenski državni holding, d. d. according to the ZSDH-1.

Note no. 29

Provisions and long-term accrued costs and deferred revenue

in EUR 000

	Provisions for pensions and similar obligations	Other provisions	Technical provisions	Total
01/01/2014	294	12,402	114,123	126,819
Newly established during the year	26	0	15,948	15,974
Utilised provisions	-5	0	-2,808	-2,813
Reversal of provisions	0	-1,745	0	-1,745
31/12/2014	315	10,657	127,263	138,235

In 2014, the Kapitalska družba Group made provisions for severance pay on retirement and jubilee awards in the amount of EUR 26 thousand and used EUR 5 thousand of provisions. At 31/12/2014, provisions for termination benefits and jubilee awards amounted to EUR 315 thousand.

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

The Group reversed other provisions totalling EUR 1,745 thousand, established for legal disputes and litigation based on the best estimate of the probability of payment by Kapitalska družba in the amount of EUR 346 thousand, and the provisions established for non-realisation of the guaranteed return of pension funds of Kapitalska družba and Modra zavarovalnica totalling EUR 370 thousand. The remaining EUR 1,029 thousand refers to the reversal of provisions for the deficit of assets of the KS PPS due from Modra zavarovalnica, which is not disclosed in other operating revenues, because it is offset against the receivable of KS PPS due from the fund manager arising from the deficit of assets of the KS PPS.

In line with the prudence principle the Group establishes provisions for legal action started against it and legal disputes, on the basis of the best estimate of recoverability.

As at 31/12/2014, the technical provisions of Modra zavarovalnica, d. d., comprised mathematical provisions of the KS PPS (Guarantee Fund of the First Pension Insurance Fund) and the KS MR (Guarantee Fund Modra renta) in the amount of EUR

127,263 thousand, of which mathematical provisions of the KS PPS total EUR 100,033 thousand and of the KS MR EUR 27,230 thousand.

Total present gross value of future payments of all types of pension annuities of the KS PPS deviates from the technical provisions of the KS PPS, which amount to EUR 100,033 thousand, by the amount of the provisions for the equalisation of yield experience in the amount of EUR 4,431 thousand.

Table 42: Present gross value of future payments of the KS PPS and the KS MR

		in EUR 000
Types of payments	31/12/2014	31/12/2013
KS PPS	95,602	96,171
KS MR	27,230	17,952
Total	122,832	114,123

Total present gross value of future payments of all types of annuities of the KS PPS stood at EUR 95,602 thousand as at 31/12/2014. Annuity tables DAV2004R and legally prescribed technical interest rate of 1% were applied in the calculation of the value of future payments. Any person insured who acquires the right to annuity can select one of available annuity products, thus exercising his/her right and finalise the method of enjoyment of the right. Any person insured with more than 2,000 points on their insurance policy can choose between pension annuity for life and pension annuity with guaranteed payment period of 5, 10 or 15 years. If the person insured dies before the expiry of the guaranteed payment period, the annuities are paid to the person appointed by the insured person (beneficiary) or his or her heirs. A person insured with less than 2,000 points on their insurance policy can, in addition to monthly annuity, opt for a once-off payment of annuity, whereas a person insured with between 2,001 and 5,000 points, can opt for annuity paid annually.

Mathematical provisions of the Guarantee Fund "Modra renta" in the amount of EUR 27,230 thousand are calculated in accordance with the Insurance Act, insurance-technical standards and insurance-technical bases. Mathematical provisions for the annuity insurance product are calculated prospectively, separately for each insurance contract. German annuity tables DAV1994R were applied in the calculation.

Annuity insurance may be taken out in a number of formats. Classical "Modra renta" is paid out monthly from the beginning of the annuity insurance validity until the end of life and is not inherited. In the event of the death of the person insured before the expiry of the guaranteed payment period (5, 10, 15 or 20 years), any remaining annuities are paid to the beneficiaries or heirs.

Accelerated "Modra renta" with full guarantee is paid out from the beginning of the validity of annuity to the end of life. During the guaranteed period (24, 48, 72, 96, or 120 months) annuity is higher and paid out monthly, whereas after the end of the period, it is paid out in equal annual amounts. In the event of the death of the person insured before expiry of the guaranteed payment period, any remaining annuities are paid to the beneficiary or to heirs.

Accelerated "Modra renta" with limited guarantee is paid out from the beginning of the validity of annuity to the end of life. During the period of monthly payments (24, 48, 72, 96 or 120 months) annuity is higher, after that it is paid annually in the

amount of EUR 12. In the event of the death of the person insured before expiry of the guaranteed payment period, any remaining annuities are paid to the beneficiary or to heirs. The guaranteed period is a year shorter than the period of monthly payments.

Liability adequacy

Modra zavarovalnica, d. d., checks the adequacy of liabilities arising from the concluded insurance contracts or the sufficiency of established mathematical provisions by performing the LAT – Liability Adequacy Test. These checks are limited to annuity insurance contracts. The test involves the setting of the best liability estimate as the sum of the present value of expected cash flows (payments of annuities and insurance company's costs). This estimate is compared to the value of mathematical provisions determined according to the rules stated in insurance-technical bases for the respective insurance.

The liability adequacy test carried out per individual insurance contract by taking into account the monthly dynamics relied on the following assumptions:

- the expected mortality was set according to German annuity mortality tables
 D1994R, which, given the past experience, suitably indicate the actual mortality;
- early terminations were not expected, as they are not possible according to the provisions of insurance contracts;
- the expected costs equal the accrued costs;
- the discount rate was determined based on the yield curve of Slovenian debt securities.

The liability adequacy test revealed that the mathematical provisions were sufficient.

Change in interest rates/return

The technical interest rate and the guaranteed return of the KS PPS are set by law, so the sensitivity of provisions to the change in these parameters is not presented herein.

Table 43: Change in interest rates/return for the KS MR as at 31/12/2014

		in EUR 000
Change in return	Increase in return by 0.25 percentage point	Decrease in return by 0.25 percentage point
Change in liabilities (provisions)	-227	233
Table 44: Change in interest rates/return for the KS MR as at 31/12/2013		
		in EUR 000
Change in return	Increase in return by 0.25 percentage point	Decrease in return by 0.25 percentage point
Change in liabilities (provisions)	-140	145

Change in mortality

Table 45: Change in mortality as at 31/12/2014 for the KS PPS

in	EUR	000
	LOIT	000

Change in mortality	Increase in mortality probability by 10%	Decrease in mortality probability by 10%
Change in liabilities (provisions)	-3.093	3.509

A 10% increase in mortality probability would result in a decrease in liabilities by EUR 3,093 thousand. The change in the amount of liabilities due to the change in mortality was calculated based on the DAV2004R annuity tables.

Table 46: Change in mortality as at 31/12/2013 for the KS PPS

in EUR 000

Change in mortality	Increase in mortality probability by 10%	Decrease in mortality probability by 10%
Change in liabilities (provisions)	-3,045	3,454

A 10% increase in mortality probability would result in a decrease in liabilities by EUR 3,045 thousand. The change in the amount of liabilities due to the change in mortality was calculated based on the DAV2004R annuity tables.

Table 47: Change in mortality as at 31/12/2014 for the KS MR

in EUR 000

Change in mortality	Increase in mortality probability by 10%	Decrease in mortality probability by 10%
Change in liabilities (provisions)	-126	137

A 10% increase in mortality probability would result in a decrease in liabilities by EUR 126 thousand. The change in the amount of liabilities due to the change in mortality was calculated based on the DAV1994R annuity tables.

Table 48: Change in mortality as at 31/12/2013 for the KS MR

in EUR 000

Change in mortality	Increase in mortality probability by 10%	Decrease in mortality probability by 10%
Change in liabilities (provisions)	-77	86

A 10% increase in mortality probability would result in a decrease in liabilities by EUR 77 thousand. The change in the amount of liabilities due to the change in mortality was calculated based on the DAV1994R annuity tables.

Off-balance sheet receivables

As at 31/12/2014, the off-balance sheet records of Kapitalska družba disclosed a receivable due from Elan, d. o. o., in the amount of EUR 6,881 thousand. Based on the Decision of the European Commission dated 19/09/2012 on measures in favour of Elan, d. o. o., SA.26379 (C 13/2010) (ex NN 17/2010) and the letter of the Ministry of Finance dated 02/10/2012, Kapitalska družba on 19/12/2012 recorded an off-balance sheet receivable due from Elan, d. o. o., totalling EUR 5,761 thousand, which is since 08/09/2008 until the day of payment subject to interest on the basis of compound interest calculation according to Chapter V of Commission Regulation (EC) no. 749/2004. Accrued interest stood at EUR 1,120 thousand as at 31/12/2014.

17.3.3 Managing risks arising from financial assets

All risks to which the Group is exposed, and the risk management measures and criteria, are described in chapter 17.2 Accounting policies. It is estimated that the Group is not exposed to credit, market (interest rate, currency, price) and liquidity risk arising from financial assets.

Credit risk

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

Table 49: Exposure of financial assets to credit risk, excluding any collaterals as at 31/12/2014

in EUR 000

Financial asset group	Secure investments – high rating of the borrower	Medium secure investments – medium rating of the borrower	Less secure investments	Impaired investments – low rating of the borrower	Total
Financial assets at fair value through profit or loss	542	11,626	11,104	0	23,273
Financial assets held to maturity	13,417	56,462	201	0	70,080
Available-for-sale financial assets	16,142	107,622	18,499	0	142,264
Loans and receivables	0	19,830	96,982	0	116,812
Cash and cash equivalents	16	2,540	34,485	0	37,040
Total	30,117	198,080	161,272	0	389,469

Table 50: Exposure of financial assets to credit risk, excluding any collaterals as at 31/12/2013

in EUR 000

Financial asset group	Secure investments – high rating of the borrower	Medium secure investments – medium rating of the borrower	Less secure investments	Impaired investments – low rating of the borrower	Total
Financial assets at fair value through profit or loss	1,343	19,238	7,554	0	28,135
Financial assets held to maturity	12,644	49,635	1,910	0	64,189
Available-for-sale financial assets	38,869	110,860	22,910	722	173,361
Loans and receivables	1,830	15,790	19,677	0	37,297
Cash and cash equivalents	22	6,113	1,769	0	7,903
Total	54,709	201,636	53,819	722	310,885

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

Loans represent deposits in banks in Slovenia. Deposits are classified into the rating class of the bank with which the respective deposit has been made. Derivatives for credit risk hedging were not used.

Table 51: Geographical concentration of credit exposure of financial assets

		in EUR 000
Region	31/12/2014	31/12/2013
Slovenia	307,063	210,249
Other countries	82,406	100,637
Total	389,469	310,885

Currency risk

Table 52: Currency structure of financial assets

		in EUR 000
Currency	31/12/2014	31/12/2013
Assets denominated in EUR	1,080,161	958,844
Assets denominated in USD	130,898	106,218
Assets denominated in other currencies	6,002	5,489
Total	1,217,061	1,070,551

On 31/12/2014, 88.8% of financial assets were denominated in euros, 10.7% in US dollars and 0.5% in other currencies.

Table 53: Currency risk of financial assets as at 31/12/2014

in EUR 000

USD exchange rate fluctuation in %	Impact on the income statement	Impact on capital
+/- 10%	+/- 159	+/- 12,931

Table 54: Currency risk of financial assets as at 31/12/2013

in EUR 000

USD exchange rate fluctuation in %	Impact on the income statement	Impact on capital
+/- 10%	+/- 147	+/- 10,475

Interest rate risk

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

Table 55: Sensitivity analysis of investments according to changes in market interest rates as at 31/12/2014 – change in interest rates by 50 basis points

in EUR 000

Financial asset group	Change in interest rate	Sensitivity of interest income	Impact on fair value	Total
Financial assets at fair value through profit or loss	+/- 0.5%	+/- 0	-/+ 1,121	-/+ 1,121
Financial assets held to maturity	+/- 0.5%	+/- 0	+/- 0	+/- 0
Available-for-sale financial assets	+/- 0.5%	+/- 12	-/+ 4,888	-/+ 4,876
Loans and receivables	+/- 0.5%	+/- 0	+/- 0	+/- 0
Total		+/- 12	-/+ 6,009	-/+ 5,997

Table 56: Sensitivity analysis of investments according to changes in market interest rates as at 31/12/2013 – change in interest rates by 50 basis points

in EUR 000

Financial asset group	Change in interest rate	Sensitivity of interest income	Impact on fair value	Total
Financial assets at fair value through profit or loss	+/- 0.5%	+/- 0	-/+ 826	-/+ 826
Financial assets held to maturity	+/- 0.5%	+/- 0	+/- 0	+/- 0
Available-for-sale financial assets	+/- 0.5%	+/- 23	-/+ 4,913	-/+ 4,890
Loans and receivables	+/- 0.5%	+/- 0	+/- 0	+/- 0
Total		+/- 23	-/+ 5,739	-/+ 5,716

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

Market risk

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

Table 57: Market risk of the equity securities portfolio as at 31/12/2014

in EUR 000

Index change in %	Impact on the income statement	Impact on capital
+/- 10%	+/- 1,861	+/- 48,160

Table 58: Market risk of the equity securities portfolio as at 31/12/2013

in EUR 000

Index change in %	Impact on the income statement	Impact on capital
+/- 10%	+/- 1,592	+/- 28,768

The table takes into account the investments in equity instruments excluding investment coupons related to bonds. The effect in the income statement is evident under equity securities measured at fair value through profit or loss, and the effect on equity is evident under investments in AFS equity instruments.

Table 59: Financial instruments in terms of marketability

		in EUR 000
Financial instrument	31/12/2014	31/12/2013
Securities traded on the regulated market	905,978	831,971
Financial assets at fair value through profit or loss	46,640	49,495
Financial assets held to maturity	70,080	64,189
Available-for-sale financial assets	789,258	718,286
Securities not traded on the regulated market	157,231	193,380
Financial assets at fair value through profit or loss	6,236	4,959
Financial assets held to maturity	0	0
Available-for-sale financial assets	150,995	188,421
Total	1,063,209	1,025,351

At the end of 2014, assets traded on regulated stock markets accounted for 85% of financial instruments or 71% of all assets of the Group. Available-for-sale financial assets not traded on regulated market include non-marketable shares, stakes and investment coupons.

Liquidity risk

Liquidity risk represents the possibility of liabilities not being settled upon maturity. Risk is managed by daily monitoring of the inflows and outflows, and precise matching of maturity of assets and liabilities. As at 31/12/2014, the Group recorded a total of EUR 1,128,015 thousand of surplus of expected non-discounted cash inflows over outflows.

Table 60: Expected actual non-discounted cash flows as at 31/12/2014

ın	EUR	UUU

Item	Up to 1 year	From 1 to 5 years	Over 5 years	No maturity	Total
Investments in securities	49,463	106,435	131,675	828,561	1,116,133
- at fair value through profit or loss	7,209	13,974	4,216	29,603	55,002
- held-to-maturity	7,536	27,812	51,035	0	86,384
- available-for-sale	34,717	64,649	76,424	798,958	974,748
Loans and deposits	110,165	9,743	0	0	119,908
Cash and cash equivalents	37,040	0	0	0	37,040
Operating receivables	2,384	53	0	0	2,437
Total assets	199,052	116,231	131,675	828,561	1,275,519
Operating liabilities as at 31/12/2014	9,487	18	0	0	9,505
Financial liabilities as at 31/12/2014	0	0	0	0	0

Item	Up to 1 year	From 1 to 5 years	Over 5 years	No maturity	Total
Liabilities of the Guarantee Funds of PPS and MR as at 31/12/2014	12,550	32,543	92,905	0	137,999
Total liabilities	22,037	32,561	92,905	0	147,504
Difference	177,014	83,670	38,770	828,561	1,128,015

Table 61: Expected actual non-discounted cash flows as at 31/12/2013

in EUR 000

Item	Up to 1 year	From 1 to 5 years	Over 5 years	No maturity	Total
Investments in securities	46,393	134,624	135,717	758,763	1,075,497
- at fair value through profit or loss	10,039	15,625	5,662	26,320	57,645
- held-to-maturity	9,117	27,725	44,425	0	81,268
- available-for-sale	27,237	91,275	85,629	732,444	936,584
Loans and deposits	35,641	3,856	0	0	39,497
Cash and cash equivalents	7,903	0	0	0	7,903
Operating receivables	3,483	89	0	0	3,572
Total assets	93,420	138,570	135,717	758,763	1,126,470
Operating liabilities as at 31/12/2013	4,707	48	0	0	4,755
Financial liabilities as at 31/12/2013	0	0	0	0	0
Liabilities of the Guarantee Funds of PPS and MR as at 31/12/2014	10,767	27,375	94,365	0	132,507
Total liabilities	15,474	27,423	94,365	0	137,262
Difference	77,946	111,147	41,352	758,763	989,208

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

17.4 Other disclosures

Information on the Management

The names of members of the Management Board and other bodies are stated in the introductory section of the Annual Report under ČGeneral presentation of Kapitalska družba, Modra zavarovalnica, and PDP«. No operating receivables and long- or short-term liabilities to the members of the Management Board and Supervisory Board of Kapitalska družba were recorded in 2014.

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

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

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

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

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

Receipts of the members of the management and supervisory bodies of Kapitalska družba

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, d. d. By mutatis mutandis application of Article 46(7) of the ZSDH-1, the receipts of the Management Board members are set by the Supervisory Board, without considering the provisions of the act governing the remuneration of managers of companies with majority ownership held by the Republic of Slovenia or self-governing local communities. The employment contracts made with the Management Board members are consistent with the legal basis. The basic pay of the Management Board members is set as a multiple of 5 of the average gross salary paid in the Kapitalska družba Group in the previous business year, but it may not exceed 95% of the basic pay of the President of the Management Board of Slovenski državni holding, d. d., which is published. All bonuses are included in the basic pay. The basic pay is revised annually when data on the average salary in the Kapitalska družba Group in the previous year are published. The revised basic salary is applicable from 1 July of the current year. The basic pay of the members of the Management Board of Kapitalska družba was calculated and paid in 2014 in line with the aforementioned criteria. Pursuant to the contract, the members of the Management Board are entitled to attend training at home and abroad of up to 15 days per year paid by Kapitalska družba, as specified in the adopted Business and Financial Plan of Kapitalska družba.

Table 63: Receipts of the members of the Management Board of Kapitalska družba in 2014

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

Fixed income includes gross salary. Cost reimbursements include reimbursement of meal/travel/accommodation expense and daily allowance. Bonuses include collective accident insurance premiums and/or a company car. Insurance premiums

(PDPZ) represent payments for voluntary supplementary pension insurance. Other payments include pay for annual leave.

Table 64: Receipts of the members of the Supervisory Board of Kapitalska družba in 2014

EUR Cost Partici-Fixed Variable reimbur- Insurance pation in Other Other Name and surname income income sement premiums Fees profit Options rewards payments Total Samo Lozej (Chairman of 19,855 the Supervisory Board) 19,855 Aldo Ternovec (Deputy Chairman) 22,000 1,575 23,575 Aleksander Mervar (Member of the 19.658 433 Supervisory Board) 20.091 Stane Seničar (Member of the Supervisory Board) 21,000 833 21,833 Ladislav Rožič, MSc. (Member of the Supervisory Board) 20,411 20,411 19,043 881 Ana Bilbija (Member) 19,924 **Total** 121,967 3,722 125,689

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

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

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

In 2014, remunerations paid for the 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 484 thousand.

In 2014, Modra zavarovalnica approved no advance payments or loans to the members of the management and supervisory bodies nor assumed any liabilities on their behalf.

Table 65: Gross receipts in Modra zavarovalnica in 2014, by type of recipient

	in EUR 000
Category of beneficiaries	Amount
Members of the Management Board	233
Members of the Supervisory Board	80
Employees with management contract	171
Total	484

Receipts of the members of the management and supervisory bodies of Modra zavarovalnica

Table 66: Receipts of the members of the Management Board of Modra zavarovalnica in 2014

EUR

Name and surname	Fixed income	Past due payments	Bonuses	Allowance for annual leave	Cost reim- bursement	Insurance premiums (PDPZ)	Long Service Achievement	Total
Borut Jamnik	106,845	5,393	2,333	789	4,413	2,819	689	123,281
Matija Debelak	98,938	4,854	97	789	2,333	2,819	0	109,830

Fixed income includes gross salary. Past due payments include the 1st part of the variable pay for 2013. Cost reimbursements include meal allowance and/or travel allowance and/or other reimbursements of business trip costs (daily allowance, mileage, the costs of overnight accommodation, parking fees, taxi charges). Bonuses include company car and bonuses arising from collective accident insurance. Insurance premiums (PDPZ) represent payments for voluntary supplementary pension insurance.

Table 67: Receipts of the members of the Supervisory Board of Modra zavarovalnica in 2014

EUR

Name and surname	Fixed income	Monthly fee	Cost reimbursement	Total
Branimir Štrukelj	2,420	0	0	2,420
Aleš Groznik	3,520	15,675	277	19,472
Bojan Zupančič	2,970	11,369	0	14,339
Dario Radešič	3,520	10,450	1,066	15,036
Goran Bizjak	3,520	10,450	302	14,272
Marino Furlan	2,695	10,450	679	13,824

The fixed income comprises the fees for attendance at Supervisory Board meetings. Monthly remuneration includes the monthly receipt for the performance of the Supervisory Board member function. Cost reimbursements include reimbursement of travel expenses.

Receipts of the Board of Directors of PDP

No operating receivables, long-term or short-term liabilities to the members of the Board of Directors were recorded in 2014.

In 2014, remunerations paid for the carrying out of responsibilities and duties of members of the Board of Directors amounted to EUR 115 thousand. Receipts by category of beneficiaries are presented in the table below.

Remunerations of members of the PDP Board of Directors are set by the Act Governing the Remuneration of Managers of Companies with Majority Ownership held by the Republic of Slovenia or Self-Governing Local Communities and the Regulation on setting the highest correlation of basic payments and the rate of variable remuneration of directors.

On appointment of Chief Executive Officer, the Board of Directors of PDP gave its consent to the contract for performing the function and on employment of the Chief Executive Officer. The contract is consistent with provisions of the ZPPOGD and the Regulation. The contract agreed between the Chief Executive Officer and the President of the Board of Directors was in accordance with the ZPPOGD submitted to the Ministry of Economy, Development and Technology.

The Board of Directors of PDP adopted the Rules on Establishing the Rights of Executive Officers in Relation to Employment in June 2010, whereas in April 2011, the Board adopted amendments to the Rules. The Rules were presented to the General Meeting of PDP's Shareholders in July 2010 in accordance with Article 6(2) of the ZPPOGD, whereas amendments to the Rules were presented to the shareholders at their general meeting in August 2011. The General Meeting did not determine the policy relating to reimbursements of members of the management and supervisory bodies as provided for in Article 294(6) of the ZGD-1.

Table 68: Receipts in PDP in 2014, by type of recipient

	in EUR 000
Category of beneficiaries	Amount
Members of the Board of Directors	8
Employees with management contract	107
Total	115

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

Receipts of the Board of Directors of PDP

Table 69: The receipts of the Board of Directors of PDP in 2014

ΕI	H

Name and surname	Fixed income	Variable income	Bonuses	Cost reim- bursement	Insurance premiums (PDPZ)	Other payments	Total
Metka Kandrič	100,320	0	120	2,527	2,819	1,552	107,339
Dr. Janez Prašnikar	0	0	0	0	0	4,950	4,950
Borut Jamnik	0	0	0	0	0	0	0
Tomaž Kuntarič, MSc.	0	0	0	0	0	0	0
Melita Malgaj	0	0	0	0	0	1,650	1,650
Leonida Klemenčič Podmiljšak	0	0	0	0	0	1,375	1,375
Total	100,320	0	120	2,527	2,819	9,527	115,314

Fixed income includes gross salary. Cost reimbursements include reimbursement of meal and travel expense, commuting costs, night duty allowances, daily allowance and mileage. The bonuses include membership fee payment. Insurance premiums (PDPZ) represent payments for voluntary supplementary pension insurance. Other receipts include pay for annual leave and session attendance fee of the members of the Board of Directors.

In 2014, the members of the Board of Directors received no income on account of performing tasks in subsidiary companies.

Related-party transactions

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

Disclosure related to the pension schemes

The new Pension and Disability Insurance Act (ZPIZ-2), which entered into force on 01/01/2013, brought a series of changes in occupational insurance. The novelties related to occupational insurance under the ZPIZ-2 started being implemented based on the amendment to the pension scheme. The Compulsory Supplementary Pension Insurance Scheme and the Occupational Pension Insurance Scheme were approved on 29/11/2013 based on a decision of the Minister of Labour, Family, Social Affairs and Equal Opportunities. Both pension schemes started being applied on 30/12/2013 (except for the provisions on the contribution rate and entry fees, exit fees and management fee for the Compulsory Supplementary Pension Insurance Scheme, which entered into force on 01/01/2014). Additional amendments to the ZPIZ-2 on occupational pension are being prepared. Owing to the adoption of the amendment to the ZPIZ-2 it will probably be necessary to again revise both pension schemes.

Significant events after the date of the statement of financial position

In line with the ZSDH-1, Kapitalska družba on 19/01/2015 concluded an agreement of the transfer against payment of a 66.04% equity stake in PDP, d. d., with Slovenski državni holding, d. d. Through the acquisition by Slovenski državni holding, PDP will transfer to it all its assets, including all rights and obligations, based on universal legal succession. PDP will thus be wound up without liquidation.

The term of office of three members of the Supervisory Board of Kapitalska družba (Aldo Ternovec, Ana Bilbija, Ladislav Rožič, MSc.) expired on 31/01/2015. In the role of the General Meeting of Kapitalska družba the Government of the Republic of Slovenia appointed Dr. Boris Žnidarič, Mrs. Cirila Surina Zajc, and Ladislav Rožič, MSc., members of the Supervisory Board on 29/01/2015. The term of office of the Supervisory Board members is four years and commences on 01/02/2015.

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

At the start of 2015, the quantitative easing measure and the extensive purchases of government bonds by the European Central Bank resulted in lower required rate of return. The lower level of risk-free interest rates could lead to additional provisions in 2015, if so required by the liability adequacy test.