



KAPITALSKA DRUŽBA

For today and tomorrow

ANNUAL REPORT OF KAPITALSKA DRUŽBA, D. D.
FOR 2018



KAPITALSKA DRUŽBA

For today and tomorrow

ANNUAL REPORT OF KAPITALSKA DRUŽBA, D. D.
FOR 2018

Table of contents

1	Highlights from the annual report	10
2	Presentation of Kapitalska družba, d. d.	14
2.1	General information	14
2.1.1	Company	14
2.1.2	Ownership structure and data regarding capital	14
2.1.3	Activities of the Company	14
2.1.4	Company bodies	15
2.1.5	Diversity policy	16
3	Statement of the Management Board	17
4	Report of the Supervisory Board of Kapitalska družba	20
5	Organisational structure of Kapitalska družba	26
5.1	Reporting on employees	27
6	Operations of Kapitalska družba	29
6.1	Economic environment in Slovenia	29
6.1.1	Gross domestic product	29
6.1.2	Inflation	30
6.1.3	Employment and wages	30
6.2	Developments on the financial markets	31
6.2.1	Capital market	31
6.2.2	Oil prices and exchange rates	34
6.3	Investment management	35
6.3.1	Capital investment management	36
6.3.2	Waived securities in accordance with Article 48a of the ZNVP-1	40
6.3.3	Management of portfolio investments	41
6.4	Transfers to the Pension and Disability Insurance Institute of Slovenia	43
6.5	Investment property	43
6.6	Risk management	43

6.7	Pension fund management	44
6.7.1	Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia	44
6.7.2	Activities in the provision of occupational insurance in 2018	46
6.7.3	Bridging insurance fund for professional athletes	46
6.8	Information technology	46
6.9	Significant business events after the end of 2018	47
7	Expected development of Kapitalska družba, d. d. in 2019	48
8	Social responsibility	50
8.1	Responsibility to the wider social community	50
8.2	Responsibility to employees	50
8.2.1	Concern for employee training	50
8.2.2	Concern for a safe and healthy work environment	51
8.3	Environmental responsibility	52
9	Report on relations with the subsidiary	53
10	Indicators	54
11	Corporate governance statement	56
12	Statement of management's responsibility	68
13	Auditor's report	69
14	Financial Statements for 2018	72
14.1	Income statement for the period from 1 January 2018 to 31 December 2018	72
14.2	Statement of other comprehensive income for the period from 1 January 2018 to 31 December 2018	74
14.3	Statement of financial position as at 31 December 2018	74
14.4	Cash flow statement for the period from 1 January 2018 to 31 December 2018	77
14.5	Statement of changes in equity for the period from 1 January 2018 to 31 December 2018	79
14.6	Statement of changes in equity for the period from 1 January 2017 to 31 December 2017	80
14.7	Distributable profit for 2018	80
15	Disclosures and notes	81
15.1	Impact of transition from IAS 39 to IFRS 9	81
15.2	General disclosures	84
15.3	Accounting policies	86
15.4	Disclosures and notes to the financial statements	109
15.4.1	Notes to the income statement	109
15.4.2	Notes to the statement of financial position	120
15.4.3	Managing the risks arising from financial assets	141
15.5	Other disclosures	149

Tables

Table 1:	Number of employees by organisational unit as at 31 December 2017 and 30 September 2018 – prior to the reorganisation of the Company	27
Table 2:	Number of employees by organisational unit as at 1 October 2018 and 31 December 2018 – prior to the reorganisation of the Company	28
Table 3:	Composition of Kapitalska družba's financial assets as at 31 December 2018 and 31 December 2017 with regard to the method of management	35
Table 4:	Breakdown of Kapitalska družba's capital investments as at 31 December 2018 and 31 December 2017 in accordance with the Decree on the Strategy for Managing State Capital Investments	36
Table 5:	Ten largest capital investments of Kapitalska družba by value as at 31 December 2018	36
Table 6:	Composition of capital investments in terms of size of ownership stake as at 31 December 2018	37
Table 7:	Ten capital investments that generated the highest dividend income in 2018 and 2017	38
Table 8:	Dividend income based on claims received for the distribution of profit and the payment of residual dividends on preference shares	38
Table 9:	Participation at general meetings	39
Table 10:	Composition of equity portfolio investments as at 31 December 2018 and 31 December 2017	42
Table 11:	Composition of debt portfolio investments as at 31 December 2018 and 31 December 2017	42
Table 12:	Composition of money market investments as at 31 December 2018 and 31 December 2017	43
Table 13:	Kapitalska družba's revenue from management of the SODPZ in 2018 and 2017	45
Table 14:	Composition of SODPZ investments as at 31 December 2018 and 31 December 2017	45
Table 15:	Composition of the Management Board during the 2018 financial year	62

Table 16:	Composition of the Supervisory Board and its committees during the 2018 financial year	62
Table 17:	External members of Supervisory Board committees during the 2018 financial year	62
Table 18:	Impact of transition from IAS 39 to IFRS 9 on retained earnings as at 1 January 2018	81
Table 19:	Reconciliation of balances from the statement of financial position under IAS 39 to IFRS 9 as at 1 January 2018	82
Table 20:	Number of employees and average number of employees by educational level as at 31 December 2018 and in 2018	86
Table 21:	Equity investment classification in case of exchange as the principal market (quoted equity investments)	100
Table 22:	Classification of unquoted equity investments	100
Table 23:	Classification of collective investment funds	100
Table 24:	Classification of mutual funds coupons	100
Table 25:	Classification of debt investments if an exchange acts as the principal market	101
Table 26:	Classification of debt investments if an OTC market acts as the principal market	101
Table 27:	Changes in intangible assets and long-term deferred costs and accrued revenues in 2018	120
Table 28:	Changes in intangible assets and long-term deferred costs and accrued revenues in 2017	120
Table 29:	Changes in property, plant and equipment in 2018	121
Table 30:	Changes in property, plant and equipment in 2017	122
Table 31:	Changes in investment property in 2018	122
Table 32:	Changes in investment property in 2017	123
Table 33:	Rental income from investment property and costs related to investment property	123
Table 34:	Transition between the levels of fair value hierarchy as at 31 December 2018	134
Table 35:	Transition between the levels of fair value hierarchy as at 31 Dec. 2017	134
Table 36:	Exposure of financial assets to credit risk, excluding any collateral, as at 31 December 2018	142
Table 37:	Exposure of financial assets to credit risk, excluding any collateral as at 31 December 2017	143
Table 38:	Allowance for loss in 2018	143
Table 39:	Changes in gross carrying amount and allowances	144
Table 40:	Geographical concentration of credit exposure of financial assets	144
Table 41:	Sector concentration of financial assets	144
Table 42:	Currency structure of financial assets	145

Table 43:	Currency risk of financial assets as at 31 December 2018	145
Table 44:	Currency risk of financial assets as at 31 December 2017	145
Table 45:	Sensitivity analysis of investments according to changes in market interest rates as at 31/12/2018 – change in interest rates by 50 basis points	146
Table 46:	Sensitivity analysis of investments according to changes in market interest rates as at 31 December 2017 – change in interest rates by 50 basis points	146
Table 47:	Market risk of the equity securities portfolio as at 31 December 2018	146
Table 48:	Market risk of the equity securities portfolio as at 31 December 2017	147
Table 49:	Financial instruments in terms of marketability	147
Table 50:	Financial instruments in terms of marketability	147
Table 51:	Expected actual non-discounted cash flows as at 31 December 2018	148
Table 52:	Expected actual non-discounted cash flows as at 31 December 2017	149
Table 53:	Receipts by category of beneficiaries in 2018	150
Table 54:	Receipts of members of the Management Board in 2018	150
Table 55:	Receipts of members of the Supervisory Board in 2018	151
Table 56:	Receipts of external members of the Supervisory Board's committees in 2018	152
Table 57:	Receipts of the members of management and supervisory bodies in the subsidiary Modra zavarovalnica, d. d. in 2018	152

Figures

Figure 1:	Organisational structure of Kapitalska družba, d. d.	27
Figure 2:	Real year-on-year growth in GDP by quarter in 2018 (in %)	29
Figure 3:	Change in monthly and annual growth in consumer prices in 2018 (in %)	30
Figure 4:	Surveyed unemployment rate by quarter in 2018 (in %)	31
Figure 5:	Movement in the Slovenian SBI TOP and selected foreign stock indices in 2018 in euros (index: 31 December 2017 = 100)	32
Figure 6:	Movement in the overall yield on European government bonds (IBOXX EUR Sovereigns TR Index) and the overall yield on European corporate bonds (IBOXX EUR Corporates TR Index) and yield to maturity on ten-year German government bonds in 2018	33
Figure 7:	Change in EURIBOR in 2018	33
Figure 8:	Movement in prices of WTI crude and North Sea Brent crude (in USD per 159-litre barrel), and the euro/US dollar exchange rate in 2018	34

List of abbreviations used

ISA	Insurance Supervision Agency
GDP	Gross domestic product
BVAL	Bloomberg Valuation Service
CBBT	Composite Bloomberg Bond Trader
ECB	European Central Bank
FED	US Federal Reserve
EUR	Euro – currency of the European Union
KDD	Central Securities Clearing Corporation
MKPS	Modri Umbrella Pension Fund
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
OdSUKND	Decree on the Strategy for Managing State Capital Investments
IASB	International Accounting Standards Board
IFRIC	International Financial Reporting Interpretations Committee
OTC	Over-the-counter market
VSPI	Voluntary supplementary pension insurance
PSŠ	Bridging insurance fund for professional athletes (bridging fund for athletes)
RS	Republic of Slovenia
SBI TOP	Central Slovenian stock market index
SDH	Slovenski državni holding, d. d.
SODPZ	Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia
USD	US dollar
VaR	Value At Risk

ZDDPO-2	Corporate Income Tax Act (Official Gazette of the Republic of Slovenia, Nos. 117/2006, 90/2007, 76/2008, 56/2008, 92/2008, 5/2009, 96/2009, 110/2009 - ZdavP-2B, 43/2010, 59/2011, 30/2012, 24/2012, 94/2012, 81/2013, 50/2014, 23/2015, 82/2015, 68/2016, 69/2017 and 79/2018)
ZFPPIPP	Financial Operations, Insolvency and Compulsory Dissolution Act (Official Gazette of the Republic of Slovenia, Nos. 126/2007, 40/2009, 59/2009, 52/2010, 106/2010 - ORZFPPIPP21, 26/2011, 47/2011 - ORZFPPIPP21-1, 87/2011 - ZPUOOD, 23/2012 - Constitutional Court ruling, 48/2012 - Constitutional Court Ruling, 47/2013, 100/2013, 10/2015 - amended, 27/2016, 31/2016 - Constitutional Court ruling, 38/2016 - Constitutional Court ruling, 63/2016 - ZD-C, 30/2018 - ZPPDID and 54/2018 - Constitutional Court ruling)
ZGD-1	Companies Act (Official Gazette of the Republic of Slovenia, Nos. 42/2006, 60/2006 - amended, 26/2007 - ZSDU-B, 33/2007 - ZSReg-B, 67/2007 - ZTFI, 10/2008, 68/2008, 42/2009, 33/2011, 91/2011, 100/2011 - Constitutional Court ruling, 32/2012, 57/2012, 44/2013 - Constitutional Court ruling, 82/2013, 55/2015, 15/2017)
ZIPRS1819	Implementation of the Budget of the Republic of Slovenia for 2018 and 2019 Act (Official Gazette of the Republic of Slovenia, Nos. 71/2017, 13/2018 - ZJF-H, 83/2018 and 19/2019)
ZNVP-1	Book-Entry Securities Act (Official Gazette of the Republic of Slovenia, Nos. 75/2015, 74/2016 - ORZNVP48, 5/2017 and 15/2018 - Constitutional Court Ruling)
ZPIZ	Pension and Disability Insurance Institute
ZPIZ-2	Pension and Disability Insurance Act (Official Gazette of the Republic of Slovenia, Nos. 96/2012, 39/2013, 46/2013 - ZIPRS1314-A, 63/2013 - ZIUPTDSV, 99/2013 - ZSVarPre-C, 101/2013 - ZIPRS1415, 111/2013 - ZMEPIZ-1, 44/2014, 85/2014 - ZUJF-B, 95/2014 - ZIUPTDSV-A, 97/2014 - ZMEPIZ-1A, 95/2014 - ZIPRS1415-C, 95/2014 - ZUPPJS15, 95/2014 - ZUJF-C, 31/2015 - ZISDU-3, 90/2015 - ZIUPTD, 90/2015 - ZUPPJS16, 96/2015 - ZIPRS1617, 102/2015, 42/2016 - Constitutional Court decision, 80/2016 - ZIPRS1718, 88/2016 - ZUPPJS17, 40/2017, 23/2017, 75/2017 - ZIUPTD-A, 65/2017, and 71/2017 - ZIPRS1819)
ZPPOGD	Act Governing the Earnings of Management Staff at Companies under the Majority Ownership of the Republic of Slovenia and Self-Governing Local Communities (Official Gazette of the Republic of Slovenia, Nos. 21/2010, 8/2011 and 23/2014 - ZDIJZ-C)
ZPZPŠ-1	Bridging Insurance for Professional Athletes Act (Official Gazette of the Republic of Slovenia, No. 82/2015)
ZSDH-1	Slovenian Sovereign Holding Company Act (Official Gazette of the Republic of Slovenia, Nos. 25/2014, 96/2015 - ZIPRS1617, 80/2016 - ZIPRS1718, 71/2017 - ZIPRS1819 and 51/2018 - ZIUJDT)
ZZavar-1	Insurance Act (Official Gazette of the Republic of Slovenia, No. 93/2015)

Highlights from the annual report

- Kapitalska družba remained capitally sound and stable during 2018, with more than EUR 1 billion in assets as at 31 December 2018.
- Kapitalska družba increased retained earnings by EUR 119.2 million in 2018 due to the transition of to IFRS 9.
- Operating revenue totalled EUR 9.4 million in 2018.
- Financial revenue totalled EUR 37.2 million in 2018.
- Net operating profit amounted to EUR 2.6 million. Excluding the transfer to the ZPIZ, net profit for 2018 would have amounted to EUR 18.9 million.
- Kapitalska družba generated a net loss of EUR 31.1 million following the transfer to the ZPIZ and taking into account deferred taxes.
- The Company transferred a total of EUR 814.3 million to the budget of the ZPIZ between 1999 and 2018, including EUR 50 million in 2018.
- The return on financial assets amounted to 3.44% in 2018.
- The value of assets under management by Kapitalska družba in the SODPZ was EUR 724.4 million at the end of 2018.
- A total of 47,628 policyholders held savings in the SODPZ at the end of 2018,
- while 204 policyholders became eligible for an occupational pension in 2018.
- A total of 261 retirees received an occupational pension as at 31 December 2018.
- The Company had 59 employees at the end of 2018.

A low-angle, upward-looking perspective of several modern skyscrapers with glass facades. The buildings are silhouetted against a clear blue sky, creating a sense of height and architectural complexity. The lines of the buildings converge towards the top of the frame.

Introduction to the Annual Report

Presentation of Kapitalska družba, d. d.

2.1 GENERAL INFORMATION

2.1.1 Company

Company name: Kapitalska družba pokojninskega in invalidskega zavarovanja, d. d.

Abbreviated company name: Kapitalska družba, d. d. (hereinafter: Kapitalska družba)

Company name in English: Pension Fund Management

Registered office: Dunajska cesta 119, Ljubljana

Registration number: 5986010000

VAT ID number: SI59093927

Entry in companies register: Ljubljana District Court, reg. no. 1/28739/00

2.1.2 Ownership structure and data regarding capital

The Republic of Slovenia was Kapitalska družba's sole shareholder as at 31 December 2018.

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

2.1.3 Activities of the Company

Kapitalska družba's principle activity is the provision of supplementary funding for pension and disability insurance through the management of its own assets, and the management of the Compulsory Supplementary Pension Insurance Fund (hereinafter: the SODPZ) and the Bridging Fund for Athletes (hereinafter: the PSS).¹ Kapitalska družba also performs other activities related to asset management and provides asset management support services.

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

¹ The PSS was liquidated in July 2018.

58.110 Book publishing
 58.120 Publishing of directories and mailing lists
 58.130 Publishing of newspapers
 58.140 Publication of magazines and other periodicals
 58.190 Other publishing activities
 58.290 Other software publishing
 59.200 Sound recording and music publishing activities
 62.010 Computer programming activities
 62.020 Computer consultancy activities
 62.030 Computer facilities management activities
 62.090 Other information technology and computer service activities
 63.110 Data processing, hosting and related activities
 63.120 Web portals
 64.200 Activities of holding companies
 64.300 Trusts, funds and similar financial entities
 64.990 Other financial service activities, except insurance and pension funding activities n.e.c.
 65.300 Pension fund activities
 66.210 Risk and claims assessment
 66.290 Other auxiliary activities for insurance and pension funding
 68.100 Buying and selling of own real estate
 68.200 Renting and operating of own or leased real estate
 69.200 Accounting, bookkeeping and auditing activities; tax consultancy
 70.100 Activities of head offices
 70.220 Business and other management consultancy activities
 73.200 Market research and public opinion polling
 85.590 Other education n.e.c.
 85.600 Educational support activities

2.1.4 Company bodies

2.1.4.1 Management Board

Kapitalska družba was run by its Management Board in 2018 in the following composition:

- The President of the Management Board Bachtar Djalil began his first term of office on 2 January 2015.²
- Member of the Management Board Goranka Volf began her term of office on 24 November 2016.
- Member of the Management Board Gregor Bajraktarević began his term of office on 7 February 2018.³

The President and members of Kapitalska družba's Management Board were appointed by the Supervisory Board in accordance with the Company's Articles of Association and the provisions of the ZSDH-1, on the basis of a public tender procedure.

One of the members of the Management Board is appointed the President thereof. Members of the Management Board serve a four-year term of office and may be re-appointed. The Management Board or its individual members may be recalled prior to the end of their term of office, but only for the reasons set out in the second paragraph of Article 268 of the ZGD-1. A violation of the Articles of Association of Kapitalska družba that is deemed to be a serious violation of obligations may constitute a reason of culpability resulting in recall.

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

2 Mr Djalil began a new four-year term of office on 3 January 2019.

3 Gregor Bajraktarević began his first term of office as temporary member of the Management Board on 6 February 2017. That term of office was for a period of one year from the day he assumed his function or until the transformation of Kapitalska družba into a demographic reserve fund, whichever occurs first.

2.1.4.2 Supervisory Board

The Supervisory Board of Kapitalska družba functioned in the following composition in 2018⁴:

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

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

2.1.4.3 General Meeting

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

2.1.5 Diversity policy

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

⁴ The one-year terms of office of Stanislav Seničar and Aleksander Mervar, MSc expired in 2018. Both, however, were reappointed to new four-year terms of office by the Company's General Meeting. At the first session of the Supervisory Board following the start of his new term of office, Stanislav Seničar was reappointed Chairman of the Supervisory Board.

Statement of the Management Board

Slovenia was characterised in 2018 by parliamentary elections and growing tensions in the international economic environment. Uncertainty due to Brexit and fears of a tightening trade war cooled economic growth in the fourth quarter and resulted in unfavourable trends on the stock markets. Slovenia has been gradually reducing its gap to the EU average since 2016. Long-term factors to progress, such as innovation, digitalisation, research and development and the green economy, indicate weak growth despite the economic recovery. Slovenian society remains vulnerable, making long-term sustainable economic growth an increasingly more difficult challenge to tackle.

In the context of numerous challenges from the external environment, the ageing of the Slovenian population is becoming increasingly important. Slovenia's inability to adjust to its own demographic situation results in increasing risks for Kapitalska družba, as well. Nevertheless, Kapitalska družba, which should have been transformed into an independent demographic reserve fund years ago, is committed to continuing the pursuit of its mission, which is the provision of supplementary funding for the public pension system and additional pension sources for policyholders included in the Compulsory Supplementary Pension Insurance Fund (SODPZ).

Through the sustained fulfilment of our commitments, we contribute to a reliable and sound Slovenian public pension system, although total payments to the Pension and Disability Insurance Institute exceed the assets at the Company's disposal. A significant proportion of Kapitalska družba's investments are classified as strategic investments. On the other hand, Kapitalska družba is, to a significant extent, dependent on Slovenski državni holding, d. d. when selling companies. (SDH), which in the name and on account of the Company conducts sales procedures involving investments to which SDH and/or the Republic of Slovenia are party. Notwithstanding the above facts, Kapitalska družba remains committed to fulfilling its obligations and mission for the benefit of Slovenian pensioners. We are aware that we can only pursue our mission in these less-than-optimal conditions by working together with all stakeholders and striving to understand their needs, using the wealth of knowledge, experience and competences of employees to that end. Following our vision requires the effective management of financial assets and the continued transformation of Kapitalska družba into a portfolio investor. We focus constantly on the effective management of risks and the exploitation of business opportunities, while at the same time developing and updating the bases for the portfolio management of financial assets.

The amount paid to the Pension and Disability Insurance Institute once again represented the Company's most significant expense in 2018. That payment amounted to EUR 50 million. Kapitalska družba's total transfers to the ZPIZ already exceed EUR 814.3 million. In the context of an operating profit of EUR 2.6 million, the Company generated a net profit prior to that transfer of EUR 18.9 million, and a net loss of EUR 31.1 million following the transfer to the ZPIZ and taking into account deferred taxes. On account of the transition to IFRS 9, Kapitalska družba recognised an increase in retained earnings of EUR 119,218 thousand due to the reversal of permanent impairments, the reclassification of investments and the recognition of credit losses from debt securities.



Gregor BAJRAKTAREVIĆ
Member of the
Management Board



Goranka VOLF
Member of the
Management Board



Bachtiar DJALIL
President of the
Management Board

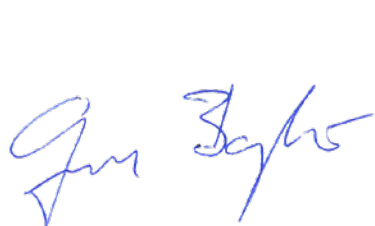
Another important area is management of the SODPZ. The value of the aforementioned fund's assets exceeded EUR 724 million in 2018. As at 31 December 2018, a total of 261 retirees received an occupational pension from the aforementioned fund, while gross pensions amounted to EUR 3.7 million in 2018. Through the successful management of the retirement savings of policyholders included in the SODPZ and the payment of occupational pensions, we perform tasks associated with the second pillar of the pension system, which is becoming increasingly important due to the rapid ageing of the Slovenian population. In the provision of compulsory supplemental insurance, we are guided by the awareness that by providing such insurance we contribute decisively to the security and quality of the life of current and future occupational pensioners.

We changed the Company's organisational structure and updated the remuneration system in 2018 with the aim of improving operational efficiency and the use of internal resources. The aforementioned changes are targeted at improving the efficiency and performance of every employee. They are part of the process of constant improvements, and support Kapitalska družba's efforts to achieve business excellence. Through continuous changes, we aim to increase employee productivity, and most importantly reduce the volume of unnecessary work, improve the work environment and make full use of employees' competences.

The management of efficiency and performance also encompasses the upgrading of the information system used for asset and fund management. That upgrade is in its final phase. Due to the size, complexity and risks of such projects, this specific project was implemented gradually in numerous phases over several years. The replacement of the information system was also accompanied by the optimisation of key business processes, which we adapted to numerous changes in the business and financial environments, including the new International Financial Reporting Standard (IFRS) 9. That project was also successfully completed after nearly two years. Operational compliance with the aforementioned standard was supported through adapted IT support, which facilitates more effective credit risk management.

An environment of rapid changes and unfavourable demographic conditions presents Kapitalska družba a number of opportunities and challenges. In its operations, the Company faces a complicated reality full of mutual interactions and new risks. For this reason, we introduced the strategic planning process in 2018 and set objectives for the next three-year period. With a focus on objectives and a commitment to business excellence, our aim is to actively participate in the formulation of Slovenia's future pension system, remain a professional and successful manager of the Company's assets and the assets of the pension fund, and to operate as a socially responsible and sustainability oriented company.

The most important change that should have been implemented back in 2015 in accordance with the ZPIZ-2 and the Slovenian Sovereign Holding Company Act is the transformation of the Company into a demographic reserve fund. The characteristics of the demographic reserve fund and the method of transformation will be set out in a special act, which had not yet been drafted at the time this business report was compiled. Kapitalska družba has actively contributed to covering the deficit of the ZPIZ since 1999, and has thus functioned as a demographic reserve fund since its establishment through the pursuit of its vision and mission. The employees at Kapitalska družba wish to play an active role in the establishment of that demographic reserve fund and in the formulation of other sustainable pension solutions. The Company's firm position in the overall pension system scheme determines Kapitalska družba's main business strategies and operations in the future. Strongly anchored in the present, but with a view to the future, our aim is to co-formulate the right solutions for a lasting Slovenian society.



Gregor BAJRAKTAREVIĆ
Member of the
Management Board



Goranka VOLF
Member of the
Management Board



Bachtiar DJALIL
President of the
Management Board

Report of the Supervisory Board of Kapitalska družba

REPORT OF THE SUPERVISORY BOARD OF KAPITALSKA DRUŽBA for 2018

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

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

The Supervisory Board of Kapitalska družba is appointed by the Company's General Meeting. The Supervisory Board comprises six members in accordance with the sixth paragraph of Article 51 of the ZSDH-1. Three members of the Supervisory Board are appointed on the basis of a proposal by SDH, while two members are appointed on the basis of a proposal by national-level federations/organisations of pensioners. One member is appointed on the basis of a proposal by national-level trade union federations or confederations. The same conditions and criteria that apply to members of SDH's Supervisory Board apply to the members of Kapitalska družba's Supervisory Board. Members of Kapitalska družba's Supervisory Board serve a four-year term of office and may be reappointed.

The Supervisory Board of Kapitalska družba functioned in the following composition in 2018: Stanislav Seničar (Chairman), Dr Boris Žnidarič (Deputy Chairman), Aleksander Mervar, MSc, Natalija Stošicki, Cirila Surina Zajc and Ladislav Rožič, MSc. The one-year terms of office of Stanislav Seničar and Aleksander Mervar, MSc expired on 29 August 2018. Both, however, were reappointed to new four-year terms of office by the Company's General Meeting held on 14 June 2018. Those terms of office began on 30 August 2018. Stanislav Seničar was reappointed Chairman of the Supervisory Board at the 146th session of the aforementioned body held on 4 September 2018, the first session following the start of his new term of office.

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

The Supervisory Board met at 22 sessions during the 2018 financial year as follows: 14 regular sessions and 8 correspondence sessions.

Particular attention in the monitoring of Kapitalska družba's operations in 2018 was given to monitoring the management of the Company's assets and to monitoring the management of the Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia (SODPZ), which is managed by Kapitalska družba.

At its 140th session of 24 May 2018, the Supervisory Board approved the annual report of Kapitalska družba for the 2017 financial year, adopted the report on the verification of the Company's annual report for 2017 and was briefed on the audited annual report of the SODPZ for 2017. At its 143rd session of 13 June 2018, the Supervisory Board approved the consolidated annual report of the Kapitalska Družba Group for the 2017

financial year, adopted the report on the verification of the consolidated annual report of the Kapitalska Družba Group for 2017 and submitted a proposal to the General Meeting on the appointment of an audit firm for 2018.

The Supervisory Board was continuously briefed on the operations of the subsidiary Modra zavarovalnica. Special attention was given to the Company's management activities, in the scope of which specific investments were presented and discussed in detail at sessions of the Supervisory Board. For specific investments, the Management Board also obtained the Supervisory Board's consent with regard to the voting positions it formulated, prior to exercising the Company's voting rights at the general meetings of the companies involved. In accordance with the provisions of the Company's Articles of Association, the members of the Supervisory Board also gave the Management Board their consent to conclude transactions for the purchase and sale of securities and participating interests when the value of a specific transaction exceeded the value set out in the relevant Supervisory Board resolution.

At its 149th session of 11 October 2018, the Supervisory Board reappointed Bachtiar Djalil to a four-year term as President of the Management Board based on a previous public call for candidates for that function. Mr Djalil began a new four-year term of office as President of the Management Board on 3 January 2019.

At its 154th session of 14 December 2018, the Supervisory Board gave its consent to Kapitalska družba's business-financial plan for the 2019 financial year.

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

An audit committee, accreditation committee and HR committee functioned as advisory bodies to the Supervisory Board in 2018.

The earnings of members of the Supervisory Board and the external members of its committees are disclosed in the annual report in Tables 55 and 56.

Work of the Supervisory Board's audit committee

The Supervisory Board's audit committee functioned in the following composition in 2018:

- Ladislav Rožič, MSc (chairman),
- Aleksander Mervar, MSc (member),
- Cirila Surina Zajc (member),
- Natalija Stošicki (member), and
- Mojca Verbič (external member).

The audit committee met at five sessions in 2018. In its work, the audit committee complied with the provisions of the ZGD-1 with respect to its competences, as well as the provisions of the rules of procedure of the audit committee as adopted by the Supervisory Board. The audit committee represented a permanent working body

of the Supervisory Board, and closely monitored the operations of the Company and the work of the Management Board for the needs of the Supervisory Board's decisions. In addition to its legally prescribed tasks, the audit committee also reviewed the interim reports on the operations of Kapitalska družba, its subsidiary and the SODPZ under Kapitalska družba's management. It also monitored the work of the internal audit department. The audit committee also carried out a self-assessment. The audit committee regularly briefed the Supervisory Board on its work during sessions of the Supervisory Board.

Work of the Supervisory Board's accreditation committee

The Supervisory Board's accreditation committee functioned in the following composition in 2018:

- Dr Boris Žnidarič (chairman),
- Aleksander Mervar, MSc (member),
- Ladislav Rožič, MSc (member),
- Dr Alenka Stanič (external member),
- Irena Prijović, MSc (external member), and
- Gorazd Žmavc (external member since 27 September 2018).

The accreditation committee met at three sessions in 2018. The accreditation committee's task was to provide support to the Supervisory Board in the supervision of the management of the Company's transactions as they relate to the governance of companies in which Kapitalska družba holds capital investments. In its work, the accreditation committee complied with the provisions of the rules of procedure of the accreditation committee as adopted by the Supervisory Board.

Work of the HR committee

The Supervisory Board's HR committee functioned in the following composition in 2018:

- Aleksander Mervar, MSc (chairman),
- Cirila Surina Zajc (member), and
- Natalija Stošicki (member).

The HR committee met at six sessions in 2018. Its main tasks were to review applications and formulate a proposal for the Supervisory Board for the appointment of the President of the Management Board based on a public call for candidates for that function. The committee was also involved in activities in connection with the formulation of the proposal of a candidate who is a representative of national-level representative trade union federations/confederations for appointment to Kapitalska družba's Supervisory Board, and the review of the proposal of candidates who are representatives of national-level federations/organisations of pensioners for appointment to Kapitalska družba's Supervisory Board.

Assessment of the work of the Management Board and Supervisory Board

On the basis of the aforementioned continuous monitoring and supervision of Kapitalska družba's operations and management during the financial year, and based on a review of the annual report compiled and submitted

by the Management Board, the Supervisory Board assesses that the annual report and disclosures contained therein reflect the actual situation and position of Kapitalska družba. The Supervisory Board assesses that the Management Board of Kapitalska družba successfully and properly managed the Company's transactions during the 2018 financial year and successfully achieved established business objectives. The Management Board prepared materials in a timely manner, which facilitated quality information and the thorough discussion of the most important operational matters. The Management Board also provided exhaustive responses to the Supervisory Board's additional questions and initiatives. The Management Board's reporting to the Supervisory Board enabled the latter to carry out its supervisory role satisfactorily in 2018.

b) Supervisory Board's position on the audit report

Pursuant to the second paragraph of Article 282 of the ZGD-1, the Supervisory Board reviewed and discussed the audit report relating to the audit of the financial statements of Kapitalska družba for 2018, which was conducted by the audit firm Deloitte revizija d. o. o., Ljubljana. The Supervisory Board finds that the auditor performed its task in accordance with the law, auditing rules and international auditing standards. The Supervisory Board has no remarks regarding the audit report.

c) Decision regarding the approval of the annual report for 2018

Pursuant to the provisions of Article 282 of the ZGD-1, the Supervisory Board of Kapitalska družba pokojninskega in invalidskega zavarovanja, d. d. hereby approves the annual report for 2018.

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


Taking into account points a), b) and c) of this report, the Supervisory Board proposes that the General Meeting of Kapitalska družba adopt a resolution granting discharge to the Company's Management Board and Supervisory Board for their work during the 2018 financial year pursuant to the provision of Article 294 of the ZGD-1.

Stanislav Seničar

Chairman of the Supervisory Board



Ljubljana, 30 May 2019



A good mosaic comes from a
multitude of pieces, delicately
assembled into a whole.
Each part has its own mission
and is a key building block of
the final image.

A low-angle, upward-looking perspective of several modern skyscrapers with glass facades. The buildings are silhouetted against a clear, bright blue sky. The lines of the buildings converge towards the top of the frame, creating a sense of height and scale. The overall color palette is dominated by the blue of the sky and the dark, reflective surfaces of the buildings.

Business Report

Organisational structure of Kapitalska družba

In October 2018, Kapitalska družba carried out a comprehensive reorganisation that pursues new processes as the result of new financial reporting requirements, as well as the rationalisation of operations and new, legally prescribed competences. The new internal organisational structure ensures the more effective implementation of core business processes through an appropriate organisational structure in the context of an adequate number of employees. To that end, we preserved the strengths and opportunities associated with the previous structure while rectifying identified deficiencies. Kapitalska družba's role as the parent company of an insurance group, which includes the subsidiary Modra zavarovalnica, d. d., is also taken into account. The Company has provided the aforementioned insurance company IT services since the latter's establishment.

The new internal organisation maintains a flexible structure, while at the same time providing the basis for the clearer segregation of competences and responsibilities, and thus contributes to increased transparency, the shortening of time required for decisions and the resulting improved quality and efficiency of work. An effective decision-making process ensures successful performance in key work areas that are organised into four main organisational units or sectors:

- Asset Management Sector;
- Occupational Insurance Sector, comprising:
 - Insurance Services Division, and
 - Contribution Monitoring and Development Division;
- Operational Support Sector, comprising:
 - Accounting and Controlling Division, and
 - Back-Office Support Division; and
- Legal and HR Affairs Sector.

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

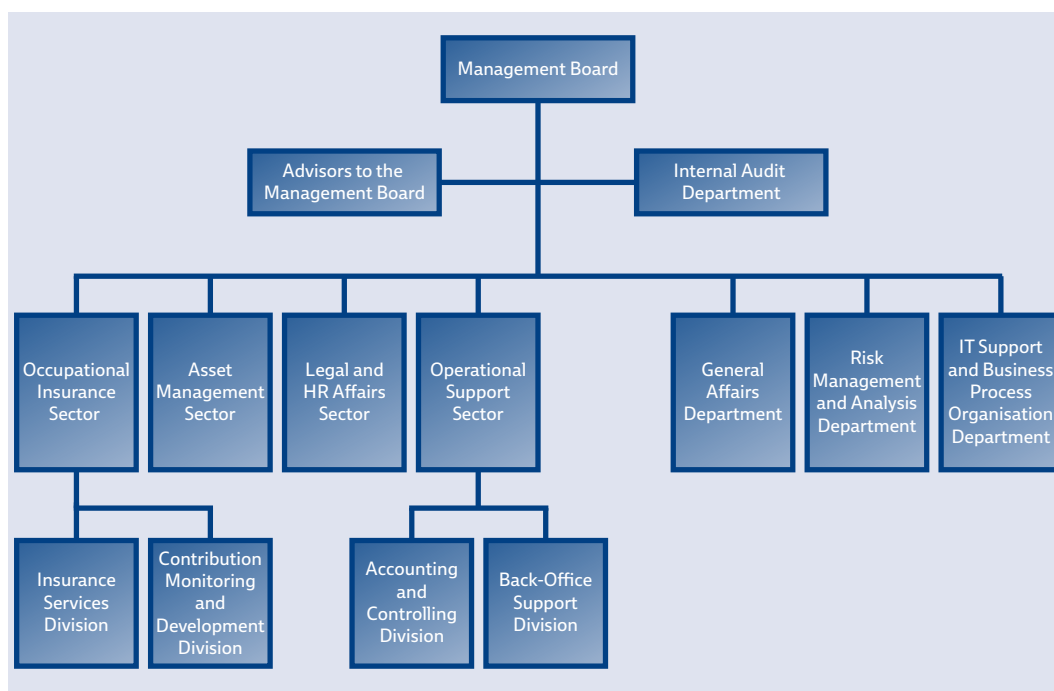
- Internal Audit Department,
- Risk Management and Analysis Department,
- IT Support and Business Process Organisation Department, and
- General Affairs Department.

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

The new organisational structure results in the redefined competences of the heads of internal organisational units at two management levels, where the Management Board entrusted a portion of its responsibilities and decision-making authority to the executive directors of sectors, as was the practice in the past.

The Management Board also appointed a prevention of money laundering officer, a personal data protection officer and an access to public information officer, all of whom report directly to the Management Board in the performance of their tasks.

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



5.1 REPORTING ON EMPLOYEES

The Company had 59 employees as at 31 December 2018, all whom were permanent. The employment contracts of seven employees expired in 2018, four through retirement, one through the expiry of their temporary employment contract, and two through the regular termination of the employment relationship.

The Company entered into four new employment contracts in 2018. One of those persons was hired on a temporary basis due to the comprehensive overhaul of the HR function, while the other persons were hired on a permanent basis. One employee returned to work following the cessation of the grounds for the suspension of their employment contract.

Table 1: Number of employees by organisational unit as at 31 December 2017 and 30 September 2018 – prior to the reorganisation of the Company

ORGANISATIONAL UNIT	31 December 2017	30 September 2018
Management Board	3	3
Advisors to the Management Board	2	3
Finance and Accounting	10	9
Asset Management	9	11
Development and Strategic Communication	6	5
Insurance Services	7	8
Legal, HR and General Affairs	13	11
Information Technology	7	7
Internal Audit	2	2
Risk Management	1	1
Total	60	60

Table 2: Number of employees by organisational unit as at 1 October 2018 and 31 December 2018 – prior to the reorganisation of the Company

ORGANISATIONAL UNIT	1 October 2018	31 December 2018
Management Board	3	3
Advisors to the Management Board	2	1
Asset Management	10	10
Occupational Insurance	1	1
- Insurance Services	8	8
- Contribution Monitoring and Development	3	3
Legal and HR Affairs	6	6
Operational Support	1	1
- Accounting and Controlling	4	4
- Back-Office Support	4	4
Internal Audit	2	2
Risk Management and Analysis	3	4
General Affairs	7	7
IT Support and Business Process Organisation	5	5
Total	59	59

As at 31 December 2018, a total of 44% of Kapitalska družba's employees had completed Level 7 education, while 17% had completed Level 8/1 and 2% had completed Level 8/2. A total of 63% women of the Company's employees are women, while 37% are men.

The overall average length of service was 20 years and five months as at 31 December 2018, where the average length of service amongst men was 19 years and five months, and 21 years and five months amongst women. The average age of both male and female employees was 45 years.

Operations of Kapitalska družba

6.1 ECONOMIC ENVIRONMENT IN SLOVENIA

6.1.1 Gross domestic product

Gross domestic product (GDP) measured in current prices amounted to EUR 45.9 billion in 2018, and was up by 4.1% in the final quarter of 2018 relative to the final quarter of the previous year. GDP adjusted for the season and number of working days was up by 0.8% in the final quarter of 2018 relative to the previous quarter and by 3.6% relative to the same period the previous year.

Figure 2: Real year-on-year growth in GDP by quarter in 2018 (in %)



Source: Statistical Office of the Republic of Slovenia

6.1.2 Inflation

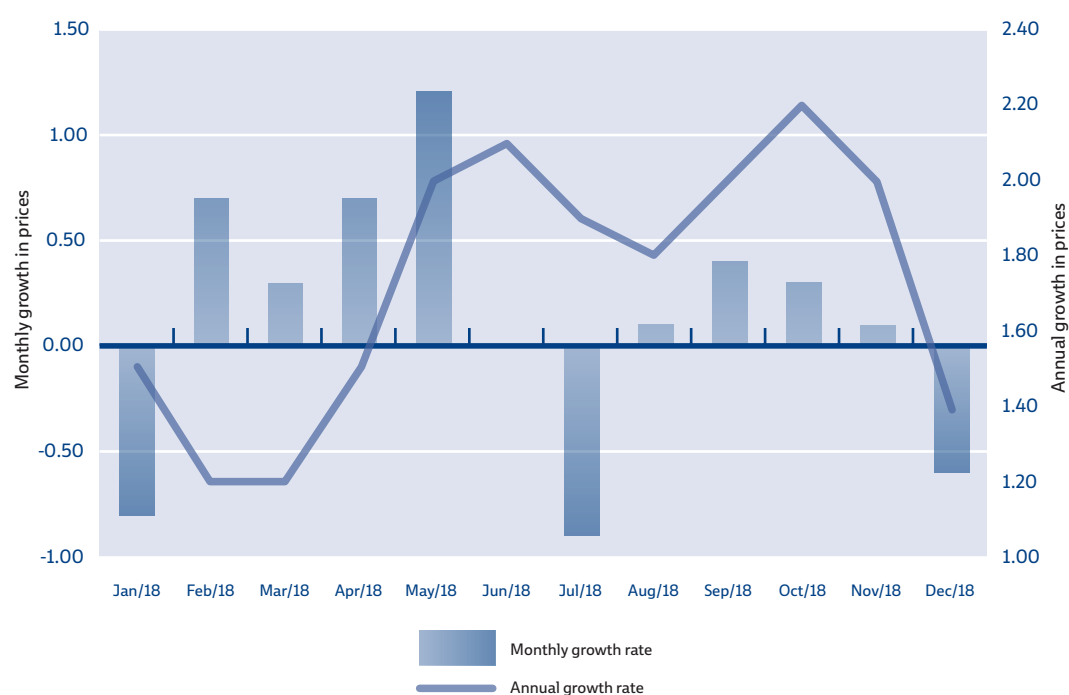
Growth in consumer prices was 1.4% in 2018, while average 12-month price growth was 1.7%.

The main factor in inflation in 2018 was rising energy prices, which contributed a total of 0.5 percentage points. Recording the highest growth in prices amongst energy products was thermal energy (the prices of which were up by 14.8%), followed by solid fuels (12.0% growth in prices) and liquid fuels (10.4% growth in prices). Electricity recorded the lowest price growth amongst energy products, at 3.3%.

The main factor in the decline in headline inflation in 2018 were car prices, which contributed 0.2 percentage points to that decrease. Car prices fell by an average of 2.8%.

The prices of the following other categories of products and services rose on average in 2018: services (by 3.0%), merchandise (by 0.7%) and goods for daily consumption (by 1.5%). The prices of consumer durables and semi-durable goods were down by 1.5% and 0.3% respectively.

Figure 3: Change in monthly and annual growth in consumer prices in 2018 (in %)



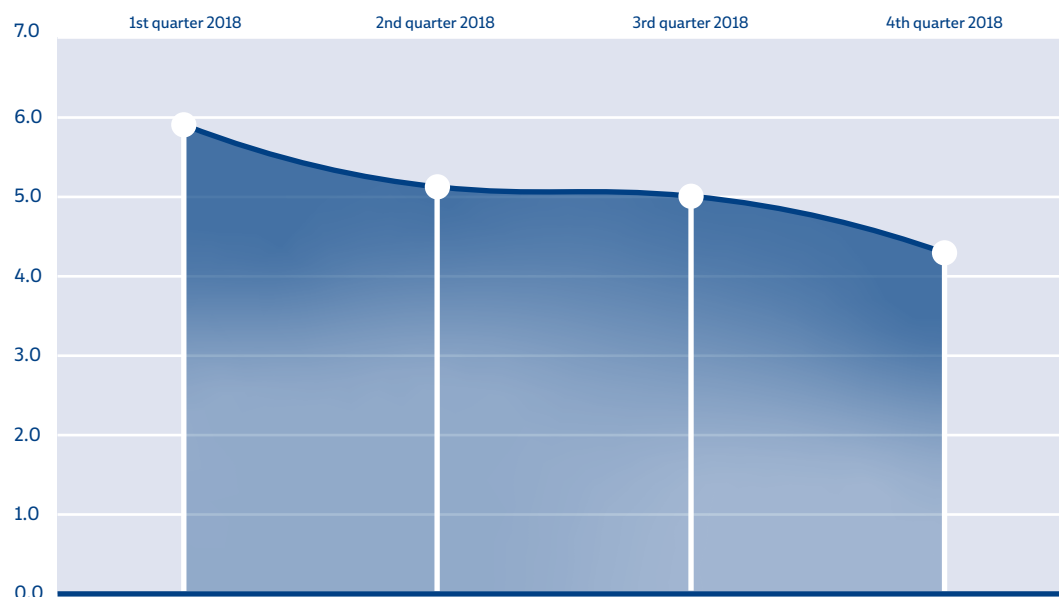
Source: Statistical Office of the Republic of Slovenia

6.1.3 Employment and wages

The surveyed unemployment rate stood at 4.4% in the final quarter of 2018, compared with 5.8% during the same period in 2017. The workforce in employment stood at 984 thousand during the final quarter of 2018, an increase of 1.2% relative to the previous year, when that figure was 972 thousand. The active population was 1,030 thousand, a decrease of 0.2% relative to the previous year, when the active population totalled 1,032 thousand.

The average monthly gross wage was EUR 1,782.12 in December 2018, while the net wage was EUR 1,162.67. On an annual basis, the average monthly gross wage was EUR 1,681.15 in 2018, while the net wage was EUR 1,092.47.

Figure 4: Surveyed unemployment rate by quarter in 2018 (in %)



Source: Statistical Office of the Republic of Slovenia

6.2 DEVELOPMENTS ON THE FINANCIAL MARKETS

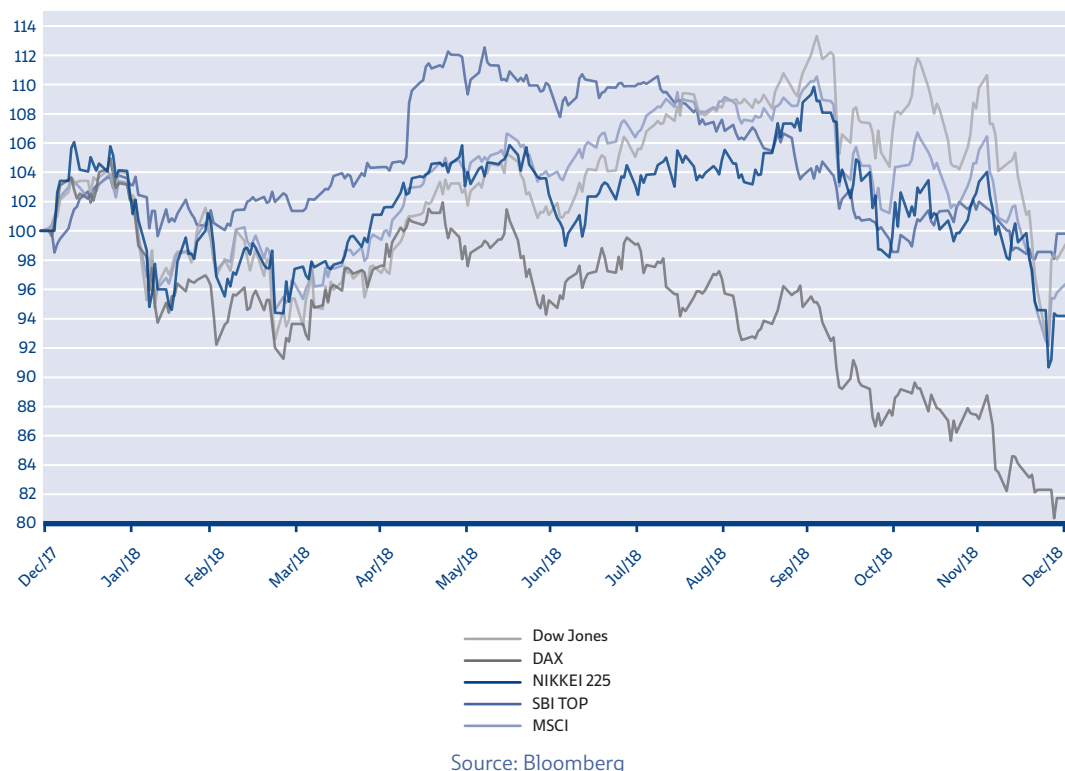
6.2.1 Capital market

6.2.1.1 Equity market

The values of all presented share indices measured in euros fell in 2018. The MSCI World Index was down by 4.17%, while the US Dow Jones lost 0.93% of its value, the Japanese Nikkei 225 lost 5.80% and the German DAX lost 18.26%, all measured in euros. The Slovenian SBI TOP lost 0.18% of its value during 2018.

At 5,427.54 points, the MSCI World Index achieved its highest value (measured in euros) in 2018 at the beginning of October, and its lowest value of 4,520.09 points at the end of December. The MSCI World Index lost 12.93% of its value (measured in euros) from its highest value in 2018 until the end of the year.

Figure 5: Movement in the Slovenian SBI TOP and selected foreign stock indices in 2018 in euros (index: 31 December 2017 = 100)



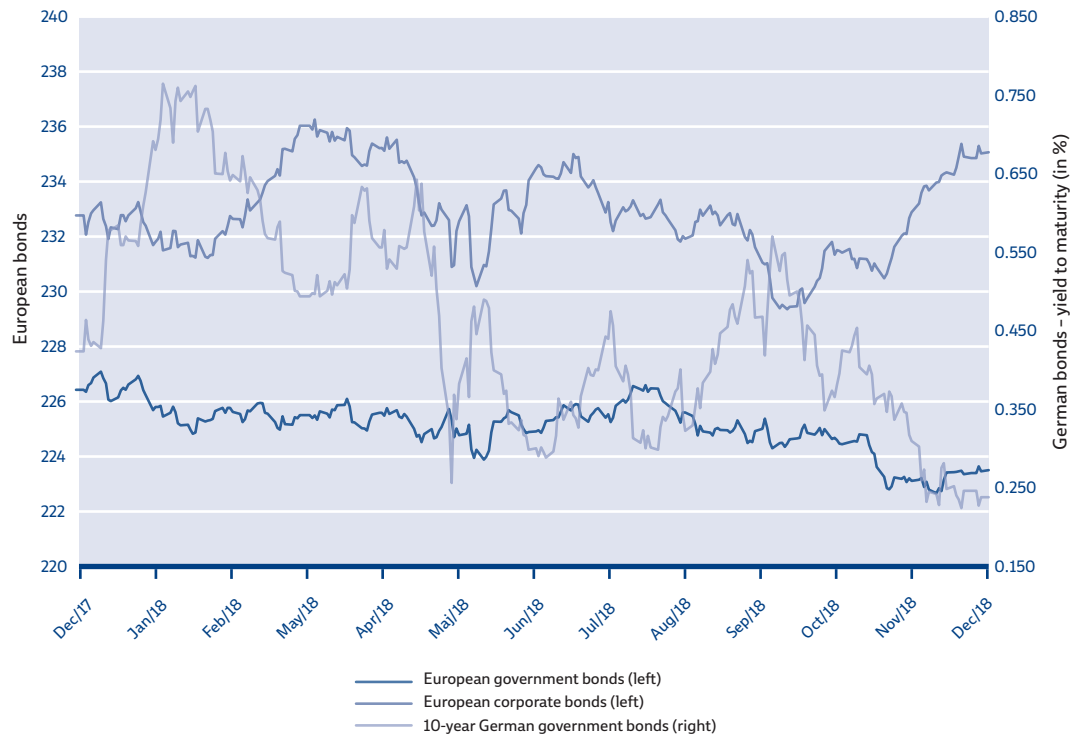
6.2.1.2 Debt market

Viewed in relative terms, the monetary policies of major central banks remained loose in 2018. We did, however, witness a gradual tightening of monetary policy. That tightening was most evident at the US Federal Reserve (FED), while the European Central Bank (ECB), Bank of England and Bank of Canada all began to normalise monetary policy. The US Federal Reserve (FED) began implementing a restrictive monetary policy in December 2015. It raised its benchmark interest rate four times in 2018, with that rate now in the range of 2.25% to 2.5%. Since its last rate hike in December 2018, the FED has issued various statements that have calmed the increasingly fractious capital markets, as well as the domestic and wider economic and political public. The FED's statements indicated that it will closely monitor both the domestic and international economic and political situation in 2019. Through its statements, the FED made it clear to the professional public that future hikes in the benchmark interest rate will be conditional on a stable domestic and international economic situation, and on conditions on the capital markets. The Bank of England also raised its interest rate in 2018, while the ECB did not raise any of the three short-term reference interest rates in 2018. The ECB adopted a decision to wind up its sovereign and corporate bond purchase programme, effective 1 January 2019, but will continue to reinvest all maturing annuities and principal on bonds purchased in its quantitative easing programme. The Bank of Japan did not raise its interest rate in 2018, with that rate remaining -0.10%, the same as the rate throughout all of 2017. Amongst major central banks, the Bank of Canada also raised its interest rate in 2018, three times, from 1.00% to 1.75%. The reference interbank interest rate for the euro area, the six-month EURIBOR, fluctuated between -0.279% and -0.236% in 2018. The ECB's key interest rate was 0% in 2018, while the interest rate on the deposit facility, the rate at which excess liquidity placed at the ECB bears interest, stood at -0.4% in 2018.

The yield to maturity on 10-year German government bonds fluctuated in 2018 between its lowest value of 0.228% in December 2018 and its highest value of 0.767% in February 2018.

The IBOXX EUR Sovereigns TR government bond index gained 0.99% in 2018, while the IBOXX EUR Corporates TR corporate bond index lost 1.29%

Figure 6: Movement in the overall yield on European government bonds (IBOXX EUR Sovereigns TR Index) and the overall yield on European corporate bonds (IBOXX EUR Corporates TR Index) and yield to maturity on ten-year German government bonds in 2018



Source: Bloomberg

Figure 7: Change in EURIBOR in 2018



Source: Bloomberg

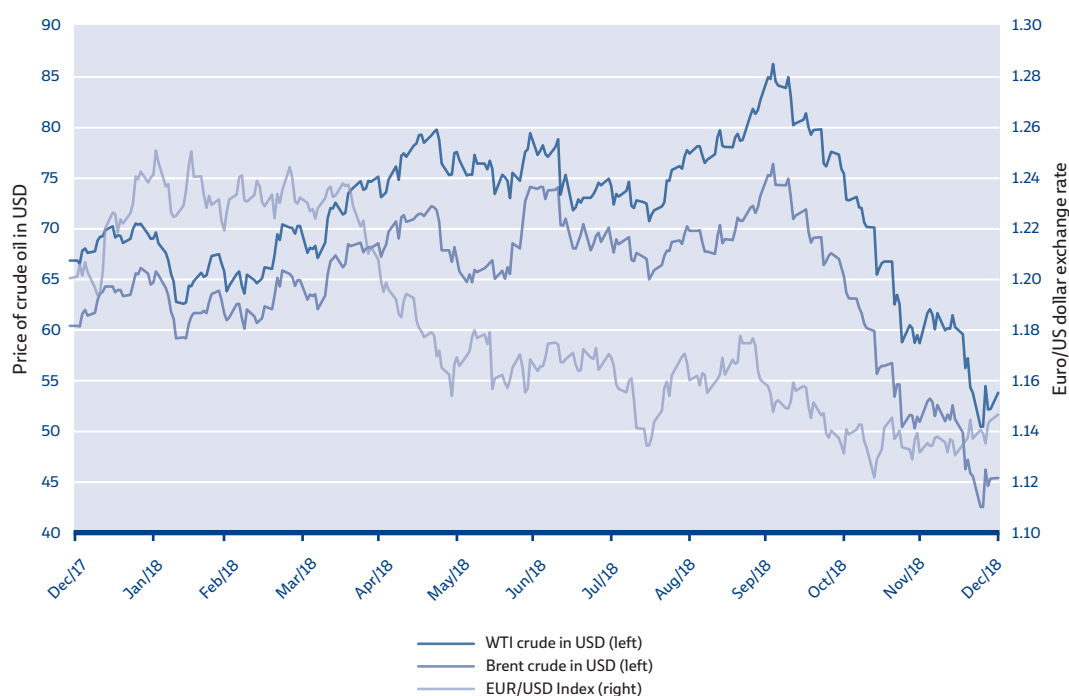
6.2.2 Oil prices and exchange rates

The price of West Texas Intermediate (WTI)⁵ crude oil fell by 24.8% in 2018 to stand at USD 45.41 per barrel at the end of the year. The average price of West Texas Intermediate (WTI) crude oil was USD 64.88 per barrel in 2018.

The price of Brent crude oil⁶ fell by 19.6% in 2018, measured in US dollars, to stand at USD 53.80 per barrel at the end of the year. The average price of Brent crude oil was USD 71.67 per barrel in 2018.

The euro/US dollar exchange rate fluctuated between 1.1218 and 1.2510 in 2018, and ended the year at 1.1467 and averaged 1.1809 during 2018.

Figure 8: Movement in prices of WTI crude and North Sea Brent crude (in USD per 159-litre barrel), and the euro/US dollar exchange rate in 2018



Source: Bloomberg

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

6 Kapitalska družba monitors movement in the price of Brent crude oil using the maturity of the first generic future transaction in the Bloomberg system, designated Co1 COMB COMDTY.

6.3 INVESTMENT MANAGEMENT

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

- capital investments,
- waived securities,⁷ and
- portfolio investments.

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

Table 3: Composition of Kapitalska družba's financial assets as at 31 December 2018 and 31 December 2017 with regard to the method of management

TYPE OF INVESTMENT	in EUR 000			
	Value	Proportion	Value	Proportion
	2018		2017	
Capital investments	529,717	56.3%	552,479	57.3%
Strategic investments ⁸	191,472	20.3%	193,449	20.1%
Material investments	277,426	29.5%	297,748	30.9%
Portfolio investments	59,396	6.3%	59,859	6.2%
Investments in bankruptcy or liquidation	1,423	0.2%	1,423	0.1%
Waived securities	231	0.0%	217	0.0%
Portfolio investments	411,401	43.7%	411,011	42.7%
Equity portfolio investments	243,370	25.8%	240,054	24.9%
Debt portfolio investments	80,723	8.6%	84,436	8.8%
Money market ⁹	52,358	5.6%	52,641	5.5%
Investments in financial claims	34,950	3.7%	33,880	3.5%
Total financial assets	941,349	100.0%	963,707	100.0%

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

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

9 Money market investments also include cash, which totalled EUR 18,182 thousand as at 31 December 2018.

6.3.1 Capital investment management

6.3.1.1 Composition of capital investments

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

The Company held a total of 39 such investments at the end of 2018. Of those investments, Kapitalska družba had 34 so-called active investments, including 28 investments in public limited companies and six investments in limited liability companies. In addition to active investments, Kapitalska družba also held four investments in bankruptcy proceedings and one investment in liquidation proceedings.

The value of capital investments was EUR 528,294 thousand as at 31 December 2018, a decrease of EUR 24,185 thousand on the previous year.

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

Table 4: Breakdown of Kapitalska družba's capital investments as at 31 December 2018 and 31 December 2017 in accordance with the Decree on the Strategy for Managing State Capital Investments

TYPE OF INVESTMENT	in EUR 000					
	Number of invest-ments	Value	Proportion of capital investment portfolio	Number of invest-ments	Value	Proportion of capital investment portfolio
	2018			2017		
Strategic investments ¹⁰	10	191,472	36.1%	10	193,449	35.0%
Material investments	7	277,426	52.4%	9	297,748	53.9%
Portfolio investments ¹¹	17	59,396	11.2%	16	59,859	10.8%
Investments in bankruptcy or liquidation	5	1,423	0.3%	5	1,423	0.3%
Total capital investments	39	529,717	100.0%	40	552,479	100.0%

Table 5: Ten largest capital investments of Kapitalska družba by value as at 31 December 2018

Seq. no.	COMPANY NAME	in %	
		Proportion of company's share capital	
1.	Krka, d. d.	10.65	
2.	Modra zavarovalnica, d. d.	100.00	
3.	Petrol, d. d.	8.27	
4.	Telekom Slovenije, d. d.	5.59	
5.	Luka Koper, d. d.	4.98	
6.	Loterija Slovenije, d. d.	25.00	

10 Strategic, material and portfolio investments are classified in accordance with the Decree on the Strategy for Managing State Capital Investments.

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

Seq. no.	COMPANY NAME	Proportion of company's share capital
7.	Sava, d. d.	27.81
8.	Hit, d. d.	20.32
9.	Union hoteli, d. d.	18.75
10.	Terme Olimia, d. d.	24.79

Investments in which Kapitalska družba holds a less than 20% ownership stake comprise the majority of capital investments. So-called active investments include 26 such investments, as well as three investments in bankruptcy and liquidation proceedings. A detailed overview of the composition of investments in terms of size of ownership stake is given in the table below.

Table 6: Composition of capital investments in terms of size of ownership stake as at 31 December 2018

OWNERSHIP STAKE IN SHARE CAPITAL	Active investments	Investments in bankruptcy or liquidation
Up to 9.99%	19	2
From 10.00% to 19.99%	7	1
From 20.00% to 49.99% (associate)	6	2
From 50.00% to 100.00% (subsidiary)	2	0
Total number of investments	34	5

6.3.1.2 Sales and deletion of companies

With the aim of ensuring the transparency of sales procedures and the equal treatment of bidders, the sale of capital investments is carried out via public tender. Kapitalska družba published one public tender for the purchase of shares and participating interests in 2018.

Kapitalska družba received 18 bids from buyers for the purchase of shares and participating interests relating to three different capital investments held by the Company. The majority of the aforementioned bids were unacceptable for Kapitalska družba because the bid prices were too low.

Kapitalska družba sold two capital investments in their entirety in 2018 in the total amount of EUR 48,410 thousand, comprising the entire capital investment in Geoplin, d. o. o., which was sold on the basis of an agreement concluded in 2017, and a capital investment in Gorenje, d. d., which was sold based on a takeover bid. A portion of the capital investment in Casino Bled, d. d. was also sold.

Kapitalska družba also has an agreement from 2017 on the instalment sale of shares in KDD, d. d. for consideration in the amount of EUR 675 thousand, with the final payment falling due in 2019.

One sale was in progress as at 31 December 2018.

6.3.1.3 Purchases of companies

Kapitalska družba participated in the recapitalisation of Sava, d. d. in 2018, when it paid up EUR 2,449 thousand for new shares, bringing its participating interest in the share capital of the aforementioned company to 27.81%. Together with Modra zavarovalnica, the Company established Hotelske nepremičnine, d. o. o., in which each holds a participating interest of 50% of share capital, and invested EUR 4,963 thousand in that company.

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

6.3.1.4 Dividends of domestic companies

Kapitalska družba recorded EUR 24,647 thousand in domestic corporate dividends in 2018, an increase of EUR 3,280 thousand relative to 2017, when dividends totalled EUR 21,367 thousand. The ten largest capital investments in terms of dividends accounted for 98.8% of all dividends from capital investments held by Kapitalska družba.

The payment of dividends in 2018 was approved by the general meetings of 23 companies in which Kapitalska družba held a capital investment, compared with 2017, when the payment of dividends was approved by the general meetings of 25 companies in which Kapitalska družba held a capital investment.

Table 7: Ten capital investments that generated the highest dividend income in 2018 and 2017

Seq. no.	ISSUER	Dividends per share in 2018 (in EUR)	Dividends per share in 2017 (in EUR)	Total dividends in 2018 (in EUR 000)	Total dividends in 2017 (in EUR 000)
1.	Krka, d. d.	2.90	2.65	10,130	9,257
2.	Telekom Slovenije, d. d.	14.30	5.00	5,222	1,826
3.	Modra zavarovalnica, d. d.	0.02306	0.01401	3,511	2,132
4.	Petrol, d. d.	16.00	12.60	2,762	2,175
5.	Loterija Slovenije, d. d.	46.80	62.68	869	1,164
6.	Luka Koper, d. d.	1.23	1.13	857	787
7.	Perutnina Ptuj, d. d.	0.84017	0.00	493	0
8.	Hit, d. d.	0.17	0.20	231	276
9.	Elan Inventa, d. o. o.	*	*	199	3
10.	Elektro Maribor, d. d.	0.13	0.12	70	65

* Kapitalska družba's participating interest in Elan Inventa, d. o. o. is 19.8808%.

Kapitalska družba also received dividends in the amount of EUR 218 thousand in 2018 from two companies 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 and the payment of residual dividends on preference shares

ISSUER	Dividends for the year	Dividends per share (in EUR)	Total dividends (in EUR 000)
Terme Čatež, d. d.	Distributable profit for 2013	1.00	118
Perutnina Ptuj, d. d.	Distributable profit for 2016	0.17	100

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

In connection with the management of its capital investments in the period 1 January 2018 to 31 December 2018, Kapitalska družba applied, *mutatis mutandis*, the Corporate Governance Code for Companies with State Capital Investments, which was adopted by SDH on 19 December 2014. In May 2017, SDH adopted certain amendments to that document (hereinafter: the Code).

As an active player on the Slovenian capital market, Kapitalska družba strives to introduce in practice a contemporary form of corporate governance, the aim of which is to ensure clear, predefined and publicly known principles, procedures and criteria by which the Company acts in exercising its ownership rights. To that end, the Corporate Governance Code of Kapitalska družba was used from 2009 until December 2014, and defined the policy and procedures for exercising Kapitalska družba's management rights in companies in which it holds an ownership stake. In December 2014, SDH adopted the Code, which Kapitalska družba also applies *mutatis mutandis* to ensure uniform operations. The document is published on SDH's website.

In addition to the Code, Kapitalska družba also applied its own bases for voting at general meetings when managing capital investments in 2018. Kapitalska družba updates the bases for voting at general meetings every year, prior to the convening thereof. These bases, *inter alia*, define the remuneration policy for supervisory boards, management committees and management boards, the dividend policy, the use of distributable profit, recapitalisations via authorised capital, the acquisition of treasury shares and the introduction of a single-tier governance system. The aforementioned document is published on Kapitalska družba's website.

Kapitalska družba exercised its management rights at all general meetings of companies with a registered office in Slovenia in which the Company has an equity holding that it manages on its own behalf or on behalf of the SODPZ.

Kapitalska družba was entitled to participate on its own behalf and on account of the pension fund under management in 58 general meetings of shareholders or partners of companies in 2018. Representatives of Kapitalska družba participated in 24 general meetings, at which the Company independently exercised its voting rights. In accordance with Article 53 of the ZSDH-1, SDH exercised the voting rights of Kapitalska družba at 32 general meetings in the name and on account of the latter. Employees of Kapitalska družba were authorised to participate and exercise all shareholder rights, except voting rights. Two general meetings were cancelled prior to the date of the meeting.

Table 9: Participation at general meetings

FORM OF PARTICIPATION	Number of general meetings
Participation and voting by employees of Kapitalska družba	24
Participation by employees of Kapitalska družba; voting by SDH	32
Cancelled general meetings	2
Total	58

When assessing proposed general meeting resolutions and formulating opinions for voting at general meetings in 2018, Kapitalska družba complied with the Code and the bases for voting at general meetings. With respect to the remuneration of supervisory boards and management boards, Kapitalska družba applied, *mutatis mutandis*, the recommended level of wages for the performance of a particular function and for session fees as set out in the Code, and took into account the Act Governing the Earnings of Management Staff at Companies under the Majority Ownership of the Republic of Slovenia and Self-Governing Local Communities (ZPPOGD) as regards the earnings and other rights of management boards, executive directors and the management staff of companies.

Kapitalska družba acted in accordance with the Code at all general meetings attended by its representatives in 2018. Disclosures regarding Kapitalska družba's conduct at general meetings are published on the Company's website.

6.3.1.6 Code of Conduct of the Kapitalska Družba Group

In addition to Kapitalska družba, the Kapitalska Družba Group includes the subsidiary Modra zavarovalnica and the joint venture Hotelske nepremičnine, d. o. o.

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

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

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

The ZSDH-1 defines Kapitalska družba's maximum 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 now transfer funds in the amount of EUR 50 million every year to the ZPIZ by no later than 29 September, primarily for the purpose of adjusting pensions, or a proportionally lower amount if the amount for adjusting pensions is lower. Notwithstanding that adjustment, Kapitalska družba transferred EUR 50 million to the ZPIZ in 2018 in accordance with the ZIPRS1819.

Article 79 of the ZSDH-1 states that Kapitalska družba should have been transformed into an independent and autonomous demographic reserve fund by no later than 31 December 2015, as set out in the law governing pension and disability insurance, following the prior adoption of the relevant law. The same article also states that 10% of proceeds from the sale of capital investments held by the Republic of Slovenia must be transferred to a special account at the Ministry of Finance. The aforementioned funds may be used exclusively to finance the demographic reserve fund. Alongside the formulation of a demographic reserve fund, the ZSDH-1 also envisages the transfer of the Pension and Disability Insurance Institute's assets from its investment in Zavarovalnica Triglav, d. d. to Kapitalska družba. No act governing the transformation of Kapitalska družba into a demographic reserve fund has been adopted to date.

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

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

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

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

With regard to waived securities, Kapitalska družba received 134 bids from buyers for the purchase of shares and participating interests relating to 55 different capital investments held by the Company. The majority of the aforementioned bids were unacceptable for Kapitalska družba because the bid prices were too low. In 2018, Kapitalska družba published two public tenders in connection with waived securities for the purchase of shares and participating interests.

During 2018, the Company held 135 investments in different issuers as the result of waived securities. Kapitalska družba already has 14 of those investments in its underlying portfolio. Securities obtained from four issuers (KD Group, d. d., Kompas RAC, d. d., Ljubljana (in liquidation), Pivka, pooblaščenka, d. d. and Zdravilišče Rogaška, d. d.) include both ordinary shares and preference shares, as well as bonds.

During the period, Kapitalska družba sold 21 investments acquired in connection with waived securities in the total amount of EUR 13 thousand, as follows:

- three investments (Agis Technologies, d. d., Koroške pekarnice, d. d. and Sivent, d. d.) were sold through the conclusion of an agreement;

- six investments (Certa, d. d., Certa holding, d. d., Gea tovarna olja, d. d., Gorenje, d. d., RTC Krvavec, d. d. and Terme Dobrna, d. d.) were sold through the acceptance of a takeover bid;
- eight investments (AMZS, d. d., Galex, d. d., GG Maribor, d. d. (in liquidation), Goriške opekarne, d. d., ITEO, d. d., Sivent, d. d., Vizija holding ena, k. d. d. and Vizija holding, k. d. d.) were sold based on the squeeze-out of minority shareholders; and
- four investments (Doksa, d. d. (in bankruptcy), IMP TIO, d. d. (in liquidation), Lipa Ajdovščina, d. d. (in liquidation) and Prophetes, d. d. (in bankruptcy)) were deleted from AJPES records.

Kapitalska družba received dividends in the amount of EUR 6,006 from waived securities in 2018.

Due to limitations on the exercising of voting rights, the Company only participates exceptionally in the general meetings of companies that it acquired on the basis of Article 48a of the ZNVP-1. It decides on its potential participation at a general meeting based on the size of its acquired participating interest and on an assessment of the matters to be decided on by a company's general meeting.

During the previous year, Kapitalska družba participated in three general meetings of shareholders (twice at Lameta, d. d. and once at Sivent, d. d.), at which it did not exercise its voting rights in accordance with the law.

6.3.3 Management of portfolio investments

The financial markets were characterised in 2018 by two major corrections on the equities market, in February and during the second half of December, and by increased volatility. Practically all share indices ended the year in negative territory, while bond indices (particularly the government bond index) ended the year with slightly better results. From the beginning of the year until mid-October 2018, we witnessed rising bond yields (i.e. falling prices), and the significant widening of the credit spreads on both corporate and government bonds. A sharp positive reversal in government bonds was recorded in mid-October 2018, with those bonds gaining significantly in value (i.e. yields to maturity fell) until the end of the year, primarily due to fears regarding the cooling of the global economy and uncertainty about the trade war between the US and China.

The year was characterised (as expected) by the tightening of the monetary policies of major central banks, a trade war and forecasts of lower global economic growth, and by events in Italy and Brexit in Europe.

Kapitalska družba uses active and passive strategies in the management of portfolio investments, where it combines the top-down approach with the bottom-up approach. Decisions regarding the composition of the portfolio by investment category (top-down approach) are made by the investment committee, which meets at least twice a year.

The comparable share portfolio index is the globally diversified share portfolio index, while the comparable bond portfolio indices (government and corporate bonds) are the indices of diversified European government and corporate bonds.

There was no significant change in the value of portfolio investments in 2018. The structure of the portfolio changed in such a way that the proportion of equities and money market instruments was down, while the proportion of corporate and government bonds was up. The proportion of Kapitalska družba's portfolio investments accounted for by equity investments fell from 58.7% at the beginning of 2018 to 55.2% at the end of the year, which given the target structure of the portfolio represents a neutral position. We shortened the duration of the debt securities portfolio in 2018 and partially reduced the Company's exposure to corporate bonds with a sub-investment-grade rating. The portfolio of money market instruments represents the most important element of portfolio investments and primarily comprises investments in the form of cash deposits at Slovenian banks. The majority of those deposits are placed for the purpose of covering Kapitalska družba's annual obligation to the Pension and Disability Insurance Institute of Slovenia.

The five largest investments accounted for a total of 46% of equity portfolio investments under management as at 31 December 2018. These investments included index funds that track the MSCI World Index (SMSWLD GY, XMWO GY and XDWD GY), an index fund that tracks the technology sector index (XLK US) and an index fund that tracks the share index of large Chinese issuers (XLK US).

The five largest investments, together with accrued interest, accounted for a total of 47% of debt portfolio investments as at 31 December 2018. The top four investments comprise different issues of Slovenian government bonds (nos. 66, 67, 69 and 70), while the fifth largest investment is an index fund of European government bonds (XGLE GY).

6.3.3.1 Equity portfolio investments

Table 10: Composition of equity portfolio investments as at 31 December 2018 and 31 December 2017

TYPE OF INVESTMENT	in EUR 000			
	Value	Proportion of equity portfolio investments	Value	Proportion of equity portfolio investments
	2018		2017	
Foreign shares	1,529	0.6%	1,947	0.8%
Investment funds	241,841	99.4%	238,107	99.2%
- domestic investment funds	12	0.0%	13	0.0%
- foreign investment funds	241,829	99.4%	238,094	99.2%
Total equity portfolio investments	243,370	100.0%	240,054	100.0%

6.3.3.2 Debt portfolio investments

Table 11: Composition of debt portfolio investments as at 31 December 2018 and 31 December 2017

TYPE OF INVESTMENT	in EUR 000			
	Value	Proportion of debt portfolio investments	Value	Proportion of debt portfolio investments
	2018		2017	
Domestic bonds	71,010	88.0%	73,142	86.6%
- domestic government bonds	60,817	75.4%	62,558	74.1%
- domestic corporate and bank bonds	10,193	12.6%	10,584	12.5%
Foreign bonds	7,279	9.0%	9,056	10.7%
- foreign government bonds	3,261	4.0%	4,931	5.8%
- foreign corporate and bank bonds	4,018	5.0%	4,125	4.9%
Claims for interest	2,434	3.0%	2,238	2.7%
Total debt portfolio investments	80,723	100.0%	84,436	100.0%

6.3.3.3 Money market investments

Table 12: Composition of money market investments as at 31 December 2018 and 31 December 2017

TYPE OF INVESTMENT	2018		2017	
	Value	Proportion of the portfolio of money market investments	Value	Proportion of the portfolio of money market investments
Loans granted (deposits)	32,328	61.7%	18,917	35.9%
Cash and cash equivalents	18,182	34.8%	33,127	62.9%
Cash on transaction accounts at banks	1,973	3.8%	4,105	7.8%
Euro call deposits	16,209	31.0%	29,022	55.1%
Commercial paper	1,848	3.5%	597	1.2%
Total money market investments	52,358	100.0%	52,641	100.0%

in EUR 000

6.4 TRANSFERS TO THE PENSION AND DISABILITY INSURANCE INSTITUTE OF SLOVENIA

In accordance with the third paragraph of Article 52 of the ZSDH-1, Kapitalska družba's annual obligation to the ZPIZ depends on the amount of the adjustment of pensions, which is limited to EUR 50 million. In accordance with the ZIPRS1819, Kapitalska družba transferred EUR 50 million to the ZPIZ in 2018. Kapitalska družba has transferred the cumulative amount of EUR 814,321 thousand to the budget of the ZPIZ.

6.5 INVESTMENT PROPERTY

Kapitalska družba holds investment property in the following commercial buildings:

- Stekleni dvor, Dunajska cesta 119, Ljubljana;
- Glavarjeva rezidenca, Pegamova ulica G, Ljubljana;
- 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.

The majority of investment property was leased out as at 31 December 2018.

6.6 RISK MANAGEMENT

Risk management is explained in Chapter 15.2 Accounting policies and Chapter 15.3.3 Management of risks associated with financial assets in the financial report section of Kapitalska družba's annual report.

6.7 PENSION FUND MANAGEMENT

6.7.1 Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia

6.7.1.1 Operations of the SODPZ

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

The collection of contributions on the personal accounts of policyholders in 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 revenue generated by the management of those funds, and are earmarked exclusively to cover liabilities to occupational insurance policyholders.

Occupational insurance is provided on the basis of the occupational insurance pension plan (hereinafter: pension plan), which was drafted in accordance with the provisions of the ZPIZ-2 and amended in 2018 due to a change in the contribution rate, and a reduction in the management and subscription fees.

Amendments to the pension plan were approved by the Minister of Labour, Family, Social Affairs and Equal Opportunities through a decision issued on 29 November 2017. That plan entered into force on 1 January 2018, with the exception of Article 29, which has been in force since 1 February 2018. The amended rules on the management of the SODPZ (to which the Securities Market Agency gave its consent on 20 December 2017) also entered into force on 1 February 2018.

In accordance with the amended pension plan, a differentiated contribution rate is in force for the period from 1 January 2018 to 30 June 2019. The contribution rate remains 8% for policyholders whose insurance period was increased by a bonus until 31 December 2000. For policyholders whose insurance period was not increased by a bonus until 31 December 2000, the contribution rate is as follows: 8.2% for positions in categories 1 and 2; 8.4% for positions in category 3; and 8.8% for positions in categories 4 and 5.

The SODPZ had 47,628 policyholders as at 31 December 2018. The actual return of the SODPZ was -1.30% in 2018, compared with the guaranteed return of 0.48% in the same period. The actual return of the SODPZ was reduced by the creation of solidarity reserves because the latter are deducted in the calculation of the net value of SODPZ assets. The balance of solidarity reserves was EUR 3,281,573 as at 31 December 2018. The net value of SODPZ assets was EUR 718,898 thousand on the final accounting day of 2018 (31 December 2018), and exceeded the guaranteed value of assets (EUR 677,770 thousand) by EUR 41,128 thousand. The SODPZ held a total of 837,059,819 units in circulation at the end of 2018.

As the manager of the SODPZ and in accordance with the pension plan, Kapitalska družba was entitled in 2018 to the reimbursement of subscription and redemption fees, to an annual management fee and fees for the payment of occupational pensions. The percentages of subscription and management fees were lowered, effective 1 February 2018, under the new pension plan. Subscription fees are charged as a percentage of incoming payments, which was 2.3% until 31 January 2018 and 2.0% from 1 February 2018 on. Redemption fees are charged as a percentage of outgoing payments. That percentage was unchanged under the new pension plan and was 0.5% throughout 2018. Redemption fees are not charged in the event of a transfer to supplementary insurance or due to the buyout of years of service. Fees for the payment of occupational pensions were unchanged under the new pension plan and amounted to 0.5% throughout 2018. Taking into account the net value of SODPZ assets, the maximum annual management fee was 1.0% of the average annual net value of fund assets until 31 January 2018, and was 0.88% of the average annual net value of fund assets from 1 February 2018 on.

Kapitalska družba's revenue from management of the SODPZ amounted to EUR 7,366 thousand in 2018, broken down as follows: EUR 6,297 thousand in management fees, EUR 1,046 thousand in subscription fees, EUR 5 thousand in redemption fees and EUR 18 thousand in fees for the payment of occupational pensions. The reason for the lower revenue in 2018 relative to the previous year lies in the lowering of the percentages of subscription and management fees, effective 1 February 2018.

Table 13: Kapitalaska družba's revenue from management of the SODPZ in 2018 and 2017

REVENUE FROM MANAGEMENT ACTIVITIES	in EUR 000	
	2018	2017
Management fees	6,297	6,748
Subscription fees	1,046	1,144
Redemption fees	5	5
Fees for the payment of occupational pensions	18	21
Total	7,366	7,918

6.7.1.2 SODPZ investments

The manager manages fund assets in such a way as to achieve, at a minimum, the guaranteed return in the context of minimal risk, while taking into account liquidity criteria. The manager allocates fund investments to ensure that they are appropriately diversified and that they do not exceed legal limits and the limits set out in the rules on the management of the SODPZ regarding the types of investments allowed and the level of assets held in specific types of investments.

The measure of the fund's performance is the latter's guaranteed return, which is determined on a monthly and annual basis.

The main objective of management in 2018 was to increase the actual value of assets over their guaranteed value, while maximising the amount of the expected surplus in the context of the targeted level of risk.

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

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

The value of SODPZ assets stood at EUR 724,361 thousand as at 31 December 2018, an increase of 3.3% relative to 2017. The overall portfolio comprises a globally diversified portfolio of equity and debt investments, with investments in debt securities accounting for the highest proportion of assets.

Table 14: Composition of SODPZ investments as at 31 December 2018 and 31 December 2017

CLASS	in EUR 000			
	2018		2017	
	Value	Proportion	Value	Proportion
Shares	4,885	0.7%	5,070	0.7%
Debt securities	303,558	41.9%	296,090	42.2%
Deposits and loans	96,862	13.4%	150,365	21.5%
Investment coupons	284,893	39.3%	197,524	28.2%
Cash and cash equivalents	34,089	4.7%	52,106	7.4%
Receivables	74	0.0%	30	0.0%
Total	724,361	100.0%	701,185	100.0%

The fund's exposure to currency risk was down slightly in 2018, as the proportion of securities denominated in foreign currencies declined from 2.9% to 1.1%, excluding the effect of changes in exchange

rates associated with securities that form a specific investment fund. The currency in which the underlying instrument is denominated is taken into account when monitoring the composition of financial assets in terms of currency.

6.7.2 Activities in the provision of occupational insurance in 2018

Based on the decision under which the Ministry of Labour, Family, Social Affairs and Equal Opportunities approved amendments to the occupational pension insurance plan, those changes entered into force on 1 January 2018, with the exception of the provision regarding costs reimbursed to the manager, which entered into force on 1 February 2018. The new pension plan resulted in a change in the contribution rate (differentiated contribution rate), and lower subscription and management fees.

Kapitalska družba successfully replaced previous IT support in 2018 and began using new application support for the management of SODPZ policyholder records.

The provision of occupational insurance continued in 2018, together with the updating of SODPZ business processes, in particular occupational retirement and the payment of occupational pensions.

Using all communication channels, Kapitalska družba regularly notified policyholders and liable persons with regard to activities and changes in the area of occupational insurance, and communicated with all other stakeholders in the area of occupational insurance and notified them about activities and developments in the resolution of current occupational insurance issues. Kapitalska družba also regularly informed the SODPZ Committee, which met three times in 2018, with regard to all activities and challenges in the area of occupational insurance.

6.7.3 Bridging insurance fund for professional athletes

The bridging insurance fund for professional athletes or bridging fund for athletes (PSŠ) was established on 1 September 2016 with the aim of ensuring the social security of professional athletes following the end of their active sporting career.

In accordance with the Bridging Insurance for Professional Athletes Act (ZPZPŠ-1), Kapitalska družba carried out all necessary activities for the establishment and functioning of the PSŠ. Despite efforts to the contrary, no policyholders were included in the PSŠ and no contributions for bridging insurance were received by 30 June 2018.

Reasons for the liquidation of the PSŠ thus arose on 30 June 2018. Kapitalska družba informed the Securities Market Agency and the Ministry of Education, Science and Sport of the reasons for the liquidation of the PSŠ. The PSŠ was deleted from the Business Register of Slovenia at the Agency of the Republic of Slovenia for Public Records and Services on 19 July 2018, bringing to a conclusion the liquidation of the PSŠ.

6.8 INFORMATION TECHNOLOGY

The development of information technology at Kapitalska družba was carried out in two main areas in 2018: with regard to the provision of software support for Kapitalska družba's business processes and with regard to the Kapitalska Družba Group's IT infrastructure.

Software support for business processes was characterised in 2018 by the completion of the project to introduce integrated information support for the management of two of the Company's key processes: the management of Kapitalska družba's assets and fund management. The INvest2 and in Insurance2 software packages were installed in the information system for use in the regular work process. The completion of the project was the result of successful and intensive inter-departmental cooperation, as the content-related aspects linked to the work process that the software solution must support are more important than the technological aspects in such projects. The introduction of integrated support also brought changes in the processes of the organisational unit responsible for information technology and thus affected related work duties. The necessary organisational adaptations were carried out as part of the comprehensive reorganisation of Kapitalska družba completed in 2018.

The main steps in the development of the Kapitalska Družba Group's IT infrastructure were taken in the direction of increasing the ability to integrate the information system with cloud services, while considerable efforts were invested in the upgrading and maintenance of an IT infrastructure in which it will be possible to successfully and effectively develop the Group's IT services in the future. Most important were the upgrading of the security back-up system and the replacement of the system of firewalls through which we connect to the internet. The security back-up system plays an important role in ensuring business continuity and in ensuring the functioning of the information system from the back-up location. The security back-up system was replaced with a new system in which the security back-up function and system redundancy function at the back-up location are combined. In this way, we reduced the number of tools and level of specific knowledge required. This in turn led to the simplification of the work process, which can now be carried out more effectively. With regard to firewalls, improvements that were the result of the introduction of newer and higher-capacity technological solutions were accompanied by the preparation of the infrastructure for the increased reliability of the connection to the internet through at least two independent internet service providers. The search for opportunities to optimise costs through the use of cloud services requires a reliable and a highly available internet connection, through which the internal information system is linked with cloud services.

In addition to its functional aspects, the Information Technology Sector has also been characterised by information security for several years. The General Data Protection Regulation (GDPR) entered into force in 2018.

6.9 SIGNIFICANT BUSINESS EVENTS AFTER THE END OF 2018

Bachtiar Djalil began a new four-year term of office on 3 January 2019 as President of the Company's Management Board.

On 2 February 2019, the General Meeting appointed Dr Boris Žnidarič, Mirko Miklavčič and Ladislav Rožič, MSc to four-year terms of office as members of Kapitalska družba's Supervisory Board. Dr Žnidarič was elected Deputy Chairman of the Supervisory Board on 21 February 2019.

In January and February 2019, Kapitalska družba paid up EUR 815 thousand for the recapitalisation of Sava, d. d. and thus acquired 815 thousand new shares.

Based on an agreement on the instalment sale of shares concluded in 2017, the capital investment in KDD, d. d. was sold in its entirety in January 2019.

Kapitalska družba will assess the takeover bid for shares in Perutnina Ptuj, d. d., which was published on 27 March 2019 by Hemiak Investments Limited, Cyprus, a subsidiary of MHP SE from Ukraine.

Expected development of Kapitalska družba, d. d. in 2019

With the adoption of the strategy for the period 2019–2021, the Supervisory Board of Kapitalska družba defined the core business policies for the next three-year period. We have built the vision of the Company's strategic development on business excellence, which facilitates the generation of long-term value for the pension system, policyholders and occupational pensioners. As a strategically oriented organisation, we ensure our future through operations that are based on a comprehensive vision, mission, values, ethics and corporate governance. The Company is a sound and reputable financial institution that has been setting the standards for high-quality and reliable operations in the area of pension insurance and asset management since its establishment. Through the successful provision of occupational insurance, Kapitalska družba is becoming an increasingly important element of the Slovenian pension system. Together with the subsidiary Modra zavarovalnica, the Kapitalska Družba Group is by far the largest provider of voluntary supplementary pension insurance in Slovenia.

Kapitalska družba will again face a demanding and intensive year in 2019. Evidence of this are the dynamic conditions on the global financial markets and the eventful Slovenian political and economic environment. The Company's internal activities will focus on the upgrading and maintenance of new software to support asset and fund management, the digitalisation of the physical archive, the establishment of a document system and real estate management.

Despite the provisions of the ZSDH-1, which envisaged the transformation of Kapitalska družba into an independent and autonomous demographic reserve fund by no later than the end of 2015, no separate act to serve as the basis for that transformation has been adopted to date. Thus, both the framework of future arrangements and the timing of that transformation remain unknown. The main characteristics of the future demographic reserve fund, new sources, future liabilities, the composition of assets and thus the fund's investment policy remain undefined. Nevertheless, Kapitalska družba's mission has been the same since its inception and in conceptual terms entails performing the function of a demographic reserve fund to the extent set out in regulations. A transfer to the pension fund by Kapitalska družba in the maximum possible amount envisaged by the ZSDH-1, i.e. EUR 50 million, is planned this year. The fulfilment of our legal obligation requires the effective management of capital investments and the continued accelerated transformation of Kapitalska družba into a portfolio investor. In 2019, we will continue the sale of Slovenian government equity investments and the placement of proceeds into liquid portfolio investments. We will adapt our activities to the unstable conditions on the global financial markets, low interest rates and lower forecasts of economic growth. We will also update our umbrella investment policies and portfolio management investment policies.

In managing SODPZ assets, we will also take into account expected developments on the financial markets and the level of the guaranteed return. We will define changes to the target structure of investments taking into account assessments of developments on the financial markets and other factors that affect the fund's performance. The objective of investing is to achieve a higher-than-guaranteed return in the context of an acceptable level of risk. The effective management of risks is of increasing importance in a globalised world of rapid changes and difficult business challenges. To that end, we will implement and upgrade a comprehensive risk management system during the strategic period with key building blocks

for identifying and understanding assumed risks and measures to effectively manage those risks. We are integrating the effective risk management culture into the Company's organisational culture.

As the manager of the SODPZ (the second largest mutual pension fund in terms of size, with the fastest growth in assets), Kapitalska družba will work actively with all stakeholders in the occupational insurance system, both via the fund's committee and directly. In providing compulsory supplementary pension insurance, the Company is guided by concern for policyholders and their employers, and for occupational pensioners. We will therefore continue to strive to be one of the most successful pension savings managers in Slovenia, and to ensure that systematic pension solutions are aimed at providing higher-quality and safer forms of insurance. In this way, we will contribute as much as possible to the improved pension stability of occupational insurance policyholders and pensioners.

Through the replacement of the information system used to manage core assets and funds, Kapitalska družba has migrated to a stable technological platform, on which a well-established regional service provider is developing and maintaining software for the management of assets and funds. The main task of the Information Technology Sector in 2019 will be the stabilisation of IT solutions following the introduction of the new information system. We will update business processes that are changing due to both optimisation and compliance with legislative changes. We will also finalise the establishment of our own data warehouse, which will increase our independence from an external supplier, while facilitating increased flexibility in the management of data. Another important task for the aforementioned sector in 2019 will be cooperation and coordination with external contractors in the computerisation of business processes, with the help of internal users. With regard to ensuring the security, reliability and availability of the information system, we will dedicate a great deal of attention to the timely detection and rectification of potential vulnerabilities in the infrastructure and the information system.

The development of employees represents a key area for the Company. We will therefore continue in the future with the development of the values required for the long-term success of the Company, and with the strengthening of the culture of commitment, cooperation and respect. Through the personal inclusion of employees in development and their contributions to the achievement of the Company's objectives, we will stimulate employees' sense of affiliation and cohesiveness, and their identification with the Company's mission and vision. Because employees are a key resource for achieving results, employee competences represent one of the Company's strategic assets. We will thus guide them to the achievement of established strategic objectives, and encourage their professional and personal growth. We will facilitate their successful career development through training, education and various forms of motivation. Special attention will be given to the development of management and other key staff, as we are aware that such employees are the most difficult to replace due to the specific knowledge, skills and competences that they possess. We will promote the transfer of knowledge within the Company, and formulate and implement measures for successful intergenerational cooperation and the sharing of knowledge between generations. We will establish a mentoring system that will facilitate the effective internal transfer of specific knowledge and experiences. In the scope of that system, we will also promote active intergeneration cooperation and integration, with the aim of exploiting the knowledge and strengths of every generation. Through the formulation of a diversity policy, we will take an even more effective approach to ensuring equal opportunities for all employees, and ensure their equal inclusion and authorisation. We will introduce the regular measurement of the organisational climate, and the satisfaction and commitment of employees, and update key HR indicators.

In 2019, we will begin the establishment of a corporate integrity system with the elements set out in the Slovenian Corporate Integrity Guidelines. That system will include a fraud prevention system. Future internal audit activities and advisory tasks will continue to be based on an assessment of risks at the Company that could threaten the achievement of strategic objectives and the successful implementation of strategic activities to achieve those objectives. The annual planning of the Internal Audit Department's work will be updated with a strategic plan that will include all relevant areas for the achievement of the Company's strategic objectives and take into account assessed risks. We are also planning the establishment of a document system, through which we will reduce material costs, increase transparency over documents, make searching for documents quicker and increase employee productivity.

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. We will continue to actively develop economic, financial and pension standards that relate to our operations.

Social responsibility

8.1 RESPONSIBILITY TO THE WIDER SOCIAL COMMUNITY

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

The ZSDH-1 resulted in a change to previous arrangements regarding the transfer to the budget of the ZPIZ. In accordance with the third paragraph of Article 52 of the ZSDH-1, the annual obligation to the ZPIZ depends on the amount of the adjustment of pensions, which is limited to EUR 50 million. Notwithstanding the aforementioned, Kapitalska družba transferred EUR 50,000 thousand to the ZPIZ in 2018 based on the provisions of the ZIPRS1819. Kapitalska družba has transferred the cumulative amount of EUR 814,321 thousand to the budget of the ZPIZ.

8.2 RESPONSIBILITY TO EMPLOYEES

8.2.1 Concern for employee training

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

Employees participated in training programmes in the following areas in 2018: finance and accounting, corporate governance, real estate management, public procurement, the prevention of money laundering and terrorist financing, archiving, internal controls, legal issues, information security and risk management. Six management employees participated in a training and management programme.

In accordance with its education and training plan, Kapitalska družba organised internal training programmes in 2018 on the following topics: external and internal reporting, the prevention of money laundering and terrorist financing, personal data protection in terms of the GDPR, information security in the workplace, and public procurement. Kapitalska družba and Modra zavarovalnica organised training regarding investment restrictions and the management of risks associated with the investment process, as set out in regulations and seen in practice.

Kapitalska družba promotes continuing education and the acquisition of higher levels of education and various licences in the employer's interest. This improves the quality of the work process and improves

employees' qualifications for work in a specific position.

Two employees received training to obtain the professional knowledge required to perform the tasks of certified business valuer. One employee is completing training to obtain the professional knowledge required to perform the tasks of certified machinery and equipment valuer. One employee began training activities to take the exam for first-level chartered financial analyst (CFA). One employee continued their judicial apprenticeship with the aim of taking the state bar exam.

8.2.2 Concern for a safe and healthy work environment

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

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

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

Kapitalska družba pays the maximum supplementary pension insurance premium for its employees in the amount of 5.844% of an employee's gross wages, or a maximum of EUR 234.92 a month.

The costs of employee premiums for voluntary supplementary pension insurance (MKPS) totalled EUR 118 thousand in 2018.

A family-friendly company

Kapitalska družba is aware of the importance and advantages of an active family-friendly policy at the Company that facilitates the balancing of work and family life. The Kapitalska družba team is diverse, with an average employee age of 45, and includes many young parents with small and school-age children who benefit from the effects of the Family-Friendly Company certificate to the maximum extent possible. The balancing of career development and family life has become part of our organisational culture, which today is frequently a challenge, as the boundaries between career and private life are becoming increasingly blurred. Kapitalska družba received the Family-Friendly Company certificate in 2010, which was subsequently upgraded to the full certificate. Following an audit of the three-year period following the receipt of the full certificate, the Company received special recognition for spreading the family-friendly company culture in Slovenia. Through the adoption of measures, the Company aims to ensure short-term and long-term positive effects on the lives of its employees. The 13 adopted measures include: communication with employees, opinion polls among employees, public relations, time account, children's time bonus, additional annual leave, the philosophy and concept of management, a reintegration plan following an extended absence, socialising among employees, the hiring of employees' families for temporary jobs at the Company, the giving of gifts to celebrate new-borns and New Year's gifts for children, and the education of managers in the area of balancing work and family. Among the most frequently employed measures are the time account, the children's time bonus (i.e. a day off

for the first day of primary school for the parents of children in grades 1 to 3), socialising between employees and the Management Board, and New Year's gifts and gifts for new-borns. In August 2018, we opened our doors for the second time to the children of our employees, who visited us to see where their parent go every day.

8.3 ENVIRONMENTAL RESPONSIBILITY

Use of electricity from renewable sources

A tender was issued in 2018 for the supply of electricity in accordance with the Decree on Green Public Procurement. Taking into account the provisions of the aforementioned decree, the Company signed an agreement on the supply of 80% of electricity produced from renewable sources. Energy that is produced from environmentally friendly, renewable sources does not use fossil fuels, while the production of energy from renewable sources does not drain natural resources. Thus, the burden on the environment from greenhouse gases, harmful emissions and radioactive waste is reduced.

Sanitary materials with the Ecolabel environmental sticker

A tender was issued in 2018 for the procurement of sanitary materials, based on which the Company will order products bearing the Ecolabel environmental sticker, in Slovenia also known as the 'environmental daisy'. Products or services that are recognised within a specific category as meeting predefined conditions and environmental criteria are eligible for the Ecolabel sticker. The environmental criteria for the awarding of the Ecolabel are in line with the requirements of the ISO 14024 standard, and are prescribed in the decisions of a committee that defines precise environmental criteria for a specific group of products or services. The method for implementing the scheme is defined in Regulation (EU) No 66/2010 on the EU Ecolabel.

Report on relations with the subsidiary

As the parent company, Kapitalska družba holds a 100% participating interest in Modra zavarovalnica. No transactions were executed between the parent company and the aforementioned subsidiary in 2018 under conditions that deviated from market conditions.

Lease of business premises

Modra zavarovalnica leases business premises from Kapitalska družba. A lease agreement was concluded in 2011 and extended by annex until September 2019. Effective 1 January 2019, the lessee leased additional business premises on the fifth floor, such that the total monthly lease payment for equipped premises measuring 1,799.17 m², 39 outdoor parking places and 12 parking places at Glavarjeva rezidenca amounts to EUR 35,573.23. The aforementioned rental fee also includes electricity costs.

Use of computer programs

In 2018, Modra zavarovalnica migrated in full to independent software solutions, and no longer leases the Kad.Net and AdTreasury software solutions from Kapitalska družba.

Provision of IT services

Kapitalska družba provides IT services for Modra zavarovalnica. Those services include the maintenance of workstations and other user devices, help desk services, internet access services, messaging system services, file and printing services, roaming services for business software in the test and production environments in Kapitalska družba's IT infrastructure, and the maintenance of the latter. The monthly fee includes the cost of labour of experts, the cost of hardware maintenance, the costs of system software licences and internet costs.

Agreement on the financing of the pension plan

Kapitalska družba has an agreement with Modra zavarovalnica on the financing of the PNMZK pension plan, which is implemented by the open Modri Umbrella Pension Fund (MKPS).

Indicators

	Value		Value of indicator	
	2018	2017	2018	2017
1. FINANCING RATIOS				
a) Equity financing ratio				
equity	963,888	978,323	0.92	0.88
total equity and liabilities	1,047,335	1,109,551		
b) Long-term financing ratio				
equity + long-term liabilities (including provisions) + long-term accruals and deferred income	992,866	1,055,889	0.95	0.95
total equity and liabilities	1,047,335	1,109,551		
2. INVESTMENT RATIOS				
a) Operating fixed asset investment ratio				
fixed assets (at carrying amount)	3,517	3,627	0.00	0.00
equipment	1,047,335	1,109,551		
b) Long-term investment ratio				
fixed assets + long-term deferred expenses and accrued revenue (at carrying amount) + investment property + long-term financial assets + long-term operating receivables	859,581	976,280	0.82	0.88
equipment	1,047,335	1,109,551		

in EUR 000

	Value		Value of indicator	
	2018	2017	2018	2017
3. HORIZONTAL FINANCIAL STRUCTURE RATIOS				
a) Equity to fixed assets ratio				
equity	963,888	978,323	274.07	269.73
fixed assets (at carrying amount)	3,517	3,627		
b) Acid test ratio				
liquid assets	18,182	33,127	0.33	0.62
short-term liabilities	54,469	53,561		
c) Quick ratio				
liquid assets + short-term receivables	71,492	84,343	1.31	1.57
short-term liabilities	54,469	53,661		
d) Current ratio				
short-term assets	159,701	108,363	2.93	2.02
short-term liabilities	54,469	53,661		
4. EFFICIENCY RATIOS				
a) Operating efficiency				
operating revenue	9,402	9,493	1.39	1.65
operating expenses	6,769	5,736		
5. PROFITABILITY RATIOS				
a) Net return on equity				
net profit/loss for the period	-31,131	5,864	-0.03	0.01
average equity (excluding net profit/loss for the period)	983,739	962,245		
b) Dividends to share capital ratio				
dividends for financial year	0	0	0.00	0.00
average share capital	364,810	364,810		

Corporate governance statement

In accordance with the provision of the fifth paragraph of Article 70 of the ZGD-1 and point 3.4 of the Corporate Governance Code for Companies with State Capital Investments, Kapitalska družba hereby issues its corporate governance statement for the period 1 January 2018 to 31 December 2018.

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

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

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

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

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

Point 3.2 of the Code: The management boards of public limited companies with capital assets of the state regardless of their ownership structure, and the management of large and medium-sized public limited companies and limited liability companies in which SDH has a controlling influence shall formulate and adopt a corporate governance policy in conjunction with the supervisory board. That policy shall define the principal guidelines regarding corporate

governance and the other content set out in Chapter II of the Slovenian Corporate Governance Code as regards the definition of the concept of 'governance policy'. The governance policy shall be adopted for the future period and shall be updated by the company so that it is in line at all times with regulations, the company's article of association, the state capital asset management strategy, applying Recommendation no. 3.1.1 of this Code *mutatis mutandis*, and current corporate governance guidelines. The governance policy shall include the date of the last update and shall be accessible on a company's public website.

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

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

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

Point 4.3 of the Code: The management and supervisory bodies of companies with capital assets of the State shall refrain from all communication with representatives of ministries regarding matters that relate to the exercising of membership rights arising from the capital assets of the State at a particular company with such assets.

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

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

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

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

into account by the supervisory board in the selection of that candidate.

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

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

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

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

Explanation: Kapitalska družba does not comply with the recommendation under sub-point 6.8.8 of the Code in full, because the Government of the Republic of Slovenia represents Kapitalska družba's General Meeting. In accordance with the provisions of the ZSDH-1, three members are appointed to the Supervisory Board based on SDH's proposal. Thus, in accordance with the Articles of Association, a proposal for candidates who are representatives of SDH is drafted by the latter's Management Board and the Supervisory Board informed of its selection. Two members are appointed on the basis of a proposal by national-level federations/organisations of pensioners, while one member is appointed on the basis of a proposal by national-level trade union federations or confederations.

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

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

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

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

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

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

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

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

Kapitalska družba's financial statements for every financial year are verified and audited by an external auditor. On the basis of the resolution passed by General Meeting on 14 June 2018, the Company's financial statements for 2018 were audited by Deloitte revizija d. o. o., Ljubljana.

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

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

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

IV. Holders of securities that provide special controlling rights

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

V. Restrictions on voting rights

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

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

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

The Supervisory Board of Kapitalska družba is appointed by the Company's General Meeting. The Supervisory Board comprises six members in accordance with the sixth paragraph of Article 51 of the ZSDH-1. Three members of the Supervisory Board are appointed on the basis of a proposal by SDH, while two members are appointed on the basis of a proposal by national-level federations/organisations of pensioners. One member is appointed on the basis of a proposal by national-level trade union federations or confederations. If an individual interest group does not formulate a proposal for the appointment of members of the Supervisory Board in the manner defined below, the General Meeting of the Company appoints missing members at its own discretion. The proposal for candidates to represent SDH is formulated by SDH's Management Board, which informs the Supervisory Board of its choice. The proposal for candidates to represent pensioners is formulated by national-level federations/organisations of pensioners, which inform the Supervisory Board of their choice. The proposal for a candidate to represent trade unions is voted on by representatives (electors) of national-level representative federations/confederations, which inform the Supervisory Board of their choice. Each representative federation/confederation has as many representatives as the number of representative trade unions

amalgamated within them. In addition to the representatives referred to in the preceding sentence, a federation/confederation shall each have one representative for every ten thousand members. Members of the Supervisory Board serve a four-year term of office and may be reappointed.

Members of the Management Board are appointed by the Supervisory Board on the basis of a public tender. One of the members of the Management Board is appointed the President thereof. Members of the Management Board serve a four-year term of office and may be re-appointed. The Management Board or its individual members may be recalled prior to the end of their term of office, but only for the reasons set out in the second paragraph of Article 268 of the ZGD-1. A violation of the Articles of Association of Kapitalska družba that is deemed to be a serious violation of obligations may constitute a reason of culpability resulting in recall.

The Articles of Association and amendments thereto are adopted by the General Meeting of Kapitalska družba at the proposal of the Management Board and Supervisory Board.

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

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

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

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

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

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

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

a) Supervisory Board

The responsibilities of the Supervisory Board are set out in the Company's Articles of Association, while its work method is governed by the aforementioned body's rules of procedure. A detailed description

of the activities and work method of the Supervisory Board in 2018 is given in the Report of the Supervisory Board. The Supervisory Board of Kapitalska družba functioned in the following composition in 2018¹²:

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

Three committees functioned within the Supervisory Board in 2018: an audit committee, an accreditation committee and an HR committee. The composition and work of the aforementioned committees are presented in the Report of the Supervisory Board.

b) Management Board

In accordance with the ZSDH-1 and the Company's Articles of Association, the Management Board has a minimum of two and a maximum of three members. The members of the Management Board are appointed to a four-year term of office by the Supervisory Board based on a public tender procedure. Kapitalska družba, d. d. was run by its Management Board in 2018 in the following composition:

- The President of the Management Board Bachtiar Djalil began his term of office on 2 January 2015.¹³
- Member of the Management Board Goranka Volf began her term of office on 24 November 2016.
- Member of the Management Board Gregor Bajraktarevič began his term of office on 7 February 2018.¹⁴

The President and member of Kapitalska družba's Management Board were appointed by the Supervisory Board in accordance with the Company's Articles of Association and the provisions of the ZSDH-1, on the basis of a public tender procedure.

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

The Management Board exercised its competences in 2018 in accordance with the rules of procedure of that body, reported regularly to the Supervisory Board and fulfilled its obligations to the shareholder, as set out in the ZGD-1 and ZSDH-1, in accordance with the Articles of Association.

12 The one-year terms of office of Stanislav Seničar and Aleksander Mervar, MSc expired in 2018. Both, however, were reappointed to new four-year terms of office, effective 30 August 2018, by the Company's General Meeting held on 14 June 2018. At the first session of the Supervisory Board following the start of his new term of office, Stanislav Seničar was reappointed Chairman of the Supervisory Board.

13 Mr Djalil began a new four-year term of office on 3 January 2019.

14 Gregor Bajraktarevič began his first term of office as temporary member of the Management Board on 6 February 2017. That term of office was for a period of one year from the day he assumed his function or until the transformation of Kapitalska družba into a demographic reserve fund, whichever occurs first.

Table 15: Composition of the Management Board during the 2018 financial year

NAME	Function (President, member)	Work area as member of the Management Board	First appointment to function	Completion of func- tion/term of office	Gender
Bachtiar Djalil	President	Legal and HR affairs, internal audit, risk management	1 January 2010	3 January 2023	M
Goranka Volf	Member	Pension fund management, finance and accounting, general affairs	24 November 2016	24 November 2020	F
Gregor Bajraktarević	Member	Asset management, IT and business processes	6 February 2017	7 February 2022	M

Table 16: Composition of the Supervisory Board and its committees during the 2018 financial year

NAME	Function (Chairman, Deputy Chairman, member)	First ap- pointment to function	Completion of function/term of office	Shareholder/ employee representative	Participation in Supervisory Board sessions with respect to total number (e.g. 5/7)	Gender	Natio- nality	Year of birth
Stanislav Seničar	Chairman	28 August 2013	30 August 2022	Shareholder representative	22/22	M	Slovene	1942
Boris Žnidarič	Deputy Chairman	1 February 2015	1 February 2023	Pensioner representative	22/22	M	Slovene	1948
Aleksander Mervar	Member	28 August 2013	30 August 2022	Shareholder representative	20/22	M	Slovene	1962
Natalija Stošički	Member	8 April 2016	8 April 2020	Pensioner representative	19/22	F	Slovene	1966
Cirila Surina Zajc	Member	1 February 2015	1 February 2019	Pensioner representative	22/22	F	Slovene	1949
Ladislav Rožič	Member	31 January 2011	1 February 2023	Trade union representative	22/22	M	Slovene	1957

Table 17: External members of Supervisory Board committees during the 2018 financial year

NAME	Committee	Participation in committee sessions with respect to total number (e.g. 5/7)	Gender	Nationality
Mojca Verbič	Audit committee	3/5	F	Slovene
Irena Prijović	Accreditation	2/3	F	Slovene
Alenka Stanič	Accreditation	3/3	F	Slovene
Gorazd Žmavc Member (since 27 September 2018)	Accreditation	/	M	Slovene

Nationality	Year of birth	Education	Professional profile	Membership in supervisory bodies of unaffiliated companies
Slovene	1975	Bachelor's degree in law	Corporate governance, management of pension and investment funds, economic and financial law	Gorenje, d. d. (until 17 September 2018), Loterija Slovenije, d. d., Modra zavarovalnica, d. d. (since 14 January 2019)
Slovene	1959	Bachelor's degree in economics	Pension fund management, corporate governance, corporate communications	Terme Čatež d. d.
Slovene	1975	Master's of science	Asset management, corporate governance, investment banking and corporate restructuring	Hit, d. d.

Education	Professional profile	Independence in accordance with point 6.6 of the Code (YES / NO)	Existence of conflicts of interest during the financial year (YES / NO)	Membership in supervisory bodies of other companies	Membership on committees (e.g. audit, human resource or remuneration)	Chair / member	Participation in committee sessions with respect to total number (e.g. 5/7)
Bachelor's degree in sociology	Corporate governance	Yes	No	/	/	/	/
Doctorate of science	Master's degree in law and other social sciences, qualified university professor	Yes	No	Krka, d. d. Modra zavarovalnica, d. d. (until 14 January 2019)	Accreditation	Chair	3/3
Master's of science	Finance, accounting, corporate governance, governance systems	Yes	No	Stelkom, d. o. o.	HR, audit, accreditation	Chair member, member	6/6 1/5 0/3
Bachelor's degree in economics	Financial services expert	Yes	No	Modra zavarovalnica, d. d. (until 9 April 2019)	Audit, HR	Member, member	5/5 6/6
Bachelor's degree in economics	Finance	Yes	No	/	Audit, HR	Member, member	4/5 6/6
Master's of science	Finance, corporate governance	Yes	No	/	Audit, accreditation	Chair, member	5/5 3/3

Education	Year of birth	Professional profile	Membership in supervisory bodies of unaffiliated companies
Bachelor's degree in economics	1975	Director of Finance and Business Support Sector	/
Master's of science	1968	Corporate governance	Uradni List, d. o. o. (since 14 November 2018)
Doctorate of science	1963	Adviser for key personnel	/
Lawyer	1947	Legal affairs	/

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


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

Gregor BAJRAKTAREVIĆ
Member of the
Management Board

Goranka VOLF
Member of the
Management Board

Bachtiar DJALIL
President of the
Management Board

Ljubljana, 14 May 2019



A tree that can barely be
embraced grew from a seed.
A tower nine stories high started
on a lump of soil.
A journey thousands of
kilometres long starts with a step.

A low-angle, upward-looking perspective of several modern skyscrapers with glass facades. The buildings are framed by a deep blue sky, creating a sense of height and architectural grandeur. The lines of the buildings converge towards the top of the frame.

Financial Report

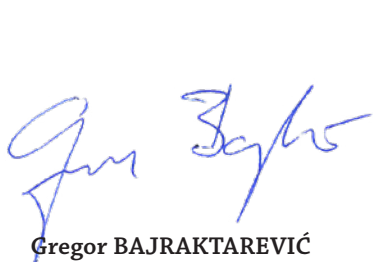
Statement of the Management's Responsibility

The Management Board of Kapitalska družba pokojninskega in invalidskega zavarovanja, d. d., approves the financial statements of the Company for the year ended 31 December 2018, and the accompanying notes and disclosures.

The Management Board confirms that the appropriate accounting policies were consistently applied, and that the accounting estimates were made under the principle of prudence and good management. The Management Board also confirms that the financial statements give true and fair presentation of the Company's financial position and the results of its operation for 2018.

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 applicable legislation and International Financial Reporting Standards (IFRS) as 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 Company's operations, which may lead to assessment of additional tax liabilities, default interest, and penalties with regards to corporate income tax or other taxes and duties. The Management Board is not aware of any circumstances that could give rise to possible material liability in this respect.



Gregor BAJRAKTAREVIĆ
Member of the
Management Board



Goranka VOLF
Member of the
Management Board



Bachtiar DJALIL
President of the
Management Board

Ljubljana, 14 May 2019

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 owner of Kapitalska družba pokojninskega in invalidskega zavarovanja, d.d.

Opinion

We have audited the financial statements of the Kapitalska družba pokojninskega in invalidskega zavarovanja, d.d. (hereinafter 'the Company'), which comprise the statement of financial position as at 31 December 2018, and the income statement, statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and cash flow statement for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU (hereinafter 'IFRSs').

Basis for Opinion

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

Other information

Management is responsible for the other information. The other information comprises the business report which is integral part of Annual report, but they do not include financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we express no assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, assess whether the other information is materially inconsistent with the financial statements, legal requirements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If based on our work performed we conclude that other information include material misstatement we need to report such circumstances. In relation to this and based on our procedures performed, we report that:

- Other information are, in all material respects, consistent with the financial statements;
- Other information are prepared in compliance with applicable law or regulation; and
- Based on our knowledge and understanding of the Company and its environment obtained in the audit, we did not identify any material misstatement of fact related to the other information.

Ime Deloitte se nanaša na Deloitte Touche Tohmatsu Limited, pravno osebo, ustanovljeno v skladu z zakonodajo Združenega kraljestva Velike Britanije in Severne Irske (v izvirniku »UK private company limited by guarantee«), in mrežo njenih članic, od katerih je vsaka ločena in samostojna pravna oseba. Podroben opis pravne organiziranosti združenja Deloitte Touche Tohmatsu Limited in njenih družb članic je na voljo na <http://www2.deloitte.com/si/en/pages/about-deloitte/articles/about-deloitte.html>

Družba članica Deloitte Touche Tohmatsu Limited.

Deloitte Revizija d.o.o. - Družba vpisana pri Okrožnem sodišču v Ljubljani - Matična številka: 1647105000 - ID št. za DDV: SI62560085 - Osnovni kapital: 74.214,30 EUR

Responsibilities of Management, Supervisory Board and Audit Committee for the Financial Statements

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

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

Supervisory Board and Audit Committee are responsible for overseeing the Company's financial reporting process and for approving audited annual report.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the organization to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

DELOITTE REVIZIJA d.o.o.

Barbara Žibret Kralj
Certified auditor

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

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

Ljubljana, 14 May 2019

TRANSLATION ONLY, SLOVENE ORIGINAL PREVAILS

Financial Statements for 2018

14.1 INCOME STATEMENT FOR THE PERIOD FROM 1 JANUARY 2018 TO 31 DECEMBER 2018

ITEM	Note	in EUR 000	
		1 Jan. to 31 Dec. 2018	1 Jan. to 31 Dec. 2017
1. Net sales revenue	1		
a) Sales to local companies in the Group		478	473
c) Revenue from sales on the domestic market		8,744	9,013
Total sales revenue		9,222	9,486
4. Other operating revenue (including operating revenues from revaluation)	2	180	7
Total revenue		9,402	9,493
5. Costs of goods, materials and services	3		
b) Costs of materials		-116	-123
c) Costs of services		-1,470	-1,456
Total costs of goods, materials and services		-1,586	-1,579
6. Labour costs	4		
a) Payroll costs		-2,481	-2,440
b) Social security insurance costs		-424	-394
c) Pension insurance costs		-118	-117
d) Other labour costs		-386	-231
Total labour costs		-3,409	-3,182
7. Amortisation, depreciation and write-offs	5		
a) Depreciation and amortisation		-1,066	-974
b) Operating expenses from revaluation of fixed assets		-388	0
Total write-downs		-1,454	-974

in EUR 000

ITEM	Note	1 Jan. to 31 Dec. 2018	1 Jan. to 31 Dec. 2017
8. Other operating expenses	6	-320	-1
Total costs		-6,769	-5,736
Operating profit (loss)		2,633	3,757
9. Financial income from participating interests	7		
a) Financial income from shares and interests in Group companies		3,511	2,965
b) Financial income from shares and interests in associates		1,218	2,624
c) Financial income from other shares and interests		26,443	38,481
d) Financial income from other investments		5,880	5,418
Total financial income from shares and interests		37,052	49,488
10. Financial income from loans granted	7		
b) Financial income from loans granted to others		129	282
Total financial income from loans granted		129	282
Total financial income		37,181	49,770
12. Financial expenses due to write-off and impairment of investments	8		
b) Financial expenses due to impairment and write-off of other investments		-2,249	-2,091
Total financial expenses due to impairment and write-off of investments		-2,249	-2,091
13. Financial expenses for financial liabilities	8		
d) Financial expenses for other financial liabilities		-50,007	-50,005
Total financial expenses for financial liabilities		-50,007	-50,005
Total financial expenses		-52,256	-52,096
Profit (loss) from ordinary activity		-12,442	1,431
15. Other revenue	9	162	230
16. Other expenses	10	-2	-60
Total profit (loss)		-12,282	1,601
17. Income tax	11	0	0
18. Deferred tax	12	-18,849	4,263
19. Net profit or loss for the period	13	-31,131	5,864

Disclosures and notes on pages 81 to 153 are a constituent part of financial statements.

14.2 STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE PERIOD FROM 1 JANUARY 2018 TO 31 DECEMBER 2018

in EUR 000

	1 Jan. to 31 Dec. 2018	1 Jan. to 31 Dec. 2017
Profit or loss for the period	-31,131	5,864
Items not to be reclassified subsequently to profit or loss	-15	0
Actuarial gains/losses	-15	0
Items that may be reclassified subsequently to profit or loss	26,271	26,731
Net change in fair value of instruments through other comprehensive income	26,271	26,731
Other comprehensive income for the year	-4,875	32,595

Disclosures and notes on pages 81 to 153 are a constituent part of financial statements.

14.3 STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

in EUR 000

ITEM	Note	31 Dec. 2018	31 Dec. 2017
ASSETS			
A. Long-term assets			
I. Intangible assets and long-term deferred costs and accrued revenues	14		
1. Long-term property rights		587	245
5. Other long-term deferred costs and accrued revenues		0	50,000
Total intangible assets		587	50,245
II. Property, plant and equipment	15		
2. Buildings		2,776	3,236
4. Other plant and equipment		154	146
Total property, plant and equipment		2,930	3,382
III. Investment property	16	20,982	16,020
IV. Long-term investments			
1. Long-term investments, except loans			
a. Shares and interests in Group companies	17	152,200	152,200
b. Shares and interests in associated companies	17	41,979	36,962

ITEM	Note	in EUR 000	
		31 Dec. 2018	31 Dec. 2017
c. Shares and interests in joint ventures	17	4,963	0
d. Other shares and interests	19	559,759	601,648
e. Other long-term investments	19	76,057	115,750
Total long-term investments, except loans		834,958	906,560
Total long-term investments		834,958	906,560
V. Long-term operating receivables			
3. Long-term operating receivables due from others	21	124	73
Total long-term operating receivables		124	73
VI. Deferred tax assets	12	28,053	24,908
Total fixed assets		887,634	1,001,188
B. Short-term assets			
I. Assets held for sale	18	14,418	1,940
III. Short-term investments			
1. Short-term investments, except loans	19		
d. Other short-term investments		41,463	3,163
Total short-term investments, except loans		41,463	3,163
2. Short-term loans	20		
b. Short-term loans to others		32,328	18,917
Total short-term loans		32,328	18,917
Total short-term investments		73,791	22,080
IV. Short-term operating receivables	21		
1. Short-term operating receivables due from Group companies		3	31
2. Short-term trade receivables		751	807
3. Short-term operating receivables due from others		2,493	354
4. Other short-term operating receivables		50,063	50,024
Total short-term operating receivables		53,310	51,216
V. Cash	22	18,182	33,127
Total short-term assets		159,701	108,363
Total assets		1,047,335	1,109,551

ITEM	Note	in EUR 000	
		31 Dec. 2018	31 Dec. 2017
EQUITY AND LIABILITIES			
A. Equity			
I. Called-up capital	23	364,810	364,810
II. Capital surplus	24	217,331	216,761
III. Revenue reserves	25	0	0
V. Fair value reserves	26	219,984	313,011
VI. Net profit or loss brought forward		192,894	77,877
VII. Net profit or loss for the year		-31,131	5,864
Total equity		963,888	978,323
B. Provisions and long-term accrued costs and deferred revenues			
	27		
I. Provisions for pensions and similar obligations		233	213
II. Other provisions		677	538
III. Long-term accrued costs and deferred revenues		0	1,544
Total provisions and accrued costs and deferred revenues		910	2,295
C. Long-term liabilities			
I. Long-term financial liabilities	29		
4. Other long-term financial liabilities		0	50,000
Total long-term financial liabilities		0	50,000
II. Long-term operating liabilities	28		
4. Long-term operating liabilities from advances		15	364
Total long-term operating liabilities		15	364
III. Deferred tax liabilities	12	28,053	24,908
Total long-term liabilities		28,068	75,272
D. Short-term liabilities			
II. Short-term financial liabilities	29		
4. Other short-term financial liabilities		3	0
Total short-term financial liabilities		3	0
III. Short-term operating liabilities	28		
2. Short-term trade payables		2,855	3,239
4. Short-term operating liabilities from advances		513	0
5. Short-term liabilities to the state		50,019	50,009
6. Other short-term operating liabilities		1,079	413
Total short-term operating liabilities		54,466	53,661
Total short-term liabilities		54,469	53,661
Total equity and liabilities		1,047,335	1,109,551

Disclosures and notes on pages 81 to 153 are a constituent part of financial statements.

14.4 CASH FLOW STATEMENT FOR THE PERIOD FROM 1 JANUARY 2018 TO 31 DECEMBER 2018

in EUR 000

ITEM	1 Jan. to 31 Dec. 2018	1 Jan. to 31 Dec. 2017
A. Cash flows from operating activities		
a) Net profit or loss and adjustments		
Profit or loss before tax	-12,282	1,601
Adjustments for amortisation and depreciation	1,066	974
Adjustments for revaluation operating expenses	388	0
Adjustments for financial income from financing	-37,181	-49,770
Adjustments for financial expenses from financing	52,256	52,328
Total income statement items	4,247	5,133
b) Changes in net operating current assets - operating items in the balance sheet		
Opening less closing operating receivables	-2,106	47
Opening less closing deferred costs and accrued revenues	-39	18
Opening less closing deferred tax assets	-3,145	-4,757
Opening less closing assets (disposal groups) held for sale	-12,478	5,367
Closing less opening operating liabilities	229	251
Closing less opening accrued costs and deferred revenues, and provisions	-809	-3,797
Closing less opening deferred tax liabilities	3,145	4,757
Total items of net current assets - operating items in the balance sheet	-15,203	1,886
c) Net cash from (used in) operating activities	-10,956	7,019
B. Cash flows from investing activities		
a) Cash receipts from investing activities		
Receipts from interest and dividends received from investing activities	27,400	25,781
Receipts from disposal of property, plant and equipment	4	7
Receipts from disposal of long-term investments	65,445	32,552
Receipts from disposal of short-term investments	4,695	58,616
Total cash receipts from investing activities	97,544	116,956
b) Cash disbursements for investing activities		
Disbursements to acquire intangible assets	-431	-218
Disbursements to acquire property, plant and equipment	-79	-35
Disbursements to acquire investment property	-5,795	-324

ITEM	in EUR 000	
	1 Jan. to 31 Dec. 2018	1 Jan. to 31 Dec. 2017
Disbursements to acquire long-term investments	-29,553	-66,946
Disbursements to acquire short-term investments	-17,481	-4,000
Total cash disbursements for investing activities	-53,339	-71,523
c) Net cash from (used in) investing activities	44,205	45,433
C. Cash flows from financing activities		
a) Cash receipts from financing activities		
Capital increase and effect of free acquisition of investments	570	141
Receipts from increase in long-term financial liabilities	1,236	2,396
Total cash receipts from financing activities	1,806	2,537
b) Cash disbursements for financing activities		
Cash repayments of long-term financial liabilities	-50,000	-50,000
Total cash disbursements for financing activities	-50,000	-50,000
c) Net cash from (used in) financing activities	-48,194	-47,463
D. Closing balance of cash		
a) Net cash for the period	-14,945	4,989
b) Opening balance of cash	33,127	28,138
c) Total closing balance of cash	18,182	33,127

Disclosures and notes on pages 81 to 153 are a constituent part of financial statements.

14.5 STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD FROM 1 JANUARY 2018 TO 31 DECEMBER 2018

in EUR 000

	Share capital	Capital surplus	Reserves arising from valuation at fair value	Net profit or loss brought forward	Net profit or loss for the year	Total
A. 1. Balance as at 31 Dec. 2017	364,810	216,761	313,011	77,877	5,864	978,323
b) Retrospective adjustments (change in accounting policies)	0	0	-119,283	119,218	0	-65
A. 2. Balance as at 1 Jan. 2018	364,810	216,761	193,728	197,095	5,864	978,258
B. 1. Changes in equity – transactions with owners	0	570	0	0	0	570
d) Additional payments of capital	0	570	0	0	0	570
B. 2. Total comprehensive income for the period	0	0	26,256	0	-31,131	-4,875
a) Net profit or loss for the period	0	0	0	0	-31,131	-31,131
d) Change in surplus from revaluation of financial investments	0	0	26,271	0	0	26,271
e) Other components of comprehensive income for the period	0	0	-15	0	0	-15
B. 3. Changes in equity	0	0	0	-4,201	-5,864	-10,065
a) Allocation of the remaining net profit for the comparative period to other equity components	0	0	0	5,864	-5,864	0
g) Other changes in equity	0	0	0	-10,065	0	-10,065
C. Closing balance as at 31 Dec. 2018	364,810	217,331	219,984	192,894	-31,131	963,888

Disclosures and notes on pages 81 to 153 are a constituent part of financial statements.

In 2018, the capital surplus increased by EUR 570 thousand on account of additional assets received in accordance with the Ownership Transformation of Companies Act.

14.6 STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD FROM 1 JANUARY 2017 TO 31 DECEMBER 2017

in EUR 000

	Share capital	Capital surplus	Reserves arising from valuation at fair value	Net profit or loss brought forward	Net profit or loss for the year	Total
A. 1. Balance as at 31 Dec. 2016	364,810	216,619	286,280	77,877	0	945,586
A. 2. Balance as at 1 Jan. 2017	364,810	216,619	286,280	77,877	0	945,586
B. 1. Changes in equity – transactions with owners	0	142	0	0	0	142
d) Additional payments of capital	0	142	0	0	0	142
B. 2. Total comprehensive income for the period	0	0	26,731	0	5,864	32,595
a) Net profit or loss for the period	0	0	0	0	5,864	5,864
d) Changes in reserves arising from valuation of investments at fair value	0	0	26,731	0	0	26,731
B. 3. Changes in equity	0	0	0	0	0	0
C. Closing balance as at 31 Dec. 2017	364,810	216,761	313,011	77,877	5,864	978,323

Disclosures and notes on pages 81 to 153 are a constituent part of financial statements.

14.7 DISTRIBUTABLE PROFIT FOR 2018

in EUR 000

	31 Dec. 2018	31 Dec. 2017
a Net profit or loss for the year	-31,131	5,864
b + Net profit or loss brought forward	192,894	77,877
e Distributable profit (a+b) distributed by the General Meeting of Shareholders	161,763	83,741

In 2018, Kapitalska družba, d. d. disclosed distributable profit in the amount of EUR 161,762,790.24.

Disclosures and notes

15.1 IMPACT OF TRANSITION FROM IAS 39 TO IFRS 9

Some investments that were classified as at 31 December 2017 as financial assets available for sale (AFS) in accordance with IAS 39 were reclassified as at 1 January 2018 due to the implementation of the new IFRS 9 standard to the category of fair value through profit or loss (FVTPL). For these investments, the accumulated reserves arising from valuation at fair value amounting to EUR 3,419 thousand were transferred to retained earnings as at 1 January 2018. For investments that were classified as at 31 December 2017 in accordance with IAS 39 as financial assets available for sale and that remained classified in accordance with IFRS 9 as at 1 January 2018 at fair value through other comprehensive income and were permanently impaired in previous years, Kapitalska družba, d. d. recognised the mentioned impairments as a decrease in reserves arising from valuation at fair value and increased retained earnings by EUR 115,864 thousand. The transition to IFRS 9 as at 1 January 2018 also resulted in recognition of EUR 65 thousand credit losses from debt securities impacting retained earnings.

Table 18: Impact of transition from IAS 39 to IFRS 9 on retained earnings as at 1 January 2018

in EUR 000

	Reserves arising from valuation at fair value	Retained earnings
Reclassification of investments from available for sale (IAS 39) to fair value through profit or loss (IFRS 9)	-3,419	3,419
Transfer of permanent impairments	-115,864	115,864
Recalculation of credit losses	0	-65
Total	-119,283	119,218

Table 19: Reconciliation of balances from the statement of financial position under IAS 39 to IFRS 9 as at 1 January 2018

FINANCIAL ASSETS	Carrying amount as at 31 Dec. 2017 (IAS 39)	Reclassifications	Remeasurements	in EUR 000	
				Carrying amount as at 1 Jan. 2018 (IFRS 9)	Profit or loss brought forward as at 1 January 2018
	1	2	3	(4) = (1) + (2) + (3)	
Deposits and successive deposits	47,939	0	0	0	0
Decreases:					
To amortised cost	0	-47,935	0	0	0
To fair value through profit or loss	0	-4	0	0	0
Total change in deposits and successive deposits	47,939	-47,939	0	0	0
Amortised cost	17,520	0	-2	65,419	-37
Increases:					
From deposits and successive deposits	0	47,935	-35	0	0
From available for sale	0	0	0	0	0
From fair value through profit or loss	0	0	0	0	0
Decreases:					
To fair value through other comprehensive income	0	0	0	0	0
To fair value through profit or loss	0	0	0	0	0
Total change in amortised cost	17,520	47,935	-37	65,419	-37
Fair value through profit or loss	5,358	0	0	35,824	0
Increases:					
From deposits and successive deposits	0	4	0	0	0
From held to maturity	0	0	0	0	0
From fair value through other comprehensive income	0	0	0	0	0
Equity instruments	0	35,818	0	0	3,419
Held for trading	0	0	0	0	0
Debt instruments	0	0	0	0	0

FINANCIAL ASSETS	in EUR 000				
	Carrying amount as at 31 Dec. 2017 (IAS 39)	Reclassifications	Remeasurements	Carrying amount as at 1 Jan. 2018 (IFRS 9)	Profit or loss brought forward as at 1 January 2018
Mandatorily measured at fair value through profit or loss	0	0	0	0	0
Decreases:					
To fair value through other comprehensive income	0	0	0	0	0
Equity instruments	0	0	-4,759	0	0
Debt instruments	0	0	-596	0	0
To amortised cost	0	0	0	0	0
Total change in fair value through profit or loss	5,358	35,822	-5,355	35,824	3,419
Fair value through other comprehensive income	888,785	0	0	858,322	115,836
Increases:					
From held to maturity	0	0	0	0	0
From fair value through profit or loss	0	0	0	0	0
Equity instruments	0	4,759	0	0	0
Debt instruments	0	596	0	0	0
Decreases:					
To fair value through profit or loss	0	0	0	0	0
Equity instruments	0	-35,818	0	0	0
Debt instruments	0	0	0	0	0
To amortised cost	0	0	0	0	0
Total change through other comprehensive income	888,785	-30,463	0	858,322	115,836

15.2 GENERAL DISCLOSURES

Company profile

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

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

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

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

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

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

The Supervisory Board of Kapitalska družba is appointed by the Company's General Meeting of Shareholders. In compliance with Article 51(6) of ZSDH-1, the Supervisory Board is composed of six members. Three members of the Supervisory Board are appointed on the proposal of Slovenski državni holding, d. d. (Slovenian Sovereign Holding – SDH), two members on the proposal of the pensioners' organisations at the state level 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 General Meeting of Shareholders. The candidates from among the representatives of SDH, d. d. are proposed by the Management Board of the Slovenian Sovereign Holding, which informs the Supervisory Board about the selection. The candidates from among the representatives of the pensioners are proposed by the pensioners' organisations and associations at the state level, which inform the Supervisory Board about the selection. The candidates from among the representatives of the trade unions are elected by the representatives (electors) of the representative government-level trade union associations or confederations, which inform the Supervisory Board about the selection. Any representative association or confederation has the number of representatives equal to the number of the representative trade unions it comprises. In addition to the representatives referred to in the previous sentence, the association or confederation elects another representative for every ten thousand members. The term of office of the Supervisory Board members is four years with the possibility of re-appointment.

Information about the controlling entity

Kapitalska družba does not have a controlling entity.

Information about the subsidiary

The subsidiary of Kapitalska družba, d. d. as at 31 December 2018 is presented in the table below.

SUBSIDIARY	Country	Share in equity	in EUR 000	
			Equity as at 31 Dec. 2018	Net profit/loss for 2018
Modra zavarovalnica, d. d.	Slovenia	100.00%	235,773	6,350

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

Basic information about Modra zavarovalnica, d. d.

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

As at 31 December 2018, the sole shareholder of Modra zavarovalnica, d. d., was Kapitalska družba. Share capital of the insurance company amounts to EUR 152,200,000. Share capital is divided into 152,200,000 ordinary registered no-par value shares. Each share has the same interest and the corresponding amount in the share capital.

Modra zavarovalnica, d. d. is performing the activities within the group of life insurance products pursuant to the Insurance Act (ZZavar-1) and the decision issued by the Insurance Supervision Agency allowing the company to perform insurance transactions for the following types of insurance:

- accident insurance – Article 7, paragraph 2, item 1 of ZZavar-1;
- life insurance – Article 7, paragraph 2, item 19 of ZZavar-1;

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

65.110 Life insurance

65.120 Non-life insurance (only the insurance business under the classes of insurance involving accident and health insurance)

65.300 Pension funding

66.210 Risk and damage evaluation

66.220 Activities of insurance agents and brokers

66.290 Other activities auxiliary to insurance and pension funding

66.300 Fund management activities

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

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

Joint venture information

Joint venture of Kapitalska družba as at 31 December 2018 is presented in the table below.

JOINT VENTURE	Country	Share in equity	in EUR 000	
			Equity as at 31 Dec. 2018	Net profit/loss for 2018
Hotelske nepremičnine, d. o. o.	Slovenia	50.00%	9,983	57

Basic information about Hotelske nepremičnine, d. o. o.

On 2 October 2018, Kapitalska družba, d. d., founded Hotelske nepremičnine, d. o. o. in conjunction with Modra zavarovalnica, d. d. The company's equity totals EUR 25,000.00 and the founders hold a 50% interest each. The company was founded for the purchase of real estate of San Simon resort.

Data on consolidation

Kapitalska družba is, as the controlling company, obligated to prepare consolidated financial statements. The consolidated financial statements of the Kapitalska družba Group for 2018 are presented in a special document entitled the Consolidated Annual Report of the Kapitalska družba Group for 2018.

The Annual Report of Kapitalska družba, d. d. for 2018 has to be read in conjunction with the Consolidated Annual Report of the Kapitalska družba Group for 2018, which will be prepared upon the drafting of the Annual Report of Kapitalska družba for 2018 and the annual report of its subsidiary for 2018.

The consolidated Annual Report of the Kapitalska družba Group will be published at http://www.kapitalska-druzba.si/o_kapitalski_druzbi/letna_porocila by the end of August 2019.

Information about employees

At the end of 2018, Kapitalska družba had 59 employees inclusive of the three members of the Management Board. In 2018, the Company had 60 employees on average. The number of employees of Kapitalska družba as at 31 December 2018 and the average number of employees in 2018 according to the level of education is presented in the table below.

Table 20: Number of employees and average number of employees by educational level as at 31 December 2018 and in 2018

LEVEL OF EDUCATION	Number of employees as at 31 December 2018	Average number of employees in 2018
Level 8 (8/1, 8/2)	11	13
Level 7	26	23
Level 6 (6/1, 6/2)	12	13
Level 5	9	10
Level 4	1	1
Total	59	60

15.3 ACCOUNTING POLICIES

Basis for preparation

The financial statements for 2018 have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the EU, and the Companies Act.

The data in the 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 based on adopted business models and the cash flow test, 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 financial investment is revalued for impairment.

The estimates of asset fair 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 fair 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 value of long-term provisions.

Statement of compliance

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

In its financial statements, Kapitalska družba applied all IFRS and IFRIC required in 2018. It did not apply any standard or interpretation before its application became obligatory in 2018.

Amendments to standards and interpretations

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

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

- IFRS 9 “Financial instruments” adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018);
- IFRS 15 “Revenue from Contracts with Customers” and amendments to IFRS 15 “Effective date of IFRS 15”, adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IFRS 2 “Share-based payment” – Classification and measurement of share-based payment transactions, adopted by the EU on 26 February 2018 (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IFRS 4 “Insurance Contracts” – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – adopted by the EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 “Financial Instruments” is applied for the first time);
- Amendments to IFRS 15 “Revenue from Contracts with Customers” - Clarifications to IFRS 15 “Revenue from Contracts with Customers” – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018);

- Amendments to IAS 40 “Investment property” – Transfers of investment property adopted by the EU on 14 March 2018 (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IFRS 1 and IAS 28 “Improvements to IFRSs (2014-2016)”, resulting from the annual project for improvement of IFRSs (IFRS 1, IFRS 12 and IAS 28) primarily with a view to remove inconsistencies and to clarify wording, adopted by the EU on 7 February 2018 (the amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018);
- IFRIC 22 “Foreign currency transactions and advance consideration” adopted by the EU on 28 March 2018 (effective for annual periods beginning on or after 1 January 2018).

The Company recorded significant impact of IFRS 9, which is clarified in Chapter 15.1 “Effects of transition from IAS 39 to IFRS 9”. The adoption of other new standards, amendments to the existing standards and interpretations had no effect on the financial statements of the Company.

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

At the date of authorisation of these financial statements, the following standard, amendments to the existing standard and interpretation issued by the IASB and adopted by the EU were not yet effective:

- IFRS 16 - “Leases” – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IFRS 9 “Financial instruments” – Prepayment features with negative compensation adopted by the EU on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019);
- IFRIC 23 “Uncertainty over income tax treatments” adopted by the EU on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019).

The Company analysed lease agreements and established that the introduction of IFRS 16 has no impact on its financial statements.

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

At present, the IFRS as adopted by the EU do not significantly differ from the regulations adopted by the IASB except from the following new standards and amendments to the existing standards, 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 issued by the IASB):

- IFRS 14 “Regulatory Deferral Accounts” (effective for annual periods starting on or after 1 January 2016) – European Commission concluded not to start the procedure for endorsement of this interim standard and to wait for its final version to be issued;
- IFRS 17 “Insurance Contracts” (effective for annual periods beginning on or after 1 January 2021);
- Amendments to IFRS 3 “Business combinations” – Definition of a business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and for acquisition of assets occurring at the beginning of this period or after);
- Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date was deferred indefinitely until the research project on the equity method has been concluded);
- Amendments to IAS 1 “Presentation of financial statements” and IAS 8 “Accounting policies, changes in accounting estimates and errors” – Definition of material (effective for annual periods beginning on or after 1 January 2020);
- Amendments to IAS 19 “Employee Benefits” – Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019);

- Amendments to IAS 28 “Investments in Associates and Joint Ventures” – Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019);
- Amendments to various standards due to “Improvements to IFRSs (cycle 2015–2017)” resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019);
- Amendments to references to the Conceptual Framework in IFRS standards (effective for annual periods beginning on or after 1 January 2020).

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

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

Foreign currency translation

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

Basic policies

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

The items in the separate financial statements are presented in the euro, rounded to the nearest thousand (000 EUR), except where specifically stated otherwise.

Annual report adoption procedure

Annual Report is compiled by the Management Board of the Company, which submits it for approval to the Supervisory Board. The Management Board and the Supervisory Board also decide on the use of net profits for creation of the Company's reserves according to the provisions of the Companies Act. Such use of profit is included in the statements for the current year, while the distribution of distributable profit is decided by the Company's General Meeting of Shareholders. In line with Article 52(2) of ZSDH-1 distributable profit of Kapitalska družba cannot be distributed to the shareholders.

Intangible assets

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

The carrying amount of an intangible asset is reviewed annually for impairment, if the asset has not been put to use, or more frequently when there are indications of impairment. Disclosed intangible assets are impaired when their carrying amount exceeds their net recoverable amount. In the event of impairment, the carrying amount of the asset is decreased to its net recoverable amount and at the same time an expense arising from impairment is recognised directly in profit or loss.

ASSET	Depreciation rate in %
Software	10
Software applications obtained after 1 Jan. 2008	20.00-33.33

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

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

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

Property, plant and equipment

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

ASSET	Depreciation rate in %
Buildings	3.00-3.33
Equipment	16.67-33.33
Building parts	6.00

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

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

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

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

Maintenance costs and increase in fixed assets value

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

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

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

Investment property

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

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

Investment property is measured at cost, reduced by depreciation and impairment losses. The depreciation rate of investment property is between 3.00 and 3.33 percent annually and the estimated useful life is 33.33 or 30 years. The depreciation rate of parts of investment property is 6.00 percent annually and the estimated useful life is 16.67 years.

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

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

The cash generating unit includes investment property by locations.

Financial assets

Classification and measurement of financial assets until 31 December 2017

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

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

The classification depends on the purpose of acquisition.

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

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

Recognition of financial assets until 31 December 2017

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

1. Financial assets measured at fair value through profit or loss

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

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

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

2. Investments held to maturity

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

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

3. Available-for-sale financial assets

After the initial recognition, all investments designated as available for sale, are measured at fair value or at cost, if fair value cannot be determined reliably. Gains and losses on available-for-sale investments are recognised in the statement of comprehensive income as available-for-sale investments revaluation reserve until the investment is sold or disposed of in some other manner. When an asset is impaired, the impairment is recognised in the profit or loss.

Acquisition and sale of investments allocated in the group of available-for-sale investments are recognised on the trading day, i.e. on the day of commitment to purchase or to sell a 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.

Investments measured at cost until 31 December 2017

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.

Detailed accounting policies applicable to 2017 according to IAS 39 are given in the Annual Report of Kapitalska družba, d. d., for 2017, which is published at http://www.kapitalska-druzba.si/o_kapitalski_druzbi/letna_porocila.

Classification and measurement of financial assets from 1 January 2018

The effects of transition to IFRS 9 are given in Chapter “Effects of transition from IAS 39 to IFRS 9”.

In the continuation, accounting policies applicable to financial assets as of 1 January 2018 according to IFRS 9 are described.

The Company classifies financial assets based on:

- a. the business model for managing financial assets:
 - holding financial assets for the purpose of collecting contractual cash flows,
 - holding financial assets for the purpose of collecting contractual cash flows and selling financial assets,
 - holding financial assets for the purpose of selling,
- b. the characteristics of contractual cash flows of the financial asset.

The business model for obtaining contractual cash flows includes bonds and short-term securities intended for reducing the volatility of the entire portfolio that are upon acquisition expected not to be sold prior to the maturity date.

The business model aimed at holding assets with the purpose of obtaining contractual cash flows and selling investments comprises investments that are neither held for trading nor intended to reduce the volatility of the entire portfolio.

The business model intended for holding assets for sale encompasses investments that are at the time of acquisition identified as having been obtained in order to exploit price fluctuations in financial markets and create cash flows through the sale of assets that are upon purchase expected to be sold within 12 months from the date of purchase.

After initial recognition the Company measures financial assets:

- a. at amortised cost, AC;
- b. at fair value through other comprehensive income, FVTOCI; or
- c. at fair value through profit or loss, FVTPL, namely:
 - financial assets held for trading (including derivatives);
 - financial assets mandatorily measured through profit or loss – assets that do not pass the cash flow test (SPPI, solely payments of principal and interest);
 - financial assets designated as measured through profit or loss on the basis of the business model.

Upon initial recognition, a financial asset (except for trade receivables) is measured at fair value; if a financial asset is not measured at fair value through profit or loss, the transaction costs that arise directly from the acquisition or issue of a financial instrument must be added or deducted.

The Company discloses investments in the equity of other companies that are of the same type and of the same issuer using the weighted average price method, separately for each group of investments. Investments in purchased bonds that comprise investments in financial liabilities of other companies are stated according to the classification of investments as follows:

- financial assets measured at fair value through profit or loss are recorded using the weighted average price method;
- financial assets measured at amortised cost are stated at amortised cost;
- financial assets measured at fair value through other comprehensive income are disclosed using the FIFO method;
- loans are stated at amortised cost.

Debt instruments have to be measured at amortised cost if both of the following conditions are met:

- the financial instrument is held in the context of a business model intended for holding financial assets to collect the contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt financial instrument should be measured at fair value through other comprehensive income if it meets the following two conditions:

- the financial instrument is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at fair value through profit or loss if:

- it is a debt instrument and is not classified in any of the above measurement categories, provided one of the conditions specified below is fulfilled:
 - i. according to the business model, the financial instrument was upon initial recognition classified into the category at fair value through profit or loss;
 - ii. the financial instrument did not pass the cash flow test;
- it is an equity instrument and is not classified in the category measured at fair value through other comprehensive income;
- doing so eliminates or significantly reduces a measurement or recognition inconsistency ("accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases;
- it is a derivative.

The Company may decide to measure certain investments in equity instruments at fair value through other comprehensive income.

Gains and losses on financial assets

A gain or a loss on a financial asset that is measured at fair value is recognised in profit or loss.

A gain or a loss on a financial asset measured at fair value through other comprehensive income (except for shares and equity interests) is recognised in other comprehensive income, net of gains or losses arising from impairment and exchange rate gains or losses, until the financial asset is derecognised or reclassified. Upon derecognition of a financial asset, cumulative gains or losses that were previously recognised in other comprehensive income are reclassified from equity to profit or loss. If a financial asset is reclassified out of the fair value through other comprehensive income measurement category, the Company accounts for the cumulative gain or loss previously recognised in other comprehensive income according to IFRS 9 5.6.5. and 5.6.7. Interest calculated by using the effective interest method is recognised in profit or loss.

Investments in equity instruments

At initial recognition, the Company may make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument within the scope of this standard that is not held for trading and is also not contingent consideration of an acquirer in a business combination to which IFRS 3 applies. If the Company chooses to do so, it recognises dividends from that investment when the financial asset is derecognised, while the cumulative gain or loss is reclassified from other comprehensive income to other equity items.

Investments in subsidiary companies

A consolidated subsidiary is an entity in which the controlling company holds a controlling interest or a controlling influence associated with other reasons, and which is a member of the group for which the consolidated financial statements are prepared.

The Company classifies and measures investments in subsidiaries in accordance with IAS 27, states them at cost and impairs them in line with IAS 36.

Investments in associated companies

An associated company is a company in which the parent company has a significant influence.

The Company classifies and measures investments in associated companies in accordance with IFRS 9 and states them at fair value through other comprehensive income.

Investments in joint ventures

Joint control is contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Company measures investments in joint ventures at cost according to IAS 27.

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

Assessment of contractual cash flows

The Company classifies a debt instrument based on its contractual cash flow characteristics:

- a. if the financial asset is held within a business model whose objective is achieved by collecting contractual cash flows;
- b. if the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

The Company has to verify if the contractual cash flows from the financial asset are solely payments of principal and interest on the principal amount outstanding. For this purpose the Company carries out the SPPI test (solely payments of principal and interest).

If a contractual cash flow characteristic could have an effect on the contractual cash flows that is more than de minimis (in each reporting period or cumulatively) but that cash flow characteristic is not genuine, it does not affect the classification of a financial asset.

A feature of contractual cash flows is non-genuine if it affects the instrument's contractual cash flows only on the occurrence of an event that is extremely rare, highly abnormal and very unlikely to occur.

Changes in cash flows and derecognition of a financial asset

The Company derecognises a financial asset only when:

- a. the contractual rights to the cash flows from the financial asset expire; or
- b. it transfers the financial asset as set out in IFRS 9 3.2.4 and 3.2.5 and the transfer qualifies for derecognition.

If a new agreement on the contractual cash flows of a financial asset has been concluded or the contractual cash flows have been modified in any other way, and the renegotiated agreement or the modifications do not lead to derecognition, the Company must recalculate the modification gain/loss in profit or loss calculated as the difference between gross carrying amount before and after the modification.

The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows discounted at the financial instrument's original effective interest rate (or at the credit-adjusted effective interest rate for purchased or originated credit-impaired financial

assets) or, when reasonable, at changed effective interest rate.

The carrying amount of the modified financial asset is adjusted by any costs and fees amortised over the remaining term of the financial asset (IFRS 9 5.4.3).

If the Company cannot establish a system for calculating modification gain/loss without undue costs or effort, it may nevertheless derecognise all financial instruments that are not eligible for derecognition.

Measurement and classification of exposures into groups for the purpose of assessing credit losses

For the purpose of assessing credit losses subject to impairment requirements, the Company classifies the following as at the reporting date:

- financial assets measured at amortised cost;
- debt financial assets measured at fair value through other comprehensive income;
- off-balance sheet liabilities from credit commitments and financial guarantee contracts;

taking into account:

- a. exposures where no significant increase in credit risk has occurred since initial recognition, for which value adjustments or provisions for credit losses are measured on the basis of 12-month expected credit losses (stage 1);
- b. exposures where a significant increase in credit risk has occurred since initial recognition until the reporting date, for which value adjustments or provisions for credit losses are measured on the basis of lifetime expected credit losses (stage 2);
- c. exposures in the position of significantly decreased solvency and default (stage 3).

Phase 3 includes financial assets purchased or originated upon initial recognition defined as unpaid exposures, i.e. purchased or originated credit-impaired financial assets (POCI). In subsequent reporting periods the Company applies an individual approach to the financial assets recognised as POCI with interest recognised only based on payment. If this is not the exposure in question, the Company classifies the exposure in stage 1 at initial recognition.

The Company does not calculate expected credit losses for cash and cash equivalents. In defining the increase in credit risk, the Company classifies operating liabilities into stages based on the number of days in default according to the recommendations of IFRS 9. A receivable is automatically classified in stage 2, when the payment is more than 30 days past due; a receivable is automatically classified in stage 3, when the payment is more than 90 days past due. The Company applies the simplified model to operating receivables and follows these rules in case of credit risk increase: a) when the receivable moves to stage 2, the Company makes an impairment for 50% of the original amount and b) when the receivable moves to stage 3, the Company makes an impairment for 100% of the original amount.

Upon subsequent measurement, the Company assesses according to IFRS 9 5.5.9 whether the credit risk of exposure has increased significantly since initial recognition until the reporting date.

If the credit risk has not increased significantly or in the case of low credit risk exposure, the exposure remains classified in stage 1 in accordance with IFRS 9 5.5.5 and 5.5.10.

If the credit risk has increased significantly and the exposure has not yet been designated unpaid, the Company classifies it in stage 2 according to IFRS 9 5.5.3.

In accordance with IFRS 9 5.5.4 the Company assesses significant increase in credit risk considering all reasonable and supportable information at the level of an exposure. Under IFRS 9 B 5.5.16, the Company may assess a significant increase in credit risk also on a group exposure level, but only if reasonable and supportable information (factors or indicators) for a particular exposure cannot be obtained without undue cost or effort or cannot be assessed at the level of a particular exposure.

The assessment of a significant increase in credit risk is based on clearly predefined quantitative and qualitative criteria which may vary for individual exposure groups, i.e. relevant portfolios, groups of portfolios, or elements of portfolios.

The basic criterion considered by the Company for classification into stages is the credit rating or internal rating of a particular financial instrument. The internal rating is defined by use of an algorithm in

the information system and is based on international credit ratings, or, in the absence of international credit ratings, it is determined internally. The Company uses the Bloomberg Credit Rating as the primary source for determining the internal credit rating.

It regularly checks the international ratings of investment grade financial instruments and financial instruments with non-investment grade rating in the accounting period.

The Company must measure the expected losses on a debt financial instrument by using the approach that reflects the following:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Company classifies exposures by group according to the common characteristics of credit risk. Upon initial recognition, financial instruments are classified into the following segments:

- country;
- companies; and
- financial institutions,

If the Company were to obtain new relevant information or if the changed expectations about credit risk indicated that a permanent change was needed, exposures could be segmented differently.

The Company classifies exposures in stages 1, 2 and 3 by employing its own methodology for estimating expected credit losses based on risk parameters:

- exposure at default (EAD);
- probability of default (PD); and
- loss given default (LGD).

The estimates of the risk parameters that the Company takes into account when assessing expected credit losses are based on past events, current conditions and forecasts regarding future economic circumstances.

If the Company does not have sufficient data to provide reliable estimates of the risk parameters for calculating expected credit losses, it can use commercially available data (e.g. data from credit rating agencies) or a combination of own and external data.

In cases where the Company does not have sufficient data about a particular investment or transaction, it may use:

- the parameters of the controlling company;
- the parameters of a comparable financial instrument;
- the parameters of a country, if the financial instrument has been issued by a central/regional/local government, a public sector entity or a central bank.

The Company uses the EAD risk parameters as derived from the amortisation plans (use of contractual cash flows). EAD risk parameters are not corrected for the impact of macro-economic risk factors.

The EAD risk parameter represents the exposure estimate at the future default date, taking into account expected changes in exposure after the reporting date, including repayment of principal and interest. This is the expected credit exposure at a specific time.

The Company applies its own PD risk parameter for each segment (country, company, financial institutions) and for each credit rating.

It calculates risk parameters based on the PD data from the S&P credit rating agency, separately for countries, companies and financial institutions. Historical PD by individual rating (credit rating) is used for the calculation.

For exposures to central governments and central banks, financial institutions, regional governments or local governments, and to public sector entities, the Company uses Moody's issuer-weighted average recovery rates (LGD – country). For exposures to companies, the Company uses Moody's issuer-weighted average recovery rates (LGD – companies).

In the process of integrating future information in determining a significant increase in credit risk and calculating expected credit losses, the Company takes into account macroeconomic scenarios.

In order to consider the economic cycles in calculating the probability of default, the Company takes into account forecasts of future economic performance and an adjustment for the economic cycle for the first three years in all classes of investments (government and corporate bonds and bonds of financial institutions).

Determining fair value of investments

Pursuant to IFRS 13, the Company determines fair value of investments as the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date. The measurement date is the date on which an investment is valued, which is the last day of the month. In case of such a transaction, fair value is measured based on the assumption that the transaction is taking place on the principal market, or in the absence of a principal market, on the most advantageous market.

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

- stock exchange market (for equity and debt instruments and collective investment trusts), or
- traders' market or OTC¹⁵ (market for debt investments).

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

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

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

In the event of off-exchange trading, i.e. OTC market, the assumption of active market is fulfilled if the CBBT¹⁶ price is quoted for at least a half of trading days in the last 30 days from the measurement date. In the event of an active OTC market, fair value is measured using the last known CBBT price. If the OTC market is less liquid, fair value is measured using the most recent CBBT price of not more than 90 days. When the CBBT price is not available, fair value may be measured using the BVAL¹⁷ price, if available. If neither of the above applies, fair value of the investment is measured on the basis of the valuation technique.

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

Commercial papers of Slovenian issuers are stated using the amortised cost model, automatically considering the effective interest rate.

Value of shares can be estimated using the following valuation techniques: market based valuation approach, income approach and, in certain cases, asset approach. Valuation is based on the most recent

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

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

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

information on a company's performance, which must not be older than 3 to 6 months from the fair value measurement date to which the value estimate will be applied. Market data and parameters used in the valuation process must include the most recent information and must be compliant with the date the estimated value will be applied to. If 3 to 6 months old information on the company's performance cannot be obtained, or if the information does not suffice for valuation, the value can be exceptionally estimated by using older data, which however must not be older than 12 months. When applying the market approach, comparative companies should be selected taking into account their comparability in the context of industry, size, growth potential, the availability of historical data on operations and other possible elements affecting comparability of individual companies.

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

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

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

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

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

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

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

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

Classification of equity investments

Table 21: Equity investment classification in case of exchange as the principal market (quoted equity investments)

Level 1	Equity investments with fair value measured on the basis of quoted prices in active markets
Level 2	Equity investments with fair value measured on the basis of quoted prices in less liquid markets
Level 2	Equity investments for which quoted prices are not available and for which the fair value is measured using a valuation technique (taking into account level 2 inputs)
Level 3	Equity investments for which quoted prices are not available and their fair value is measured using the valuation technique (taking into account level 3 inputs) or prices provided by third parties
Level 3	Quoted price older than 90 days may be used if the materiality criterion is not fulfilled

Table 22: Classification of unquoted equity investments

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

Table 23: Classification of collective investment funds

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

Table 24: Classification of mutual funds coupons

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

Classification of debt investments

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

Table 25: Classification of debt investments if an exchange acts as the principal market

Level 1	Debt investments with fair value measured on the basis of quoted prices in active markets
Level 2	Debt investments with fair value measured on the basis of quoted prices in less liquid markets
	Debt securities measured using the valuation technique (taking into account level 2 inputs)
Level 3	Debt securities measured using a valuation technique (taking into account level 3 inputs) or prices provided by third parties
	Quoted price older than 90 days may be used if the materiality criterion is not fulfilled

Table 26: Classification of debt investments if an OTC market acts as the principal market

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

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

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

Classification of loans and deposits

Bank deposits are disclosed at amortised cost in the statement of financial position unless they do not pass the SPPI test. In such case, they are classified in the category at fair value through profit or loss. As there is no market for deposit interest rates with directly observable prices, the Company measures deposits for the fair value disclosure purposes using the initial or contractual interest rate, which is unobservable input, and thus categorises them within Level 3.

Recoverable amount of non-current (non-financial) assets

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

largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment loss is recognised in 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

Non-current assets (disposal groups) held for sale are those whose carrying amount is justifiably expected to be settled predominantly through selling in the next 12 months, with the sale being highly probable, rather than with their continued use.

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

Operating receivables

Operating receivables are recognised at the amount of invoices issued, less any allowances. Making allowances of receivables is a process of recognising an adjustment to their carrying amount due to expected credit losses; contractual increases or decreases of their carrying amount are not considered as revaluation. It may be performed during or at the end of the financial year. The calculation of credit losses is described in the subchapter "Measurement and classification of exposures into groups for the purpose of assessing credit losses".

Cash and cash equivalents

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

Equity

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

The Company's equity is share capital. The share capital of EUR 364,810 thousand is represented by 874,235 ordinary, registered, non-par value shares. Each share has the same interest and the attributed amount in the share capital.

The total equity consists of: called-up capital, capital surplus, revenue reserves, retained net earnings or retained net loss, reserve from valuation at fair value and temporarily undistributed net profit or unsettled loss for the financial year.

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

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

Reserves arising from valuation at fair value

Reserves from valuation at fair value arise from the effects of valuation of financial assets at fair value through other comprehensive income and actuarial gains and losses arising from severance pay upon retirement. The amounts of reserves arising from valuation at fair value disclosed in the statement of financial position are adjusted for amounts of deferred tax.

Provisions

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

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

The Company establishes long-term provisions:

- when the guaranteed value of assets exceeds the actual value of assets belonging to an individual insured person/member, namely in the amount of the established deficit, i.e. the sum of differences between the guaranteed assets of the insured person/member and the actual value of the assets of the insured person/member;
- if a law suit is filed against Kapitalska družba or if the Company estimates a claim is very probable;
- for termination benefits and jubilee awards, calculated on the basis of assumption on the expected employee fluctuation, years of service and expected years until retirement, taking into account individual and collective employment contracts as well as the Company's internal regulations.

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

Operating liabilities

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

Revenue

The Company recognises revenues from the transfer of the promised goods or services to the buyer, in an amount that reflects the expected consideration to which the Company will be entitled in exchange for these goods or services. The Company considers the terms of the contract and all relevant facts and circumstances. The buyer is a customer who has concluded a contract with the Company on the acquisition of goods or services that are the result of the Company's ordinary activities, in exchange for consideration.

Revenues are classified into the following categories:

1. Revenue from fees

Kapitalska družba is entitled to entry and exit fees as well as an annual management fee for the management of the pension funds' assets.

a. Entry fees

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

b. Management fee

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

c. Exit fees

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

2. Revenue from lease payments

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

Financial income

3. Interest

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

4. Dividends

Dividends are recognised in the income statement when the Company obtains the right to payment.

5. Revenue from sale of investments

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

Costs

Costs of materials and services

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

Employee benefits

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

Expenses

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

Financial expenses

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

Taxes

1. Current tax

Current tax assets and liabilities in respect of present and past periods are recognised at amounts which the Company expects to pay to the tax authorities or amounts of income tax credits that will be available in future periods. Current tax assets or liabilities are measured using the tax rates enacted at the date of the statement of financial position.

2. Deferred tax

Deferred income tax assets and liabilities are accounted for using the liability method in the statement of financial position. Only deferred tax assets and liabilities arising from temporary differences are recognised.

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

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

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

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

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

Cash flow statement

The cash flow statement is compiled under the indirect method (Format II) from the data included in the statement of financial position at 31 December 2018 and 31 December 2017, income statement

data for the year 2018, and additional data necessary for the adjustment of revenue and expenditure and for the appropriate breakdown of significant items.

Risk management

Therefore, risk management is crucial in performing activities of Kapitalska družba. Particularly in the economic crisis, risk management proved to be a very important area, since successful and stable operations are conditional on efficient risk management. The use of standard methodologies of risk management ensures the qualitative evaluation of all types of risk, a timely response and the reduction of risk exposure.

Kapitalska družba observes legal regulations in the forefront while also regulating risk management through internal acts such as the Rules on risk management, which include in addition to individual risk description, internal risk management organisation, measures and methods used to mitigate the risks, as well as procedures of control and responses to individual risks. Kapitalska družba has organised a Risk Management and Analysis Department, subordinate directly to the Company's Management Board, coordinating and monitoring the risk management process. On the basis of the risk inventory and updated risk assessments as well as the consequences of loss events, the Company in 2018 updated the register of risks to which the Company is or could be exposed in the course of its business.

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

Risk of securities price change

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

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

Interest rate risk

The very nature of investments in debt instruments exposes Kapitalska družba to interest rate risk resulting from the risk that investment values will fluctuate due to changes in market interest rates. The exposure to interest rate risk is regularly measured by the modified duration indicator. The Company's internal committees monitor the fluctuation in interest rates and market forecasts and analysis on a weekly basis, providing investment recommendations on this basis.

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

Currency risk

In managing assets invested in foreign currencies, Kapitalska družba is also exposed to currency risk. Currency risk is monitored and managed on a daily basis. The basis for measuring currency risk is the monitoring and calculation of exposure to individual currencies by taking into account the currency in which the underlying instrument is denominated initially, not the currency of the securities that constitute a specific instrument or investment fund.

Credit risk

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

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

For the purpose of identifying and monitoring credit risk, Kapitalska družba adopted the Methodology of classification, measurement and assessment of credit losses on financial instruments (hereinafter referred to as the Methodology). According to the Methodology, the Company assesses significant increases in credit risk by use of reasonable and supportable information at the level of a particular exposure, but also on a group exposure level, but only if reasonable and supportable information (factors or indicators) for a particular exposure cannot be obtained without undue cost or effort or cannot be assessed at the level of a particular exposure. The assessment of a significant increase in credit risk is based on clearly predefined quantitative and qualitative criteria which may vary for individual exposure groups, i.e. relevant portfolios, groups of portfolios, or elements of portfolios. The basic criterion considered by an institution for classification into stages is the credit rating or internal rating of a particular financial instrument. The internal rating is defined by use of an algorithm that is based on international credit ratings, or, in the absence of international credit ratings, it is determined internally according to the Methodology.

Liquidity risk

Liquidity risk is the risk related to the liquidity of the capital market or investment and the risk of solvency of Kapitalska družba. Due to the low liquidity of the Slovenian capital market, liquidity risk is encountered in a major portion of investments of Kapitalska družba in association with domestic equity and debt securities, with the highest risk posed by non-listed investments. By dispersing a portion of investments abroad, Kapitalska družba is able to reduce liquidity risk by investing only in highly liquid foreign instruments. Moreover, liquidity risk is managed by daily monitoring of the inflows and outflows of the Company and precise matching of maturity of assets and liabilities.

Operational risk

Operational risk is the risk of a loss due to inappropriate internal processes or incorrect action by people or defective functioning of systems within the Company or as a result of external events and actions. Operational risk also includes legal and documentary risk as well as the risks arising from trading procedures, settlement and valuation of assets and liabilities.

The Company manages operational risk through a system of authority, internal controls and by defining business processes and ensuring the suitable employee qualifications. In order to minimise operational risk, Kapitalska družba established a system of recording loss events and regular monitoring of the implementation of measures adopted. The Internal Audit Department conducts regular audits of business processes and by making recommendations contributes to the improved internal controls and risk mitigation.

Strategic risk

Strategic risk is the risk of a loss owing to incorrect business decisions, inappropriate organisation and strategy of the Company and insufficient response to the changes in the business environment. Significant strategic risks include legislative, tax and political risks, resulting from the state's

discretionary right to adopt decisions, and may lead to changes in the business and tax environment. These risks also influence the processes involved in the sale of companies where Kapitalska družba holds interests, the amount of liabilities to the pension budget and consequently the management of financial assets.

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

In 2018, there were 104 proceedings pending filed by claimants, persons insured under the SODPZ fund (Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia), against Kapitalska družba for payment of legal default interest related to the payment of a one-off redemption value of the units. In 2018, Kapitalska družba filed with the Constitutional Court of the Republic of Slovenia a constitutional complaint against the ruling of the Supreme Court of the Republic of Slovenia regarding the delayed fulfilment of the obligation to pay the redemption value of the units in the personal account of a person insured under the SODPZ fund and the constitutionality of the provisions of authentic interpretation. The Constitutional Court had not yet decided on the constitutional complaint by the end of 2018.

In 2018, Kapitalska družba handled no complaint by persons insured under the SODPZ fund.

Risks related to investments where Kapitalska družba holds a significant share

Kapitalska družba devotes special attention to the management of risks, which arise from investments where the Company holds a significant share. Kapitalska družba for the first time adopted the Corporate Governance Code of the Group in March 2012, which includes the Group's governance policies and as such provides the basis for efficient management of subsidiary company. The adopted Corporate Governance Code of the Group, which defines new standards that are complied with and abided by all companies in the Kapitalska družba Group, lays down new guidelines on risk management. Corporate governance of the Kapitalska družba Group is carried out by functional area. Also adopted were the Guidelines on Subsidiary's Reporting to the Parent Company, which specifically define the reporting type and method as well as deadlines. The operations of the companies constituting the Kapitalska družba Group are monitored by the Asset Management Department. Among other, the manager monitors the content and method of reporting as well as reporting deadlines defined in the Guidelines on Subsidiary's Reporting to the Parent Company. The Management Board of the subsidiary company is in charge of reporting. It presents various reports at the Management Board and Supervisory Board meetings of the parent company. The manager may report to the Management Board, at its meeting, or to the Investment Committee about any specificities in the operations and/or major deviations from the planned results and, if needed, propose appropriate measures to the Management Board.

In December 2014, Slovenian Sovereign Holding adopted and in May 2017 supplemented the Corporate Governance Code for Companies with State Capital Investment (current Corporate Governance Code for State-Owned Enterprises), which has been reasonably applied also by Kapitalska družba due to unification. Every year Kapitalska družba adopts at the general meetings of shareholders of companies the Voting Positions of Kapitalska družba. The purpose of these positions is to increase the efficiency and transparency of equity investment management and they form an element of reducing risks arising from equity investments.

15.4 DISCLOSURES AND NOTES TO THE FINANCIAL STATEMENTS

15.4.1 Notes to the income statement

Note no. 1

Net sales revenues

	in EUR 000	
	2018	2017
Revenue from fund management	7,366	7,918
- management fee	6,297	6,748
- entry fee	1,046	1,144
- exit fee	5	5
- revenues from pension annuities	18	21
Revenue from lease payments	1,715	1,426
Other revenue from sales	141	142
Total	9,222	9,486

All net sales revenues of EUR 9,222 thousand were realised on the domestic market. Revenues from fund management dropped in 2018 compared to the previous year due to a decrease in the management fee, which ranged from 0.8% to 0.88% as of 1 January 2018 (until then 1%), and owing to a reduction in entry fee, which equals 2.0% as of 1 February 2018 (up to then 2.3%).

The largest part of rental income comprises rents from investment property, which are higher in comparison with the year before due to the purchase of new business premises that have been leased out.

Other sales revenue includes revenues from the provided information services to Modra zavarovalnica, d. d.

Note no. 2

Other operating revenue (including operating revenues from revaluation)

	in EUR 000	
	2018	2017
Revenues from reversal of long-term provisions	180	0
Operating revenues from revaluation	0	7
Total	180	7

Revenues from reversal of long-term provisions in the amount of EUR 180 thousand constitute revenues from the reversal of provisions for onerous contracts.

Operating revenues from revaluation amounting to EUR 7 thousand in 2017 thousand represent gains from the sale of fixed assets.

Note no. 3

Costs of goods, materials and services

	in EUR 000	
	2018	2017
Costs of materials	116	123
Costs of services	1,470	1,456
Total	1,586	1,579

Costs of materials

Costs of materials comprise costs of power supply, write-off of small tools, costs of office stationery and professional literature, and other costs of materials, the bulk of which is accounted for by energy costs in the amount of EUR 72 thousand.

Costs of services

Costs of services include costs of transport, maintenance work on business premises and property, plant and equipment, lease payments, reimbursement of costs to employees associated with labour, costs of payment transactions, banking services and insurance premiums, costs of intellectual and personal services, entertainment costs, costs of services provided by natural persons, and costs of other services, of which the highest amount, i.e. EUR 371 thousand, is due to maintenance of business premises and property, plant and equipment, followed by the costs of intellectual services equalling EUR 311 thousand and the costs of other services, such as keeping the KDD register and SMA supervision costs of EUR 244 thousand.

Costs of audit

The cost of the 2018 Annual Report audit amounted to EUR 16,836. In 2018, Kapitalska družba paid no amount to auditor for other non-audit services.

Note no. 4

Labour costs

	in EUR 000	
	2018	2017
Payroll costs	2,417	2,393
Compensations for salaries/wages of employees	64	47
Supplementary pension insurance costs	118	117
Holiday allowance, reimbursements and other receipts of employees	366	231
Other employer's contributions on salaries, wage compensation, bonuses, reimbursements and other receipts of employees	424	394
Provisions for jubilee benefits and termination benefits	20	0
Total	3,409	3,182

Labour costs under the item "Holiday allowance, reimbursements and other receipts of employees" in 2018 include termination benefits for employees upon termination of their employment relationship.

Note no. 5

Amortisation, depreciation and write-offs

	2018	in EUR 000 2017
Depreciation/amortisation	1,066	974
Amortisation of intangible assets	89	61
Depreciation of buildings	159	158
Depreciation of garages	0	11
Depreciation of equipment and spare parts	65	106
Depreciation of investment property	753	638
Revaluation operating expenses associated with fixed assets	388	0
Impairment of investment property	388	0
Total	1,454	974

Amortisation of intangible assets

Total amortisation expense of EUR 89 thousand represents amortisation of software.

Depreciation of buildings

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

Depreciation of equipment and spare parts

A major part of depreciation of equipment and spare parts represents depreciation of computers and electronic equipment (EUR 53 thousand), wooden furniture (EUR 6 thousand), and other equipment (EUR 6 thousand).

Depreciation of investment property

Investment property depreciation charge refers to the depreciation of business premises leased out in the amount of EUR 687 thousand, and EUR 39 thousand of depreciation expense relating to leased out parking spaces as well as depreciation of part of investment property totalling EUR 27 thousand.

Operating expenses from revaluation of fixed assets

In 2018, Kapitalska družba impaired the investment property in the amount of EUR 388 thousand.

Note no. 6

Other operating expenses

	2018	in EUR 000 2017
Provisions	319	0
Sponsorship	1	0
Costs of a secondary-school student on mandatory practical training	0	1
Total	320	1

In 2018, Kapitalska družba created EUR 319 thousand of provisions for non-achievement of guaranteed return of the SODPZ fund, and recorded sponsorship costs totalling EUR 1 thousand.

Note no. 7

Financial income

	in EUR 000	
	2018	2017
Financial income from participating interests	31,172	44,070
Financial income from other investments and loans	6,009	5,700
Financial income from other investments	5,880	5,418
Financial income from loans granted	129	282
Total	37,181	49,770

In 2018, financial income from participating interests decreased compared to 2017 because of recognised effects of the sale of foreign shares and investment coupons in 2017 amounting to EUR 18,309 thousand.

Financial income from participating interests

	in EUR 000
	2018
Dividends and shares in profits	27,506
Financial income from revaluation	46
Exchange rate gains	20
Income from the valuation of investments at fair value through profit or loss	2,711
Income from financial receivable	877
Income from the acquisition of abandoned securities	12
Total	31,172

	in EUR 000
	2017
Dividends and shares in profits	23,544
Financial income from revaluation	196
Income from the sale of investments available for sale	18,973
Income from the sale of investments at fair value through profit or loss	6
Income from transfer of accrued costs and deferred revenue, and acquisition of shares	1,128
Income from the acquisition of abandoned securities	223
Total	44,070

Financial income from revaluation in the amount of EUR 46 thousand comprises exchange rate gains on receivables and liabilities.

Income totalling EUR 2,711 thousand constitutes valuation of investments measured at fair value through profit or loss.

The amount of EUR 877 thousand represents the value transferred to income of a proportionate part of the difference between the fair value and transaction value of the investment in accounts receivable.

Income from the acquisition of abandoned securities in the amount of EUR 12 thousand is recognised in accordance with Article 48a of ZNVP-1, which stipulates that KDD shall credit all dematerialised securities cancelled by the holders to a special account held by Kapitalska družba.

Financial income from other investments and loans

	in EUR 000
	2018
Interest income	4,221
Exchange rate gains	1,717
Income from realised gains	28
Income from the sale of investments through other comprehensive income – debt securities	28
Income from a decrease in credit losses	43
Income from a decrease in credit losses on assets measured at amortised cost	35
Income from a decrease in credit losses on assets measured through other comprehensive income	8
Total	6,009

	in EUR 000
	2017
Interest income	4,527
Revaluation income	165
Exchange rate gains	165
Income from realised gains	1,008
Income from the sale of investments available for sale	1,008
Total	5,700

Interest income

	in EUR 000
	2018
Deposits	92
- At amortised cost	92
Bonds	3,733
- Through other comprehensive income	2,669
- At amortised cost	1,064
Other investments	396
- At fair value through profit or loss	396
Total	4,221

in EUR 000

2017

Deposits	282
Bonds	3,757
- Available for sale	2,703
- Held to maturity	1,054
Other securities	14
- At fair value through profit or loss	11
- Held to maturity	3
Other	474
Total	4,527

The second refers to interest arising from investments in accounts receivable.

Revenue from sale of investments

in EUR 000

2018

Income from realised gains	28
- Through other comprehensive income – debt instruments	28

in EUR 000

2017

Income from realised gains	19,987
- Available-for-sale investments	19,981
- At fair value through profit or loss	6

Note no. 8

Financial expenses

in EUR 000

2018

Interest expense	7
Operating expenses from revaluation	2,120
Expenses from valuation of investments at fair value through profit or loss	471
Exchange rate losses	1,562
Other expenses from revaluation	87
Expenses from credit losses	92
Expenses from credit losses on assets measured at amortised cost	83
Expenses from credit losses on assets measured through other comprehensive income	1

	in EUR 000
	2018
Expenses from credit losses from operating receivables	8
Expenses from sale of debt investments measured through other comprehensive income	37
Expenses for the Pension and Disability Insurance Institute	50,000
Total	52,256

	in EUR 000
	2017
Interest expense	5
Operating expenses from revaluation	2,091
Expenses from the sale of equity investments available for sale	15
Impairment of equity investments at fair value through profit or loss	1,398
Expenses from valuation of investments at fair value through profit or loss	79
Expenses from the cancellation of shares	0
Exchange rate losses	443
Other expenses from revaluation	156
Expenses for the Pension and Disability Insurance Institute	50,000
Total	52,096

Pursuant to the provision of ZIPRSS1819, Kapitalska družba credited EUR 50 million to the Pension and Disability Insurance Institute in 2018. These payments were stated under financial expenses from other financial liabilities in the income statement. Kapitalska družba thus contributed a total of EUR 814,321 thousand to the ZPIZ pension fund.

Exchange rate differences

	in EUR 000	
	2018	2017
Exchange rate gains	1,737	165
Exchange rate losses	1,562	443
Net exchange rate gains/losses	175	-278

In 2018, the net exchange rate gains amounted to EUR 175 thousand.

Gains and losses and income and expenses on financial assets

	in EUR 000
CATEGORY	2018
Net gains/losses	28
Investments at fair value through other comprehensive income	28
Interest income	4,221
Investments at fair value through profit or loss	396

CATEGORY	in EUR 000	
	2018	
Investments measured at amortised cost	1,156	
Investments at fair value through other comprehensive income	2,669	
Interest expense	7	
- other (default interest, etc.)	7	

Gains/losses on financial assets

	in EUR 000	
	2018	2017
Income from investments	37,181	49,770
Expenses from investments	-52,256	-52,096
Net profit or loss financial asset	-15,075	-2,326

Note no. 9

Other revenue

	in EUR 000	
	2018	2017
Other items	162	230
Total	162	230

Other items comprise revenue from compensations in the amount of EUR 123 thousand, revenue from previous periods totalling EUR 29 thousand and other revenue amounting to EUR 10 thousand.

Note no. 10

Other expenses

	in EUR 000	
	2018	2017
Other items	2	60
Total	2	60

The majority of other items is accounted for by expenses from enforcement.

Note no. 11

Income tax

	in EUR 000	
	2018	2017
Profit or loss before tax	-12,282	1,601
Non-deductible expenses	1,575	2,705
Increase due to profit from previous periods	8,662	0
Decrease due to loss from previous periods	-7,800	0
Provisions formation	-34	0
Non-taxable revenue	25,005	25,042
Tax allowance	0	0
Tax loss	0	0
Total	-34,884	-20,736
Tax rate	-	-
Income tax	-	-

The largest items of untaxed revenue are excluded received and paid domestic dividends in 2018 and a decrease due to expenses for impairments from investments in previous years, which were in 2017 written off the books of Kapitalska družba.

At 31 December 2018, Kapitalska družba reported no income tax liabilities. Considering the revenue and expenses included in the income statement in accordance with the IFRS and the Corporate Income Tax Act (ZDDPO-2), the Company recognised tax loss of EUR 31,609 thousand.

The Management Board believes that the calculation of the tax liability for 2018 is appropriate, based on the views presented below and in accordance with the opinions of tax advisors. It is however possible that the competent tax authorities would adopt a different position on certain issues, which could result in a difference between the tax liabilities disclosed in the financial statements and the amount assessed by the tax authorities.

Pursuant to the provision of ZIPRSS1819, Kapitalska družba credited EUR 50 million to the Pension and Disability Insurance Institute in 2018. These payments were recognised in the income statement under other financial expenses and as tax deductible expenses in the calculation of the tax liability.

The effective tax rate (as the ratio between the corporate income tax and profit or loss before tax) was not calculated, because Kapitalska družba disclosed a tax loss in 2018.

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

	in EUR 000	
	2018	2017
Profit or loss before tax	-12,282	1,601
Tax calculated at the general tax rate	-2,334	304
Change in tax based on:		
1. Revenue exempt from the tax base	4,757	4,758
Untaxed dividends received	4,725	4,071
Adjustment of revenues to the level recognised for tax purposes (decrease)	32	687
2. Expenses exempt from the tax base	300	514
Increase in expenses (unrecognised in previous periods)	687	687
Adjustment of expenses to the level recognised for tax purposes (decrease)	-387	-173
Increase due to profit from previous periods	1,646	0
Decrease due to loss from previous periods	-1,482	0
3. Tax reliefs used in current year	0	0
4. Other changes in differed taxes in the income statement	0	0
Total corporate income tax in the income statement	0	0
Total effective tax	0	0

In 2018, Kapitalska družba disclosed no corporate income tax liabilities, because a tax loss was identified for 2018.

Note no. 12

Deferred tax

At 31 December 2018, deferred corporate income tax included the following:

	Statement of financial position		Income statement	
	31 Dec. 2018	31 Dec. 2017	2018	2017
Deferred income tax liabilities	28,660	47,509	0	0
Total deferred income tax liabilities	28,660	47,509	0	0
Deferred income tax assets	28,660	47,509	-18,849	4,263
Loss brought forward to be used as tax allowance	27,995	24,835	3,160	4,722
Value adjustments of fixed assets	0	0	0	0
Value adjustment of receivables	2	0	2	0
Dividend adjustment	0	0	0	-38
Value adjustment of investments	607	22,601	-21,994	-421

	Statement of financial position		Income statement	
	31 Dec. 2018	31 Dec. 2017	2018	2017
Provisions	56	73	-17	0
Total deferred income tax assets	28,660	47,509	-18,849	4,263
Netting of deferred tax assets and liabilities arising from investments	28,053	24,908	-	-

In 2018, Kapitalska družba generated a negative tax base of EUR 31,131 thousand. As at 31 December 2018, the unused tax loss totalled EUR 532,167 thousand and is freely transferable.

Disclosure of changes in deferred tax recognised directly in equity

	in EUR 000	
CHANGES IN DEFERRED TAX	2018	2017
Balance at 1 Jan.	47,509	43,246
Changes at 1 Jan.	0	0
Changes during the year	-18,849	4,263
Balance at 31.12.	28,660	47,509

Deferred tax liabilities of EUR 28,660 thousand at 31 December 2018 arose on revaluation of investments measured at fair value through equity.

Note no. 13

Net profit or loss for the period

Basic earnings per share are calculated by dividing net profit for the accounting period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the accounting period. The weighted average of ordinary shares in issue during the year is calculated by reference to shares in issue during the period, considering any potential redemptions and sales in that period and the period during which these shares generated profit. Diluted earnings per share depend also on any ordinary shares from convertible bonds, options and forward contracts. When calculated, earnings and the number of shares are adjusted for effects of all adjustable potential ordinary shares that would occur if they were swapped for ordinary shares in the accounting period.

	2018	2017
Net profit or loss attributable to holders of ordinary shares (000 EUR)	-31,131	5,864
Diluted net profit or loss attributable to holders of ordinary shares (000 EUR)	-31,131	5,864
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)	-35.6	6.7

As at 31 December 2018, Kapitalska družba held no financial instruments that would require adjustment of either the net profit or loss or the weighted average number of ordinary shares.

15.4.2 Notes to the statement of financial position

Note no. 14

Intangible assets and long-term deferred costs and accrued revenues

Table 27: Changes in intangible assets and long-term deferred costs and accrued revenues in 2018

in EUR 000

31 DEC. 2018	Software and other intangible assets	Long-term accrued revenue and deferred costs	Total
Cost			
Cost as at 1 Jan. 2018	3,295	50,000	53,295
Additions	431	0	431
Disposals	-4	-50,000	-50,004
Cost as at 31 Dec. 2018	3,722	0	3,722
Value adjustment			
Value adjustment as at 1 Jan. 2018	3,050	0	3,050
Additions, transfers	0	0	0
Disposals, write-offs	-4	0	-4
Depreciation/amortisation	89	0	89
Value adjustment as at 31 Dec. 2018	3,135	0	3,135
Carrying amount			
Carrying amount as at 1 Jan. 2018	245	50,000	50,245
Carrying amount as at 31 Dec. 2018	587	0	587

Intangible assets refer to software applications and licences.

Table 28: Changes in intangible assets and long-term deferred costs and accrued revenues in 2017

in EUR 000

31 DEC. 2017	Software and other intangible assets	Long-term accrued revenue and deferred costs	Total
Cost			
Cost as at 1 Jan. 2017	3,077	0	3,077
Additions	218	50,000	50,218
Disposals	0	0	0
Cost as at 31 Dec. 2017	3,295	50,000	53,295
Value adjustment			
Value adjustment as at 1 Jan. 2017	2,989	0	2,989
Additions, transfers	0	0	0

in EUR 000

31 DEC. 2017	Software and other intangible assets	Long-term accrued revenue and deferred costs	Total
Disposals, write-offs	0	0	0
Depreciation/amortisation	61	0	61
Value adjustment as at 31 Dec. 2017	3,050	0	3,050
Carrying amount			
Carrying amount as at 1 Jan. 2017	88	0	88
Carrying amount as at 31 Dec. 2017	245	50,000	50,245

Note no. 15

Property, plant and equipment

Table 29: Changes in property, plant and equipment in 2018

in EUR 000

31 DEC. 2018	Buildings	Other plant and equipment	Total
Cost			
Cost as at 1 Jan. 2018	5,408	1,836	7,244
New acquisitions, transfers	7	73	80
Disposals, transfers	-412	-54	-466
Cost as at 31 Dec. 2018	5,003	1,855	6,858
Value adjustment			
Value adjustment as at 1 Jan. 2018	2,172	1,690	3,862
Additions, transfers	0	0	0
Disposals, write-offs	-104	-54	-158
Depreciation/amortisation	159	65	224
Value adjustment as at 31 Dec. 2018	2,227	1,701	3,928
Carrying amount			
Carrying amount as at 1 Jan. 2018	3,236	146	3,382
Carrying amount as at 31 Dec. 2018	2,776	154	2,930

In 2018, Kapitalska družba transferred garages from "Glavarjeva rezidenca", Ljubljana, from buildings to investment property and leased them out.

Table 30: Changes in property, plant and equipment in 2017

in EUR 000

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

Note no. 16

*Investment property***Table 31:** Changes in investment property in 2018

in EUR 000

31 DEC. 2018	Buildings
Cost	
Cost as at 1 Jan. 2018	23,439
New acquisitions, transfers	6,207
Disposals, transfers, impairments	-555
Cost as at 31 Dec. 2018	29,091
Value adjustment	
Value adjustment as at 1 Jan. 2018	7,419
Additions, transfers	104
Disposals, write-offs	-167
Depreciation/amortisation	753
Value adjustment as at 31 Dec. 2018	8,109
Carrying amount	

31 DEC. 2018		in EUR 000
		Buildings
Carrying amount as at 1 Jan. 2018		16,020
Carrying amount as at 31 Dec. 2018		20,982

In 2018, Kapitalska družba transferred garages from “Glavarjeva rezidenca”, Ljubljana, from buildings to investment property. In 2018, Kapitalska družba acquired new investment property in the office building “Stekleni dvor”, Ljubljana in the amount of EUR 5,738 thousand.

As at 31 December 2018, Kapitalska družba impaired investment properties “Smelt” and “Bežigranski dvor” in the amount of EUR 388 thousand.

The fair value of investment property does not significantly deviate from the carrying amount as at 31 December 2018, except for the »Nebotičnik” office building, whose fair value greatly exceeds its carrying amount. The fair value of investment property was estimated based on external appraisal.

The appraised value of investment property was EUR 23,303 thousand as at 31 December 2018. The comparison of the carrying amounts and appraised value of the investment property items as at 31 December 2018 showed that impairments of investment property were made in the amount of EUR 388 thousand.

Table 32: Changes in investment property in 2017

31 DEC. 2017		in EUR 000
		Buildings
Cost		
Cost as at 1 Jan. 2017		23,115
New acquisitions, transfers		324
Disposals, transfers, impairments		0
Cost as at 31 Dec. 2017		23,439
Value adjustment		
Value adjustment as at 1 Jan. 2017		6,781
Additions, transfers		0
Disposals, write-offs		0
Depreciation/amortisation		638
Value adjustment as at 31 Dec. 2017		7,419
Carrying amount		
Carrying amount as at 1 Jan. 2017		16,334
Carrying amount as at 31 Dec. 2017		16,020

Table 33: Rental income from investment property and costs related to investment property

		in EUR 000
		2018
		2017
Rental income from investment property	1,687	1,415
Costs related to investment property	939	843

Information about encumbrances

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

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

Note no. 17

Investments in subsidiary, associated companies and joint venture

Investment in subsidiary as at 31 December 2018 includes:

in EUR 000					
No.	SUBSIDIARY	REGISTERED OFFICE	Equity stake in %	Equity as at 31 Dec. 2018	Net profit/loss for 2018
1.	Modra zavarovalnica, d. d.	Dunajska cesta 119, Ljubljana	100.00	235,773	6,350

			in EUR 000	
			31 Dec. 2018	31 Dec. 2017
Shares and interests in Group companies			152,200	152,200
Total			152,200	152,200

As at 31 December 2018, investments in associated companies include:

in EUR 000					
No.	ASSOCIATED COMPANY	REGISTERED OFFICE OF THE COMPANY	Equity stake in %	Equity as at 31 Dec. 2018	Net profit/loss for 2018
1.	Casino Maribor, d. d. – in bankruptcy ¹⁸	Glavni trg 1, Maribor	20.00	-	-
2.	Gio, d. o. o. – in liquidation	Dunajska cesta 160, Ljubljana	28.68	-	-
3.	Gospodarsko razstavišče, d. o. o.	Dunajska cesta 18, Ljubljana	29.51	17,901	400
4.	Hit, d. d. ¹⁹	Delpinova ulica 7a, Nova Gorica	20.32	52,852	2,141
5.	Loterija Slovenije, d. d.	Gerbičeva ulica 99, Ljubljana	25.00	19,668	5,112
6.	Sava, d. d.	Dunajska cesta 152, Ljubljana	27.81	35,817	551

18 Pursuant to the Financial Operations, Insolvency Proceedings, and Compulsory Dissolution Act (ZFPPIPP), the bankruptcy manager deleted these shares from KDD. Prior to the Company's bankruptcy, Kapitalska družba held the stake as presented above.

19 The share in Hit, d. d., carries 33.33% of voting rights. Preference shares do not carry any voting rights, as the dividend was paid in 2018.

in EUR 000

No.	ASSOCIATED COMPANY	REGISTERED OFFICE OF THE COMPANY	Equity stake in %	Equity as at 31 Dec. 2018	Net profit/loss for 2018
7.	Terme Čatež, d. d.	Čatež ob Savi, Topliška cesta 35, Brežice	23.79	72,790	1,677
8.	Terme Olimia, d. d.	Zdraviliška cesta 24, Podčetrtek	24.79	35,782	2,353

in EUR 000

	31 Dec. 2018	31 Dec. 2017
Shares and interests in associated companies	41,979	36,962
Total	41,979	36,962

Investment in joint venture at 31 December 2018 includes:

in EUR 000

No.	JOINT VENTURE	REGISTERED OFFICE OF THE COMPANY	Equity stake in %	Equity as at 31 Dec. 2018	Net profit/loss for 2018
1.	Hotelske nepremičnine, d. o. o.	Dunajska cesta 119, Ljubljana	50.00	9,983	57

in EUR 000

	31 Dec. 2018	31 Dec. 2017
Shares and interests in joint ventures	4,963	0
Total	4,963	0

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

- provision of funds for the operations/capital adequacy of the subsidiary, associated companies or joint venture;
- participation in covering contingent liabilities of the subsidiary, associated companies or joint venture.

At the end of 2018, Kapitalska družba used internal valuation models and external valuations to verify, assess and appraise the companies' value as at 31 December 2018, taking into account the most recent available data on companies' performance in 2018.

Note no. 18

Assets held for sale

Non-current assets held for sale include the following items as at 31 December 2018:

	in EUR 000	
	31 Dec. 2018	31 Dec. 2017
Assets held for sale	14,418	1,940
Total	14,418	1,940

Non-current assets held for sale in the amount of EUR 14,418 thousand as at 31 December 2018 include equity investments held for sale.

Note no. 19

Investments, excluding loans

	in EUR 000			
	Long-term		Short-term	
	31 Dec. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017
Other shares and interests	559,759	601,648	0	0
Other investments	76,057	115,750	41,463	3,163
Total	635,816	717,398	41,463	3,163

Carrying amount of financial assets

As at 31 December 2018, Kapitalska družba classified financial assets into one of the following groups according to IFRS 9: financial assets at fair value through profit or loss, at fair value through other comprehensive income and at amortised cost. In addition, financial assets are also classified as long-term and short-term.

	in EUR 000		
31 DEC. 2018	Long-term	Short-term	Total
At fair value through profit or loss	3,073	36,884	39,957
Set upon initial recognition	3,073	36,884	39,957
Mandatory measurement at fair value through profit or loss	0	0	0
At fair value through other comprehensive income	814,966	16,207	831,173
Debt instruments	59,136	3,722	62,858
Equity instruments	755,830	12,485	768,315
At amortised cost	16,919	2,790	19,709
Total	834,958	55,881	890,839

Investments of Kapitalska družba other than loans were classified into one of the following groups as at 31 December 2017 according to IAS 39: financial assets measured at fair value through profit or loss, investments held to maturity, and available-for-sale financial assets. In addition, investments are also classified as long-term and short-term.

31 DEC. 2017	in EUR 000		
	Long-term	Short-term	Total
Investments measured at fair value through profit or loss	4,761	597	5,358
Investments held to maturity	16,800	720	17,520
Available-for-sale financial assets	884,999	3,786	888,785
Total	906,560	5,103	911,663

in EUR 000	
31 Dec. 2017	
Investments measured at fair value through profit or loss	5,358
Equity securities	4,759
Debt securities	599
Investments held to maturity	17,520
Available-for-sale financial assets	854,905
Equity securities	787,991
Debt securities	66,914
Total	877,783

Overview of financial assets by carrying amount and fair value as at 31 December 2018

ASSET	in EUR 000	
	Carrying amount	Fair value
Financial assets at fair value through profit or loss	39,957	39,957
Financial assets at amortised cost	19,709	23,591
Financial assets at fair value through other comprehensive income	831,173	831,173
Investments in loans	32,328	32,328
Cash and cash equivalents	18,182	18,182
Total	941,349	945,231

Overview of financial assets by carrying amount and fair value as at 31 Dec. 2017

in EUR 000

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

In line with its accounting policy, Kapitalska družba measures its financial assets at fair value, which equals the market value of the investment. The difference between the carrying amount and fair value appears on investments measured at amortised cost. The fair value of investments comprising loans and receivables also equals their amortised cost. The assumptions applied in fair value estimates of Level 3 investments are presented in the fair value hierarchy.

Changes in securities investments in 2018

in EUR 000

	31 Dec. 2017	Acquisitions and transfers	Disposals, maturity	Revaluation	31 Dec. 2018
Investments at fair value through profit or loss	5,358	39,402	410	-4,393	39,957
Investments at amortised cost	17,520	1,953	817	1,053	19,709
Investments at fair value through other comprehensive income	854,905	40,962	68,204	3,510	831,173
Total	877,783	82,316	69,431	170	890,839

Changes in securities investments in 2017

in EUR 000

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

Investments by type of interest rate as at 31 December

	in EUR 000	
	31 Dec. 2018	31 Dec. 2017
Debt investments	80,723	118,317
Fixed interest rate	80,723	118,317
Variable interest rate	0	0
Loans, deposits	32,828	47,935
Fixed interest rate	32,828	47,935
Variable interest rate	0	0
Total	113,051	166,252

Investments in equity instruments measured at fair value through other comprehensive income as at 31 December 2018

Dividends recognised on investments measured at fair value through other comprehensive income (stated in the table below) amount to EUR 27,462 thousand, whereas those from disposed investments equal EUR 1 thousand.

in EUR

ISIN CODE	Value as at 31 Dec. 2018	ISIN CODE	Value as at 31 Dec. 2018	ISIN CODE	Value as at 31 Dec. 2018
AT0000607270	3,284,161	LU1681044480	4,787,864	SI0031103367	1,082
BA100TLKMRA2	56,188	LU1681044563	2,994,469	SI0031103375	5
BMG5695X1258	752,635	PLINHOLD D.O.O.	714,000	SI0031103706	2,698,920
CNE1000002H1	720,379	PS ZA AVTO D.O.O.	227,141	SI0031104183	0
DE0005933931	5,280,709	SI0021100134	79	SI0031104290	21,545,384
DE000A0D8Q23	1,143,400	SI0021110083	535	SI0031104399	1,546
DE000A0H08M3	915,300	SI0021110323	74	SI0031104431	0
DE000A0Q4R02	335,640	SI0021110513	12,867	SI0031104555	0
ELAN INVENTA D.O.O.	714,000	SI0021111313	3,867	SI0031104597	1,031,467
FR0007068036	633,400	SI0021111651	5,575	SI0031104621	168,668
FR0010326140	472,227	SI0021112105	2,106	SI0031104829	1,095,100
GIO D.O.O.	1,423,243	SI0021112212	93	SI0031104845	0
GOSPODARSKO RAZSTAVIŠČE D.O.O.	1,668,000	SI0021113111	3,469	SI0031105024	10,362,060
HK2828013055	1,484,472	SI0021113855	12,854	SI0031105271	0
HOTELSKE NEPREMIČNINE D.O.O.	4,962,870	SI0021116007	152,200,000	SI0031105495	1,887
IE0032523478	4,646,863	SI0021401342	11,774	SI0031105529	789,012
IE00B2NSVP60	1,700,230	SI0031100082	92	SI0031105602	9
IE00B3DWVS88	13,264,323	SI0031100090	1,871,771	SI0031105677	2,182,018
IE00B3F81R35	2,809,950	SI0031100215	305	SI0031106907	0
IE00B3F81R35	1,494,734	SI0031100637	3,689,774	SI0031107079	11
IE00B4L5Y983	8,433,052	SI0031100793	0	SI0031107293	4,414
IE00B4L60045	1,498,849	SI0031101346	18,111,054	SI0031107350	6,929,998
IE00B60SX394	26,644,722	SI0031101494	184	SI0031107459	510
IE00B87RLX93	1,576,050	SI0031101577	0	SI0031107582	0
IE00BC7GZW19	1,496,964	SI0031101700	0	SI0031107673	2,505,211
IE00BJ0KDQ92	15,678,474	SI0031101999	0	SI0031107772	12,540
JE00B1VS3770	1,070,830	SI0031102005	183	SI0031107913	0
LU0274208692	24,407,509	SI0031102047	0	SI0031107954	5,809,967
LU0290355717	8,494,949	SI0031102070	0	SI0031107996	0
LU0292107991	3,896,168	SI0031102120	201,904,648	SI0031108184	36,869
LU0706717195	3,172,225	SI0031102153	53,519,020	SI0031108200	27
LU1650488494	3,234,272	SI0031102187	108	SI0031108259	187
		SI0031102773	4	SI0031108358	0
		SI0031102799	0	SI0031108556	0
		SI0031103151	3,179	SI0031108564	0

in EUR					
ISIN CODE	Value as at 31 Dec. 2018	ISIN CODE	Value as at 31 Dec. 2018	ISIN CODE	Value as at 31 Dec. 2018
SI0031108580	2,483,094	SI0031113432	0	SI0031200429	898
SI0031108655	7,199,688	SI0031113481	11	SI0031200791	2,420
SI0031108846	4,974	SI0031113770	0	SM	
SI0031108994	2,489,638	SI0031113788	635	STROJKOPLAST	118,017
SI0031109034	40	SI0031113879	0	MARIBOR D.O.O.	
SI0031109109	0	SI0031113929	0	US4642864007	1,087,783
SI0031109380	0	SI0031114182	0	US4642866085	1,886,197
SI0031109463	21	SI0031114281	59	US4642871846	13,328,157
SI0031109539	2,408	SI0031114307	0	US4642873255	5,442,358
SI0031109562	0	SI0031114455	172	US4642873339	3,774,777
SI0031109646	264,188	SI0031114596	0	US4642873412	3,004,210
SI0031109661	0	SI0031114604	6	US4642886950	3,457,171
SI0031109711	0	SI0031114794	726	US4642887297	5,940,975
SI0031109737	464	SI0031114802	0	US4642887370	1,686,236
SI0031109786	0	SI0031114893	206	US4642887453	4,493,790
SI0031109927	1,783	SI0031114901	67	US46434G1031	5,023,843
SI0031110016	0	SI0031114976	8,127	US46434G8226	6,153,633
SI0031110248	19,228	SI0031114984	6,549	US46434V7385	4,259,336
SI0031110263	0	SI0031115031	7,113	US61745C1053	1,303,565
SI0031110271	182	SI0031115080	0	US78462F1030	11,327,378
SI0031110412	4,653	SI0031115437	6,682	US81369Y6059	5,182,150
SI0031110461	17,799	SI0031115767	12,303	US81369Y8030	15,616,795
SI0031110495	31	SI0031115866	2,596	US81369Y8600	938,420
SI0031110677	0	SI0031115940	0	Total	768,314,378
SI0031110743	31	SI0031116062	1,000		
SI0031111048	1,085	SI0031116104	3		
SI0031111279	0	SI0031116443	1,578		
SI0031111485	9	SI0031116815	0		
SI0031111576	3	SI0031117144	0		
SI0031111816	222	SI0031117169	21,689		
SI0031112053	68	SI0031117268	0		
SI0031112772	7	SI0031117318	9,249,955		
SI0031113143	9,775,634	SI0031117441	66		
SI0031113184	6,593	SI0031200239	65,703		
SI0031113309	8,411	SI0031200304	0		

Due to favourable market conditions and provision of liquidity, Kapitalska družba in 2018 disposed of equity investments in the total fair value of EUR 59,154 thousand. The cumulative effect of the sale of equity instruments measured at fair value through other comprehensive income is EUR -10,055 thousand and is recognised under profit/loss brought forward. Loss on sale is due to the mandatory transfer of permanent impairments to reserves arising from fair value accounting and to profit/loss brought forward as at 1 January 2018 in accordance with IFRS 9. On 1 January 2018, Kapitalska družba recognised EUR 115,864 thousand from permanent impairments under profit/loss brought forward.

Fair value hierarchy as at 31 December 2018

in EUR 000				
ITEM	Level 1	Level 2	Level 3	Total
Investments at fair value through profit or loss	3,071	1,251	35,635	39,956
Shares and other equity instruments	0	1,249	685	1,934
Debt securities	0	2	0	2
Units and shares of open-end funds	3,071	0	0	3,071
Investment in accounts receivable	0	0	34,950	34,950
Investments at fair value through other comprehensive income	512,291	100,525	218,356	831,173
Shares and other equity instruments	256,902	57,716	214,926	529,544
Debt securities	52,599	6,830	3,431	62,859
Units and shares of open-end funds	202,791	35,980	0	238,770
Total	515,362	101,776	253,991	871,129

Fair value hierarchy as at 31 Dec. 2017

in EUR 000				
ITEM	Level 1	Level 2	Level 3	Total
Investments measured at fair value through profit or loss	4,759	2	596	5,357
Shares and other equity instruments	4,759	0	0	4,759
Debt securities	0	2	0	2
Money market instruments	0	0	596	596
Available-for-sale financial assets	521,367	120,653	246,766	888,786
Shares and other equity instruments	261,192	89,370	202,134	552,696
Debt securities	56,162	0	10,752	66,914
Units and shares of open-end funds	204,013	31,283	0	235,296
Investment in accounts receivable	0	0	33,880	33,880
Total	526,126	120,655	247,362	894,143

The valuation of certain shares at Level 2 of the fair value hierarchy was made using the method involving a comparison with the comparable listed companies.

The fair value valuation of Level 3 investments (shares and equity stakes) was made by applying the income-based approach, the discounted free cash flow method, and the asset-based approach according

to the net asset method (adjusted carrying amount).

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

The fair value of the shares of Elektro Ljubljana, d. d. was estimated by applying the income-based approach, and using the discounted free cash flow method. The estimated free cash flow was discounted at a 6.4% discount rate. The remaining growth rate of normalised cash flow is 2%.

The fair value of the shares of Elektro Maribor, d. d. was estimated by applying the income-based approach, and using the discounted free cash flow method. The estimated free cash flow was discounted at a 7.1% discount rate. The remaining growth rate of normalised cash flow is 2%.

The fair value of the shares of Elektro Primorska, d. d. was estimated by applying the income-based approach, and using the discounted free cash flow method. The estimated free cash flow was discounted at a 6.9% discount rate. The remaining growth rate of normalised cash flow is 2%.

The fair value of the shares of Elektro Celje, d. d. was estimated by applying the income-based approach, and using the discounted free cash flow method. The estimated free cash flow was discounted at a 6.6% discount rate. The remaining growth rate of normalised cash flow is 2%.

The fair value of the shares of Elektro Gorenjska, d. d. was estimated by applying the income-based approach, and using the discounted free cash flow method. The estimated free cash flow was discounted at a 6.4% discount rate. The remaining growth rate of normalised cash flow is 2%.

The fair value of the shares of Perutnina Ptuj, d. d., was estimated by applying the income-based approach, and using the discounted free cash flow method. The estimated free cash flow was discounted at a 7.3% discount rate. The remaining growth rate of normalised cash flow is 2%.

The fair value of ordinary shares of HIT, d. d. was estimated on the basis of the income-based approach and using the discounted free cash flow method. The estimated free cash flow was discounted at a 8.64% discount rate. The remaining growth rate of normalised cash flow is 1.5%.

The fair value of the business interest in Gospodarsko razstavišče, d. o. o., was estimated on the basis of the income-based approach and using the discounted free cash flow method. The estimated free cash flow was discounted at a 8.07% discount rate. The remaining growth rate of normalised cash flow is 1.5%. A significant item in the valuation of Gospodarsko razstavišče, d. o. o. is the value of the company's redundant real estate. The estimated value of this real estate is set using the comparable method.

The fair value of the shares of Terme Olimia, d. d. was estimated by applying the income-based approach, and using the discounted free cash flow method. The estimated free cash flow was discounted at a 7.6% discount rate. The remaining growth rate of normalised cash flow is 2%.

The fair value of the shares of Talum, d. d. was estimated by applying the income-based approach, and using the discounted free cash flow method. The estimated free cash flow was discounted at a 8.74% discount rate. The remaining growth rate of normalised cash flow is 1.5%.

The fair value of the holding in Plinhold, d. o. o. was estimated by applying the asset-based approach according to the net asset method. The value of the investment in Plinovodi, d. o. o., which accounts for 99.9% of the company's assets, was estimated by applying the income-based approach, and using the discounted free cash flow method. The estimated free cash flow was discounted at a 6.76% discount rate. The remaining growth rate of normalised cash flow is 1.5%.

The fair value of the business interest in Elan Inventa, d. o. o. was estimated on the basis of the income-based approach and using the discounted free cash flow method. The estimated free cash flow was discounted at a 11.92% discount rate. The remaining growth rate of normalised cash flow is 1.5%.

The fair value of the shares of Loterija Slovenije, d. d. was estimated by applying the income-based approach and using the discounted free cash flow method. The estimated free cash flow was discounted at a 8.72% discount rate. The remaining growth rate of normalised cash flow is 1.5%.

The fair value of shares of Sava, d. d., was estimated on the basis of the asset-based approach and using the net asset method under the assumption of regular liquidation of the company. The value of the investment in Sava Turizem, d. d., which accounts for the biggest investment of the company, 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 8.64% discount rate. The remaining growth rate of normalised cash flow is 1.5%.

The investment in the shares of Modra zavarovalnica, d. d. is stated at cost. An impairment test was carried out, revealing that the investment need not be impaired. The fair value of the company's shares was estimated by applying the income-based approach and using the discounted free cash flow method. The estimated free cash flow was discounted at a 11.31% discount rate. The remaining growth rate of normalised cash flow is 1.5%.

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

The fair value of investments in accounts receivable is measured at Level 3 of the fair value hierarchy.

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

Table 34: Transition between the levels of fair value hierarchy as at 31 December 2018

in EUR 000

TRANSITION BETWEEN HIERARCHY LEVELS, PORTFOLIO AS AT 31 DEC. 2018	From Level 1 to Level 2	From Level 2 to Level 3	From Level 3 to Level 2	Total
Investments at fair value through other comprehensive income	1,884	6,834	18	8,736
Shares and other equity instruments	0	6,834	18	0
Units and shares of open-end funds	1,884	0	0	0
Total	1,884	6,834	18	8,736

Table 35: Transition between the levels of fair value hierarchy as at 31 Dec. 2017

in EUR 000

TRANSITION BETWEEN HIERARCHY LEVELS, PORTFOLIO AS AT 31 DEC. 2017	From Level 1 to Level 2	From Level 2 to Level 1	From Level 2 to Level 3	Total
Investments measured at fair value through profit or loss	0	0	0	0
Shares and other equity instruments	0	0	0	0
Debt securities	0	0	0	0
Units and shares of open-end funds	0	0	0	0
Money market instruments	0	0	0	0
Available-for-sale financial assets	71	16,731	16,966	33,768
Shares and other equity instruments	0	16,731	12,911	29,642
Units and shares of open-end funds	71	0	0	71
Debt securities	0	0	4,055	4,055
Total	71	16,731	16,966	33,768

Effective interest rate by investment groups

	2018
Investments measured at amortised cost	6.29%
Investments measured at fair value through other comprehensive income	5.17%
Cash and cash equivalents	0.00%

	2017
Investments held to maturity	6.32%
Loans granted	0.26%
Available-for-sale financial assets	5.24%
Cash and cash equivalents	0.00%

Return by asset group

	2018
Investments measured at fair value through profit or loss	5.00%
Investments at amortised cost	1.59%
Investments at fair value through other comprehensive income	3.48%
Total	3.44%

	2017
Investments measured at fair value through profit or loss	3.22%
Investments held to maturity	4.07%
Available-for-sale financial assets	8.81% ²⁰
Investments in loans and deposits	0.46%
Total	5.74%

20 Excluding investments in accounts receivable.

Note no. 20

Loans to others

in EUR 000

	Long-term		Short-term		Total	
	31 Dec. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017
Deposits	0	0	32,328	18,917	32,328	18,917
Total	0	0	32,328	18,917	32,328	18,917

At the end of 2018, Kapitalska družba had no long-term deposits disclosed in its books of account.

Short-term loans comprise short-term deposits and the short-term part of long-term deposits to Addiko banka, d. d., Sberbanka, d. d., and Gorenjska banka, d. d. At the end of 2018, short-term loans to others totalled EUR 32,328 thousand.

All deposits are classified in the category at amortised cost.

Deposits are not pledged.

Note no. 21

Operating receivables

in EUR 000

	Long-term		Short-term	
	31 Dec. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017
Operating receivables due from Group companies	0	0	3	31
Operating receivables due from local customers	0	0	751	807
Operating receivables due from others	124	73	2,493	354
Other operating receivables	0	0	50,063	50,024
Total	124	73	53,310	51,216

EUR 124 thousand of long-term operating receivables due from others represent EUR 90 thousand paid into the reserve fund for the maintenance of real estate and receivables from a company in compulsory settlement proceedings equalling EUR 34 thousand.

In 2019, operating receivables in the amount of EUR 53,310 thousand will fall due, of which most are accounted for by short-term deferred expenses arising from the payment to the Pension and Disability Insurance Institute for 2019 in the amount of EUR 50,000 thousand, whereas EUR 124 thousand of operating receivables will fall due in the subsequent years.

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

Changes in credit losses from operating receivables

in EUR 000

CREDIT LOSSES FROM OPERATING RECEIVABLES

1 Jan. 2018	0
Credit losses	-8
31 Dec. 2018	-8

As at 31 December 2018, Kapitalska družba recognised credit losses from trade receivables in the amount of EUR 8 thousand.

Breakdown of operating trade receivables by maturity

in EUR 000

31 DEC. 2018	Not due	Up to 30 days	From 31 to 60 days	From 61 to 90 days	From 91 to 180 days	From 181 to 365 days
751	747	2	0	0	0	2

Note no. 22

Cash and cash equivalents

in EUR 000

	31 Dec. 2018	31 Dec. 2017
Bank balances	1,973	4,105
Euro redeemable deposits	16,209	29,022
Total	18,182	33,127

All call deposits are classified in the category at amortised cost.

Note no. 23

Equity

	31 Dec. 2018	31 Dec. 2017
Share capital (000 EUR)	364,810	364,810
Ordinary shares (number)	874,235	874,235

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

Note no. 24

Capital surplus

in EUR 000

CAPITAL SURPLUS

1 Jan. 2018	216,761
Increase in capital surplus	570
31 Dec. 2018	217,331

In 2018, the capital surplus increased by EUR 570 thousand on account of additional assets received in accordance with the Ownership Transformation of Companies Act. As at 31 December 2018, capital surplus totalled EUR 217,331 thousand.

Note no. 25

Revenue reserves

As at 31 December 2018, Kapitalska družba reported no other revenue reserves.

Note no. 26

Changes in reserves arising from valuation at fair value

in EUR 000

CHANGES IN RESERVES ARISING FROM VALUATION AT FAIR VALUE AND DEFERRED TAXES IN EQUITY

	2018	2017
Gross reserves from valuation at fair value as at 1 January	360,520	329,526
Changes due to the transition to IFRS 9 as at 1 January	119,283	0
Deferred tax as at 1 January	47,509	43,246
Net reserves arising from valuation at fair value as at 1 January	193,728	286,280
Changes during the year – gross increase in reserves	611,940	87,869
Changes during the year – gross decrease in reserves	-604,533	-56,875
Gross reserves arising from valuation at fair value as at 31 December	248,644	360,520
Adjustments (criteria: 8%, 6 months)	-97,802	-110,473
Gross balance after adjustment as at 31 December	150,842	250,047
Deferred tax as at 31 December	28,660	47,509
Net reserves arising from valuation at fair value as at 31 December	219,984	313,011

Note no. 27

Provisions and long-term accrued costs and deferred revenue

in EUR 000

	Provisions for pensions and similar obligations	Other provisions	Accrued costs and deferred revenue	Total
1 Jan. 2018	213	538	1,544	2,295
Newly established through profit or loss	22	319	0	341
Newly established through equity	26	0	0	26
Utilised provisions	-2	0	0	-2
Reversal of provisions through profit or loss	0	-180	0	-180
Reversal of provisions through equity	-26	0	0	-26
Transfer to short-term part	0	0	-1,544	-1,544
31 Dec. 2018	233	677	0	910

In 2018, the Company established EUR 319 thousand of provisions for non-achievement of guaranteed return of the Compulsory Supplementary Pension Insurance Fund of the Republic of Slovenia (SODPZ), and derecognised provisions for onerous contracts in the amount of EUR 180 thousand. At the end of 2018, provisions for non-achievement of guaranteed return of the SODPZ fund amounted to EUR 320 thousand, and those for legal actions and legal disputes against the Company equalled EUR 357 thousand.

Kapitalska družba used EUR 2 thousand of provisions, created provisions in the amount of EUR 48 thousand and reversed EUR 26 thousand of provisions for pension termination benefits and jubilee awards. At the end of 2018, provisions for termination benefits and jubilee awards amounted to EUR 233 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.

Accrued costs and deferred revenues equalling EUR 1,544 thousand were transferred to short-term operating liabilities in the amount of EUR 667 thousand and financial income in the amount of EUR 877 thousand.

The Company utilised EUR 2 thousand and established EUR 48 thousand of provisions for termination benefits on retirement and jubilee awards, which were not planned in 2018. The Company formed EUR 319 thousand of provisions for non-achievement of guaranteed return of the SODPZ fund, which were not planned in 2018. In other provisions there was no difference between the planned and the actual amount used and established.

Note no. 28

Operating liabilities

in EUR 000

	Long-term		Short-term	
	31 Dec. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017
Trade liabilities	0	0	2,855	3,239
Operating liabilities from advances	15	364	513	0
Liabilities to the state	0	0	50,019	50,009
Other operating liabilities	0	0	1,079	413
Total	15	364	54,466	53,661

Long-term operating liabilities comprise the security deposit received from the lessee of business premises in the amount of EUR 12 thousand and the security deposit due to work in progress on the office building “Stekleni dvor” in the amount of EUR 3 thousand.

Short-term operating liabilities comprise trade payables in the amount of EUR 2,855 thousand, of which the largest portion in the amount of 2,527 thousand refers to the liability for the payment of investment property; advance received for the purchase of securities from KDD in the amount of EUR 513 thousand; liabilities to the state totalling EUR 50,019 thousand, of which the largest part in the amount of EUR 50,000 thousand relates to the payment obligation to the Pension and Disability Insurance Institute in 2019 and other operating liabilities equalling EUR 1,079 thousand, of which the bulk in the amount of EUR 667 thousand refers to deferred revenue recognised on acquisition of an investment in accounts receivable, calculated as the difference between the cost and fair value of the investment acquired.

Maturity structure of operating liabilities

in EUR 000

31 DEC. 2018	Trade liabilities	Operating liabilities from advances	Liabilities to the state	Other operating liabilities	Total
Maturity of up to 1 year	2,855	513	50,019	1,079	54,466
1 to 2 years	0	12	0	0	12
2 to 5 years	0	0	0	0	0
Over 5 years	0	3	0	0	3
Total	2,855	528	50,019	1,079	54,481
Collateralised liabilities (pledges and similar)	0	0	0	0	0

Note no. 29

Financial liabilities

in EUR 000

	Long-term		Short-term	
	31 Dec. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017
Other financial liabilities	0	50,000	3	0
Total	0	50,000	3	0

As at 31 December 2018, Kapitalska družba disclosed EUR 3 thousand of financial liabilities from interest owed to KDD.

As at 31 December 2017, Kapitalska družba reported EUR 50,000 thousand of financial liabilities, which related to settling the liabilities of Kapitalska družba to the Pension and Disability Insurance Institute for 2019. The financial liability to the Pension and Disability Insurance Institute is not subject to interest and was stated under short-term liabilities to the state in 2018.

Financial liabilities maturity

in EUR 000

	31 Dec. 2018	31 Dec. 2017
Up to 1 year overdue	3	0
1 to 2 years	0	50,000
2 to 5 years	0	0
Over 5 years	0	0
Total	3	50,000

Collateralised borrowings

As at 31 December 2018, Kapitalska družba disclosed no loans.

Off-balance sheet receivables

As at 31 December 2018, Kapitalska družba reported no off-balance sheet receivables.

15.4.3 Managing the risks arising from financial assets

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

Credit risk

Credit risk is related to investments in debt instruments (investments in bonds, treasury bills, commercial papers, 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 36: Exposure of financial assets to credit risk, excluding any collateral, as at 31 December 2018

in EUR 000

FINANCIAL ASSETS AT AMORTISED COST						Financial assets at fair value through other comprehensive income	Financial assets at fair value through profit or loss	Total
Internal rating	Rating	Expected losses	Method of measuring expected losses	Gross exposure	Net exposure (decreased by expected losses)	Net exposure	Net exposure	Total net exposure
Low-risk investments	AAA	0		0	0	0	0	0
	AA	0	12-month expected losses	0	0	1,778	0	1,778
	A	-2		17,764	17,762	49,821	0	67,583
	BBB	0		0	0	7,411	0	7,411
Total secure investments		-2		17,764	17,762	59,010	0	76,772
Less secure investments	BB	-75		35,559	35,484	3,849	0	39,333
	B	-8		798	790	0	0	790
	CCC	0	12-month / lifetime expected losses	0	0	0	0	0
	CC	0		0	0	0	0	0
	C	0		0	0	0	0	0
	without credit rating	0		14,210	14,210	0	2	14,212
Total less secure investments		-83		50,567	50,484	3,849	2	54,335
Impaired investments	D	0	Impairment through profit or loss in the amount of expected loss	0	0	0	34,950	34,950
Total impaired		0		0	0	0	34,950	34,950
Total		-85		68,331	68,246	62,859	34,952	166,057

Financial assets were classified into the stated groups based on credit ratings. Secure investments include all AAA to BBB rated investments, less secure investments comprise investments with a credit rating below BB to C and investments that do not have a rating assigned to them by a recognised credit rating agency, while impaired investments are given a D credit rating. Among less secure investments are mainly investments in deposits and cash assets of Slovenian banks.

Impaired investments represent an investment in accounts payable.

Table 37: Exposure of financial assets to credit risk, excluding any collateral as at 31 December 2017

in EUR 000

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

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

Table 38: Allowance for loss in 2018

in EUR 000

CATEGORY	Stage 1	Stage 2	Stage 3
Allowance for loss as at 1 Jan. 2018	37	0	0
Transfer to stage 1	0	0	0
Transfer to stage 2	0	0	0
Transfer to stage 3	0	0	0
Financial assets derecognised in the period	-35	0	0
Financial assets acquired in the period	83	0	0
Amortisation, depreciation and write-offs	0	0	0
Reversal of allowance for loss	0	0	0
Currency and other changes	0	0	0
Allowance for loss as at 31 Dec. 2018	85	0	0

Table 39: Changes in gross carrying amount and allowances

in EUR 000

CATEGORY	Gross carrying amount	Allowances for losses
Opening balance as at 1 Jan. 2018	36,441	37
Financial assets acquired in the period	50,567	83
Financial assets derecognised in the period	-18,914	-35
Transfer to stage 1	0	0
Transfer to stage 2	0	0
Transfer to stage 3	0	0
Reversal of allowance for loss	0	0
Changes due to exchange rate differences and accrued interest	237	0
Closing balance as at 31 Dec. 2018	68,331	85

Table 40: Geographical concentration of credit exposure of financial assets

in EUR 000

REGION	31 Dec. 2018	31 Dec. 2017
Slovenia	158,498	161,841
Other countries	7,314	9,116
Total	165,812	170,957

The share of financial assets exposed to credit risk in Slovenia rose from 95% to 96% in 2018.

Sector concentration

Sector concentration of financial assets reveals the dispersion of assets by industry sector and refers to the risk arising from excessive exposure of assets to a specific sector. Sector concentration of assets influences credit and market risk of the portfolio.

Table 41: Sector concentration of financial assets

in %

INDUSTRY	31 Dec. 2018	31 Dec. 2017
Financial sector	31	28
Pharmacy	24	24
Cyclical consumer goods	8	9
Government securities	8	8
Energy	7	n.a.
Industrial enterprises	5	n.a.
Communications	4	n.a.
Information technology	4	n.a.

INDUSTRY	in %	
	31 Dec. 2018	31 Dec. 2017
Other sectors	4	26
Undefined	5	5
Total	100	100

At the end of 2018, 31% of financial assets were invested in the financial sector, 24% in the pharmacy industry, 8% in cyclical consumer goods, 8% in government securities (bonds, treasury bills, investment coupons linked to government bonds), 7% in the energy sector, 5% in the sector of industrial enterprises, 4% in the communication and IT sector, and 9% in other sectors (including undefined part).

Currency risk

Table 42: Currency structure of financial assets

CURRENCY	in EUR 000	
	31 Dec. 2018	31 Dec. 2017
Assets denominated in EUR	824,621	838,390
Assets denominated in USD	113,693	122,628
Assets denominated in other currencies	3,035	2,689
Total	941,349	963,707

As at 31 December 2018, 87.6% of financial assets of the Company were denominated in euro, 12.1% in US dollar and 0.3% in other currencies. Currency structure of financial assets is monitored considering the currency in which the underlying instrument is denominated. Currency risk slightly decreased because of a somewhat higher exposure of investments in euro, whereas the effect of currency fluctuation in securities constituting a specific instrument or investment fund was not taken into account.

Table 43: Currency risk of financial assets as at 31 December 2018

USD EXCHANGE RATE FLUCTUATION IN %	in EUR 000	
	Impact on the income statement	Impact on capital
+/- 10%	+/- 0	+/- 11,369

Table 44: Currency risk of financial assets as at 31 December 2017

USD EXCHANGE RATE FLUCTUATION IN %	in EUR 000	
	Impact on the income statement	Impact on capital
+/- 10%	+/- 0	+/- 12,263

Interest rate risk

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

Table 45: Sensitivity analysis of investments according to changes in market interest rates as at 31/12/2018 – change in interest rates by 50 basis points

in EUR 000

FINANCIAL ASSET GROUP	Change in interest rate	Sensitivity of interest income	Impact on fair value	Total
Financial assets measured at fair value through profit or loss	+/- 0.5%	+/- 0	+/- 0	+/- 0
Financial assets measured at amortised cost	+/- 0.5%	+/- 0	+/- 0	+/- 0
Financial assets measured at fair value through other comprehensive income	+/- 0.5%	+/- 0	+/- 1,962	+/- 1,962
Total		+/- 0	+/- 1,962	+/- 1,962

Table 46: Sensitivity analysis of investments according to changes in market interest rates as at 31 December 2017 – change in interest rates by 50 basis points

in EUR 000

FINANCIAL ASSET GROUP	Change in interest rate	Sensitivity of interest income	Impact on fair value	Total
Investments at fair value through profit or loss	+/- 0.5%	+/- 0	-/+ 128	-/+ 128
Investments held to maturity	+/- 0.5%	+/- 0	+/- 0	+/- 0
Available-for-sale financial assets	+/- 0.5%	+/- 0	-/+ 1,927	-/+ 1,927
Loans	+/- 0.5%	+/- 0	+/- 0	+/- 0
Total		+/- 0	-/+ 2,055	-/+ 2,055

The calculation of the sensitivity of interest income was made by taking into account the investments subject to variable interest rate, whereas the impact on fair value was calculated by taking into account the investments subject to fixed interest rate. If market interest rates change by 50 basis points, the value of the investments would change by EUR 1,962 thousand as at 31 December 2018. Interest rate risk increased in 2018 thanks to increased exposure arising from the investments sensitive to changes in market interest rates.

Market risk

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

Table 47: Market risk of the equity securities portfolio as at 31 December 2018

in EUR 000

INDEX CHANGE IN %	Impact on the income statement	Impact on capital
+/- 10%	+/- 218	+/- 27,672

Table 48: Market risk of the equity securities portfolio as at 31 December 2017

in EUR 000		
INDEX CHANGE IN %	Impact on the income statement	Impact on capital
+/- 10%	+/- 0	+/- 37,301

The table takes into account the investments in equity instruments excluding investment coupons related to bonds. The impact on profit or loss arises from equity investments measured at fair value through profit or loss, whilst the impact on equity arises from equity investments measured at fair value through other comprehensive income. The risk was calculated using the beta indicator of the world stock index. The market risk of equity investments reduced in 2018 due to the lower beta and decreased exposure arising from equity investments compared to 2017.

Table 49: Financial instruments in terms of marketability

in EUR 000	
FINANCIAL INSTRUMENT	31 Dec. 2018
Securities traded on the regulated market	632,109
Investments at fair value through profit or loss	4,321
Investments at amortised cost	19,709
Investments at fair value through other comprehensive income	608,079
Securities not traded on the regulated market	199,916
Investments at fair value through profit or loss	685
Investments at amortised cost	0
Investments at fair value through other comprehensive income	199,231
Total	832,025

Table 50: Financial instruments in terms of marketability

in EUR 000	
FINANCIAL INSTRUMENT	31 Dec. 2017
Securities traded on the regulated market	668,991
Investments at fair value through profit or loss	5,358
Investments held to maturity	17,520
Available-for-sale financial assets	646,113
Securities not traded on the regulated market	208,792
Investments at fair value through profit or loss	0
Investments held to maturity	0
Available-for-sale financial assets	208,792
Total	877,783

At the end of 2018, assets traded on regulated stock markets accounted for 76% of financial instruments or 68% of all assets of Kapitalska družba (this group includes OTC investments and investments on the interbank market). Available-for-sale financial assets measured at fair value through other

comprehensive income not traded on regulated market include non-marketable shares, stakes and investment coupons.

Liquidity risk

Liquidity risk represents the possibility of liabilities not being settled upon maturity. Risk is managed by daily monitoring of the inflows and outflows, and precise matching of maturity of assets and liabilities. As at 31 December 2018, Kapitalska družba recorded a total of EUR 944,483 thousand of surplus of expected non-discounted cash inflows over outflows.

Table 51: Expected actual non-discounted cash flows as at 31 December 2018

in EUR 000

ITEM	Up to 1 year	From 1 to 5 years	Over 5 years	No maturity	Total
Investments in securities	6,392	50,675	29,554	773,319	859,940
- Investments at fair value through profit or loss	0	1	2	5,004	5,007
- Investments at amortised cost	1,991	14,346	6,576	0	22,913
- Investments at fair value through other comprehensive income	4,401	36,328	22,976	768,315	832,020
Investment in accounts receivable	0	34,950	0	0	34,950
Loans and deposits given	32,461	0	0	0	32,461
Cash and cash equivalents	18,182	0	0	0	18,182
Operating receivables	53,310	124	0	0	53,434
Total assets	110,345	85,749	29,554	773,319	998,967
Operating liabilities	54,466	15	0	0	54,481
Financial liabilities	3	0	0	0	3
Total operating and financial liabilities	54,469	15	0	0	54,484
Difference	55,876	85,734	29,554	773,319	944,483

Table 52: Expected actual non-discounted cash flows as at 31 December 2017

in EUR 000

ITEM	Up to 1 year	From 1 to 5 years	Over 5 years	No maturity	Total
Investments in securities	4,009	53,077	34,068	792,750	883,903
- at fair value through profit or loss	600	0	2	4,759	5,361
- held-to-maturity	817	14,764	7,161	0	22,741
- available-for-sale	2,592	38,313	26,905	787,991	855,801
Investment in accounts receivable	0	33,880	0	0	33,880
Loans and deposits given	18,981	0	0	0	18,981
Cash and cash equivalents	33,127	0	0	0	33,127
Operating receivables	1,192	73	0	0	1,265
Total assets	57,309	87,029	34,068	792,750	971,156
Operating liabilities	53,561	364	0	0	53,925
Financial liabilities	0	50,000	0	0	50,000
Total operating and financial liabilities	53,561	50,364	0	0	103,925
Difference	3,748	36,665	34,068	792,750	867,231

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

15.5 OTHER DISCLOSURES

Information on the management

The names of the members of the Management Board and other bodies are stated in the introductory part of the Annual Report, under the section General information about Kapitalska družba. In 2018, Kapitalska družba approved no advance payments or loans to the members of the management and supervisory bodies nor assumed any liabilities on their behalf.

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

In 2018, remunerations paid for carrying out of the responsibilities and duties of members of the Management Board, Supervisory Board and employees with executive employment contracts to which the tariff section of the collective agreement does not apply, amounted to EUR 1,098 thousand.

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

Table 53: Receipts by category of beneficiaries in 2018

in EUR 000	
CATEGORY OF BENEFICIARIES	Amount
Members of the Management Board	431
Members of the Supervisory Board	135
Employees with executive employment contract	532
Total	1,098

No advances, loans or collateral were approved by Kapitalska družba in 2018.

Receipts of the members of management and supervisory bodies

Receipts of the members of the Management Board are regulated by ZSDH-1. Pursuant to Article 51(5) of ZSDH-1, the same conditions and criteria as apply to the members of the Management Board of SDH, d. d., apply to the members of the Management Board of Kapitalska družba. By mutatis mutandis application of Article 46(7) of 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 supervisory body members 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 said legal basis. The basic pay of the Management Board members is set as a multiple of 5 of the average gross salary paid in the Kapitalska družba Group in the previous business year, however, the basic pay of the President of the Management Board calculated that way may not exceed 95% of the basic pay of the President of the Management Board of SDH, d. d., as published, while the basic pay of members of the Management Board amounts to 95% of individual basic pay of the President of the Management Board of Kapitalska družba. All bonuses are included in the basic pay. The basic pay is revised annually when data on the average salary in the Kapitalska družba Group in the previous financial 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 2018 in line with the aforementioned criteria. Pursuant to the contract, each member of the Management Board is entitled to attend training at home and abroad of up to 15 days per year paid by Kapitalska družba, as specified in the adopted Business and Financial Plan of Kapitalska družba.

Table 54: Receipts of members of the Management Board in 2018

in EUR											
NAME AND SURNAME	Fixed remuneration	Variable income	Benefits	Cost reimbursement	Insurance premiums (PDPZ)	Participation in profit	Options	Other bonuses	Other payments	Total gross	Total net
Bachtiar Djalil (President of the Management Board)	124,905	19,613	55	1,889	2,819	-	-	-	1,000	150,281	77,567
Goranka Volf (Member of the Management Board)	118,300	15,577	55	2,240	2,819	-	-	-	1,000	139,991	70,852
Gregor Bajraktarević (Member of the Management Board)	118,858	15,577*	55	2,153	2,819	-	-	-	1,000	140,462	73,637
Total	362,063	50,767	165	6,282	8,457	-	-	-	3,000	430,734	222,056

* The member of the Management Board Gregor Bajraktarević was paid too high variable income. According to the resolution of the Supervisory Board he should have received EUR 12,923.00. The overpayment was refunded in March 2019, as soon as the error was identified.

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

Table 55: Receipts of members of the Supervisory Board in 2018

in EUR

NAME AND SURNAME	Fixed income – payment for the performance of duties	Fixed income – attendance fees	Variable income	Cost reimbursement	Insurance premiums	Fees	Participation in profit	Options	Other bonuses	Other payments	Total gross	Total net
Stanislav Seničar (Chairman of the Supervisory Board)	16,408	5,500	-	832	-	-	-	-	-	-	22,740	16,539
Boris Žnidarič, PhD (Deputy Chairman of the Supervisory Board, President of the Accreditation Committee)	16,224	5,500	-	94	-	-	-	-	-	-	21,818	15,868
Cirila Surina Zajc (Member of the Supervisory Board, Member of the Audit Committee, Member of the HR Committee)	16,500	5,500	-	1,026	-	-	-	-	-	-	23,026	16,747
Aleksander Mervar, MSc (Member of the Supervisory Board, Member of the Audit Committee, President of the HR Committee)	16,500	5,500	-	466	-	-	-	-	-	-	22,466	16,340
Ladislav Rožič, MSc (Member of the Supervisory Board, President of the Audit Committee, Member of the Accreditation Committee)	16,500	5,500	-	0	-	-	-	-	-	-	22,000	16,000
Natalija Stošicki (Member of the Supervisory Board, Member of the Audit Committee, Member of the HR Committee)	16,500	5,500	-	817	-	-	-	-	-	-	22,817	16,595
Total	98,632	33,000	-	3,235	-	-	-	-	-	-	134,867	98,089

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

Table 56: Receipts of external members of the Supervisory Board's committees in 2018

in EUR

NAME AND SURNAME	Fixed income – payment for the performance of duties	Fixed income – attendance fees	Variable income	Cost reimbursement	Insurance premiums	Fees	Participation in profit	Options	Other bonuses	Other payments	Total gross	Total net
Mojca Verbič (External Member of the Audit Committee)	3,600	616	-	67	-	-	-	-	-	-	4,283	3,114
Irena Prijović, MSc (External Member of the Accreditation Committee)	3,600	440	-	0	-	-	-	-	-	-	4,040	2,938
Alenka Stanič, PhD (External Member of the Accreditation Committee)	3,077	660	-	0	-	-	-	-	-	-	3,737	2,718
Gorazd Žmavc (External Member of the Accreditation Committee from 27 September 2018)	640	0	-	0	-	-	-	-	-	-	640	465
Total	10,917	1,716	-	67	-	-	-	-	-	-	12,700	9,235

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

In 2018, the members of management and supervisory bodies received receipts for duties performed in the subsidiary Modra zavarovalnica, d. d.

Table 57: Receipts of the members of management and supervisory bodies in the subsidiary Modra zavarovalnica, d. d. in 2018

in EUR

NAME AND SURNAME	Fixed income – payment for the performance of duties	Fixed income – attendance fees	Variable income	Cost reimbursement	Insurance premiums	Fees	Participation in profit	Options	Other bonuses	Other payments	Total gross	Total net
Natalija Stošicki	14,107	5,280	-	385	-	-	-	-	-	-	19,772	14,380
Boris Žnidarič, PhD	10,450	4,180	-	35	-	-	-	-	-	-	14,665	10,666
Total	24,557	9,460	-	420	-	-	-	-	-	-	34,437	25,046

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

Activities of the Supervisory Board of Kapitalska družba and its committees

The Supervisory Board held 22 meetings in 2018. The members attended the Supervisory Board meetings regularly; the member Aleksander Mervar, MSc., was absent from two meetings, the member Natalija Stošicki could not attend three of the meetings for justifiable reasons.

The Audit Committee of the Supervisory Board had five meetings. The members attended the Audit Committee meetings regularly. For justifiable reasons, the member of the Audit Committee of the Supervisory Board Cirila Surina Zajc could not attend one of the meetings, the external member Mojca Verbič two meetings and Aleksander Mervar four meetings.

The Accreditation Committee held 3 meetings. The members attended the Accreditation Committee meetings regularly. The external member, Irena Prijovič, MSc, was absent from one meeting and Aleksander Mervar, MSc, could not attend three of the meetings for justified reasons.

The HR Committee had six meetings, which were attended by all three members.

Related-party transactions

In 2018 Kapitalska družba made no significant transactions with its related parties that were concluded under other than normal market conditions.

Disclosure regarding the pension scheme

Pursuant to the decision on approving the amendments and supplements to the Occupational Health Insurance Plan No. 1031-160/2016- of 29 November 2017, issued by the Ministry of Labour, Family, Social Affairs and Equal Opportunities, a new Occupational Retirement Pension Scheme entered into force on 1 January 2018, except for Article 29, which entered into effect on 1 February 2018. On that date, the amended Rules on the Management of the SODPZ entered into force, to which the Securities Market Agency issued a consent on 20 December 2017.

Events after the date of the statement of financial position

Since the end of 2018 until the preparation of the Annual Report, Kapitalska družba recorded no significant business events that could influence its financial statements for 2018.

