ANNUAL REPORT 2018

KD Skladi, družba za upravljanje, d. o. o. (KD Funds – Management Company LLC)

TABLE OF CONTENTS

BUSINESS REPORT

THE COMPANY AT A GLANCE

Company name	KD Skladi, družba za upravljanje, d. o. o. (English: KD Funds – Management Company LLC)
Abbreviated company name	KD Skladi, d. o. o. (English: KD Funds LLC)
Registered office	Dunajska cesta 63, 1000 Ljubljana, Slovenia
Telephone	+386 (0)1 58 26 780
Fax	+386 (0)1 518 40 88
Website	www.kd-skladi.si
E-mail	kdi.info@kd-group.si
Registration number	5834457
Tax number	56687036
VAT identification number	SI 56687036
Bank accounts	SI56 0510 0801 3397 826 Abanka d. d. SI56 0292 2026 0821 258 NIB d. d.
Economic activity codes	64.300 – Trusts, funds and similar financial entities 66.300 – Fund management activities
Management Board	Luka Podlogar, President of the Management Board Casper Frans Rondeltap, Member of the Management Board
Company size according to ZGD-1	Medium-sized company
Supervisory authority	Securities Market Agency

Shareholder as at 31 December 2018

Adriatic Slovenica d. d. Ljubljanska cesta 3a, 6503 Koper, Slovenia	100% shareholding

1. Company profile

Establishment and development

KD Skladi, d. o. o. (KD Funds LLC) was founded for an unlimited period on 24 February 1994 under the name Kmečka družba d. d. It was registered in the Court Register on 11 March 1994 under number Srg 1392/94.

On 13 March 1998, the Management Company's shares were entered in the Central Register of Securities with the Central Securities Clearing Corporation (KDD) by Decision no. R-418/IH/98, and thus issued in a book-entry form. Based on the resale authorisation no. 11/200/AG-97 issued by the Securities Market Agency on 1 July 1998, the shares were admitted to trading on the OTC market on 3 August 1998.

On 30 November 2000, the Company's division was recorded in the Court Register based on Decision no. Srg 2000/13886, whereby part of the assets of the transferor company, Kmečka družba d. d., was divided and transferred to a newly established company, Skupina Kmečka družba d. d., headquartered at Stegne 21, Ljubljana. In accordance with a resolution adopted at the General Meeting on 19 October 2000, the assets determined in the division scheme were transferred to the new company, as the universal legal successor.

The Company's capital, which consisted of the first and second issues of shares with a total nominal value of 200,000,000.00 Slovenian tolars (SIT) (EUR 834,585.21), was reduced to SIT 160,000,000.00 (EUR 667,668.17) upon the registration of the division. The par value per share of Kmečka družba d. d. decreased from SIT 10,000.00 (EUR 41.73) to SIT 8,000.00 (EUR 33.38), while the number of shares issued remained 20,000.

On 5 October 2001, a change in the Company's name was entered in the Court Register under no. Srg 2001/10979: Kmečka družba d. d. was renamed KD Investments d. d.

In accordance with a resolution of the General Meeting of 30 May 2002, the Company was converted from a public limited company to a limited liability company. On 30 August 2002, a change in the Company's name was registered under no. Srg 2002/05430, and KD Investments, družba za upravljanje, d. d., was renamed KD Investments, družba za upravljanje, d. o. o.

Pursuant to the decision of the Ljubljana Stock Exchange, the Management Company's shares designated KDZ were excluded from trading on the OTC market on 19 September 2002. As of 30 September 2002, the KDZ shares were also deleted from the Central Securities Register.

In early 1996, the Management Company successfully carried out the first public sale of bonds totalling 8 million German marks (DEM) or EUR 4,090,400, and obtained authorisation for organised trading. On 10 March 2006, the bonds were removed from the Ljubljana Stock Exchange price list because they were set to mature on 15 March 2006.

On 22 January 2008, the Management Company received, through its agent, Decision no. 2007/15729 of the District Court of Ljubljana dated 16 January 2008 on entering the following changes in the Court Register: registered company name, abbreviated name, share capital along with the changeover to the euro, the Memorandum of Association, and registration of a new shareholding. The Company's new registered name thus became KD Skladi, družba za upravljanje, d. o. o., abbreviated name KD Skladi, d. o. o., with a share capital of EUR 1,767,668.00. Its registered name in English is KD Funds – Management Company LLC, and the abbreviated name in English is KD Funds LLC.

On 13 February 2012, the Company moved to a new location at Dunajska cesta 63, Ljubljana, and changed its business address.

Whilst the Company does not have a formal diversity policy in place, it respects the principles of diversity, especially in terms of age and education.

The Company has no branches.

On 9 June 2016, the Company took over the management of the Ilirika Umbrella Fund. On 3 October, the subfunds of the Ilirika Umbrella Fund were absorbed into the subfunds of the KD Umbrella Fund.

On 13 February 2019, KD Group d. d. disposed 100% of the issued shares in the capital of Adriatic Slovenica, zavarovalna družba, d. d., the direct holder of a qualified holding in KD Funds LLC, by means of which KD Group d. d. ceased to have an indirect qualified holding in KD Funds LLC.

As of 13 February 2019, Generali CEE Holding B.V., the Netherlands, holds a qualified holding in KD Funds LLC.

The Company's principal activity is investment fund management. At the end of 2018 it managed the following subfunds of the KD Umbrella Fund:

1. KD Galileo, mešani fleksibilni sklad (KD Galileo, Mixed Flexible Fund)
2. KD Rastko, evropski delniški sklad (KD Rastko, Europe Equity Fund)
3. KD Bond, obvezniški - EUR (KD Bond - EUR)
4. KD MM, sklad denarnega trga - EUR (KD MM, Money Market - EUR)
5. KD Prvi izbor, sklad delniških skladov (KD First Selection, Fund of Equity Funds)
6. KD Balkan, delniški (KD Balkan, Equity)
7. KD Novi trgi, delniški (KD New Markets, Equity)
8. KD Surovine in energija, delniški (KD Raw Materials and Energy, Equity)
9. KD Tehnologija, delniški (KD Technology, Equity)
10. KD Vitalnost, delniški (KD Vitality, Equity)
11. KD Indija – Kitajska, delniški (KD India – China, Equity)
12. KD Latinska Amerika, delniški (KD Latin America, Equity)
13. KD Vzhodna Evropa, delniški (KD Eastern Europe, Equity)
14. KD Dividendni, delniški (KD Dividend, Equity)
15. KD Amerika, delniški (KD America, Equity)
16. KD Corporate Bonds, obvezniški – EUR (KD Corporate Bonds – EUR)

At the end of 2018, the Company also managed the assets of other investors under discretionary investment mandates, and an alternative real estate fund KD Adriatic Value Fund, Special Investment Fund.

The operations of all subfunds of the KD Umbrella Fund listed above and of KD Funds LLC in 2018 were audited by Ernst & Young d. o. o., Dunajska cesta 111, Ljubljana.

Annual report

KD Funds LLC is an entity within a group of related companies controlled by Adriatic Slovenica d. d.

The annual report of KD Funds LLC is available at the Company's headquarters at Dunajska cesta 63, Ljubljana.

The consolidated annual report of the Adriatic Slovenica d. d. Group and the annual report of Adriatic Slovenica d. d. are available at the company's headquarters at Ljubljanska cesta 3 a, 6503 Koper.

As at 31 December 2018, KD Funds LLC was the controlling company of the management company KD Locusta Fondovi d. o. o., Savska cesta 106, 10 000 Zagreb (90% share), and of the management company KD Fondovi A. D. Skopje, Ul. Partizanski odredi br.14 A, 1000 Skopje, Macedonia (94.60% share). Pursuant to Article 56 of the Companies Act (Official Gazette of the RS no. 42/2006 as amended, hereinafter: ZGD-1), KD Funds LLC is not obliged to prepare consolidated financial statements.

2. Business development

The core activity of KD Funds LLC is managing investment funds and assets of other investors. At the end of 2018, the Company managed the KD Umbrella Fund with its 16 subfunds, an alternative real estate fund KD Adriatic Value Fund, Special Investment Fund, and other portfolios based on discretionary mandates.

2018 most probably saw the peak of the economic cycle that started after the 2008 crisis. While capital markets were characterised by high yields and low volatility during the previous years and in particular in 2017, volatility returned to the markets in 2018 and all stock indices ended the year in the red. The bond markets performed somewhat better, especially the government bond segment, ending the year in slightly positive figures. The first fall came in February when speculations about the tightening monetary policies appeared, the required rates of return grew strongly, and announcements of fiercer trade terms and tariffs by the US administration hit the headlines. Europe saw the forming of the government in Italy and a budget proposal inconsistent with the EU rules. The indices peaked in early October, followed by a period of heavy downward reversal sparked by fears about the state of the global economy, especially in China, uncertainties connected with the threat of trade wars, and confusion regarding Brexit. In 2018, the economic environment began to cool down, which was reflected in reduced economic growth forecast during the year. The developed markets also saw a high divergence in the economic activity.

Consistently with the market development, the KD Umbrella Fund subfunds mostly recorded negative returns in 2018. However, our funds recorded a positive variation in relative returns, with more than half of all the subfunds either coming close to or exceeding their benchmarks in both one-year and three-year periods. The value of assets under management amounted to EUR 478,1 million at the end of 2018.

In 2018, Primož Cencelj of KD Funds was recognised by the *Moje finance* magazine with the top accolade in asset management in Slovenia, earning the Best Fund Manager 2017 title. In the eight years of these awards, a KD Funds manager has been selected as the best fund manager of the year for five consecutive years, with Primož Cencelj winning this award for the third time. Aleš Lokar, a KD Funds team member, ranked fourth out of the seven best fund mangers. KD Funds was also awarded with the highest rating of 5 stars four times, which testifies to the supreme quality of its fund management. The mutual funds receiving the highest award, i.e. five stars, for three- and five-year periods were KD Bond in the Bond – Europe category, and KD Rastko in the Equity – Europe category. The excellence in managing the KD Umbrella Fund subfunds was also acknowledged by the independent international rating agency Morningstar. On 31 December 2018, three out of 14 subfunds of the KD Umbrella Fund were assigned the highest rating of 5 stars (KD First Selection and KD Bond) or 4 stars (KD Vitality).

All of these awards and recognitions are the result of our sound management of fund portfolios, developments in financial markets, cost-effective business operations, and personal contacts with our investors. KD Funds offers the most cost-effective fund-saving options – the so-called fund packages. At the end of 2018, a new product, the My Selection flexible savings plan was launched, offering investors the possibility to freely change funds within their savings plan and make periodic payments. In addition to sales activities, the Company focused its efforts on ensuring alignment with the legislation, optimisation of its processes and portfolios, and upgrading the information system.

Highlights of our activities and achievements in 2018:

KD Funds successfully follows the newest trends and developments in the global mutual fund sector. 2018 saw the inception of the alternative real estate fund, KD Adriatic Value Fund, Special Investment Fund, which has already invested in several real estate projects in Slovenia. The Company regards the alternative funds segment as an attractive option for its development and plans the establishment of new funds allocating to alternative investment classes in the future.

In terms of optimising its business, KD Funds has been continuously developing new digital solutions contributing to business efficiency and improving the user and investor experience.

New product development: In 2018, the Company launched My Selection, a new flexible savings package allowing investors to change funds invested in and make periodic payments. In the alternative funds segment, preparations were made in 2018 to create a new private equity fund.

Excellence in management: The numerous awards presented by the Moje finance magazine for the best fund manager and the best management company with the highest number of awards and the highest overall ratings of five or four Morningstar stars are – in addition to our results and consistently exceeded benchmarks – proof of successful systematic development and improvements in the management process based on seeking risk-adjusted value.

3. Business results

KD Funds LLC is the third biggest management company in Slovenia, with a 19.4% market share among Slovenian mutual fund managers at the end of 2018. Outside of Slovenia, it has two subsidiary companies in Croatia and Macedonia, together managing 17 investment funds, 13 of which are located in Croatia and 4 in Macedonia.

As at 31 December 2018, KD Funds managed EUR 478.1 million worth of assets of 52,211 investors. Assets under management decreased by 10.1% or EUR 53.5 million compared to the end of 2017, as a consequence of capital market decline and thus a negative effect of 7.65% or EUR 40.5 million and a negative effect of the net flows of 2.45% or EUR 13 million. A total of EUR 35.2 million and EUR 48.1 million were contributed to and redeemed from the KD Umbrella Fund, respectively, in 2018.

Net sales and operating expenses reached EUR 9.5 million and EUR 7.49 million, respectively. The Company closed the year with EUR 1.86 million in net profit for the financial period.

4. Outlook for the future

We expect to see a slowdown in growth of the global economy in 2019. The main question remains whether the economy will go down the road of gradual cooling or will we face a sharper fall in growth, which the capital markets already began to reflect to a certain extent in the last few months through declines and strong volatility. One of the most important topics of 2019 both in terms of impact on the world economic activity as well as the sentiment of market participants will be the likelihood of trade war escalation. In terms of investment grades, KD Funds recommendations for equity investments are neutral. Valuations in developed stock markets became more attractive after the last correction, and the main question remains whether companies can meet the relatively high analyst expectations regarding profitability growth in 2019. With respect to emerging markets, China seems to have the biggest potential, and the authorities still have enough manoeuvring space for encouraging domestic growth. We expect a difficult year in the bond market. Interest rates in the USA will probably reach the local high, and the first rise in the interest rate on deposits is expected in Europe. KD Funds recommendations for bond investment under umbrella allocation are neutral to negative.

The Company will continue to engage in activities centred on business excellence in all spheres of operations and asset management as well as optimising and streamlining the business process. Special attention will be given to our existing and potential investors, and providing excellent financial counselling experience. Moreover, our resources will be directed towards the development of new products in the area of alternative funds.

The key challenges anticipated in 2019 include:
- growing the Company's profitability;
- improving the management;
- strengthening personal interaction with investors and the sales network;
- launching innovative new products that will bring new investment strategies within the KD Umbrella Fund and offer new saving possibilities in mutual funds;
- attracting new prospective investors, especially institutional investors,

- expanding business in the area of alternative investment funds for institutional investors,
- continuing with activities to optimise business processes, focusing on the best possible risk management, and
- consolidating our position within the region at large; and
- integration in the Generali Group.

5. Human resources

KD Funds aspires to exceed the expectations of both investors and business partners. To achieve this, it needs committed and highly-motivated people. Our goal is to offer a creative organisational climate and employee-friendly working conditions. In order to have access to high-quality support services, the Company employs highly skilled and professional personnel, especially with qualifications in Economics, Law, IT and Sales. Employees work in an environment enabling them to develop their capacities, with an emphasis on creativity and reliability. The Company regularly organises internal training courses and provides its staff with opportunities to attend external training courses, which helps them perform well in their work. The Company also encourages team building through informal socialising.

6. Clarification concerning the report on the relationship with the controlling company

The Company's Management Board drew up a report on the relationship with the controlling company, establishing that no transactions representing a disadvantage for the Company were carried out in 2018.

7. Risk management

In performing its operations and in accordance with the applicable regulations and internal rules, the Company determines, measures/estimates, manages and monitors risks affecting its business as well as the business of the assets managed by it, i.e. mostly assets of investment funds. In the framework of managing risk associated with the aforementioned assets and in line with the adopted risk management plans, the Company measures and takes appropriate action on a daily basis, chiefly with regard to investment (market) risk. In the management of risk connected with its operations as a commercial company and a supervised financial institution, and in compliance with capital adequacy requirements, the Company identifies and measures risk as well as adopts actions and regularly monitors their implementation with regard to operational risk, profitability risk, strategic risk, credit risk, market risk, reputation risk, capital and liquidity risk, and compliance risk. Details on risk management are given in the Disclosures according to requirements under Part 8 of Regulation EU 575/2013 published on the Company's website.

8. Corporate governance statement

8.1. Applicable codes

In 2018 the Management Company applied the Corporate Governance Code of KD Group, which is available at the Company's website and at www.kd-group.com.

8.2. The main characteristics of the internal control and risk management system in connection with the financial reporting procedure

The Company is bound to respect the provisions of the Companies Act (ZGD-1) and the Investment Funds and Management Companies Act (Official Gazette of the RS, no. 31/2015, as amended, hereinafter: ZISDU-3), which among others governs the obligation of management companies to put in place and maintain an appropriate system of internal controls and risk management. Specific regulations are also issued by the Securities Market Agency and the Company's supervisory bodies. The Company is also bound by the relevant legislation in the area of markets in financial instruments and alternative funds.

The functioning of internal controls is supervised by management oversight as well as through internal audits, reviews conducted by the Compliance and Risk Management functions, and through external audits of the Company's financial statements.

Details of risk management in connection with the financial reporting procedures are described in section 8, and risk management in connection with the financial reporting procedures is described in section 22 of the notes on specific solutions and valuations.

8.3. Details referred to in points 3, 4, 6 and 9 of paragraph 6 of Article 70 of ZGD-1

Details about the Company's ownership are disclosed in the annual report. Given that Adriatic Slovenica d. d., Ljubljanska cesta 3a, 6503 Koper, is the sole Shareholder, the Company neither provides for specific controlling rights nor specific restrictions on voting rights.

The Company relies on responsible governance and management. Its rules on the appointment and replacement of members of the management and supervisory bodies and amendments to the Articles of Association are based on the provisions of ZGD-1 and the Articles of Association, which can be consulted at the Company's headquarters.

8.4. Information on the functioning and key powers of the Shareholder, and description of the Shareholder's rights and their exercise

The Company's sole Shareholder is Adriatic Slovenica d. d., Ljubljanska cesta 3a, 6503 Koper. The sole Shareholder's powers are based on the provisions of ZGD-1 and are enshrined in the Articles of Association, which can be consulted at the Company's headquarters.

8.5. Composition and functioning of the management and supervisory bodies and their committees

The Management Board

The Company is run by the Management Board which acts on its behalf and represents it in legal transactions.

In 2018, the Management Board had the following composition:
- Luka Podlogar, President of the Management Board,
- Casper Frans Rondeltap, Member.

The Supervisory Board

Within the scope of its powers, the Supervisory Board actively monitored and supervised the operations of KD Funds LLC. It held eight sessions in 2018, all of which had a quorum. The Supervisory Board members received session invitations and documents in a timely manner. The Supervisory Board regularly reviewed the implementation of resolutions, and the Management Board regularly informed the Supervisory Board members about the Company's current operations and performance.

In 2018 the Supervisory Board had the following composition:
- Tomaž Butina, President of the Supervisory Board,
- Matija Šenk, Deputy President,
- Jure Kvaternik, Member.

No Supervisory Board committees were established in 2018.

On 13 February 2019, Tomaž Butina, Matija Šenk and Jure Kvaternik resigned from the office of members of the Supervisory Board.

Gregor Pilgram, Josef Beneš, Jure Kvaternik and Aljoša Tomaž were appointed members of the Supervisory Board for a four-year term by the sole Shareholder of KD Funds LLC, Adriatic Slovenica d. d., on 13 February 2019. The new President and Deputy President of the Supervisory Board are Josef Beneš and Aljoša Tomaž, respectively.

9. Important business events after the close of the 2018 financial year

On 13 February 2019, KD Group d. d. disposed 100% of the issued shares in the capital of Adriatic Slovenica, zavarovalna družba, d. d., the direct holder of a qualified holding in KD Funds LLC, by means of which KD Group d. d. ceased to have an indirect qualified holding in KD Funds LLC.

As of 13 February 2019, Generali CEE Holding B.V., the Netherlands, holds a qualified holding in KD Funds LLC.

Ljubljana, 19 March 2019

CONCISE STATEMENT OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD ABOUT THE RISK MANAGEMENT OF KD FUNDS LLC

The Management Board and the Supervisory Board of KD Funds LLC (hereinafter: the Company), pursuant to Article 17 of the Decision on Risk Management and the Internal Capital Adequacy Assessment Process for Banks and Savings Banks[1] (hereinafter: the Decision) and Articles 435.1(e)[2] and 435.1(e)[3] of the CRR[4], give the following concise statement on risk management:

The Company follows its long-term strategic and business objectives whilst respecting the risk exposure limits set out in the Strategy[5] and policies[6] on both an individual as well as consolidated basis.

The Company assesses its risk profile as acceptable, with capital adequacy, income stability and stable liquidity position being the key factors for supporting its current and future profitability.

The Company's risk profile is assessed annually in accordance with the Strategy. The Company has performed the internal capital adequacy assessment process[7], i.e. self-assessment of its capital adequacy in accordance with the risk management policies in place.

The following risks ranked by order of importance were identified in the assessment process, with respect to which risk management policies were adopted:

- operational risk,
- profitability risk,
- strategic risk,
- credit risk,
- market risk,
- reputation risk, capital and liquidity risk, and
- compliance risk.

The assessed risk profile is consistent with the Company's business model and strategic orientations. The risk profile is managed through a system of limits and internal controls, based on which the Company can meet more than the minimum capital requirements even in harsh business conditions. The risk management system was designed and adopted in agreement with the parent undertaking and approved by its Supervisory Board.

The key indicator of the Company's risk appetite is the total capital ratio. Its tolerance value stands at 130% of the minimum capital requirement according to the CRR. The acceptable share of dividend in the net profit of the preceding financial year is set at the level enabling the Company to maintain its long-term business stability and preserve its target capital requirements. The target values of all risk indicators express the connection between the Company's business strategy and its risk profile.

The Management Board and the Supervisory Board confirm that prudential consolidation pursuant to Article 11 of the CRR has been carried out, comprising the Company as the parent institution and its two subsidiaries, KD Locusta Fondovi d.o.o., Zagreb, and KD Fondovi AD, Skopje (hereinafter: the Group).

The Management Board and the Supervisory Board confirm that the Group pursues the same profile of operations based on acceptable risk. The Company applies ICAAP to calculate its internal capital requirements for all significant risks.

---

[1] Official Gazette of the RS, no. 72/16
[2] Statement on the adequacy of the Company's risk management, which ensures that the risk management systems in place suit the Company's profile and strategy
[3] Concise risk statement
[4] Regulation (EU) no. 575/2013 (Official Journal of the EU, L 176)
[5] Risk Strategy (FS-KDS-POS-77)
[6] Operational risk management policy (FS-KDS-POS-80), Credit risk management policy (FS-KDS-POS-79), Profitability risk, reputation risk and strategic risk management policy (FS-KDS-POS-95), Capital risk management policy (FS-KDS-POS-71), Market risk management policy (FS-KDS-POS-93), Liquidity risk management policy (FS-KDS-POS-92), and Compliance policy (FS-KDS-POS-84)
[7] ICAAP

In 2018, the total capital ratios for the Company and the Group equalled 11.77% and 12.90%, respectively.

Due to external trends, growth and new product development, the Company devotes significant efforts to managing and limiting operational risk and profitability risk. In parallel, processes of digitisation of the documentary system, personal data protection, alignment with the new legislation, establishment of new funds and business continuity are carried out.

In its regular operations, the Company applies qualitative measures and daily supervisory procedures to successfully manage prevention of money laundering and terrorist financing, inside information protection and management of conflicts of interest, by which it manages reputation risk with respect to the Company and the Group.

A stable source of capital enables the Company to operate in accordance with the CRR provisions and adopted strategic orientations. This is further supported by its constantly high liquidity level connected with the nature of its activity.

The concise statement of the management body is available at https://www.kd-skladi.si/aktualno/javne-objave/.

Ljubljana, 19 March 2019

Supervisory Board

Josef Beneš
President of the Supervisory Board

Gregor Pilgram
Member

Jure Kvaternik
Member

Aljoša Tomaž
Member

Management Board

Luka Podlogar
President of the Management Board

Casper Frans Rondeltap
Member

STATEMENT OF MANAGEMENT'S RESPONSIBILITY

The Management Board of KD Funds – Management Company LLC confirms the financial statements as at 31 December 2018, and the applied accounting policies, notes and tables.

The Management Board is responsible for the preparation of the annual report so as to give a true and fair view of the Company's financial position and the results of operations for 2018.

The Management Board confirms that the relevant accounting policies have been consistently applied and that the accounting estimates have been prepared in compliance with the principles of prudence and due diligence. The Management Board also confirms that the financial statements and the notes thereto have been prepared on a going-concern basis, and in compliance with the applicable legislation and the Slovene Accounting Standards.

The Management Board is also responsible for proper accounting, for taking appropriate measures to safeguard the assets, and for preventing and detecting fraud as well as other forms of irregularity and illegality.

Tax authorities may at any time within five years following the tax assessment year examine the Company's business operations, which may, consequently, result in additional tax liabilities, default interest and penalties levied under the corporate income tax or other taxes and duties. The Company's Management Board is not aware of any circumstances that might give rise to any material liability in this respect.

Ljubljana, 19 March 2019

KD Funds LLC

FINANCIAL REPORT

BALANCE SHEET AS AT 31 DECEMBER 2018

(EUR)	Note	31 Dec. 2018	31 Dec. 2017
ASSETS			
Non-current assets			
Intangible assets, deferred expenses and accrued income	1	2,713,423	2,715,204
Property, plant and equipment	2	126,544	113,638
Investment property		-	-
Long-term financial investments	3	2,744,293	2,524,191
Long-term operating receivables		-	-
Deferred tax assets	18	163,119	154,288
		5,747,379	**5,507,321**
Current assets			
Assets held for sale		-	-
Inventories		-	-
Short-term financial investments	4	3,904,513	4,091,568
Short-term operating receivables	5	143,011	183,911
Cash and cash equivalents	6	1,423,322	906,380
		5,470,846	**5,181,859**
Short-term deferred expenses and accrued income	**7**	**428,232**	**615,463**
TOTAL ASSETS		**11,646,457**	**11,304,643**
Off-balance-sheet assets	**3**	**179,573**	**501,040**
LIABILITIES AND EQUITY			
Equity	**8**		
Called-up capital		1,767,668	1,767,668
Capital reserves		4,168,069	4,168,069
Profit reserves		856,767	856,767
Fair value reserve		69,955	86,252
Retained net profit or loss		1,675,972	1,049,024
Net profit or loss for the year		1,859,265	2,026,948
		10,397,696	**9,954,728**
Provisions and long-term accrued expenses and deferred income	**9**	**115,074**	**106,357**
Non-current liabilities			
Long-term financial liabilities		-	-
Long-term operating liabilities	10	4,600	4,600
Deferred tax liabilities	18	16,409	20,232
		21,009	**24,832**
Current liabilities			
		-	-
Short-term financial liabilities		-	-
Short-term operating liabilities	10	676,801	698,490
		676,801	**698,490**
Short-term accrued expenses and deferred income	**11**	**435,877**	**520,236**
TOTAL LIABILITIES AND EQUITY		**11,646,457**	**11,304,643**
Off-balance-sheet liabilities	**3**	**179,573**	**501,040**

The accounting policies and notes to the financial statements on pages 23 to 48 are a constituent part of the financial statements.

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

(EUR)	Note	1 Jan. - 31 Dec. 2018	1 Jan. - 31 Dec. 2017
Net sales	13A	9,499,286	9,647,040
Change in the value of inventories of products and work in progress		-	-
Capitalised own products and services		-	-
Other operating income	13A	12,508	14,723
		9,511,794	**9,661,763**
Costs of goods, materials and services	13B	(4,072,665)	(4,298,071)
Labour costs	13B	(3,266,121)	(2,952,033)
Write-downs in value			
Amortisation/Depreciation	13B	(115,793)	(123,975)
Revaluation operating expenses	13B	(2,511)	(1,262)
Other operating expenses	13B	(30,741)	(26,496)
		(7,487,831)	**(7,401,837)**
Financial income from participating interests	14	245,439	205,575
Financial income from loans	14	4,064	9,860
Financial income from operating receivables	14	827	3,057
		250,330	**218,492**
Financial expenses from impairments and write-offs of investments	15	-	-
Financial expenses from financial liabilities	15	-	-
Financial expenses from operating liabilities	15	(20,230)	(9,679)
		(20,230)	**(9,679)**
Other income	16	12	9,539
Other expenses	16	(9,090)	(9,046)
		(9,078)	**493**
Profit or loss before tax		**2,244,985**	**2,469,232**
Income tax	19	(394,551)	(378,992)
Deferred tax	18	8,831	(63,292)
Net profit or loss for the period		**1,859,265**	**2,026,948**

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

(EUR)	Note	1 Jan. - 31 Dec. 2018	1 Jan. - 31 Dec. 2017
Net profit or loss for the year		**1,859,265**	**2,026,948**
Change in fair value reserve		**(16,297)**	**35,072**
a Gross	8	(20,120)	43,300
b Tax	18	3,823	(8,228)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**1,842,968**	**2,062,020**

The accounting policies and notes to the financial statements on pages 23 to 48 are a constituent part of the financial statements.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

(EUR)	Note	1 Jan. - 31 Dec. 2018	1 Jan. - 31 Dec. 2017
A. Cash flows from operating activities			
a) Items of income statement		**1,747,116**	**1,943,369**
Operating income (except for revaluation) and financial income from operating receivables		9,511,518	9,671,302
Operating expenses excluding depreciation/amortisation (except for revaluation) and fin. exp. from oper. liabilities		(7,378,682)	(7,285,648)
Income tax and other taxes not included in operating expenses	18, 19	(385,720)	(442,285)
b) Changes in net current operating assets (and deferred expenses and accrued income,			
provisions and deferred tax assets) of operating items in the balance sheet items		**123,365**	**(289,300)**
Change in operating receivables		40,899	71,355
Change in deferred expenses and accrued income		192,387	(520,290)
Change in deferred tax assets	18	(8,831)	63,293
Change in operating liabilities		(25,448)	(98,418)
Change in accrued expenses and deferred income and provisions		(75,642)	194,760
c) Net cash from/used in operating activities (a+b)		**1,870,481**	**1,654,069**
B. Cash flows from investing activities			
a) Receipts from investing activities		**1,921,270**	**2,144,177**
Interest and dividends received from investing activities		249,121	240,181
Proceeds from disposal of property, plant and equipment	2, 13	-	380
Proceeds from disposal of financial investments	4, 14	1,672,149	1,903,616
b) Payments from investing activities		**(1,874,809)**	**(2,919,783)**
Payments to acquire intangible assets	1	(48,135)	-
Payments to acquire property, plant and equipment	2	(86,450)	(65,096)
Payments to acquire financial investments	3	(1,740,224)	(2,854,687)
c) Net cash from/use in investing activities (a+b)		**46,461**	**(775,606)**
C. Receipts from financing activities			
a) Receipts from financing activities		-	-
Proceeds from paid-in capital		-	-
b) Payments from financing activities		**(1,400,000)**	**(1,400,000)**
Dividends and other profit shares		(1,400,000)	(1,400,000)
c) Net cash from/used in financing activities (a+b)		**(1,400,000)**	**(1,400,000)**
D. Closing balance of cash		**1,423,322**	**906,380**
Net increase/decrease in cash for the year (A.c. + B.c. + C.c.)		**516,942**	**(521,537)**
Opening balance of cash		906,380	1,427,917

The accounting policies and notes to the financial statements on pages 23 to 48 are a constituent part of the financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

	(EUR)	Called-up capital – share capital	Capital reserves – general revaluation adjustment	Capital reserves – share premium	Profit reserves – statutory reserves	Profit reserves – other reserves	Fair value reserve	Retained earnings	Retained net loss	Net profit for the year	Net loss for the year	Total
A.1.	**As at 31 December 2017**	**1,767,668**	**542,062**	**3,626,007**	**176,767**	**680,000**	**86,252**	**1,049,024**	**-**	**2,026,948**	**-**	**9,954,728**
a	Restatements (corrections)	-	-	-	-	-	-	-	-	-	-	-
b	Adjustments (changes in accounting policies)	-	-	-	-	-	-	-	-	-	-	-
												-
A.2.	**As at 1 January 2018**	**1,767,668**	**542,062**	**3,626,007**	**176,767**	**680,000**	**86,252**	**1,049,024**	**-**	**2,026,948**	**-**	**9,954,728**
												-
B.1.	**Changes in equity – transactions with owners**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,400,000)**	**-**	**-**	**-**	**(1,400,000)**
č	Additional paid-in capital	-	-	-	-	-	-	-	-	-	-	-
g	Payment of dividends	-	-	-	-	-	-	(1,400,000)	-	-	-	(1,400,000)
												-
B.2.	**Total comprehensive income in the reporting period**	**-**	**-**	**-**	**-**	**-**	**(16,297)**	**-**	**-**	**1,859,265**	**-**	**1,842,968**
a	Net profit in the reporting period	-	-	-	-	-	-	-	-	1,859,265	-	1,859,265
	Change in reserves due to											
c	fair value revaluation of investments	-	-	-	-	-	(16,297)	-	-	-	-	(16,297)
												-
B.3.	**Changes in equity**	**-**	**-**	**-**	**-**	**-**	**-**	**2,026,948**	**-**	**(2,026,948)**	**-**	**-**
	Allocation of the remaining part of net profit											
a	for the comparative reporting period to other equity components	-	-	-	-	-	-	2,026,948	-	(2,026,948)	-	-
												-
C.	**As at 31 December 2018**	**1,767,668**	**542,062**	**3,626,007**	**176,767**	**680,000**	**69,955**	**1,675,972**	**-**	**1,859,265**	**-**	**10,397,696**
	Accumulated profit	**-**	**-**	**-**	**-**	**-**	**-**	**1,675,972**	**-**	**1,859,265**	**-**	**3,535,237**

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

	(EUR)	Called-up capital – share capital	Capital reserves – general revaluation adjustment	Capital reserves – share premium	Profit reserves – statutory reserves	Profit reserves – other reserves	Fair value reserve	Retained earnings	Retained net loss	Net profit for the year	Net loss for the year	Total
A.1.	**As at 31 December 2016**	**1,767,668**	**542,062**	**3,626,007**	**176,767**	**680,000**	**51,180**	**641,771**	**-**	**1,807,253**	**-**	**9,292,708**
a	Restatements (corrections)	-	-	-	-	-	-	-	-	-	-	-
b	Adjustments (changes in accounting policies)	-	-	-	-	-	-	-	-	-	-	-
												-
A.2.	**As at 1 January 2017**	**1,767,668**	**542,062**	**3,626,007**	**176,767**	**680,000**	**51,180**	**641,771**	**-**	**1,807,253**	**-**	**9,292,708**
												-
B.1.	**Changes in equity – transactions with owners**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,400,000)**	**-**	**-**	**-**	**(1,400,000)**
č	Additional paid-in capital	-	-	-	-	-	-	-	-	-	-	-
g	Payment of dividends	-	-	-	-	-	-	(1,400,000)	-	-	-	(1,400,000)
												-
B.2.	**Total comprehensive income in the reporting period**	**-**	**-**	**-**	**-**	**-**	**35,072**	**-**	**-**	**2,026,948**	**-**	**2,062,020**
a	Net profit in the reporting period	-	-	-	-	-	-	-	-	2,026,948	-	2,026,948
	Change in reserves due to											
c	fair value revaluation of investments	-	-	-	-	-	35,072	-	-	-	-	35,072
												-
B.3.	**Changes in equity**	**-**	**-**	**-**	**-**	**-**	**-**	**1,807,253**	**-**	**(1,807,253)**	**-**	**-**
	Allocation of the remaining part of net profit											
a	for the comparative reporting period to other equity components	-	-	-	-	-	-	1,807,253	-	(1,807,253)	-	-
	Allocation of net profit for the reporting period to other equity components											
b	by resolution of management and supervisory bodies	-	-	-	-	-	-	-	-	-	-	-
												-
C.	**As at 31 December 2017**	**1,767,668**	**542,062**	**3,626,007**	**176,767**	**680,000**	**86,252**	**1,049,024**	**-**	**2,026,948**	**-**	**9,954,728**
	Accumulated profit	**-**	**-**	**-**	**-**	**-**	**-**	**1,049,024**	**-**	**2,026,948**	**-**	**3,075,972**

The accounting policies and notes to the financial statements on pages 23 to 48 are a constituent part of the financial statements.

UTILISATION OF NET PROFIT FOR THE PERIOD

(EUR)	1 Jan. - 31 Dec. 2018	1 Jan. - 31 Dec. 2017
Net profit or loss for the year	1,859,265	2,026,948
Net profit or loss brought forward	1,675,972	1,049,024
Accumulated profit	**3,535,237**	**3,075,972**

Accumulated profit for 2018 totalled EUR 3,535,236.79, consisting of net profit for 2018 in the amount of EUR 1,859,265.00 and profit brought forward of EUR 1,675,971.79.

The following distribution is proposed:

- EUR 1,400,000.00 of distributable profit shall be distributed to the Shareholder as a share in the profit;
- EUR 2,135,236.79 shall not be distributed, and decision on its distribution shall be carried over to the following year.

The accounting policies and notes to the financial statements on pages 23 to 48 are a constituent part of the financial statements.

Building a better working world

This is a translation of the original report in Slovene language

INDEPENDENT AUDITOR'S REPORT

To the Owner of KD SKLADI, družba za upravljanje, d.o.o.

Opinion

We have audited the financial statements of KD SKLADI, družba za upravljanje, d.o.o. (the Company), which comprise the balance sheet as at December 31 2018, the income statement, the statement of other comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company KD SKLADI, družba za upravljanje, d.o.o. as at 31 December 2018 and its financial performance and its cash flows for the year then ended in accordance with Slovenian Accounting Standards.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those rules 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) together with the 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 and the IESBA Code.

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

Other information

Other information comprises the information included in the Annual Report other than the financial statements and auditor's report thereon. Management is responsible for the other information

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

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

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

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

Responsibilities of management for the financial statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, 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.

1/2

Družba je članica Ernst & Young Global Limited.

EY

Building a better working world

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 ISA 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 audit rules, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;

- 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 Company 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;

We communicate with supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ljubljana, March 19, 2019

ERNST & YOUNG
Revizija, poslovno
svetovanje d.o.o., Ljubljana 3

Janez Uranič
Director
Ernst & Young d.o.o.
Dunajska 111, Ljubljana

Simon Podvinski
Certified auditor

Družba je članica Ernst & Young Global Limited.

NOTES TO THE FINANCIAL STATEMENTS

SIGNIFICANT ACCOUNTING POLICIES

1. Basis for preparation of the financial statements

The financial statements of KD Funds LLC ("the Company") have been prepared in compliance with the accounting and reporting requirements of the Slovene Accounting Standards (SAS) and the Companies Act (ZGD-1). The SAS 2016 amendments did not have an impact on the Company's financial statements. The financial statements have been prepared in compliance with the fundamental accounting assumption of the business as a going concern and are based on the accrual principle. The qualitative features of the financial statements are based on clarity, appropriateness, reliability and comparability. The same accounting policies were used as the year before. The financial statements have been compiled in EUR.

Structure of the group of related companies

Group companies

Group companies are companies in which the parent company and its subsidiaries hold, indirectly or directly, more than one-half of the voting rights. Subsidiaries are fully consolidated from the date on which the control is obtained and are immediately excluded from full consolidation as soon as the Company ceases to control them.

Associates

Associates are companies in which the Company and its subsidiaries hold, indirectly or directly, between 20% and 50% of equity capital, and exert a significant but not a controlling influence.

In the Company's financial statements, investments in Group companies and associates are accounted for at cost. Cost is measured as the aggregate of the fair values (at the date of acquisition) of assets given, liabilities incurred or assumed, and all costs directly attributable to the acquisition.

(EUR)	Participation percentage	Capital at year end	Profit or loss for the year	Method of acquisition in the case of increasing the share
2018				
Subsidaries				
KD Locusta Fondovi d.o.o., Zagreb	90.00	897,858	202,748	10% additional acquisition
KD Fondovi d.o.o., Skopje, Makedonija	94.60	298,386	77,059	-
2017				
Subsidaries				
KD Locusta Fondovi d.o.o., Zagreb	80.00	996,405	265,165	10% additional acquisition
KD Fondovi d.o.o., Skopje, Makedonija	94.60	222,726	75,334	-

Long-term financial investments include investments in the companies KD Fondovi A. D. Skopje, Macedonia, and KD Locusta Fondovi d. o. o., Zagreb, Croatia.
In 2015, the Company acquired a 60% share in the Croatian management company Locusta Invest d. o. o. Thereupon, a merger of KD Investments d. o. o. Zagreb and Locusta Invest d. o. o. was carried out. The name of the new merged management company is KD Locusta Fondovi d. o. o.
In 2016, the Company acquired an additional 10% share in its subsidiary KD Locusta Fondovi d.o.o., and a further 10% in 2017 and 10% in 2018. As at 31 December 2018, the Company holds a 90% interest in its subsidiary KD Locusta fondovi.

Consolidated financial statements

In accordance with Article 56 of the Companies Act (ZGD-1), the Company is not obliged to prepare consolidated financial statements. The Company itself is a subsidiary owned 100% by Adriatic Slovenica d.d. and is consolidated within the Adriatic Slovenica Group. The consolidated annual report of the Adriatic Slovenica Group is available at the headquarters of Adriatic Slovenica d. d., Ljubljanska cesta 3A, Koper, Slovenia. Consolidated statements for the largest number of companies within the Group are prepared by KD d.d., and KD Group consolidated annual report 2018 is available at the headquarters of KD d.d., Dunajska cesta 63, 1000 Ljubljana.

2. Notes to the accounting policies

2.1. Intangible assets

An intangible asset is an identifiable non-monetary asset, usually without physical substance. It is recognised if it is probable that the expected future economic benefits attributable to the asset will flow to the entity and the cost of the asset can be measured reliably.

Upon initial recognition, an intangible asset is carried at cost less accumulated amortisation and accumulated impairment loss (cost model). The Company assesses whether the useful life of the intangible asset is finite or infinite. An intangible asset with a finite useful life is amortised over the period of its useful life. Intangible assets with indefinite useful lives are not amortised, but rather impaired. Amortisation of intangible assets with a finite useful life is charged on a straight-line basis. An intangible asset with an indefinite useful life is tested for impairment at the date of preparing financial statements by comparing its carrying amount with its recoverable amount.

Intangible assets comprise intangible assets with a finite useful life (computer software), and intangible assets with an indefinite useful life (list of investors).

2.2. Property, plant and equipment

Items of property, plant and equipment are tangible assets owned by the Company for use in production or supply of products or services, for rental to others, or for administrative purposes, and are expected to be used during more than one accounting period.

Upon initial recognition, an item of property, plant and equipment is carried at cost less accumulated depreciation and accumulated impairment loss (cost model). The cost comprises its purchase price, import duties and non-refundable purchase taxes as well as directly attributable costs to bring the asset to the condition necessary for the intended use. Subsequent expenditure on an item of property, plant and equipment increases its cost only if it increases its future economic benefits in the excess of the originally assessed and the cost of the item can be measured reliably. Costs of maintenance and repairs are charged to the income statement in the period in which they are incurred.

An item of property, plant and equipment is derecognised in the books of account on its disposal or when no further economic benefits are expected. Gains and losses arising from the derecognising of an item of property, plant or equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item, and are recognised under other revaluation income or operating expenses.

Items of property, plant and equipment include computer equipment, other equipment, investments in third-party fixed assets and small tools. Items of property, plant and equipment ready for use also include small tools whose useful life is longer than one year and whose individual cost does not exceed EUR 500.

Depreciation/amortisation

The Company systematically allocates the depreciable amount of each individual intangible asset and each item of property, plant and equipment over its entire useful life and the respective accounting periods as depreciation/amortisation for the period concerned. The straight-line depreciation/amortisation method is used. Depreciation/amortisation is accounted for individually.

Depreciation/amortisation rates applied in 2018 and 2017:

(In)tangible asset	Minimum rate %	Maximum rate %
Intangible assets:		
Software	20	20
Property, plant and equipment (PPE):		
Office furniture and equipment	20	20
Motor vehicles	12.5	20
Computers	50	50
Printers and other hardware	20	20
Investments in third-party PPE	10	10
Small tools	20	20

2.3. Financial investments

Financial investments are part of the Company's financial instruments and represent financial assets held by the Company for the purpose of increasing its financial income through returns on investments. A financial asset is any asset that is cash, an equity instrument of another entity, or a contractual right to receive cash or another financial asset from another entity.

A financial investment is recognised as a financial asset in the books of account and in the balance sheet if:

a) it is probable that the future economic benefits associated with it will flow to the Company,
b) the cost can be measured reliably.

Upon initial recognition, financial assets are classified as:

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

Financial investments presented at fair value include investments valued at fair value through profit and loss and available-for-sale financial assets. Loans and receivables and held-to-maturity financial assets are stated at amortised cost.

Fair value is the amount for which an asset could be exchanged between knowledgeable and willing parties in an arm's length transaction. For listed financial instruments with quoted market prices in an active market, fair value is calculated by multiplying the number of the financial instrument units and the quoted market price (closing market price). If an active market does not exist, the fair value of a financial asset is calculated with the application of various valuation methods, including the use of transactions between knowledgeable parties, the discounted cash flow method and other valuation techniques normally used by market participants. Valuation methods comprise the use of the last transaction between knowledgeable and willing parties if available; comparison with the current fair value of another instrument with similar essential characteristics; and the discounted cash flow method. The Company developed a model for the assessment of the fair value of capital instruments in shares and interests in non-listed companies. Through this model, the fair values of significant investments in non-listed companies are measured once a year based on available data.

Purchase and sale of financial assets measured at fair value through profit and loss and held for trading are recognised in the books of account at the trading date, i.e. on the date the Company undertakes to purchase or sell the financial assets. Investments in loans and held-to-maturity financial assets are recognised as at the settlement date. All financial assets whose fair value is not recognised through profit and loss are initially recognised at fair value, increased by transaction costs.

A financial asset is derecognised after the contractual rights to benefits expire, extinguish or if nearly all risks and benefits associated with the ownership of the financial asset are transferred. Likewise, a financial asset is derecognised if the Company has not transferred the risks and benefits associated with the ownership of the financial asset but no longer has control over it. The Company no longer has control over the financial asset if the transferee has the actual capacity to sell the asset in its entirety to an unrelated third party, and can do so unilaterally and without having to impose further restrictions on the transfer.

Revaluation of financial investments is the recognition of an adjustment to their carrying amounts, whilst contractually accrued interest and other adjustments to the principal are not considered to be part of revaluation. It usually appears as revaluation of investments resulting from an increase in their value, impairment, or reversal of impairment. Revaluation of financial investments is effected on the balance sheet day. Financial investments expressed in a foreign currency are translated at the ECB foreign exchange reference rate as at the balance sheet day.

2.3.1. Available-for-sale financial assets

Available-for-sale financial assets are any non-derivative financial assets designated as available for sale and not classified in any of the aforementioned categories. For the Company, they represent the main financial potential to be used in the future for the acquisition of new investments in accordance with its business policy. Financial investments comprise short-term and long-term financial investments.

Upon initial recognition, the available-for-sale financial assets are measured at fair value. Fair value is evidenced if there is a quoted price in an active securities market, or if there is a valuation technique which incorporates data inputs that can be evidenced because they are taken from an active market. Changes in fair value – except impairment losses – are recognised directly in comprehensive income as an increase (gain) or a decrease (loss) in the revaluation reserve. If the fair value of an available-for-sale financial asset is lower than its recognised value, negative revaluation reserve is recognised.

Interest calculated by using the effective interest method is recognised in profit or loss. Dividends on equity instruments are recognised in profit or loss when the Company's right to receive payment is established.

Upon derecognition of an available-for-sale financial asset, the cumulative adjustments previously recognised in comprehensive income are derecognised, and the effects presented in the income statement.

The Company assesses at each balance sheet day whether there is any objective evidence that an available-for-sale financial asset is impaired, e.g. a significant or prolonged decline in its fair value. When assessing a prolonged decline in the fair value of equities below their cost, a maximum period of 9 months from the date when the fair value of an equity instrument fell below the cost for the first time and remained below the cost for the entire 9-month period is taken into account. When determining a significant decrease in the fair value of equities, the management takes into account at least a 40% reduction in the fair value compared to cost. If any such evidence exists, the financial asset has to be revalued for impairment. When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity as negative revaluation reserve and there is objective evidence that the asset is impaired, the negative revaluation reserve is first reduced by the accumulated loss, and financial expenses from revaluation are recognised accordingly. The total accumulated impairment loss by which the negative revaluation reserve had been decreased and the financial expenses from revaluation recognised is the difference between the cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss as a financial expense from revaluation.

2.3.2. Investments in loans

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are measured at amortised cost using the effective interest method. They are increased by lending, and by supply of goods or services to other parties when the Company has no intention of trading in them.

They are presented in the balance sheet as long-term and short-term financial investments. Loans falling due within a period of less than one year are classified as short-term investments.

2.4. Receivables

Receivables are the rights, emanating from property and other legal relationships, to claim from a certain person the settlement of a debt or the payment for deliveries or rendered services.

Receivables are predominantly amounts owed by customers or other providers of funds for goods sold or services provided; they may also be amounts owed by suppliers of business process elements, by employees, by providers of funds and by users of investments.

Receivables may be classified as long-term and short-term receivables. Short-term receivables are normally collected within one year. Receivables comprise trade receivables, other receivables relating to operating income, and other receivables. Receivables are classified into those relating to Group companies, associates and others.

An item of receivables is recognised in the books of account and in the balance sheet on the basis of the relevant documents when the Company has obtained control of the contractual rights that comprise the asset. Receivables of all categories are initially recognised at amounts recorded in the relevant documents under the assumption that they will be recovered. Original receivables may subsequently be increased or reduced by any contractually justified amount, irrespective of received payment or another form of settlement.

Operating receivables are first recognised at fair value, and are subsequently usually measured at amortised cost using the effective interest method minus any reduction for impairment. Operating receivables are impaired if unambiguous indicators exist that the collection of receivables is questionable because of the debtor's insolvency, compulsory composition or bankruptcy. If such evidence exists, the receivables carried at amortised cost should be checked for the existence of an impairment loss, which is then recognized in the income statement as an operating expense from revaluation. An impairment loss is the amount by which the carrying value exceeds its recoverable amount. The recoverable amount of operating receivables stated at amortised cost is calculated as the current value of expected future cash flows discounted at its effective interest rate. Impairments of operating receivables are charged against operating expenses from revaluation in the income statement.

Receivables expressed in a foreign currency are translated at the ECB foreign exchange reference rate as at the balance sheet day. The resulting increase (decrease) in receivables is allocated to financial income (expenses).

2.5. Cash and cash equivalents

Cash and cash equivalents comprise ready cash, deposit money and call deposits with banks as well as 3-month time deposits. They are carried at amortised cost, using the effective interest method.

2.6. Financial and operating liabilities

Long-term liabilities are recognised obligations of the Company associated with the financing of its own assets, the settlement of which is expected, usually by payment in cash, within a period of more than one year. Short-term liabilities are those whose settlement is expected within one year.

Liabilities may be either financial or operating. Financial liabilities comprise loans received on the basis of loan contracts, and can be long-term or short-term. Short term liabilities also comprise payables to employees, liabilities to the state, and other liabilities.

Liabilities are recognised if it is probable that their settlement will result in an outflow of resources embodying economic benefits, and the amount at which their settlement will take place can be measured reliably. Financial and operating liabilities are recognised when the obligation arises under a contract or another legal act, taking into account the contractual date or the date of cash receipts or statements of accounts associated with them.

Liabilities are initially recognised at the amounts arising from the relevant documents, which in the case of long-term financial liabilities evidence the receipt of cash, while in the case of operating liabilities the relevant document usually evidences the receipt of a product or a service or work performed, or a charged cost or expense, under the assumption that their payment is claimed by creditors.

Liabilities are normally measured at amortised cost using the effective interest method. Amortised cost of a liability is the amount at which the liability is measured on initial recognition, minus principal repayment, plus or minus the cumulative amortisation of any difference between the initial amount and the maturity amount.

Liabilities expressed in a foreign currency are translated at the ECB foreign exchange reference rate as at the balance sheet date.

The recognition of liabilities is reversed if the obligation stipulated in a contract or another legal instrument has been fulfilled, annulled or barred by limitation.

Borrowing costs are financial expenses.

2.7. Short-term accruals and deferrals

Short-term accruals and deferrals are receivables and other assets and liabilities expected to arise within one year, their incurrence is probable, and their amount is reliably estimated. Short-term accruals and deferrals may either be deferred expenses and accrued income, or accrued expenses and deferred income. The former may be construed as receivables/liabilities in a broader sense. The receivables and liabilities are associated with both known and yet unknown clients from and to whom actual receivables and liabilities will arise within one year.

Deferred expenses and accrued income comprise short-term deferred costs/expenses.

Accrued expenses and deferred income comprise short-term accrued costs/expenses and short-term deferred income. Accrued expenses subsequently cover the actually incurred expenses of the same type.

2.8. Deferred taxes

Deferred tax is intended to cover the temporary difference arising between the carrying amount of assets and liabilities on the one hand and its tax base on the other by applying the balance sheet liability method. Temporary differences may be either taxable or deductible. Deferred tax assets and liabilities are recognised in accounting records and books of account for significant amounts. An amount is significant when the omission of its recognition might affect the users' business decisions made on the basis of financial statements.

Deferred tax assets are the amounts of income tax recoverable in future periods in respect of deductible temporary differences, carryforward of unused tax losses to future periods, and carryforward of unused tax credits to future periods. Deferred tax liabilities are the amounts of income taxes payable in future periods in respect of taxable temporary differences. Deferred tax liabilities are recognised in full. Deferred tax assets and liabilities are not discounted; they can be offset when they refer to corporate income levied by the same tax authority and the company has the statutory right to offset the assessed tax assets and tax liabilities.

Deferred tax assets for deductible temporary differences are recognised if it is probable that temporary differences will be reversed in the foreseeable future and that future taxable profit will be available against which the taxable differences can be utilised.

Deferred tax assets for unused tax losses and tax credits are recognised if it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised

Deferred tax liabilities are recognised if assets are revalued, whilst no equivalent adjustment is made for tax purposes.

The effects of recognising deferred tax assets and deferred tax liabilities are stated as income or expense in the income statement, except where the tax arises from a transaction that has been recognised directly in equity and is charged against revaluation reserve, without affecting the Company's net profit or loss.

2.9. Provisions for retirement and jubilee benefits – other long-term employee benefits

In accordance with the national legislation, collective bargaining agreements and internal rules, the Company is obliged to pay jubilee benefits and severance pay upon retirement to its employees. Provisions for retirement and jubilee benefits are set aside once a year, and are recognised collectively. Upon their use, these provisions are reduced directly by the liabilities associated with the expenses in respect of which they were formed, therefore upon using the provisions the expenses no longer occur in the income statement. The FIFO method is applied for reducing the provisions on the account of their use. On the balance sheet day, the Company establishes and recognises in the income statement the income or expense associated with the calculation of provisions, i.e. the difference between their opening and closing balances.

Key assumptions included in the calculation of provisions for retirement and jubilee benefits:
- The expected salary growth equals the discount rate;
- The currently applicable rates of retirement and jubilee benefits,
- Fluctuation of employees, depending mainly on their age.

2.10. Income

Income is an increase in economic benefits during the accounting period in the form of increases in assets or decreases in liabilities. Through its effect on profit or loss, income results in increases in equity. Income is recognised if increases in economic benefits during the accounting period are associated with increases in assets or decreases in liabilities, and those increases can be measured reliably.

Income is classified into operating income, financial income, and other income. Income is also classified as that arising from business relations with Group companies, associates and other related companies, and other companies.

Operating income comprises sales and other operating income. Sales comprise income generated by the sale of services rendered during the accounting period. They are recognised in the accounting period when the service has been provided in part of in full.

Financial income is income from participating interests, loans and receivables, and arises in relation to financial investments and receivables. It is classified as financial income independent of profit and loss of other parties (interest) and financial income dependent on profit or loss of other parties (dividends, profit participation). Interest is recognised on a time proportion basis taking account of the principal outstanding and the interest rate applicable. Dividend income is recognised when the Company gains the right to dividend payment.

2.11. Costs

Costs of materials and services are the costs of materials and services that are utilised in the production of products and services and are considered to be direct costs. They also include costs of other nature that are considered to be indirect costs. Costs of materials and services are recognised on the basis of documents evidencing their association with the economic benefits flowing from them.

The estimated amount of accrued costs of materials and services is recognised under the items where such actual costs of materials and services would otherwise be recorded. The costs are charged against the relevant items of accrued expenses and deferred income.

Costs of materials and services are classified by primary types.

Costs of materials are the costs of primary and auxiliary materials, and costs of consumed energy. Costs of services are costs of transportation services, utility services, telecommunication services, rentals, insurance premiums, costs of payments services, costs of services incurred with natural persons except in employment relationships, costs of intellectual services, and other costs of services.

Depreciation and amortisation costs are the amounts of the cost of intangible assets and property, plant and equipment which are in the individual accounting periods reallocated from these assets to the products and services being produced or rendered.

2.12. Labour and employee benefit costs

Labour and employee benefit costs are all forms of consideration given by the Company in exchange for service rendered by employees; the Company recognises them as its labour costs or as shares in expanded profit before stating its profit in the income statement. Employee benefits may also be associated with specific taxes and contributions that increase the costs incurred by the Company or the employees' shares in expanded profit.

The Company computes the cost of unused annual leave at the balance sheet date. The Company values the expected costs of accumulated compensated absences as an additional amount expected to be paid in respect of the unused rights accumulated until the balance sheet date.

They are accounted for in accordance with the law, collective bargaining agreements, the Company's internal rules or employment contracts..

2.13. Expenses

Expenses are decreases in economic benefits during the accounting period in the form of outflows or incurrence of liabilities; they impact equity through profit or loss.

Expenses are classified as operating expenses, financial expenses, and other expenses. They are also classified as those arising in relation to products and services of subsidiaries, associates and other companies.

Financial expenses include financing expenses and investment expenses. Financing expenses primarily comprise interest paid, while investment expenses predominantly have the nature of financial expenses from revaluation. The latter arise in association with the impairment of financial investments where the decrease in their value is not charged to equity revaluation reserve.

Expenses are recognised if decreases in economic benefits during the accounting period are associated with decreases in assets or increases in liabilities, and such decreases can be measured reliably. Financial expenses are recognised upon statements of accounts, irrespective of the actual payments associated with them.

2.14. Taxes

Corporate income taxes are accounted for on the basis of income and expenses in the income statement in accordance with the applicable tax legislation. The tax rate applied in 2018 is 19%.

2.15. Statement of changes in equity

A statement of changes in equity is a basic financial statement showing a true and fair view of changes in the components of equity for the accounting period. It is prepared so as to show all equity components included in the balance sheet.

2.16. Statement of cash flows

A statement of cash flows is a basic financial statements showing a true and fair view of changes in cash and cash equivalents during the relevant accounting period. It is prepared according to the indirect method, and reports cash flows for the period generated by operating activities, investing activities and financing activities. In the statement of cash flows, cash flows are normally not presented in offset amounts.

2.17. Statement of comprehensive income

A statement of comprehensive income is a financial statement showing a true and fair view of elements of the income statement for the periods it concerns, and of other comprehensive income. Other comprehensive income comprises items of income and expenses that are not recognised through profit or loss but have an effect on the size of equity. Total comprehensive income denotes changes in equity in the period not arising from transactions with owners.

.

EXPLANATORY NOTES TO SPECIFIC TREATMENTS AND VALUATIONS

1. Intangible assets

(EUR)	Long-term property rights	Other long-term deferred expenses and accrued income	Total
Cost			
31 Dec. 2017	**3,274,473**	**16,602**	**3,291,075**
1 Jan. 2018	**3,274,473**	**16,602**	**3,291,075**
Direct increases – investments	48,135	-	48,135
Decreases during the year	-	(5,156)	(5,156)
31 Dec. 2018	**3,322,608**	**11,446**	**3,334,054**
Accumulated amortisation			
31 Dec. 2017	**575,871**	-	**575,871**
1 Jan. 2018	**575,871**	-	**575,871**
Amortisation for the year	44,760	-	44,760
31 Dec. 2018	**620,631**	-	**620,631**
Present value			
31 Dec. 2018	**2,701,977**	**11,446**	**2,713,423**
31 Dec. 2017	2,698,602	16,602	2,715,204

The Company's intangible assets comprise long-term property rights related to the takeover of the management of the Ilirika Umbrella Fund. On 31 December 2018, an impairment test was performed on the basis of the assumptions below, which led to the conclusion that impairment was not necessary.

The following valuation assumptions relating to intangible assets were used by the internal financial expert in 2018:

- the present value of future free cash flows,
- the assessment was based on the analysis of past operations and future potential,
- income as free cash flows was discounted with the required rate of return on equity,
- the CAPM model was used to calculate the required return on equity,
- CAPM assumptions: 3.5% normalised return on risk-free assets, 5.5% premium for capital risk, 3.67% premium for investments in small enterprises, 1.84% political risk factor, unlevered beta 0.70,
- required return on equity 12.5%,
- discount for lack of marketability 5.0%,
- the planned return of individual funds in the explicit forecast period ranges between -0.25% and 5.0%,
- growth of net cash flows after the explicit forecast period amounts to 2.0%,
- cash flow estimated for the 2019–2023 period.

(EUR)	Long-term property rights	Other long-term deferred expenses and accrued income	Total
Cost			
31 Dec. 2016	**3,274,473**	**22,254**	**3,296,727**
1 Jan. 2017	**3,274,473**	**22,254**	**3,296,727**
Direct increases – investments	-	-	-
Decreases during the year	-	(5,651)	(5,651)
31 Dec. 2017	**3,274,473**	**16,603**	**3,291,076**
Accumulated amortisation			
31 Dec. 2016	**515,643**	**-**	**515,643**
1 Jan. 2017	**515,643**	**-**	**515,643**
Amortisation for the year	60,229	-	60,229
31 Dec. 2017	**575,872**	**-**	**575,872**
Present value			
31 Dec. 2017	**2,698,601**	**16,603**	**2,715,204**
31 Dec. 2016	**2,758,830**	**22,254**	**2,781,084**

The following valuation assumptions relating to intangible assets were used by the internal financial expert in **2017**:

- the present value of future free cash flows,
- the assessment was based on the analysis of past operations and future potential,
- income as free cash flows was discounted with the required rate of return on equity,
- the CAPM model was used to calculate the required return on equity,
- CAPM assumptions: 3.5% normalised return on risk-free assets, 5.0% premium for capital risk, 3.74% premium for investments in small enterprises, 1.84% political risk factor, unlevered beta 0.68,
- required return on equity 12.58%,
- discount for lack of marketability starting at 5.0%,
- the planned return of individual funds in the explicit forecast period ranges between 0.0% and 7.0%,
- growth of net cash flows after the explicit forecast period amounts to 2.0%,
- cash flow estimated for the 2018–2022 period.

2. Property, plant and equipment

(EUR)	Other equipment	Total
Cost		
31 Dec. 2017	**501,927**	**501,927**
1 Jan. 2018	**501,927**	**501,927**
Direct increases – investments	86,450	86,450
Decreases during the year	(43,313)	(43,313)
31 Dec. 2018	**545,064**	**545,064**
Accumulated depreciation		
31 Dec. 2017	**388,289**	**388,289**
1 Jan. 2018	**388,289**	**388,289**
Depreciation for the year	71,033	71,033
Decreases during the year	(40,802)	(40,802)
31 Dec. 2018	**418,520**	**418,520**
Present value		
31 Dec. 2018	**126,544**	**126,544**
31 Dec. 2017	**113,638**	**113,638**

(EUR)	Other equipment	Total
Cost		
31 Dec. 2016	**451,713**	**451,713**
1 Jan. 2017	**451,713**	**451,713**
Direct increases – investments	65,096	65,096
Decreases during the year	(14,882)	(14,882)
31 Dec. 2017	**501,927**	**501,927**
Accumulated depreciation		
31 Dec. 2016	**337,783**	**337,783**
1 Jan. 2017	**337,783**	**337,783**
Depreciation for the year	63,747	63,747
Decreases during the year	(13,241)	(13,241)
31 Dec. 2017	**388,289**	**388,289**
Present value		
31 Dec. 2017	**113,638**	**113,638**
31 Dec. 2016	**113,930**	**113,930**

The Company has no financial liabilities arising from the purchase of property, plant and equipment. No items of property, plant and equipment have been pledged as collateral for the Company's liabilities.

In accordance with the amendment of SAS 1 connected with lease accounting, the Company will recognise EUR 478,846 arising from the right to use assets and the lease liability. The 3.5% discount rate was applied in the calculation.

3. Long-term financial investments

(EUR)	31 Dec. 2018	31 Dec. 2017
Long-term financial investments, excluding loans		
Shares and interests in Group companies	2,744,293	2,450,254
Total	**2,744,293**	**2,450,254**
Long-term loans		
Long-term loans to Group companies	-	73,937
Total	-	**73,937**
Total	**2,744,293**	**2,524,191**

Investments in subsidiaries

(EUR)	2018	2017
As at 1 January	**2,450,254**	**2,085,218**
Acquisitions	294,039	365,036
As at 31 December	**2,744,293**	**2,450,254**

Long-term financial investments include investments in the companies KD Fondovi A. D. Skopje, Macedonia, and KD Locusta Fondovi d. o. o., Zagreb, Croatia.

In 2018, the Company acquired an additional 10% share in KD Locusta Fondovi d.o.o. According to an existing option contract with the other two owners of KD Locusta Fondovi d. o. o., the Company can acquire a further 10% share in KD Locusta Fondovi d.o.o. in 2019. The estimated purchase value of the shareholdings is shown off-balance. The market prices of comparable interests have not changed since the contract was signed, therefore the value of the relevant derivatives is not shown in the statements.

As at 31 December 2018, the Company had no pledge on any securities.

The Company did not identify any indicators to impair long-term investments..

4. Short-term financial investments

(EUR)	31 Dec. 2018	31 Dec. 2017
Short-term financial investments, excluding loans		
Mutual fund units	1,347,881	1,390,178
Other short-term financial investments	2,480,982	2,329,514
	3,828,863	**3,719,692**
Short-term loans		
Short-term loans to Group companies	75,650	371,876
	75,650	**371,876**
Total	**3,904,513**	**4,091,568**

Changes in financial investments, excluding loans

(EUR)	Financial investments available for sale	Total
2018		
As at 1 January	**3,719,692**	**3,719,692**
Acquisitions	1,446,185	1,446,185
Disposals	(1,352,727)	(1,352,727)
Fair value change through equity	(20,111)	(20,111)
Accrued interest	(15,291)	(15,291)
Interest paid	51,116	51,116
As at 31 December	**3,828,864**	**3,828,864**

(EUR)	Financial investments available for sale	Total
2017		
As at 1 January	**3,094,703**	**3,094,703**
Acquisitions	2,489,673	2,489,673
Disposals	(1,903,091)	(1,903,091)
Fair value change through equity	43,298	43,298
Fair value change through profit or loss	-	-
Accrued interest	(4,891)	(4,891)
Impairment	-	-
As at 31 December	**3,719,692**	**3,719,692**

Changes in short-term loans

(EUR)	1 Jan. 2018	Principal disbursement	Principal repayment	Accrued interest	Interest paid	Short-term part	31 Dec. 2018
Borrower							
Group companies	371,876	-	(370,546)	2,760	(3,226)	74,786	75,650
Total	**371,876**	**-**	**(370,546)**	**2,760**	**(3,226)**	**74,786**	**75,650**

Short-term loans comprise a loan granted to the subsidiary KD Locusta Fondovi d. o. o., Zagreb. The loan is unsecured and carries an interest rate of 2.634% p.a.

(EUR)	1 Jan. 2017	Principal disbursement	Principal repayment	Accrued interest	Interest paid	Short-term part	31 Dec. 2017
Borrower							
Subsidiaries	398,936	-	-	7,958	(35,018)	-	371,876
Total	**398,936**	**-**	**-**	**7,958**	**(35,018)**	**-**	**371,876**

Short-term investments as at 31 December 2017 comprised loans to Group companies, bearing interest at rates recognised for tax purposes as at the day of loan agreement and ranging from 1.2% to 3.259% p.a. (2016: 1.2% to 3.259% p.a.).

5. Short-term operating receivables

(EUR)	31 Dec. 2018	31 Dec. 2017
Short-term operating recievables		
Short-term operating receivables from subsidiaries	35,611	37,205
Short-term operating receivables from retail clients	88,098	86,509
Short-term operating receivables from third parties	19,302	60,197
Total	**143,011**	**183,911**

No overdue receivables are recorded. Receivables are unsecured.

Short-term operating receivables comprise EUR 11,008 of receivables arising from the set-off of the input value added tax.

6. Cash and cash equivalents

(EUR)	31 Dec. 2018	31 Dec. 2017
Cash in hand and in bank accounts	423,274	406,377
Callable deposits	250,000	-
Deposits up to 3 months	750,048	500,003
Total	**1,423,322**	**906,380**

7. Short-term deferred expenses and accrued income

(EUR)	31 Dec. 2018	31 Dec. 2017
Short-term deferred expenses	347,166	212,809
Short-term accrued income	81,066	402,654
Total	**428,232**	**615,463**

Deferred expenses and accrued income comprise in particular short-term deferred expenses relating to entry fees, insurance, license fees, rentals and other expenses as well as accrued acquisition fees.

Compared to the year before, accrued income arising from the inception of the real estate KD AVF Special Investment Fund decreased because it was charged to the Fund in 2018.

Changes in short-term deferred expenses and accrued income

(EUR)	2018	2017
As at 1 January	**615,463**	**89,521**
Formation	415,304	1,008,710
Use	(602,535)	(482,768)
As at 31 December	**428,232**	**615,463**

8. Equity

The Company's called-up capital is set out in its Articles of Association and registered at the court. It was subscribed and paid by its owners accordingly. The called-up capital amounts to EUR 1,767,668 and equals the registered capital.

In accordance with the resolution of the General Meeting of 30 May 2002, the Company was converted from a public limited company to a limited liability company.

Pursuant to the decision of the Ljubljana Stock Exchange, the Company's shares designated KDZ were excluded from trading on the OTC market on 19 September 2002. As of 30 September 2002, the KDZ shares were also deleted from the Central Securities Register.

On 13 December 2007, the Company's sole Shareholder adopted the decision to increase the share capital by EUR 1,100,000, with the share capital consequently amounting to EUR 1,767,668. The Shareholder paid the amount to the Company's bank account on 17 December 2007.

On 11 March 2015, the Shareholder made a subsequent contribution of EUR 627,000.00 This did not increase the share capital, it did, however, increase capital reserves by EUR 627,000.00.

Several subsequent contributions in the total amount of EUR 2,999,007.52 were made in 2016, increasing capital reserves.

Excess amounts of capital reserves and statutory reserves can be used to increase the share capital by charging against the Company's assets and to cover the net loss for the year and the net loss carried forward, provided the capital reserves are not used for profit distribution to shareholders.

In 2018, the Company generated EUR 1,859,265.00 of net profit for the period. Equity as at 31 December 2018 amounted to EUR 10,397,695.74.

According to the resolution of 26 March 2018, the distributable profit for 2018 in the amount of EUR 3,075,971.79 was used as follows:
- EUR 1,400,000.00 for dividend payment,
- decision on the allocation of EUR 1,675,971.79 will be transferred to the following year.

The Company's ownership structure as at 31 December 2018:
- Adriatic Slovenica d. d. 100.00%

Changes in fair value reserve

(EUR)	Financial investments available for sale	Total
(in EUR)		
2017		
As at 1 January	**51,180**	**51,180**
Revaluation – gross	43,300	43,300
Revaluation – tax	(8,228)	(8,228)
As at 31 December	**86,252**	**86,252**
2018		
As at 1 January	**86,252**	**86,252**
Revaluation – gross	(20,120)	(20,120)
Revaluation – tax	3,823	3,823
As at 31 December	**69,955**	**69,955**

9. Provisions, and long-term accrued expenses and deferred income

(EUR)	Provisions for retirement and jubilee benefits	Long-term accrued costs and deferred income	Total
2017			
As at 1 January	**57,724**	**44,826**	**102,550**
Formation	11,409	-	11,409
Use	(1,149)	-	(1,149)
Decrease	-	(6,453)	(6,453)
As at 31 December	**67,984**	**38,373**	**106,357**
2018			
As at 1 January	**67,984**	**38,373**	**106,357**
Formation	19,109	-	19,109
Use	(2,069)	-	(2,069)
Decrease	-	(8,322)	(8,322)
As at 31 December	**85,024**	**30,051**	**115,075**

In 2009, the Company launched a new product, "VIP100 Premium Savings Plan", which rewards investors with a closing bonus by reimbursing the subscription fee at the end of the savings period. As at 31 December 2018 provisions for long-term deferred income stood at EUR 30,050 (2017: EUR 38,373).

10. Operating liabilities

(EUR)	31 Dec. 2018	31 Dec. 2017
Long-term operating liabilities		
Long-term operating liabilities from advances	4,600	4,600
Other long-term operating liabilities	-	-
Total	**4,600**	**4,600**
Short-term operating liabilities		
Short-term operating liabilities to Group companies	73,369	74,140
Short-term operating liabilities to suppliers	268,818	310,360
Short-term operating liabilities from taxes and contributions	57,298	77,931
Short-term operating liabilities to employees	234,065	232,860
Other short-term operating liabilities	43,251	3,199
Total	**676,801**	**698,490**

The Company has no overdue liabilities.

11. Short-term accrued expenses and deferred income

(EUR)	31 Dec. 2018	31 Dec. 2017
Short-term accrued expenses	325,369	414,798
Accrued unused leave expenses	110,509	105,438
Total	**435,878**	**520,236**

Changes in short-term accrued expenses and deferred income

(EUR)	2018	2017
As at 1 January	**520,236**	**329,282**
Formation	374,309	520,566
Use	(458,668)	(329,612)
As at 31 December	**435,877**	**520,236**

Short-term accrued expenses relate to costs of auditing, unused annual leave, agents and variable remuneration components for 2018.
Compared to the year before, short-term accrued expenses decreased mostly due to the costs related to the real estate fund.

12. Balance sheet items by geographical segments

(EUR)	Slovenia	EU	non-EU	Total
31 Dec. 2018				
Assets				
Intangible assets	2,713,423	-	-	2,713,423
Property, plant and equipment	126,544	-	-	126,544
Long-term financial investments	-	2,294,293	450,000	2,744,293
Deferred tax assets	163,119	-	-	163,119
Short-term financial investments	778,982	2,648,773	476,758	3,904,513
Short-term operating receivables	143,011	-	-	143,011
Cash and cash equivalents	1,423,322	-	-	1,423,322
Deferred expenses and accrued income	428,232	-	-	428,232
	5,776,633	**4,943,066**	**926,758**	**11,646,457**
Liabilities				
Provisions and long-term accrued expenses and deferred income	115,074	-	-	115,074
Long-term operating liabilities	4,600	-	-	4,600
Deferred tax liabilities	16,409	-	-	16,409
Short-term operating liabilities	584,066	92,735	-	676,801
Deferred expenses and accrued income	435,878	-	-	435,878
	1,156,027	**92,735**	**-**	**1,248,762**

(EUR)	Slovenia	EU	non-EU	Total
31 Dec. 2017				
Assets				
Intangible assets	2,715,204	-	-	2,715,204
Property, plant and equipment	113,638	-	-	113,638
Long-term financial investments	-	2,074,191	450,000	2,524,191
Deferred tax assets	154,288	-	-	154,288
Short-term financial investments	1,161,172	2,430,235	500,161	4,091,568
Short-term operating receivables	183,911	-	-	183,911
Cash and cash equivalents	906,380	-	-	906,380
Deferred expenses and accrued income	615,463	-	-	615,463
	5,850,056	**4,504,426**	**950,161**	**11,304,643**
Liabilities				
Provisions and long-term accrued expenses and deferred income	106,357	-	-	106,357
Long-term operating liabilities	4,600	-	-	4,600
Deferred tax liabilities	20,232	-	-	20,232
Short-term operating liabilities	610,476	87,880	134	698,490
Deferred expenses and accrued income	520,236	-	-	520,236
	1,261,901	**87,880**	**134**	**1,349,915**

13. Analysis of sales and costs

A. Operating income

(EUR)	2018	2017
Income from the sale of goods and services		
Income from the sale of services in Slovenia	**9,499,250**	**9,646,668**
Group companies	376,821	451,234
Others	9,122,429	9,195,434
Income from the sale of services in the EU	**24**	**336**
Others	24	336
Income from the sale of services abroad	**12**	**36**
Others	12	36
Total	**9,499,286**	**9,647,040**
Other operating income		
Reversal of provisions	-	-
Profit from the sale of fixed assets	1,500	-
Other operating income from revaluation	11,008	14,723
Total	**12,508**	**14,723**

Assets managed under discretionary mandates

Period	Number of customers	Assets under management	Management fee	Success fee
2017	59	252,050,873	458,501	-
2018	13	240,527,428	383,252	-

Structure of income from fees

(EUR)	Management fee	Entry fee	Exit fee	Total 2018	Management fee	Entry fee	Exit fee	Total 2017
KD Dividendni, delniški	480,723	723	757	482,203	504,417	1,073	420	505,910
KD Galileo, mešani fleksibilni	2,779,626	16,235	1,729	2,797,590	2,706,167	33,744	1,023	2,740,935
KD Rastko, evropski delniški	1,135,452	5,640	-	1,141,092	1,075,003	9,064	-	1,084,067
KD Bond, obvezniški – EUR	194,776	6,792	-	201,568	228,910	10,269	-	239,179
KD MM, sklad denarnega trga – EUR	28,445	-	-	28,445	28,400	-	-	28,400
KD Prvi izbor, sklad delniških skladov	584,311	12,969	1,644	598,923	566,709	19,644	913	587,266
KD Balkan, delniški	540,549	772	-	541,320	665,559	5,752	-	671,311
KD Novi trgi, delniški	849,701	2,928	2,590	855,219	748,021	7,370	1,533	756,923
KD Surovine in energija, delniški	172,817	1,003	-	173,821	164,617	2,019	-	166,636
KD Tehnologija, delniški	548,215	7,095	-	555,310	520,321	10,895	-	531,216
KD Vitalnost, delniški	459,516	1,795	1,118	462,430	529,155	3,350	600	533,106
KD Indija – Kitajska, delniški	453,030	2,230	152	455,412	373,904	3,262	123	377,289
KD Latinska Amerika, delniški	37,003	702	146	37,851	49,395	1,296	120	50,812
KD Vzhodna Evropa, delniški	157,537	1,536	98	159,172	222,752	6,639	59	229,450
KD Amerika, delniški	243,804	439	-	244,243	246,593	1,484	-	248,077
KD Corporate Bonds	56,785	428	-	57,213	56,444	2,482	-	58,926
Total	**8,722,289**	**61,287**	**8,235**	**8,791,810**	**8,686,369**	**118,343**	**4,791**	**8,809,502**

B. Analysis of costs

Analysis of costs, by primary types

(EUR)	2018	2017
Costs of goods and materials		
Costs of raw materials	45,901	39,478
Costs of energy	11,029	7,625
Total	**56,930**	**47,103**
Costs of services		
Costs in delivering services	43,877	352,653
Costs of transport and postal services	323,987	300,983
Rental and maintenance costs	610,890	543,293
Reimbursement of labour-related costs to employees	60,435	51,292
Payment transactions and banking services	22,726	20,989
Insurance costs	14,356	12,828
Costs of trade shows, advertising, entertainment	570,844	563,547
Costs of services of agents acquiring investors	1,125,493	1,221,540
Costs of intellectual and personal services	707,515	695,360
Costs of other services	523,463	478,626
	12,149	9,857
Total	**4,015,735**	**4,250,968**
Labour costs		
Wages and salaries	2,508,602	2,271,062
Pension insurance costs	263,258	233,138
Other social insurance costs	187,695	170,329
Other labour costs	193,968	175,317
Provisions for employee benefits, unused annual leave	112,598	102,187
Total	**3,266,121**	**2,952,033**
Amortisation/Depreciation	**115,793**	**123,975**
Revaluation operating expenses		
Revaluation operating expenses in current assets	-	-
Expenses from the disposal of fixed assets	2,511	1,262
Total	**2,511**	**1,262**
Other operating expenses		
Payments for humanitarian and cultural purposes	30,729	26,384
Other operating expenses	12	112
Total	**30,741**	**26,496**
Total	**7,487,831**	**7,401,837**

Analysis of costs, by functional groups

(EUR)	2018	2017
Cost analysis by function		
Selling costs	3,462,322	3,206,614
General costs	4,025,509	4,195,223
Total	**7,487,831**	**7,401,837**
Auditing costs (including tax)		
Anual report auditing	6,100	4,880
Other assurance services	20,863	18,550
Total	**26,963**	**23,430**

Remuneration of Management Board and Supervisory Board members

(EUR)	2018	2017
Executive directors	300,856	259,330
Non-executive directors on the Board of Directors	9,045	6,705
Employees under management contracts	428,639	373,560
Total	**738,540**	**639,595**

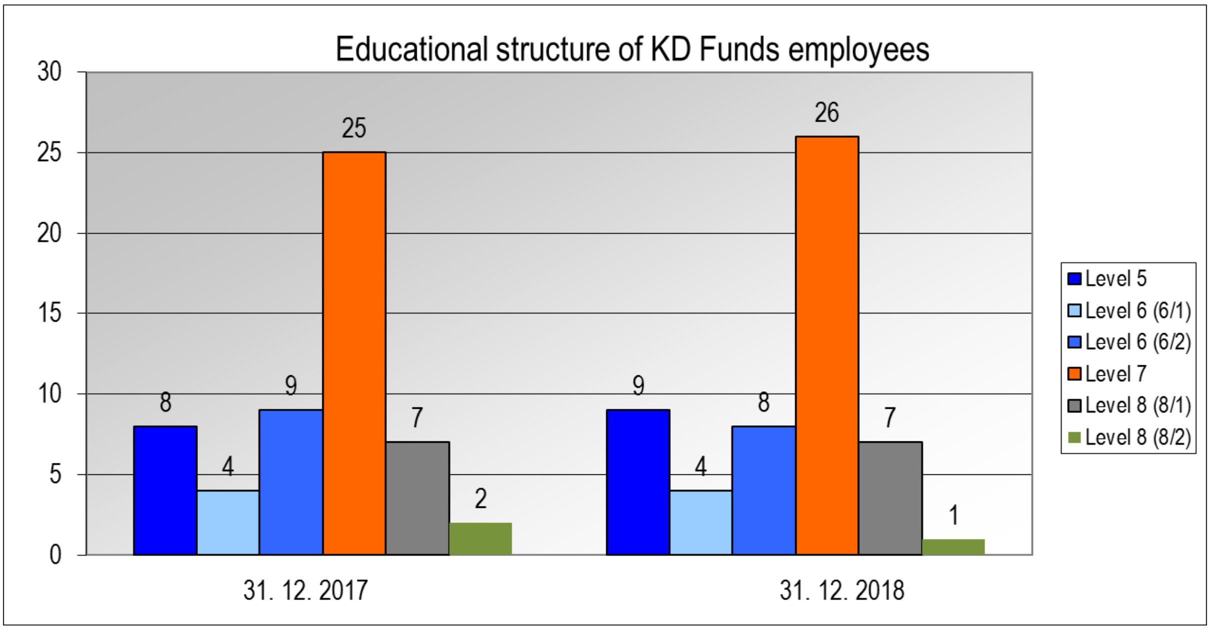
The Company has no receivables due from the management, members of the Supervisory Board and its owners. It also has no long-term liabilities.

Potential liabilities – legal actions

The Company has no potential liabilities arising from pending legal actions.

Employees

The Company employed 55 people as at 31 December 2018, with one employee absent due to parental leave. The average number of employees in 2018 and 2017 was 56.42 and 54.58, respectively. The average number of employees based on working hours in 2018 was 51.56. At the end of 2018, women and men represented 60% and 40% of the staff, respectively.



14. Financial income

(EUR)	2018	2017
Financial income from participating interests		
Financial income from interests in Group companies		
Dividends	245,142	204,974
	245,142	**204,974**
	-	-
Financial income from interests in other entities		
Financial income – financial assets through equity		
Realised gains	9	545
Interest	288	56
	297	**601**
	297	**601**
Total	**245,439**	**205,575**
Financial income from loans		
Financial income from loans to Group companies	3,609	9,670
Financial income from loans to others	455	190
Total	**4,064**	**9,860**
Financial income from operating receivables		
Financial income from operating receivables from others	827	3,057
Total	**827**	**3,057**
Total financial income	**250,330**	**218,492**

15. Financial expenses

(EUR)	2018	2017
Financial expenses from impairments and write-offs of financial investments		
	-	-
Financial expenses from impairments and write-offs of other companies		
Financial expenses – financial assets through equity	-	-
	-	-
Total financial expenses from impairments and write-offs of financial investments	-	-
Financial expenses from operating liabilities		
Other financial expenses from operating liabilities	20,230	9,679
Total financial expenses from operating liabilities	**20,230**	**9,679**
Total financial expenses	**20,230**	**9,679**

16. Other income and other expenses

(EUR)	2018	2017
Other income		
Compensation and fines	-	9,538
Other extraordinary income	12	1
Total	**12**	**9,539**
Other expenses		
Compensation and fines	1,199	9,040
Other extraordinary expenses	7,891	6
Total	**9,090**	**9,046**

17. Items of income statement by geographical segments

(EUR)	Slovenia	EU	non-EU	Total
2018				
Net sales	9,499,250	24	12	9,499,286
Other operating income	12,508	-	-	12,508
Costs of goods, materials and services	(3,444,218)	(197,144)	(431,303)	(4,072,665)
Labour costs	(3,171,530)	(94,591)	-	(3,266,121)
Depreciation and other costs	(149,045)	-	-	(149,045)
Financial income	3,179	247,151	-	250,330
Financial expenses	(20,230)	-	-	(20,230)
Other income	12	-	-	12
Other expenses	(9,090)	-	-	(9,090)
Profit or loss before tax	**2,720,836**	**(44,560)**	**(431,291)**	**2,244,985**
2017				
Net sales	9,646,668	336	36	9,647,040
Other operating income	14,723	-	-	14,723
Costs of goods, materials and services	(3,669,906)	(211,495)	(416,670)	(4,298,071)
Labour costs	(3,017,293)	65,260	-	(2,952,033)
Depreciation and other costs	(151,733)	-	-	(151,733)
Financial income	11,205	207,287	-	218,492
Financial expenses	(9,679)	-	-	(9,679)
Other income	9,539	-	-	9,539
Other expenses	(9,046)	-	-	(9,046)
Profit or loss before tax	**2,824,478**	**61,388**	**(416,634)**	**2,469,232**

18. Deferred taxes

Balance of deferred taxes

(EUR)	31 Dec. 2018	31 Dec. 2017
Deferred tax assets	163,119	154,288
Deferred tax liabilities	(16,409)	(20,232)
Total deferred tax	**146,710**	**134,056**

Changes in deferred taxes

(EUR)	2018	2017
As at 1 January	**134,056**	**205,576**
Deferred tax charged /(credited) to profit or loss	8,831	(63,292)
Deferred tax charged/(credited) to equity	3,823	(8,228)
As at 31 December	**146,710**	**134,056**

Changes in deferred tax assets

(EUR)	Valuation of investments	Reserves	Other	Total
2017				
As at 1 January	**10,177**	**5,483**	**201,921**	**217,581**
Deferred tax charged/(credited) to profit or loss	-	975	(64,267)	(63,292)
Deferred tax charged/(credited) to equity	-	-	-	-
As at 31 December	**10,177**	**6,458**	**137,654**	**154,288**
2018				
As at 1 January	**10,177**	**6,458**	**137,654**	**154,288**
Deferred tax charged/(credited) to profit or loss	-	1,619	7,212	8,831
As at 31 December	**10,177**	**8,077**	**144,866**	**163,119**

Changes in deferred tax liabilities

(EUR)	Valuation of investments	Total
2017		
As at 1 January	**12,005**	**12,005**
Deferred tax charged/(credited) to equity	8,228	8,228
As at 31 December	**20,232**	**20,232**
2018		
As at 1 January	**20,232**	**20,232**
Deferred tax charged/(credited) to equity	(3,823)	(3,823)
As at 31 December	**16,409**	**16,409**

19. Taxes

(EUR)	2018	2017
Profit or loss before tax	**2,244,985**	**2,469,233**
Income adjustment for tax purposes	(245,142)	(204,974)
Expenses adjustment for tax purposes	138,326	124,301
Tax relief	(61,584)	(393,863)
Total tax base	**2,076,585**	**1,994,697**
Tax rate	**19%**	**17%**
Income tax	**394,551**	**378,992**

20. Disclosures of receivables, liabilities and investments, by groups of related parties according to Article 19 of the Investment Funds and Management Companies Act (ZISDU-3)

(EUR)	Operating receivables	Receivables from financing activities	Operating liabilities	Liabilities from financing activities	Investments
2018					
Related party					
B1	35,611	75,650	73,369	-	2,744,293
B2	-	-	-	-	-
E	-	-	20,998	-	-
Total	**35,611**	**75,650**	**94,367**	**-**	**2,744,293**
2017					
Related party					
B1	37,205	73,937	69,285	-	2,450,254
B2	-	371,876	4,855	-	-
E	-	-	20,883	-	-
Total	37,205	445,813	95,023	-	2,450,254

Code table of types of relation:

- B1 - a party or parties directly participating in another party
- B2 - a party or parties indirectly participating in another party
- C - a party participating in both parties, having the status of a related party according to paragraph 1 of Article 20, and points 1, 2, 4 and 5 of Article 19 of ZISDU-3
- E - Management Board members

21. Transactions with related parties

Sales to related parties

(EUR)	2018	2017
Sales to related companies		
Group companies	459,721	558,463
	459,721	**558,463**
Purchases from related companies		
Group companies	1,069,087	1,149,708
Associates	45,687	38,399
	1,114,774	**1,188,107**

Outstanding items arising from sales to and purchases from related parties

(EUR)	31 Dec. 2018	31 Dec. 2017
Outstanding receivables to subsidaries		
Companies in Group	35,611	37,205
	35,611	**37,205**
Outstanding liabilities to subsidaries		
Companies in Group	73,369	74,140
	73,369	**74,140**

Loans disbursed and interest allocated to related parties

(EUR)	2018	2017
Loans to related companies – disbursement of principal and interest accrual		
Group companies	3,609	9,670
	3,609	**9,670**

22. Risk management

The Company is exposed to financial risks through its financial assets and liabilities. Financial risks are risks that the inflows will not be sufficient to cover outflows due to changes in the capital and money markets, changes of business operations, and changes of clients' credit rating. The most important types of financial risk include liquidity risk, credit risk and market risk, where the Company is exposed to the risk of changing interest rates, the risk of changing securities prices, the risk of changed prices and currency risk. The purpose of financial risk management is to ensure business stability and reduce exposure to each risk to an acceptable level.

The Company manages and controls risks by regularly planning and monitoring its cash flows, and by holding a sufficient volume of liquid assets at all times to cover its liabilities. It follows an investment policy by which it ensures a sufficiently high level of profitability, matches the maturities of financial assets with those of financial liabilities, and provides an adequate structure of financial assets. The Company regularly monitors developments in financial markets and tries to minimise potential negative effects of its financial performance.

Liquidity risk is the risk the Company will not be able to settle all its obligations, including potential obligations, in due time. The Company's goal is to have at all times the necessary liquidity and to be permanently able to meet all of its obligations with adequate capital (solvency).

Liquidity risk stems from the mismatch of inflows and outflows, and is reflected in the potential that the Company, despite a sufficient volume of financial assets, might need to liquidate its assets in unfavourable conditions in order to meet its commitments at a given moment (at a lower price, with higher transaction costs), which in turn would lead to the lower profitability of investments.

Liquidity risk is managed through an adequate investment structure; appropriate investment diversification; cash flow planning that ensures sufficient cash flows from operating and investing activities (interest and principal payments) to cover future predictable obligations; as well as by ensuring an adequate volume of highly liquid assets that can be sold at any time without a loss in order to cover future unpredictable obligations.

Credit risk is the risk that a counterparty will not be able to repay the amounts owed when they fall due.
The risk that loans will not be discharged on time is moderate. The Company mitigates this risk by monitoring debtors' ratings and by seeking various forms of security for its receivables.

Market risk arises in particular with investments in assets where it is possible that expectations regarding the development of asset values will not be realised or will be realised incompletely. The risk of unfavourable changes in the value of assets may be a consequence of FX changes, interest rate changes or changes in the market value of securities. The Company is mostly exposed to currency risk because of its investments in countries that are non-members of the EMU. The interest risk to which the Company is exposed can be reflected in the growth of costs from financing activities. The Company manages its interest risk by linking financial liabilities to fixed interest rates.

The Company does not apply hedge accounting.

Credit risk – unmatured and matured assets

(EUR)	Neither past due nor impaired	Past due and not impaired up to 30 days	Past due and not impaired from 31 up to 90 days	Past due and not impaired from 91 up to 270 days	Past due and not impaired over 270 days	Past due and individually impaired - gross value	Past due and individually impaired - value adjustment	Past due and collectively impaired - gross value	Past due and collectively impaired - value adjustment	Total
31 Dec. 2018										
Debt securities	2,480,983	-	-	-	-	-	-	-	-	2,480,983
Loans	75,650	-	-	-	-	-	-	-	-	75,650
Receivables and deferred expenses and accrued income	571,243	-	-	-	-	2,097	(2,097)	-	-	571,243
Total	**3,127,876**	**-**	**-**	**-**	**-**	**2,097**	**(2,097)**	**-**	**-**	**3,127,876**
31 Dec. 2017										
Debt securities	2,329,514	-	-	-	-	-	-	-	-	2,329,514
Loans	445,813	-	-	-	-	-	-	-	-	445,813
Receivables and deferred expenses and accrued income	799,374	-	-	-	-	2,097	(2,097)	-	-	799,374
Total	**3,574,701**	**-**	**-**	**-**	**-**	**2,097**	**(2,097)**	**-**	**-**	**3,574,701**

Fair values

(EUR)	31 Dec. 2018	31 Dec. 2017
Long-term financial investments		
Shares and interests in Group companies	4,056,650	3,523,792
Loans granted	-	73,937
	4,056,650	**3,597,729**
Short-term financial investments		
Other short-term financial investments	3,828,863	3,719,692
Loans granted	75,650	371,876
	3,904,513	**4,091,568**

23. Events after the balance sheet date

There were no significant events after the balance sheet date that could influence the financial statements and would lead to additional procedures to establish whether these events have been correctly recognised in the financial statements.