ANNUAL REPORT 2012
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)

Head office	Dunajska cesta 63, 1000 Ljubljana
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
Company registration number	5834457
Tax number	56687036
VAT identification number	SI 56687036
Bank accounts	SI56 9067 2000 0053 896, PBS d. d. SI56 0510 0801 3397 826, Abanka Vipa d. d. SI56 2700 0000 0184 866, Factor banka d.d. SI56 0430 2000 1224 512, Nova KBM d. d.
Economic activity codes	64.300 – Trusts, funds and similar financial entities 66.300 – Fund management activities

Management Board	Matej Tomažin, President of the Management Board Luka Podlogar, Member of the Management Board

Supervisory authority	Securities Market Agency

The Management Company's Shareholder as at 31 December 2012

KD Group d. d., Dunajska cesta 63, 1000 Ljubljana	100% business share

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 1st and 2nd 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 SIT (EUR 33.38), while the number of shares issued remained at 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.

A resolution was adopted by the General Meeting of 30 May 2002 to convert the Company from a public limited company into a limited liability company. On 30 August 2002, a change of 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.

In accordance with a 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.

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 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 into 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.; its share capital amounts to 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.

The Management Company does not use any particular code for conducting its business operations.

The Company's principal activity is investment fund management. At the end of 2012, our management portfolio consisted of the mutual fund KD Delniški dohodkovni (KD Equity Income Mutual Fund), and the following subfunds operating within the framework of the KD Umbrella Fund:

- KD Galileo, fleksibilna struktura naložb (KD Galileo, Flexible Asset Structure)
- KD Rastko, delniški (KD Rastko, Equity)
- KD Bond, obvezniški (KD Bond, Bond)
- KD MM, sklad denarnega trga (KD MM, Money Market)
- KD Prvi izbor, sklad delniških skladov (KD First Selection, Fund of Equity Funds)
- KD Balkan, delniški (KD Balkan, Equity)
- KD Novi trgi, delniški (KD New Markets, Equity)
- KD Severna Amerika, delniški (KD North America, Equity)
- KD Surovine in energija, delniški (KD Raw Materials and Energy, Equity)
- KD Tehnologija, delniški (KD Technology, Equity)
- KD Nova energija, delniški (KD New Energy, Equity)
- KD Vitalnost, delniški (KD Vitality, Equity)
- KD Indija – Kitajska, delniški (KD India – China, Equity)
- KD Finance, delniški (KD Financials, Equity)
- KD Latinska Amerika, delniški (KD Latin America, Equity)
- KD Vzhodna Evropa, delniški (KD Eastern Europe, Equity)
- KD EM Infrastruktura in gradbeništvo, delniški (KD EM Infrastructure and Construction, Equity)

On 14 January 2013, KD Funds LLC merged the following subfunds:
- KD North America, Equity → KD Galileo, mešani fleksibilni sklad (KD Galileo, Mixed Flexible Fund)
- KD New Energy, Equity → KD Raw Materials and Energy, Equity
- KD EM, Infrastructure and Construction, Equity → KD New Markets, Equity
- KD Financials, Equity → KD Galileo, Mixed Flexible Fund

On 14 January 2013 the following subfunds were renamed:
KD Galileo, mešani fleksibilni sklad (KD Galileo, Mixed Flexible Fund) (formerly KD Galileo, Flexible Asset Structure)
KD Rastko, evropski delniški sklad (KD Rastko, Europe Equity Fund) (formerly KD Rastko, Equity)
KD Bond, obvezniški – EUR (KD Bond – EUR) (formerly KD Bond, Bond)
KD MM, sklad denarnega trga – EUR (KD MM, Money Market Fund) – EUR (formerly KD MM, Money Market)
Podsklad KD Dividendni, delniški (KD Dividend, Equity subfund) (formerly KD Equity Income mutual fund)

The operations of all the subfunds listed above and the company KD Funds LLC in 2012 were audited by Ernst & Young d. o. o.

Management Board

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

From 1 January 2012 to 1 May 2012 the Management Board of KD Funds LLC had the following composition:
Roman Androjna, President of the Management Board,
Matej Tomažin, Member of the Management Board.

From 2 May 2012 to 26 July 2012 the Company was run by a single-member Management Board represented by Matej Tomažin.

Since 27 July 2012 the Management Board has had the following composition:
Matej Tomažin, President of the Management Board,
Luka Podlogar, Member of the Management Board.

Supervisory Board

From 1 January 2012 to 31 August 2012 the Supervisory Board had the following composition:

- Tomaž Butina, President of the Supervisory Board,
- Dr. Draško Veselinovič, Deputy President,
- Mag. Matjaž Gantar, Member,
- Aleksander Sekavčnik, Member,
- Sergej Racman, Member, and
- Matija Šenk, Member.

From 1 September 2012 to 2 September 2012 the Supervisory Board had the following composition:

- Tomaž Butina, President of the Supervisory Board,
- Mag. Matjaž Gantar, Member,
- Aleksander Sekavčnik, Member,
- Sergej Racman, Member, and
- Matija Šenk, Member.

Since 3 September 2012, the Supervisory Board has had the following composition:

- Willem Jacob Westerlaken, President of the Supervisory Board,
- Matija Šenk, Deputy President,
- Jure Kvaternik, Member.

Annual report

KD Funds LLC is an entity within the group of related companies controlled by KD Group d. d.

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

The consolidated annual report of the KD Group and the annual report of the company KD Group d. d. are available at the Company's headquarters at Dunajska cesta 206, Ljubljana, Slovenia.

As at 31 December 2012, KD Funds LLC was the controlling company of the management company KD Investments d. o. o. Miramarska 105, 10 000 Zagreb (100% share) and the controlling company of the management company KD Fondovi A. D. Skopje, Makedonija 13 b, 1000 Skopje, Macedonia (92.42% share). KD Group d. d., as the holder of the entire (100%) business share of KD Funds LLC, issued a statement releasing KD Funds LLC, as the controlling company of KD Fondovi A. D. Skopje and KD Investments d. o. o., Zagreb, from the obligation of preparing consolidated financial statements for the 2012 financial year with respect to the companies KD Skladi d. o. o., KD Fondovi A. D. Skopje and KD Investments d. o. o., Zagreb , based on the direct application of Commission Regulation (EC) No. 1725/2003 of 29 September 2003 adopting certain international accounting standards in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council.

On the basis of the above, KD Funds LLC did not prepare consolidated financial statements for the 2012 financial year.

2. Business development

Investment fund management and asset management services for qualified investors represent the core activity of KD Funds LLC. At the end of 2012 our management portfolio consisted of the KD Umbrella Fund with its 17 subfunds, and the KD Equity Income mutual fund that emerged from the transformation of the KD ID, Equity Investment Company, plc (KD ID, delniška investicijska družba, d. d.) into a mutual fund. KD Funds LLC also manages assets for six qualified investors Neither the number of funds nor the number of asset management contracts with qualified investors increased in 2012.

2012 was marked by the continuation of the financial and economic crisis with all its consequences affecting our business. Although positive tendencies in equity markets were recorded in general, the attitude of small investors to equity markets did not change significantly. Small investors remain reluctant about making risky investments for the purpose of saving whilst feeling the effects of a declining disposable income. Moreover, our industry has attracted fierce competition from banks offering high interest rates to small investors with a deposit guarantee of up to EUR 100,000. This helps explain why the company closed 2012 with net outflows from the mutual funds.

KD Funds LLC continued its efforts in 2012 to improve the quality of services in both asset management and sales. We also focussed on improving and automating specific work processes in order to create the necessary conditions for high-quality management services of a significantly bigger volume of investor assets, which we will be aiming at in the next post-crisis period.

Highlights of our activities and achievements in 2012:

- Change-over to a new information system that provides support to back-office services and e-commerce.
- We actively marketed mutual funds to institutional investors.
- We actively participated in the technical bodies of the Slovenian Investment Fund Association, in particular regarding regulations relating to investment funds and management companies.
- We continued the activities to boost the efficiency of work processes and cost cutting.

3. Business results

In 2012, KD Funds LLC continued to be one of the biggest management companies in Slovenia, where our market share grew from 18.82% at the end of 2011 to 20.15% at the end of 2012. In addition to its business in Slovenia it has two subsidiary management companies in Croatia and Macedonia.

The year 2012 was marked by a decreased volume of income. However, the total volume of assets under management rose by nearly EUR 44.2 million in 2012 from EUR 377.4 million at the end of 2011 to EUR 421.6 million at the end of 2012, which is slightly more than 11.7%. The volume of assets held by the investment funds increased from EUR 336.97 million at the end of 2011 to EUR 368.36 million at the end of 2012, whilst the volume of qualified investors' assets went up by EUR 12.82 million, i.e. from EUR 40.45 million to EUR 53.27 million at the end of 2012.

Net sales amounted to EUR 6.47 million, and operating expenses amounted to EUR 5.36 million. The Company ended the year with a net profit for the financial period of EUR 851,298.

4. Outlook for the future

We are fairly optimistic about the outlook for global capital markets in 2013. We expect capital markets to continue the positive trends that were partly visible in the second half of 2012. We are observing a rebound of the economy and believe the impact of any possible new crisis will therefore be less severe than expected by the markets. We expect positive developments in the first half of the year to be followed by a testing period. With returning confidence in equity markets we can also expect some investors who are now merely observing the developments from a distance to make a return.

The current year could be a milestone for the region because of the specific reforms announced by the new governments. If there are signs that these reforms are actually being implemented, the markets will reflect the positive expectations through prices relatively quickly.

We expect the value of the assets managed by the KD Umbrella Fund to increase in 2013 due to both the effect equity prices will have on the growth of fund unit values and the planned sales growth.

The Company will continue to engage in activities targeted at business excellence in all spheres of its operations and asset management as well as business process streamlining. In 2013, a special focus will be dedicated to our existing and potential customers and improving our sales services.

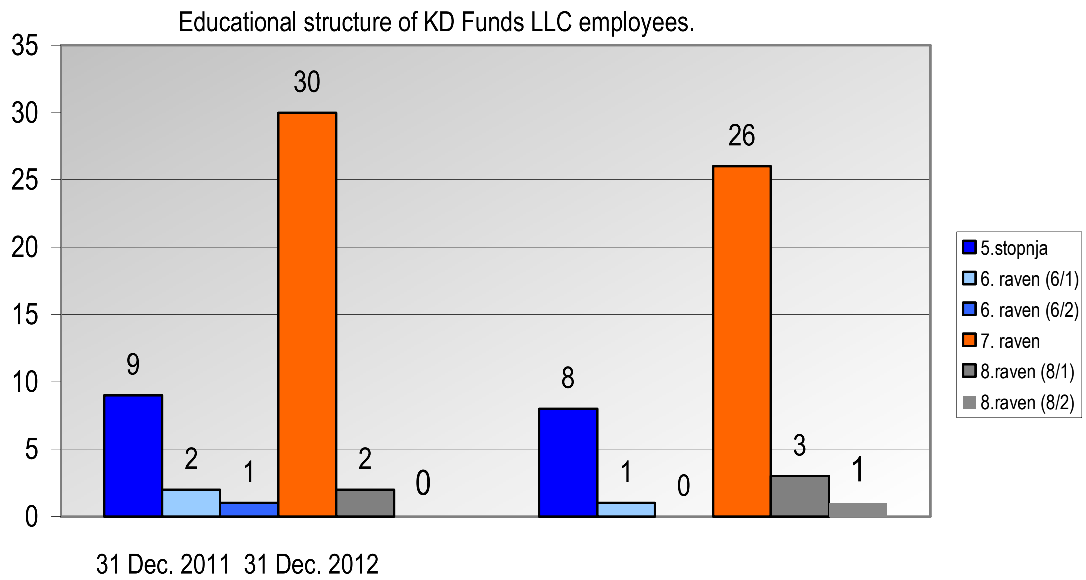
Challenges expected in 2013:

- Improving the Company's profitability;
- Fund mergers;
- Implementation of the new legislation (Investment Funds and Management Companies Act – ZISDU-2).
- Improved management;
- We will enhance our care for the existing investors and work on boosting the interest of prospective investors.
- We will continue our efforts to attract the assets of other domestic and foreign qualified investors.
- We will carry on the activities of business process optimisation focusing on the best possible risk management.

5. Human resources

We at KD Funds LLC aspire to exceed the expectations of our investors and business partners. To achieve this, we need committed and highly-motivated employees. 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 qualified personnel, in particular in the areas of economics, law, IT and sales. Employees can work in an environment where they can develop their capacities, with a particular focus on creativity and reliability.

The Company employed 39 people as at 31 December 2012, with 4 employees absent due to parental leave or long-term sick leave. The average number of employees in 2012 and 2011 was 40.83 and 43.58, respectively. The average number of employees based on working hours in 2012 was 35.24. At the end of 2012, 56.41% of the staff were women and 43.59% were men.



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 made in 2012.

7. Risk management

In performing its operations, the Company must monitor and, by taking and implementing appropriate actions, manage various types of risk in compliance with the Risk Management Plan adopted by the Management Board. Given that its principal business activity is managing the assets of investment funds and qualified investors, the Company typically faces the following risks: operating risk, systemic risk, risk related to breach of regulations, risk connected to human resources, strategic risk, risk related to third-parties conducting business with the Company, and depositary risk. These risks are managed in accordance with the regulations on risk management in management companies and in accordance with its own risk management plan.

8. Important business events occurring after the close of the 2012 financial year

The Supervisory Board of KD Fund LLC appointed Žiga Peljko a new member of the Management Board for a period of four years. The appointment decision takes effect subject to:
a) a suspensive condition, which shall be met when the candidate obtains authorisation and enters into an agreement to perform this function; and
b) a resolutory condition, which shall be met:
• if the candidate within 15 days of receiving the decision on being appointed a member of the Management Board of KD Funds LLC does not apply for authorisation with regard to this function or withdraws such an application; or

- if the Securities Market Agency dismisses or rejects the application of Žiga Peljko to issue the said authorisation.

The Supervisory Board of KD Funds LLC reached an agreement with Matej Tomažin on the termination of his office, based on which Matej Tomažin will leave KD Funds LLC as of 1 July 2013.

Ljubljana, 25 March 2013

KD Funds – Management Company, LLC

Luka Podlogar Member of the Management Board	Matej Tomažin President of the Management Board

SEPARATE AUDITOR'S REPORT FOR THE PURPOSE OF PUBLIC INFORMATION ON THE COMPANY KD Funds – Management Company LLC

We have audited the accompanying financial statements of KD Funds – Management Company LLC, which comprise the balance sheet as at 31 December 2012, and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. We have also audited, for the same period, the compliance with the risk management rules, the compliance with prudential rules, the state of internal controls, the method of keeping books of account, the quality of information system and the accuracy and completeness of notifications and reports submitted to the Securities Market Agency. The Management Board is responsible for all of the above stated. Our responsibility is to express an opinion thereon based on our audit.

The audit of individual matters referred to in the first paragraph was performed in accordance with International Standards on Auditing, the Investment Funds and Management Companies Act and the Decision on Auditing Annual Reports of Management Companies (Official Gazette of the RS no. 42/08; hereinafter: the Decision). The audit is planned and performed so as to obtain reasonable assurance about whether the financial statements including the enclosures are free of material misstatement, whether legislation was duly observed in respect of risk management, prudential rules, the method of keeping books of account and drawing up the notifications and reports to the Securities Market Agency and whether KD Funds – Management Company LLC had all adequate internal control mechanisms and a quality information system in place. We believe that our audit provides a reasonable basis for our opinion that is given in accordance with Article 6 of the Decision.

Based on the performed audit procedures, we hereby issue our unqualified opinion on the matters referred to in the first paragraph of this report.

Ljubljana, 25 March 2013

Janez Uranič
Director

Eva Mrak
Certified Auditor

Ernst & Young d.o.o.
Dunajska 111, Ljubljana

ANNUAL FINANCIAL STATEMENTS

STATEMENT BY THE MANAGEMENT BOARD

The Management Board of KD Funds – Management Company LLC confirms the financial statements as at 31 December 2012, 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 the year 2012.

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 circumstances that might give rise to any material liability in this respect.

Ljubljana, 25 March 2013

KD Funds – Management Company, LLC

Luka Podlogar
Member of the Management Board

Matej Tomažin
President of the Management Board

BALANCE SHEET AS AT 31 DECEMBER 2012

(EUR)	Note	31 Dec. 2012	31 Dec. 2011
ASSETS			
Long-term assets			
Intangible assets, and long-term deferred costs and accrued income	1	401,443	414,343
Property, plant and equipment	2	90,946	111,422
Long-term investments	3	1,147,518	1,203,492
Deferred tax assets	20	16,303	23,677
		1,656,210	**1,752,934**
Current assets			
Short-term investments	4	11,649,860	10,888,517
Short-term operating receivables	5	212,402	75,583
Cash and cash equivalents	6	157,881	1,142,463
		12,020,143	**12,106,563**
Short-term deferred costs and accrued income	7	**73,558**	**80,197**
TOTAL ASSETS		**13,749,911**	**13,939,694**
Off-balance sheet assets		2,100,000	2,100,000
LIABILITIES AND EQUITY			
Equity	8		
Called-up capital		1,767,668	1,767,668
Capital reserves		542,062	542,062
Profit reserves		556,767	556,767
Revaluation reserve		(72,122)	(68,726)
Retained profit/loss		968,942	988,363
Net profit/loss for the period		851,298	980,579
		4,614,615	**4,766,713**
Provisions, and long-term accrued costs and deferred income	9	**172,781**	**187,659**
Long-term liabilities			
Long-term financial liabilities	10	-	8,377,696
Deferred tax liabilities	20	-	-
		-	**8,377,696**
Short-term liabilities			
Short-term financial liabilities	10	8,377,696	-
Short-term operating liabilities	11	414,909	502,632
		8,792,605	**502,632**
Short-term accrued costs and deferred income	12	**169,910**	**104,994**
TOTAL LIABILITIES AND EQUITY		**13,749,911**	**13,939,694**
Off-balance sheet liabilities		2,100,000	2,100,000

The accounting policies and notes to the financial statements on pages 19 to 44 are a constituent part of the financial statements.

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012

(EUR)	Note	2012	2011
Net sales	14A	6,470,095	7,100,283
Other operating income	14A	8,077	-
		6,478,172	**7,100,283**
Costs of goods, materials and services	14B	(3,013,649)	(3,113,841)
Labour costs	14B	(2,189,963)	(2,015,924)
Write-downs in value	14B		
Depreciation/amortisation	14B	(134,413)	(123,271)
Revaluation operating expenses	14B	(21,805)	(648)
Other operating expenses	14B	(2,372)	(12,758)
		(5,362,202)	**(5,266,442)**
Financial income from shares and interests	15	287,303	160,585
Financial income from loans	15	286,023	297,627
Financial income from operating receivables	15	333	1,933
		573,659	**460,145**
Financial expenses for impairments and write-offs of investments	16	(205,000)	(537,594)
Financial expenses for financial liabilities	16	(386,026)	(385,180)
Financial expenses for operating liabilities	16	(6,372)	(7,343)
		(597,398)	**(930,117)**
Other income	17	2,281	1,928
Other expenses	18	(3,711)	(3,451)
		(1,430)	**(1,523)**
Profit or loss before tax		**1,090,801**	**1,362,346**
Income tax	21	(236,583)	(382,303)
Deferred taxes	20	(2,920)	536
Net profit or loss for the period		**851,298**	**980,579**

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

(EUR)	2012	2011
Net profit or loss	851,298	980,579
Change in revaluation reserve relating to available-for-sale financial assets	(3,396)	(69,306)
Total comprehensive income	**847,902**	**911,273**

The accounting policies and notes to the financial statements on pages 19 to 44 are a constituent part of the financial statements.

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012

(EUR)	Note	2012	2011
A. Cash flows from operating activities			
a) Items of income statement		**1,030,182**	**1,567,843**
Operating income (except for revaluation) and financial income from operating receivables	14A, 17	6,479,652	7,096,311
Operating expenses excluding depreciation/amortisation (except for revaluation) and financial expenses from operating liabilities	14B, 18	(5,209,967)	(5,146,701)
Income taxes and other taxes not included in operating expenses	20, 21	(239,503)	(381,767)
b) Changes in net operating assets of operating items in the balance sheet		**(155,676)**	**(394,172)**
Opening less closing operating receivables		(136,819)	24,816
Opening less closing deferred costs and accrued income		22,280	(37,178)
Opening less closing deferred tax assets		2,920	(536)
Closing less opening operating liabilities		(94,095)	(177,074)
Closing less opening accrued costs and deferred income, and provisions		50,038	(204,200)
Closing less opening deferred tax liabilities		-	-
c) Net cash from operating activities (a + b)		**874,506**	**1,173,671**
B. Cash flows from investing activities			
a) Inflows from investing activities		**663,059**	**2,057,438**
Inflows from interest and from participation in the profit of others relating to investing activities		431,438	444,649
Inflows from disposal of property, plant and equipment		13,711	8,063
Inflows from disposal of long-term investments		167,910	-
Inflows from disposal of short-term investments		50,000	1,604,726
b) Outflows from investing activities		**(2,036,121)**	**(2,947,994)**
Outflows for acquisition of intangible assets		(84,555)	(63,830)
Outflows for acquisition of property, plant and equipment		(66,566)	(54,921)
Outflows for acquisition of long-term investments		(185,000)	(379,240)
Outflows for acquisition of short-term investments		(1,700,000)	(2,450,003)
c) Net cash from investing activities (a + b)		**(1,373,062)**	**(890,556)**
C. Cash flows from financing activities			
a) Inflows from financing activities		**-**	**-**
Inflows from paid-in capital		-	-
Inflows from increase in long-term financial liabilities		-	-
Inflows from increase in short-term financial liabilities		-	-
b) Outflows from financing activities		**(486,026)**	**(1,535,191)**
Outflows for interest associated with financing activities		(386,026)	(385,191)
Outflows for repayment of short-term financial liabilities		-	-
Outflows for dividends and other profit shares		(100,000)	(1,150,000)
c) Net cash from financing activities (a + b)		**(486,026)**	**(1,535,191)**
D. Closing balance of cash	6	**157,881**	**1,142,463**
Net cash flow for the period (sum total of A. c), B. c) and C.		**(984,582)**	**(1,252,076)**

Opening balance of cash		1,142,463	2,394,539

The accounting policies and notes to the financial statements on pages 19 to 44 are a constituent part of the financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012

	Called-up capital	Capital reserves	Profit reserves		Retained profit/loss	Net profit or loss for the period	Revaluation reserve	Total
(EUR)	Share capital	General equity revaluation adjustment	Legal reserves	Other profit reserves				
As at 1 January 2012	**1,767,668**	**542,062**	**176,767**	**380,000**	**988,363**	**980,579**	**(68,726)**	**4,766,713**
Changes in equity	**-**	**-**	**-**	**-**	**(1,000,000)**	**-**	**-**	**(1,000,000)**
Dividend payments	-	-	-	-	(1,000,000)	-	-	(1,000,000)
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**851,298**	**(3,396)**	**847,902**
Entry of net profit/loss	-	-	-	-	-	851,298	-	851,298
Changes in revaluation reserve of investments	-	-	-	-	-	-	(3,396)	(3,396)
Changes in equity	**-**	**-**	**-**	**-**	**980,579**	**(980,579)**	**-**	**-**
Allocation of the remaining part of net profit of comparable period	-	-	-	-	980,579	(980,579)	-	**-**
As at 31 December 2012	**1,767,668**	**542,062**	**176,767**	**380,000**	**968,942**	**851,298**	**(72,122)**	**4,614,615**
Distributable profit 2012	**-**	**-**	**-**	**-**	**968,942**	**851,298**	**-**	**1,820,240**

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011

	Called-up capital	Capital reserves	Profit reserves		Retained profit/loss	Net profit or loss for the period	Revaluation reserve	Total
(EUR)	Share capital	General equity revaluation adjustment	Legal reserves	Other profit reserves				
As at 1 January 2011	**1,767,668**	**542,062**	**176,767**	**380,000**	**794,397**	**1,343,966**	**580**	**5,005,440**
Changes in equity	**-**	**-**	**-**	**-**	**(1,150,000)**	**-**	**-**	**(1,150,000)**
Dividend payments	-	-	-	-	(1,150,000)	-	-	(1,150,000)
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**980,579**	**(69,306)**	**911,273**
Entry of net profit/loss	-	-	-	-	-	980,579	-	980,579
Changes in revaluation reserve of investments	-	-	-	-	-	-	(69,306)	(69,306)
Changes in equity	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Allocation of the remaining part of net profit of comparable period	-	-	-	-	1,343,966	(1,343,966)	-	**-**
As at 31 December 2011	**1,767,668**	**542,062**	**176,767**	**380,000**	**988,363**	**980,579**	**(68,726)**	**4,766,713**
Distributable profit 2011	**-**	**-**	**-**	**-**	**988,363**	**980,579**	**-**	**1,968,942**

The accounting policies and notes to the financial statements on pages 19 to 44 are a constituent part of the financial statements.

Utilisation of net profit for the period

(EUR)	**31 Dec. 2012**
Net profit for the period	851,298
Retained earnings	968,942
Formation of capital reserves	-
Distributable profit	**1,820,240**

The accounting policies and notes to the financial statements on pages 19 to 44 are a constituent part of the financial statements.

INDEPENDENT AUDITOR'S REPORT

To the owners of the company KD Funds – Management Company LLC

Report on financial statements

We have audited the accompanying financial statements of KD Funds – Management Company LLC, which comprise the balance sheet as at 31 December 2012, and the income statement, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Slovene Accounting Standards and the requirements of the Companies Act and the Investment Funds and Management Companies Act relating to the preparation of financial statements, and for such internal controls as determined by management as appropriate and relevant for the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the financial statements of the company 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view, in all material respects, of the financial position of KD Funds – Management Company LLC as at 31 December 2012, and of its financial performance and its cash flow for the year then ended in accordance with Slovene Accounting Standards and the provisions of the Companies Act and the Investment Funds and Management Companies Act relating to the preparation of financial statements.

Report on other legal and regulatory requirements

Management is also responsible for preparing the business report in accordance with the requirements of the Companies Act and the Investment Funds and Management Companies Act. Our responsibility is to assess whether the business report is consistent with the audited financial statements. Our procedures regarding the business report are performed in accordance with International Standard on Auditing 720, and restricted to assessing whether the business report is consistent with the audited financial statements and does not include reviewing other information originated from non-audited financial reports.

In our opinion the business report is consistent with the audited financial statements.

Ljubljana, 25 March 2013

Janez Uranič
Director

Eva Mrak
Certified Auditor

Ernst & Young d.o.o.
Dunajska 111, Ljubljana

NOTES TO THE FINANCIAL STATEMENTS

SIGNIFICANT ACCOUNTING POLICIES

1. Basis for preparation of the financial statements

The financial statements of KD Funds LLC have been prepared in compliance with the accounting and reporting requirements of the Slovene Accounting Standards and the Companies Act (ZGD-1). The basic aim of the Slovene Accounting Standards (hereinafter: the SAS) is to apply the international accounting practice and the financial concept of capital as well as to comply with the requirement to maintain capital in real terms. 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 principles. The qualitative features of the financial statements are based on clarity, appropriateness, reliability and comparability. The same accounting policies were used as last year. The financial statements have been compiled in EUR.

Structure of the group of related companies

Group companies

Group companies are companies in which the controlling 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 20.00% and 50.00% 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 their acquisition cost. The acquisition 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.

Company name	Registered office	Percentage of capital share	capital (EUR)	Profit/loss for the period (EUR)
Group company				
KD Fondovi A. D.	Skopje, Macedonia	92.42%	9,711	(82,380)
KD Investments d. o. o.	Zagreb, Croatia	100.00%	116,782	(38,571)

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

Consolidated financial statements

KD Funds LLC is obliged to prepare consolidated financial statements in accordance with Article 56 of the Companies Act (ZGD-1). The Company itself is a subsidiary owned 100% by KD Group d. d. and is consolidated within the group KD Group. Pursuant to point 13 of the Introduction to the Slovene Accounting Standards, KD Group d. d. as the sole owner of the Company consented that the Company need not prepare consolidated financial statements. The consolidated annual report of the KD Group is available at the headquarters of the company KD Group d. d., Dunajska cesta 63, Ljubljana, Slovenia.

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 its 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 infinite useful life are not amortised. Amortisation of intangible assets is charged on a straight-line basis.

Intangible assets comprise intangible assets with a finite useful life, i.e. computer software.

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 from it. 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 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 acquisition 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 and amortisation rates used in 2012 and 2011:

(In)tangible fixed asset	Minimum rate %	Maximum rate %
Intangible fixed assets:		
Computer software	20.00	20.00
Tangible fixed assets:		
Office furniture and equipment	20.00	20.00

Motor vehicles	12.50	20.00
Computer equipment	50.00	50.00
Printers and other hardware	20.00	20.00
Investments in PPE owned by others	10.00	10.00
Small tools	20.00	20.00

2.3. Investments

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.

An 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 of the investment 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.

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 assets is calculated with the application of various valuation methods, including the use of transactions between knowledgeable parties, 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 discounted cash flow method. The company developed a model for the assessment of the fair value of capital instruments in shares and holdings 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 investments 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 almost all risks and benefits associated with the ownership of the financial asset are transferred. Likewise, a financial assets 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 investments is the recognition of an adjustment to their carrying amounts, whilst contractually accrued interest and other adjustments to the investment's 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 derecognition of impairment. Revaluation of investments is effected on the balance-sheet day. 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. Investments comprise short-term and long-term 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 and loss. Dividends on an equity instrument are recognised in profit and 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 stated 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 equity securities below their cost, a maximum period of 9 months from the date when the fair value of an equity instrument fell below the acquisition cost for the first time and remained below the acquisition cost for the entire 9-month period is taken into account. When determining a significant decrease in the fair value of equity securities, the management takes into account at least a 40% reduction in the fair value compared to acquisition cost. If any such evidence exists, the investment 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 surplus is first reduced by the accumulated loss, and revaluation financial expenses are recognised accordingly. The total accumulated impairment loss by which the negative revaluation reserve had been decreased and the revaluation financial expenses recognised is the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss as a revaluation financial expense.

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 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 then 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 as a revaluation operating expense in the income statement. 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 revaluation operating expenses 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, in 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- 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 service or work performed, or a charged cost or expense, under the assumption that creditors claim their payment.

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 costs and accrued income, or accrued costs and deferred income. The former may be construed as receivables 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 costs and accrued revenue comprise short-term deferred costs/expenses.

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

2.8. Deferred taxes

Deferred tax is intended to cover 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 termination pays and jubilee bonuses – other long-term employee benefits

In accordance with the national legislation, collective bargaining agreements and internal rules, the Company is obliged to pay jubilee bonuses and termination pays upon retirement to its employees. Provisions for termination pays and jubilee bonuses are set aside once a year, and are recognised collectively. Upon their use, these provisions are reduced directly by the liabilities associated with expenses in respect of which they were formed, therefore upon using the provisions the costs 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 revenue or expense associated with the calculation of provisions, i.e. the difference between the opening and the closing balance of provisions.

Key assumptions included in the calculation of provisions for termination pays and jubilee bonuses:

- Expected salary growth equals the discount rate (4.5%).
- Estimated fluctuation rate depending on the number of years to retirement (for provisions relating to termination pays)

up to 5 years	6–10 years	11–15 years	16–20 years	from 21 years
0%	30%	45%	60%	80%

- Estimated fluctuation rate depending on the years of service in the company (for provisions relating to jubilee bonuses)

Bonus	up to 5 years	6–10 years	11–15 years	16–20 years	21–25 years	26–30 years
10 years of service	20%	35%				
20 years of service	10%	20%	30%	50%		
30 years of service	5%	8%	15%	25%	40%	60%

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 as well as other companies.

Operating income comprises sales revenue and other operating income. Sales revenue comprises revenue generated by sales of services rendered during the accounting period. It is recognised in the accounting period when the service has been provided in part of in full.

Financial income is income from shareholdings, loans and receivables, and arises in relation to 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 costs and deferred revenue.

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 controlled entities, 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 revaluation financial expenses. The latter arise in association with the impairment of investments, except where the decrease in their value charged to equity revaluation surplus.

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 corporate income tax rates stand at 18%, 17%, 16% and 15% in 2012, 2013, 2014 and 2015, respectively.

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. Cash flow statement

A cash flow statement 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 cash flow statement, 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 and 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)	Computer software	Other property rights	Long-term deferred costs	Total
Acquisition cost				
As at 31 December 2011	**435,863**	**8,284**	**127,545**	**571,692**
Adjustments after opening balance sheet	-	-	-	-
As at 1 January 2012	**435,863**	**8,284**	**127,545**	**571,692**
Direct increases – investments	84,555	-	1,496	86,051
Decreases during the year	-	-	(17,137)	(17,137)
As at 31 December 2012	**520,418**	**8,284**	**111,904**	**640,606**
Value adjustment				
As at 31 December 2011	**156,866**	**483**	**-**	**157,349**
Adjustments after opening balance	-	-	-	-
As at 1 January 2012	**156,866**	**483**	**-**	**157,349**
Amortisation for the year	80,986	828	-	81,814
Decreases during the year	-	-	-	-
As at 31 December 2012	**237,852**	**1,311**	**-**	**239,163**
Carrying value as at 31 Dec. 2012	**282,566**	**6,973**	**111,904**	**401,443**
Carrying value as at 31 Dec. 2011	**278,997**	**7,801**	**127,545**	**414,343**

(EUR)	Computer software	Other property rights	Long-term deferred costs	Total
Acquisition cost				
As at 31 December 2010	**380,317**	**-**	**123,661**	**503,978**
Adjustments after opening balance	-	-	-	-
As at 1 January 2011	**380,317**	**-**	**123,661**	**503,978**
Direct increases – investments	55,546	8,284	14,807	78,637
Decreases during the year	-	-	(10,923)	(10,923)
As at 31 December 2011	**435,863**	**8,284**	**127,545**	**571,692**
Value adjustment				
As at 31 December 2010	**80,267**		**-**	**80,267**
Adjustments after opening balance	-	-	-	-
As at 1 January 2011	**80,267**	**-**	**-**	**80,267**
Amortisation for the year	76,599	483	-	77,082
Decreases during the year	-	-	-	-
As at 31 December 2011	**156,866**	**483**	**-**	**157,349**
Carrying value as at 31 Dec. 2011	**278,997**	**7,801**	**127,545**	**414,343**
Carrying value as at 31 Dec. 2010	**300,050**	**-**	**123,661**	**423,711**

2. Property, plant and equipment

(EUR)	Cars	Computer equipment	Other equipment	Small tools	Investments in PPE owned by others	Total
Acquisition cost						
As at 31 December 2011	**69,630**	**144,127**	**144,508**	**4,638**	**39,775**	**402,678**
Adjustments after opening balance	-	-	-	-	-	-
As at 1 January 2012	**69,630**	**144,127**	**144,508**	**4,638**	**39,775**	**402,678**
Direct increases – investments	9,300	9,589	47,677	-	-	66,566
Decreases during the year	(18,736)	(25,557)	(76,635)	(2,455)	(39,775)	(163,158)
As at 31 December 2012	**60,194**	**128,159**	**115,550**	**2,183**	**-**	**306,086**
Value adjustment						
As at 31 December 2011	**35,553**	**123,189**	**117,532**	**4,077**	**10,905**	**291,256**
Adjustments after opening balance	-	-	-	-	-	-
As at 1 January 2012	**35,553**	**123,189**	**117,532**	**4,077**	**10,905**	**291,256**
Depreciation for the year	11,437	14,658	22,174	352	3,978	52,599
Decreases during the year	(13,271)	(25,557)	(72,549)	(2,455)	(14,883)	(128,715)
As at 31 December 2012	**33,719**	**112,290**	**67,157**	**1,974**	**-**	**215,140**
Carrying value as at 31 Dec. 2012	**26,475**	**15,869**	**48,393**	**209**	**-**	**90,946**
Carrying value as at 31 Dec. 2011	**34,077**	**20,938**	**26,976**	**561**	**28,870**	**111,422**

(EUR)	Cars	Computer equipment	Other equipment	Small tools	Investments in PPE owned by others	Total
Acquisition cost						
As at 31 December 2010	**66,729**	**157,633**	**150,327**	**4,638**	**30,487**	**409,814**
Adjustments after opening balance	-	-	-	-	-	-
As at 1 January 2011	**66,729**	**157,633**	**150,327**	**4,638**	**30,487**	**409,814**
Direct increases – investments	22,300	21,792	1,541	-	9,288	54,921
Decreases during the year	(19,399)	(35,298)	(7,360)	-	-	(62,057)
As at 31 December 2011	**69,630**	**144,127**	**144,508**	**4,638**	**39,775**	**402,678**
Value adjustment						
As at 31 December 2010	**35,188**	**143,078**	**109,160**	**3,595**	**7,392**	**298,413**
Adjustments after opening balance	-	-	-	-	-	-
As at 1 January 2011	**35,188**	**143,078**	**109,160**	**3,595**	**7,392**	**298,413**
Depreciation for the year	12,003	15,078	15,113	482	3,513	46,189
Decreases during the year	(11,638)	(34,967)	(6,741)	-	-	(53,346)
As at 31 December 2011	**35,553**	**123,189**	**117,532**	**4,077**	**10,905**	**291,256**
Carrying value as at 31 Dec. 2011	**34,077**	**20,938**	**26,976**	**561**	**28,870**	**111,422**
Carrying value as at 31 Dec. 2010	**31,541**	**14,555**	**41,167**	**1,043**	**23,095**	**111,401**

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.

3. Long-term investments

(EUR)	31 Dec. 2012	31 Dec. 2011
Long-term investments, except loans		
Shares and holdings in Group companies	1,111,338	1,166,338
Other shares and holdings	500	37,154
	1,111,838	**1,203,492**
Long-term loans		
Long-term loans to Group companies	35,680	-
	35,680	**-**
Total	**1,147,518**	**1,203,492**

Investments in subsidiaries

(EUR)	2012	2011
As at 1 January	**1,166,338**	**1,356,171**
Acquisitions	150,000	379,240
Sales and other disposals	-	(42,019)
Impairments	(205,000)	(527,054)
As at 31 December	**1,111,338**	**1,166,338**

Long-term investments include investments in the companies KD Fondovi A. D. Skopje, Macedonia and KD Investments d. o. o., Zagreb, Croatia. Acquisitions refer to the capital increase of KD Fondovi a.d. Impairment of the holding in KD Investments d.o.o. was made on the basis of a certified appraiser's assessment of the company value as at 31 December 2012.

Investments in other shares and available-for-sale holdings

(EUR)	2012	2011
As at 1 January	**37,154**	**37,154**
Acquisitions	-	-
Disposals	(36,654)	-
As at 31 December	**500**	**37,154**

In 2012, the Company disposed of 10 shares in KDD d.d., generating EUR 131,256 of profit presented under financial income.

The Company did not have a pledge on securities as at 31 December 2012.

Long-term loans comprise a loan granted to the subsudiary KD Investments d.o.o. Zagreb. The loan is unsecured, carries an interest rate of 2.634% p.a. and matures in 2017.

4. Short-term investments

(EUR)	31 Dec. 2012	31 Dec. 2011
Short-term investments, except loans		
Other shares and holdings	10	10
Mutual fund units	540,151	239,092
Bonds	2,134,636	2,134,541
	2,674,797	**2,373,643**
Short-term loans		
Short-term loans to Group companies	8,975,063	8,514,874
	8,975,063	**8,514,874**
Total	**11,649,860**	**10,888,517**

Changes in investments, except loans

(EUR)	2012	2011
As at 1 January	**2,373,643**	**2,460,369**
Acquisitions	300,000	1,550,002
Disposals	-	(1,550,000)
Collection of interest	(147,000)	(147,000)
Market price changes	1,058	(86,633)
Allocated interest	147,096	146,905
As at 31 December	**2,674,797**	**2,373,643**

With respect to the investment in bonds, the Company has a (put) option contract with the issuer. It is recorded in the off-balance-sheet records. Acquisitions refer to the transactions of buying units of the KD MM Mutual Fund.

Changes in short-term loans

(EUR)	Debt 1 Jan. 2012	Loan disbursements	Principal repayment	Allocated interest	Interest repayment	Debt 31 Dec. 2012
Borrower						
Group companies	8,514,874	1,400,000	(788,465)	276,277	(427,623)	8,975,063
Total	**8,514,874**	**1,400,000**	**(788,465)**	**276,277**	**(427,623)**	**8,975,063**

Short-term investments as at 31 December 2012 comprised loans to Group companies. They carried an interest rate recognised for tax purposes as at the day of loan agreement signature. The interest rates ranged from 1.127% to 3.995% p.a. (2011: 1.782% to 4.921% p.a.).

5. Short-term operating receivables

(EUR)	31 Dec. 2012	31 Dec. 2011
Short-term operating receivables		
Short-term operating receivables due from Group companies	25,462	11,326
Short-term operating receivables due from associates	-	8
Short-term trade receivables	60,243	54,591
Short-term receivables due from others	126,697	9,658
Total	**212,402**	**75,583**

Maturity of short-term trade receivables

(EUR)	31 Dec. 2012	31 Dec. 2011
Current receivables	212,402	75,571
Overdue from 1 to 30 days	-	-
Overdue from 31 to 60 days	-	-
Overdue from 61 to 180 days	-	12
Overdue more than 180 days	-	-
Total	**212,402**	**75,583**

Short-term recivables comprise EUR 113,861 of receivables due by the state with respect to excess advance payment of corporate income tax. Receivables are not collateralised.

6. Cash and cash equivalents

(EUR)	31 Dec. 2012	31 Dec. 2011
Cash in hand	-	297
Cash in accounts	64,748	33,870
Call deposits	93,133	605,867
Deposits up to 3 months	-	502,429
Total	**157,881**	**1,142,463**

7. Short-term deferred costs and accrued income

(EUR)	31 Dec. 2012	31 Dec. 2011
Short-term deferred costs	73,558	80,197
Short-term accrued income	-	-
Total	**73,558**	**80,197**

Short-term deferred costs comprise deferred costs of insurance, licence fees, rentals, subscription fees and other costs.

Changes in short-term deferred costs and accrued income

(EUR)	2012	2011
As at 1 January	**80,197**	**46,903**
Allocation	377,286	334,702
Drawing	(383,925)	(301,408)
As at 31 December	**73,558**	**80,197**

8. Equity

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

A resolution was adopted by the General Meeting of 30 May 2002 to convert the Company from a public limited company into a limited liability company.

Pursuant to 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 remitted the amount to the bank account on 17 December 2007.

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

In 2012, the Company generated EUR 851,298 net profit for the period.

According to the resolution of 18 July 2012 on the use of distributable profit, the distributable profit for 2011 in the amount of 1,968,942.56 was used as follows:

- EUR 1,000,000.00 for dividend payment,
- decision on the allocation of EUR 968,942.56 will be transferred to the following year.

(EUR)	Called-up capital	Capital reserves	Profit reserves	Revaluation reserve	Retained earnings	Profit for the period	Total
Equity prior to revaluation	**1,767,668**	**542,062**	**556,767**	**(72,122)**	**968,942**	**851,298**	**4,614,615**
General revaluation for maintaining the purchasing power of equity based on consumer price index – 2.7%	47,727	14,636	15,033	(1,856)	41,028	(116,568)	-
Equity in case of revaluation for maintaining the purchasing power of equity in EUR	**1,815,395**	**556,698**	**571,800**	**(73,978)**	**1,009,970**	**734,730**	**4,614,615**

The Company did not make any general equity revaluation in 2012. If general revaluation based on the consumer price index had been made (2.7% in 2012), the Company would have recorded a net profit of EUR 734,730 in 2012.

The ownership structure of the Company as at 31 December 2012 was:
- KD Group d. d.: 100.00%

Equity as at 31 December 2012 amounted to EUR 4,819,615.

Changes in revaluation reserve

(EUR)	2012	2011
As at 1 January	**(68,726)**	**580**
Revaluation of financial assets – gross	1,058	(86,633)
Revaluation of financial assets – deferred tax	(4,454)	17,327
As at 31 December	**(72,122)**	**(68,726)**

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

(EUR)	Provisions for pensions and similar liabilities	Long-term deferred income	Total
As at 1 January 2011	**22,854**	**135,217**	**158,071**
Reversal	-	-	-
Allocation	11,554	18,034	29,588
As at 31 December 2011	**34,408**	**153,251**	**187,659**
As at 1 January 2012	**34,408**	**153,251**	**187,659**
Utilisation	(1,380)	-	(1,380)
Reversal	(7,276)	(7,749)	(15,025)
Allocation	-	1,527	1,527
As at 31 December 2012	**25,752**	**147,029**	**172,781**

In 2009, the Company launched a new product, "VIP100 Premium Savings Plan", which rewards investors with a closing bonus at the end of the savings period by reimbursing the subscription fee. As at 31 December 2012 provisions for long-term deferred income stood at EUR 147,029.

10. Financial liabilities

(EUR)	31 Dec. 2012	31 Dec. 2011
Long-term financial liabilities		
Long-term financial liabilities to banks	-	8,345,000
Long-term financial liabilities to banks – accrued interest	-	32,696
Total long-term financial liabilities	**-**	**8,377,696**
Short-term financial liabilities		
Short-term financial liabilities to banks	8,377,696	-
Total short-term financial liabilities	**8,377,696**	**-**
Total financial liabilities	**8,377,696**	**8,377,696**

Changes in financial liabilities

(EUR)	Debt 1.1.2012	Loan disburseme	Allocated interest	Repayments in the period	Debt 31 Dec. 2012
Creditor Banks	8,377,696	-	386,026	(386,026)	8,377,696
Total	**8,377,696**	**-**	**386,026**	**(386,026)**	**8,377,696**

In 2006, the Company took out a long-term loan of EUR 8,345,000.00 with a domestic commercial bank. The loan matures on 1 April 2013 and carries a fixed nominal interest rate of 4.55% p.a. Interest is payable on a monthly basis. The loan is secured with a pledge of 301,000 ordinary shares of KD Group d. d. (code KDHR), with KD d. d. being the pledger.

11. Operating liabilities

(EUR)	31 Dec. 2012	31 Dec. 2011
Short-term operating liabilities		
Short-term operating liabilities to Group companies	72,622	75,094
Short-term operating liabilities to associates	805	5,615
Short-term trade payables	177,376	176,765
Short-term operating liabilities for taxes and contributions	28,305	92,441
Payables to employees	134,347	149,663
Other short-term liabilities	1,454	3,054
Total	**414,909**	**502,632**

12. Short-term accrued costs and deferred income

(EUR)	31 Dec. 2012	31 Dec. 2011
Short-term accrued costs and expenses	169,910	104,994
Total	**169,910**	**104,994**

Changes in accrued costs and deferred income

(EUR)	2012	2011
As at 1 January	**104,994**	**338,781**
Allocation	1,047,593	519,440
Drawing	(982,677)	(753,227)
As at 31 December	**169,910**	**104,994**

Over the short-term, the Company charged the costs of audit, IT services, subscription fees of the contractual partners providing outsourced mutual fund sales services as well as the costs of unused annual leaves and variable bonuses in 2012.

13. Balance sheet items by geographical segments

				31 Dec. 2012
(EUR)	Slovenia	EU	Other countries	Total
Asset items				
Intangible assets	401,443	-	-	**401,443**
Property, plant and equipment	90,946	-	-	**90,946**
Long-term investments	500	-	1,147,018	**1,147,518**
Deferred tax assets	16,303	-	-	**16,303**
Short-term investments	11,180,770	10	469,080	**11,649,860**
Short-term operating receivables	203,758	8,501	143	**212,402**
Cash	157,881	-	-	**157,881**
Deferred costs and accrued income	73,558	-	-	**73,558**
	12,125,159	**8,511**	**1,616,241**	**13,749,911**

Liabilities and equity items

Provisions, and long-term accrued costs and deferred income	172,781	-	-	**172,781**
Short-term financial liabilities	8,377,696	-	-	**8,377,696**
Short-term operating liabilities	395,474	17,617	1,818	**414,909**
Accrued costs and deferred income	161,301	-	8,609	**169,910**
	9,107,252	**17,617**	**10,427**	**9,135,296**

				31 Dec. 2011
(EUR)	**Slovenia**	**EU**	**Other countries**	**Total**
Asset items				
Intangible assets	414,343	-	-	**414,343**
Property, plant and equipment	111,422	-	-	**111,422**
Long-term investments	37,154	-	1,166,338	**1,203,492**
Deferred tax assets	23,677	-	-	**23,677**
Short-term investments	10,511,164	10	366,343	**10,888,517**
Short-term operating receivables	67,478	7,922	183	**75,583**
Cash	1,142,463	-	-	**1,142,463**
Deferred costs and accrued income	80,197	-	-	**80,197**
	12,387,898	**7,932**	**1,532,864**	**13,939,694**
Liabilities and equity items				
Long-term financial liabilities	8,377,696	-	-	**8,377,696**
Short-term operating liabilities	500,005	83	2,544	**502,632**
Accrued costs and deferred income	96,326	-	8,668	**104,994**
	8,974,027	**83**	**11,212**	**8,985,322**

14. Analysis of sales and costs

A. Operating income

(EUR)	**2012**	**2011**
Net sales	**6,470,095**	**7,100,283**
Sales of services, domestic	**6,370,390**	**6,995,386**
Group companies	149,440	118,088
Associates	-	241,121
Others	6,220,950	6,636,177
Sales of services, within the EU	**99,705**	**104,897**
Others	99,705	104,897
Sales of services, in other countries	**-**	**-**
Other operating income	**8,077**	**-**
Gains on disposal of items of property, plant and equipment	801	-
Reversal of provisions	7,276	-
Total	**6,478,172**	**7,100,283**

Assets of qualified investors

(EUR)	2012		
Number of qualified investors	Assets under management	Management fee charged	Profit share
6	53,271,218	231,843	17,023
Total:	**53,271,218**	**231,843**	**17,023**

(EUR)	2011		
Number of qualified investors	Assets under management	Management fee charged	Profit share
6	40,454,535	222,904	-
Total:	**40,454,535**	**222,904**	**-**

The structure of income from fees

	2012			2011		
(EUR)	Management fee	Subscription fee	Total	Management fee	Subscription fee	Total
KD ID, Equity Investment Company, plc	-	-	-	241,102	-	241,102
KD Equity Income	704,240	12	704,252	537,138	160	537,298
KD Galileo, Flexible Asset Structure	1,963,474	19,750	1,983,224	2,273,780	23,098	2,296,878
KD Rastko, Equity	705,893	7,147	713,040	891,859	9,632	901,491
KD Bond, Bond	78,793	2,953	81,746	75,759	2,431	78,190
KD MM, Money Market	96,475	0	96,475	80,061	-	80,061
KD First Selection, Fund of Equity Funds	234,156	5,694	239,850	246,347	7,204	253,551
KD Balkan, Equity	506,393	1,839	508,232	624,146	2,613	626,759
KD New Markets, Equity	563,745	6,374	570,119	605,811	16,435	622,246
KD North America, Equity	27,484	251	27,735	27,659	741	28,400
KD Raw Materials and Energy, Equity	128,070	2,119	130,189	128,503	3,791	132,294
KD Technology, Equity	72,975	2,637	75,612	40,618	1,023	41,641
KD New Energy, Equity	179,025	1,797	180,822	209,068	2,733	211,801
KD Vitality, Equity	118,996	2,191	121,187	93,687	5,174	98,861
KD Financials, Equity	18,146	112	18,258	12,703	66	12,769
KD India – China, Equity	467,426	5,334	472,760	440,731	7,104	447,835
KD EM Infrastructure and Construction, Equity	14,907	238	15,145	15,505	264	15,769
KD Latin America, Equity	207,307	1,428	208,735	200,526	3,453	203,979
KD Eastern Europe, Equity	72,353	863	73,216	62,111	2,189	64,300
Total	**6,159,858**	**60,739**	**6,220,597**	**6,807,114**	**88,111**	**6,895,225**

B. Analysis of expenditure

Analysis of costs, by primary types:

(EUR)	2012	2011
Costs of materials	**38,060**	**37,959**
Costs of energy	**10,522**	**7,380**
Costs of services		
Costs of transportation and postal services	254,150	216,649
Costs of rents and maintenance of assets	399,911	428,688
Reimbursement to employees of work-related expenses	13,160	13,093
Payment transaction and banking services costs	7,978	9,473
Insurance costs	13,713	12,887
Costs of trade fairs, advertising and entertainment	418,143	613,745
Costs of services of agents acquiring investors	873,841	898,152
Costs of securities brokerage for investment funds	171	10,173
Costs of other intellectual and personal services	571,090	445,541
Costs of services rendered by natural persons	91,798	63,281
Costs of other services	321,112	356,820
Costs of services	**2,965,067**	**3,068,502**
Costs of materials and services	**3,013,649**	**3,108,381**
Costs of wages and salaries	1,768,190	1,608,645
Costs of pension insurance	174,164	171,730
Costs of social insurance	135,979	132,561
Other labour costs	111,630	102,988
Total labour costs	**2,189,963**	**2,015,924**
Depreciation/amortisation	**134,413**	**123,271**
Expenses for revaluation of operating assets	**272**	**-**
Expenses for revaluation of intangible assets and items of property, plant and equipment	**21,533**	**648**
Provisions for termination pays	**-**	**11,554**
Other costs	**2,372**	**1,204**
Total costs	**5,362,202**	**5,266,442**

Analysis of costs, by functional groups:

(EUR)	2012	2011
Costs of selling	1,724,308	1,945,040
Costs of general activities	3,637,894	3,321,402
Total costs	**5,362,202**	**5,266,442**

Remuneration of Management Board and Supervisory Board members

(EUR)	2012	2011
Management Board members	222,921	411,331
Supervisory Board members	80,957	34,300
Persons employed under individual employment contracts	652,686	577,719
Total	**956,564**	**1,023,350**

Audit costs

(EUR)*	2012	2011
Audit of annual report – Ernst & Young d. o. o.	6,000	6,000
Other audits – other auditing companies	-	6,000
Total	**6,000**	**12,000**

*VAT included

Potential liabilities – legal actions

In 2012, a legal action was brought against KD Funds LLC by SIKRA d.o.o. Varaždin, for the payment of EUR 335,794.98 along with all due costs and charges. According to the Company's assessment the charges are unfounded, therefore no provisions were set aside as at 31 December 2012.

15. Financial income

(EUR)	2012	2011
Financial income from shares and interests		
Financial income from shares in other companies	287,303	160,585
	287,303	**160,585**
Financial income from loans		
Financial income from loans granted to Group companies	276,990	262,442
Financial income from loans to others	9,033	35,185
	286,023	**297,627**
Financial income from operating receivables		
Financial income from operating receivables due by others	333	1,933
	333	**1,933**
Total	**573,659**	**460,145**

16. Financial expenses

(EUR)	2012	2011
Financial expenses for impairments and write-offs of investments		
Financial expenses for impairments and write-offs of Group companies	205,000	537,594
	205,000	**537,594**

Financial expenses for financial liabilities

Financial expenses for loans raised with Group companies	-	209
Financial expenses for loans raised with banks	386,026	384,971
	386,026	**385,180**
Financial expenses for operating liabilities		
Financial expenses for other operating liabilities	6,372	7,343
	6,372	**7,343**
Total	**597,398**	**930,117**

17. Other income

(EUR)	2012	2011
Compensations	2,273	1,924
Other income	8	4
Total	**2,281**	**1,928**

18. Other expenses

(EUR)	2012	2011
Compensations	3,706	3,447
Other expenses	5	4
Total	**3,711**	**3,451**

19. Items of income statement by geographical segments

	2012			
(EUR)	Slovenia	EU	Other countries (non-EU)	Total
Net sales and revaluation income	6,378,467	99,705	-	6,478,172
Costs of goods, materials and services	(2,503,092)	(188,502)	(322,055)	(3,013,649)
Labour costs	(2,189,963)	-	-	(2,189,963)
Depreciation/amortisation and other costs	(158,590)	-	-	(158,590)
Financial income	569,579	-	4,080	573,659
Financial expenses	(392,398)	-	(205,000)	(597,398)
Other income	2,281	-	-	2,281
Other expenses	(3,711)	-	-	(3,711)
Profit or loss before tax	**1,702,573**	**(88,797)**	**(522,975)**	**1,090,801**

	2011			
(EUR)	Slovenia	EU	Other countries (non-EU)	Total
Net sales and revaluation income	6,995,386	104,897	-	7,100,283
Costs of goods, materials and services	(2,807,955)	(82,610)	(223,276)	(3,113,841)
Labour costs	(2,015,924)	-	-	(2,015,924)
Depreciation/amortisation and other costs	(136,677)	-	-	(136,677)

Financial income	453,574	4	6,567	460,145
Financial expenses	(384,971)	-	(545,146)	(930,117)
Other income	1,928	-	-	1,928
Other expenses	(3,451)	-	-	(3,451)
Profit or loss before tax	**2,101,910**	**22,291**	**(761,855)**	**1,362,346**

20. Deferred taxes

Balance of deferred taxes

(EUR)	31 Dec. 2012	31 Dec. 2011
Deferred tax assets	16,303	23,677
Deferred tax liabilities	-	-
Total deferred taxes	**16,303**	**23,677**

Changes in deferred taxes

(EUR)	2012	2011
As at 1 January	**23,677**	**5,814**
Deferred tax credited to (charged against) profit or loss	(2,920)	536
Deferred tax credited to (charged against) equity	(4,454)	17,327
As at 31 December	**16,303**	**23,677**

Changes in deferred tax assets

(EUR)	Revaluation of investments	Provision for termination pays	Excess value of depreciation	Total
As at 1 January 2011	**-**	**2,886**	**3,073**	**5,959**
Deferred tax credited to (charged against) profit or loss	-	1,155	(619)	536
Deferred tax credited to (charged against) equity	17,182	-	-	17,182
As at 31 December 2011	**17,182**	**4,041**	**2,454**	**23,677**
As at 1 January 2012	**17,182**	**4,041**	**2,454**	**23,677**
Deferred tax credited to (charged against) profit or loss	-	(1,766)	(1,154)	(2,920)
Deferred tax credited to (charged against) equity	(4,454)	-	-	(4,454)
As at 31 December 2012	**12,728**	**2,275**	**1,300**	**16,303**

The following effects of deferred taxes were recognised due to the lower tax rate:
- EUR 1,624 charged against profit or loss,
- EUR 4,295 charged against equity.

21. Taxes

(EUR)	2012	2011
Profit or loss before tax	**1,090,801**	**1,362,346**
Income adjusted to levels recognised for tax purposes	(12,565)	(8,950)
Expenses adjusted to tax deductible levels	290,868	595,788
Tax allowances	(54,752)	(37,671)
Tax base	**1,314,352**	**1,911,514**
Tax rate	18%	20%
Income tax	**236,583**	**382,303**
Advance tax payments	350,444	316,054
Receivables (liabilities) associated with income tax	113,861	(66,249)

22. Disclosures of receivables, liabilities and investments, by groups of related parties according to Article 13 of the Investment Funds and Management Companies Act (ZISDU-1)

(EUR)					2012
	Receivables from related party		Liabilities due to related party		Investments in parties related to MC
Related party	**operating**	**financing**	**operating**	**financing**	
B1	-	5,336,285	5,174	-	1,111,337
B2	-	3,674,459	-	-	2,134,636
C	25,462	-	68,253	-	-
E1	-	-	18,739	-	-
E3	-	-	37,478	-	-
Total	**25,462**	**9,010,744**	**129,644**	**-**	**3,245,973**

(EUR)					2011
	Receivables from related party		Liabilities due to related party		Investments in parties related to MC
Related party	**operating**	**financing**	**operating**	**financing**	
B1	-	4,840,387	8,749	-	1,166,338
B2	-	3,674,487	-	-	-
C	11,334	-	71,960	-	-
E1	-	-	22,866	-	-
E3	-	-	45,817	-	-
G	-	-	-	-	-
Total	**11,334**	**8,514,874**	**149,392**	**-**	**1,166,338**

Code table of types of relation:

B1 - a person or persons directly participating in another person;

B2 - a person or persons indirectly participating in another person;
C - a person participating in both persons, having the status of related party according to paragraph 1 and points 1, 2, 4 and 5 of the second paragraph of Article 13 of the Investment Funds and
E1 - members of the Management Board;
E3 - employees under individual employment agreements;
G - person related in terms of management with another person.

23. Transactions with related parties

Sales to related parties

(EUR)	2012	2011
Group companies	189,372	141,706
Associates	-	241,125
Total	**189,372**	**382,831**

Purchases from related parties

(EUR)	2012	2011
Group companies	1,107,416	1,183,763
Associates	55,001	97,100
Total	**1,162,417**	**1,280,863**

Outstanding items arising from sales to and purchases from related parties

(EUR)	31 Dec. 2012	31 Dec. 2011
Operating receivables due from related parties		
Group companies	25,463	11,326
Associates	-	8
Total	**25,463**	**11,334**

(EUR)	31 Dec. 2012	31 Dec. 2011
Operating liabilities to related parties		
Group companies	72,622	75,094
Associates	805	5,615
Total	**73,427**	**80,709**

Loans granted and interest allocated to related parties in the period

(EUR)	2012	2011
Group companies	1,711,958	1,162,442
Total	**1,711,958**	**1,162,442**

24. 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 the outflows due to changes in capital and money markets, changes in business operations, and changes of clients' credit ratings. 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 specific risks 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 any time the necessary liquidity and to be permanently able to meet all of its obligations with an adequate volume of 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 a sufficient volume of 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 financing costs. The Company manages its interest risk by linking financial liabilities to a fixed interest rate.

The Company does not apply accounts processing for risk hedging.

25. Events after the balance sheet date

There were no significant events after the balance sheet 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.

APPENDIX

RISK MANAGEMENT RULES, PRUDENTIAL RULES, AND RULES ON INTERNAL CONTROLS, METHOD OF KEEPING BOOKS OF ACCOUNT AND THE INFORMATION SYSTEM

The legal basis

The legal basis for complying with and implementing the risk management rules, prudential rules, and rules on internal controls, the method of keeping books of account and the information system in 2012 is contained in the following regulations applicable to the operation management companies, investment funds and qualified investors' assets managed by a management company:

- Investment Funds and Management Companies Act (Official Gazette of the RS, no. 110/02, as amended, hereinafter: ZISDU-1) and Investment Funds and Management Companies Act (Official Gazette of the RS, no. 77/11, hereinafter: ZISDU-2) and regulations derived therefrom,
- Market in Financial Instruments Act (Official Gazette of the RS, no. 67/07, as amended, hereinafter: ZTFI).

Implementation

In accordance with the Decision on Detailed Rules for Calculating the Capital Adequacy of Management Companies, Time Limits, Method and Detailed Contents of Reporting on Capital Adequacy to the Securities Market Agency by Management Companies and on Detailed Risk Control Rules of Management Companies Official Gazette of the RS, no. 126/04, as amended), capital adequacy is calculated by the Management Company at least once every quarter and, in the event of any major changes expected to affect the capital adequacy (e.g. payment of distributable profit, possible changes in the share capital etc.), also in the intermediate period where necessary.

The rules and procedures concerning the management of risks to which the Management Company is exposed when conducting its business refer to capital adequacy, operational and systemic risk, risk related to breaches of regulations, risk related to human resources, strategic risk, risk related to third parties, and depositary risk. The rules and procedures for risk management are set out in the Risk Management Rules, while the rules on investment funds' risk management are laid down in the risk management plans of each investment fund.

Risk management associated with the Management Company and the investment funds managed by it is carried out particularly by means of the following arrangements, procedures and measures:

- the definition of tasks, responsibilities and powers of employees in work processes;
- the system of internal controls referring to individual working processes of the Management Company;
- the functional and physical separation of divisions dealing with portfolio management and those dealing with back-office operations for investment funds and qualified investors;
- appropriate technology and IT support to the operation of the Management Company, the portfolio management and keeping the register of investment coupon holders, and ensuring the security of data recording, processing and transfer;
- the system of human resources monitoring and development, and staff remuneration;
- the definition of measures aimed at preventing possible conflicts of interest of the Management Company and its staff in managing the investment funds' portfolio and assets of qualified investors and the implementation of such measures; and
- the rules and procedures arising from the Management Company's internal regulations relating to individual aspects of its operations.

The procedures and measures relating to risk management, prudency and internal controls are implemented by all divisions and departments of the Management Company in the following areas of work:

- back-office support to portfolio management;
- keeping books of account,
- procedure of making payment for and redemptions of the investment coupons;
- storage of documents and files, and recording of incoming and outgoing mail;
- protection of confidential data, internal information and business secrets; and
- internal audit.

REPORTING TO THE SECURITIES MARKET AGENCY AND PUBLIC INFORMATION

The reports and notifications submitted in 2012 by KD Funds – Management Company LLC to the Securities Market Agency with regard to its operation and that of the investment funds managed by it were drawn up on the basis of ZISDU-1 and ZISDU-2 along with regulations derived therefrom and ZTFI.

Reports and public information were prepared in accordance with ZISDU-1 and ZISDU-2, along with regulations derived therefrom.

In accordance with statutory provisions, KD Funds – Management Company LLC keeps an archive of all notifications relating to significant legal and business events, which is available to the public on its website.

AUDITOR'S REPORT ON COMPLIANCE WITH RISK MANAGEMENT RULES

We have audited the compliance with the risk management rules of KD Funds – Management Company LLC for the year ended 31 December 2012, specifically the establishment of a risk management system referred to in the Investment Funds and Management Companies Act, and the implementation of the Risk Management Plan by the Management Company in accordance with the Investment Funds and Management Companies Act. The Management Board is responsible for setting up a risk management system and for implementing a risk management plan. Our responsibility is to express an opinion thereon.

We conducted our audit in accordance with International Standards on Auditing, and the provisions of the Investment Funds and Management Companies Act and the regulations derived therefrom. They require that we plan and perform the audit to obtain reasonable assurance about whether the risk management system in the company is set up in accordance with the Investment Funds and Management Companies Act and about whether the company is implementing its risk management plan. An audit includes examining, on a test basis, the evidence supporting the existence of risk management system and the implementation of risk management plan. We believe that our audit provides a reasonable basis for our opinion.

In our opinion KD Funds – Management Company LLC had in the year ended 31 December 2012, in all material respects, a risk management plan put in place as referred to in the Investment Funds and Management Companies Act, and performed the risk management plan in accordance with the Investment Funds and Management Companies Act.

Ljubljana, 25 March 2013

Janez Uranič
Director

Eva Mrak
Certified Auditor

Ernst & Young d.o.o.
Dunajska 111, Ljubljana

AUDITOR'S REPORT ON COMPLIANCE WITH PRUDENTIAL RULES

We have audited the compliance with the provisions of the Investment Funds and Management Companies Act in managing the assets of the KD Umbrella Fund subfunds KD GALILEO, Flexible Asset Structure (after 14 January 2013: KD GALILEO, Mixed Flexible Fund); KD RASTKO, Equity (after 14 January 2013: KD RASTKO, Europe Equity Fund); KD Bond, Bond (after 14 January 2013: KD BOND – EUR); KD MM, Money Market (after 14 January 2013: KD MM, Money Market – EUR); KD FIRST SELECTION, Fund of Equity Funds; KD BALKAN, Equity; KD NEW MARKETS, Equity; KD NORTH AMERICA, Equity (after 14 January 2013 merged with the subfund KD GALILEO, Mixed Flexible Fund); KD RAW MATERIALS AND ENERGY, Equity; KD TECHNOLOGY, Equity; KD NEW ENERGY, Equity (after 14 January 2013 merged with the subfund KD RAW MATERIALS AND ENERGY, Equity); KD VITALITY, Equity; KD INDIA – CHINA, Equity; KD EM INFRASTRUCTURE AND CONSTRUCTION, Equity (after 14 January 2013 merged with the subfund KD GALILEO, Mixed Flexible Fund); KD LATIN AMERICA, Equity; KD EASTERN EUROPE, Equity; and the KD Equity Income Mutual Fund (after 14 January 2013: KD Dividend, Equity subfund) managed by KD Funds – Management Company LLC, for the year ended 31 December 2012. The obligation to comply with the above stated provisions lies with the Management Board. Our responsibility is to express an opinion thereon.

We conducted our audit in accordance with International Standards on Auditing, and the provisions of the Investment Funds and Management Companies Act and the regulations derived therefrom. They require that we plan and perform the audit to obtain reasonable assurance about whether the Company complied, in all material respects, with the provisions of the Investment Funds and Management Companies Act. An audit includes examining, on a test basis, the evidence supporting the compliance with legislation, and assessing the compliance with the rules for managing mutual fund assets. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, KD Funds – Management Company LLC, in the financial year ended 31 December 20112 complied in all material respects with the provisions of the Investment Funds and Management Companies Act in managing the assets of the KD Umbrella Fund subfunds KD GALILEO, Flexible Asset Structure (after 14 January 2013: KD GALILEO, Mixed Flexible Fund); KD RASTKO, Equity (after 14 January 2013: KD RASTKO, Europe Equity Fund); KD Bond, Bond (after 14 January 2013: KD BOND – EUR); KD MM, Money Market (after 14 January 2013: KD MM, Money Market – EUR); KD FIRST SELECTION, Fund of Equity Funds; KD BALKAN, Equity; KD NEW MARKETS, Equity; KD NORTH AMERICA, Equity (after 14 January 2013 merged with the subfund KD GALILEO, Mixed Flexible Fund); KD RAW MATERIALS AND ENERGY, Equity; KD TECHNOLOGY, Equity; KD NEW ENERGY, Equity (after 14 January 2013 merged with the subfund KD RAW MATERIALS AND ENERGY, Equity); KD VITALITY, Equity; KD INDIA – CHINA, Equity; KD EM INFRASTRUCTURE AND CONSTRUCTION, Equity (after 14 January 2013 merged with the subfund KD GALILEO, Mixed Flexible Fund); KD LATIN AMERICA, Equity; KD EASTERN EUROPE, Equity; and the KD Equity Income Mutual Fund (after 14 January 2013: subfund KD Dividend, Equity).

Ljubljana, 25 March 2013

Janez Uranič Director	Eva Mrak Certified Auditor

Ernst & Young d.o.o.
Dunajska 111, Ljubljana

REPORT ON THE ADEQUACY OF THE INTERNAL CONTROL SYSTEM

We have audited, for the financial year ended 31 December 2012, the state of internal controls in the business operation of KD Funds – Management Company LLC, and in the management of the assets of the KD Umbrella Fund subfunds KD GALILEO, Flexible Asset Structure (after 14 January 2013: KD GALILEO, Mixed Flexible Fund); KD RASTKO, Equity (after 14 January 2013: KD RASTKO, Europe Equity Fund); KD Bond, Bond (after 14 January 2013: KD BOND – EUR); KD MM, Money Market (after 14 January 2013: KD MM, Money Market – EUR); KD FIRST SELECTION, Fund of Equity Funds; KD BALKAN, Equity; KD NEW MARKETS, Equity; KD NORTH AMERICA, Equity (after 14 January 2013 merged with the subfund KD GALILEO, Mixed Flexible Fund); KD RAW MATERIALS AND ENERGY, Equity; KD TECHNOLOGY, Equity; KD NEW ENERGY, Equity (after 14 January 2013 merged with the subfund KD RAW MATERIALS AND ENERGY, Equity); KD VITALITY, Equity; KD INDIA – CHINA, Equity; KD EM INFRASTRUCTURE AND CONSTRUCTION, Equity (after 14 January 2013 merged with the subfund KD GALILEO, Mixed Flexible Fund); KD LATIN AMERICA, Equity; KD EASTERN EUROPE, Equity; and the KD Equity Income Mutual Fund (after 14 January 2013: subfund KD Dividend, Equity). The responsibility for the state of internal controls lies with the Management Board. Our responsibility is to express our opinion thereon based on our audit.

We conducted our audit in accordance with International Standards on Auditing, and the provisions of the Investment Funds and Management Companies Act and the regulations derived therefrom. They require that we plan and perform the audit to obtain reasonable assurance about whether a system of internal control mechanisms is put in place. The audit includes examining, on a test basis, the evidence supporting the set up of internal control mechanisms, and examining, on a test basis, the evidence supporting the functioning of internal controls. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the internal control mechanisms in business operation of KD Funds – Management Company LLC and in the management of the assets of the KD Umbrella Fund subfunds KD GALILEO, Flexible Asset Structure (after 14 January 2013: KD GALILEO, Mixed Flexible Fund); KD RASTKO, Equity (after 14 January 2013: KD RASTKO, Europe Equity Fund); KD Bond, Bond (after 14 January 2013: KD BOND – EUR); KD MM, Money Market (after 14 January 2013: KD MM, Money Market – EUR); KD FIRST SELECTION, Fund of Equity Funds; KD BALKAN, Equity; KD NEW MARKETS, Equity; KD NORTH AMERICA, Equity (after 14 January 2013 merged with the subfund KD GALILEO, Mixed Flexible Fund); KD RAW MATERIALS AND ENERGY, Equity; KD TECHNOLOGY, Equity; KD NEW ENERGY, Equity (after 14 January 2013 merged with the subfund KD RAW MATERIALS AND ENERGY, Equity); KD VITALITY, Equity; KD INDIA – CHINA, Equity; KD EM INFRASTRUCTURE AND CONSTRUCTION, Equity (after 14 January 2013 merged with the subfund KD GALILEO, Mixed Flexible Fund); KD LATIN AMERICA, Equity; KD EASTERN EUROPE, Equity; and the KD Equity Income Mutual Fund (after 14 January 2013: subfund KD Dividend, Equity) 31 December 2012, were set up in all material respects in compliance with the requirements of the Investment Funds and Management Companies Act and the Decision on Human Resources, Technical and Organizational Conditions and Documentation.

Ljubljana, 25 March 2013

Janez Uranič Director	Eva Mrak Certified Auditor

Ernst & Young d.o.o.
Dunajska 111, Ljubljana

AUDITOR'S REPORT ON THE QUALITY OF THE INFORMATION SYSTEM

We have audited the compliance of information system of KD Funds – Management Company LLC for the financial year ended 31 December 2012 with the Decision on Human Resources, Technical and Organizational Conditions and Documentation. The responsibility for compliance of information system with the requirements of the above stated Decision lies with the Management Board. Our responsibility is to express an opinion thereon based on our audit.

We conducted our audit in accordance with International Standards on Auditing, the Decision on Auditing Annual Reports of Management Companies, and the Decision on Human Resources, Technical and Organizational Conditions and Documentation. They require that we plan and perform the audit to obtain reasonable assurance about whether the information system does not deviate substantially from the requirements of the Decision on Human Resources, Technical and Organizational Conditions and Documentation. An audit includes examining, on a test basis, evidence supporting the quality of information system and assessing its compliance with the statutory requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the information system of KD Funds – Management Company LLC for the financial year ended 31 December 2012 was in all material respects in compliance with the Decision on Human Resources, Technical and Organizational Conditions and Documentation.

Ljubljana, 25 March 2013

Janez Uranič Director	Eva Mrak Certified Auditor

Ernst & Young d.o.o.
Dunajska 111, Ljubljana

AUDITOR'S REPORT ON THE ACCURACY AND COMPLETENESS OF REPORTS AND NOTIFICATIONS

We have audited the accuracy and completeness of notifications and reports submitted to the Securities Market Agency by KD Funds – Management Company LLC for the financial year ended 31 December 2012 and their consistency with the position as shown in this company's annual report. The responsibility for the accuracy and completeness of notifications and reports and their consistency with the position as shown in the annual report lies with the Management Board. Our responsibility is to express an opinion thereon based on our audit.

We conducted our audit in accordance with International Standards on Auditing and the Decision on Auditing Annual Reports of Management Companies. They require that we plan and perform the audit to obtain reasonable assurance about whether the notifications and reports are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the data and information contained in notifications and reports. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the notifications and reports of KD Funds – Management Company LLC submitted to the Securities Market Agency in the financial year ended 31 December 2012 give a true and fair view and are consistent with the position as shown in the audited financial statements of KD Funds – Management Company LLC.

Ljubljana, 25 March 2013

Janez Uranič
Director

Eva Mrak
Certified Auditor

Ernst & Young d.o.o.
Dunajska 111, Ljubljana