# 2016

# ANNUAL REPORT

## THE LUKA KOPER GROUP AND LUKA KOPER, D.D.

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IN 2016, THE PORT ESTABLISHED NEW RECORDS

# INTRODUCTION

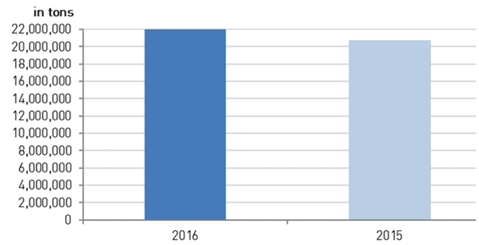
## 1 Business performance highlights of the Luka Koper Group in 2016

### THE LUKA KOPER GROUP RECORDED NUMEROUS ACHIEVEMENTS IN 2016

**The highest maritime throughput was recorded in the history of the Port of Koper. It stood at 22 million tons of goods, which was an increase of 6% over the year 2015. A record monthly maritime throughput was also established in the history of the Port; a throughput of 2.15 million tons of goods was achieved in May 2016.**

22 MILLION TONS

MARITIME THROUGHPUT 2016/2015 **+6 %**




**A new historic milestone with a record quantity of throughput of containers, cars and general cargoes was reached:**

- **In 2016, the container throughput amounted to 844.8 thousand TEU and exceeded the quantity of the year 2015 by 7%. In March 2016, a record monthly throughput in the amount of 73.3 thousand TEU was reached in the history of the Port.**
- **The car throughput amounted to 749 thousand cars in 2016 and was up 23% in relation to 2015. In March 2016 a record monthly throughput of cars was reached in the history of the Port and amounted to 70.1 thousand cars.**
- **The general cargo throughput amounted to 955.1 thousand tons in 2016 and went up by 27% over the year 2015.**

## 845 THOUSAND TEU

CONTAINERS 2016/2015 **+7 %**

## 749 THOUSAND CARS

CARS 2016/2015 **+23 %**

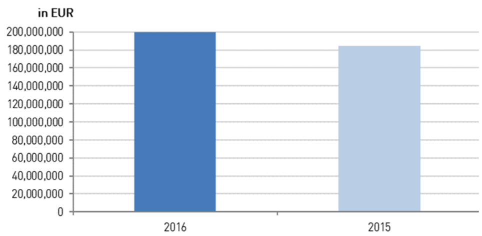
## 955 THOUSAND TONS

GENERAL CARGOES 2016/2015 **+27 %**

**In 2016, net sales were generated in the record amount of EUR 200 million, which was an increase of 8% over the year 2015.**

## EUR 200 MILLION

NET SALES 2016/2015 **+8 %**




**Earnings before interest and taxes (EBIT) reached the record amount of EUR 49 million in 2016 and exceeded the result of the previous year by 16%.**

## EUR 49 MILLION

EARNINGS BEFORE INTEREST AND TAXES (EBIT)

2016/2015 **+16 %**

**In 2016, net profit or loss reached the record amount of EUR 44 million, which was an increase of 37% over the year 2015.**

EUR 44 MILLION

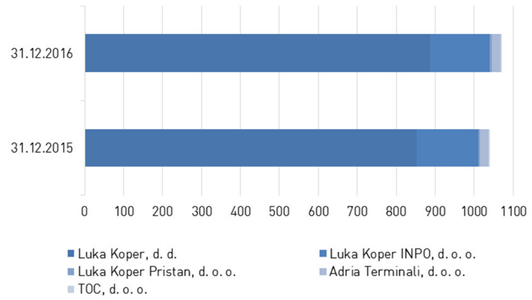
NET PROFIT OR LOSS 2016/2015 **+37 %**

**The Luka Koper Group made investments in the amount of EUR 61.8 million in 2016. Major investments included:**

- **Three new reservoirs were constructed for the needs of the liquid cargo terminal.**
- **Two additional railway tracks were built for the needs of the container terminal and three existing tracks were extended. An area of 9,000 m2 for container storing was prepared.**
- **The construction of the new railway track and a new bridge over the straits for the needs of the container terminal was completed.**
- **The covering of the cassette at the front of the second pier for the needs of the increased car throughput was finished and thus an area of 33,000 m2 was obtained.**
- **The construction of the rail for new rail mounted gantry cranes and the replacement of light towers on the container terminal were completed.**
- **In 2016, Luka Koper, d.d. invested EUR 18.1 million in the ordered 12 new high-capacity cranes for the container throughput.**
- **A contract for the purchase of the asphalt car park in the area of the Port of Koper was concluded; the car park was rented in the past.**
- **The first phase of the DEPO construction was completed; 42,000 m2 of the warehouse and handling areas were compacted for the needs of the container terminal. The compacted area will enable stacking of 7 empty containers.**

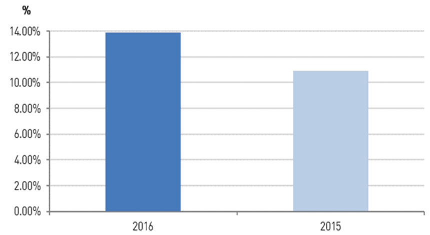
**In 2016, the Luka Koper Group employed 59 new persons. The number of employees increased by 3% or 31 persons over the year 2015 and the total number of employees amounted to 1,071.**

1,071
NUMBER OF EMPLOYEES
2016/2015 **+ 3 %**

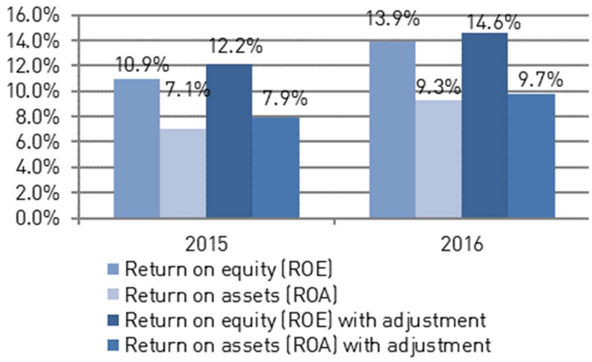



**Return on equity (ROE) amounted to 13.9% in 2016, which was an increase of 27% or 3 percentage points over the year 2015.**

13.9 %
RETURN ON EQUITY (ROE)
2016/2015 **+27 %**




**In 2015, the net profit or loss of the Luka Koper Group was, in addition to the operations, affected by the reversal of provisions in the amount of EUR 1.5 million, impairment of assets being acquired in the amount of EUR 1.2 million and impairment of the investment in the amount of EUR 4.3 million.**
**In 2016, net profit or loss of the Luka Koper Group was also affected by the impairment of assets being acquired in the amount of EUR 1.5 million, provisions formed in the amount of EUR 905 thousand and impairment of the investment in the amount of EUR 100 thousand.**
**The adjusted indicators of return on equity (ROE) and return on assets (ROA) were calculated in order to provide comparability without these financial categories. The adjustments included also the impact on deferred assets.**




**At the beginning of 2016 the Corporate Integrity Strategy of the companies in the Luka Koper Group and the updated Code of Ethics of the Luka Koper Group were adopted.**

**In 2016, the new projects of Luka Koper, d.d. including CarEsmatic, Elemed and RRI were approved and the activities planned will be implemented in the amount of EUR 11.81 million; funds in the amount of EUR 3.63 million will be drawn.**

**The Slovenian Environment Agency operating within the Ministry of the Environment and Spatial Planning re-awarded the EMAS certificate to Luka Koper, d.d.**

**In 2016, the electrification of the rail mounted gantry cranes operating in the container terminal started. Instead of diesel fuel these cranes use electricity and therefore a reduction in the exhaust gas emissions and costs of energy products is expected.**

**The car terminal has remained to be one of the largest ones in the Mediterranean.**

**The container terminal has been the leading container terminal in the Adriatic Sea for the seventh successive year.**

**In scope of the "Living with the Port" Fund 171 good ideas were supported in 2016.**

**In 2016, the jubilee 10th Day of the Port was organised.**

**The largest container ship was moored in the history of the Port of Koper - MSC Paloma, with a capacity of 14,000 TEU.**

## 1.1 Achievements in 2016

**22**
million tons of maritime throughput

**844.778 TEU**
of loaded and unloaded containers

**749.002**
of loaded and unloaded cars

**955.123 ton**
tons of loaded and unloaded general cargoes

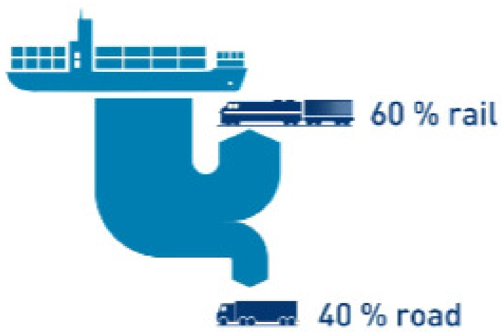
**22.879**
trains arrived in and departed from the port

**286.757**
of loaded and unloaded wagons

**290.682**
trucks entered the port

**2.061**
moored ships

Modal split - high percentage of rail transport



## 1.2 Financial ratios

| (in EUR) | Luka Koper, d.d. | | | Luka Koper Group | | |
|---|---|---|---|---|---|---|
| **Income statement** | **2016** | **2015** | **IND 2016/ 2015** | **2016** | **2015** | **IND 2016/ 2015** |
| Net sales | 190,407,498 | 173,277,749 | 110 | 199,543,696 | 184,273,472 | 108 |
| Earnings before interest and taxes (EBIT) | 45,536,427 | 38,826,283 | 117 | 49,325,438 | 42,420,503 | 116 |
| Earnings before interest, taxes, depreciation and amortisation (EBITDA) | 71,043,459 | 65,194,564 | 109 | 75,794,126 | 69,935,252 | 108 |
| Profit or loss from financing activities | 963,457 | -5,065,002 | -19 | -459,095 | -5,930,515 | 8 |
| Profit before tax | 46,499,884 | 33,761,281 | 138 | 50,763,957 | 37,818,216 | 134 |
| Net profit or loss | 40,581,116 | 28,845,074 | 141 | 44,375,981 | 32,414,723 | 137 |
| Added value[1] | 118,409,242 | 108,912,973 | 109 | 129,692,675 | 120,029,932 | 108 |
| **Statement of financial position** | **31 Dec 2016** | **31 Dec 2015** | **IND 2016/ 2015** | **31 Dec 2016** | **31 Dec 2015** | **IND 2016/ 2015** |
| Assets | 472,932,135 | 446,050,861 | 106 | 489,991,097 | 464,549,667 | 105 |
| Non-current assets | 440,055,662 | 409,995,606 | 107 | 450,729,768 | 418,891,131 | 108 |
| Current assets | 32,876,473 | 36,055,255 | 91 | 39,261,329 | 45,658,536 | 86 |
| Equity | 304,425,949 | 282,847,478 | 108 | 331,978,921 | 306,290,469 | 108 |
| Non-current liabilities with provisions and long-term accruals and | 131,614,419 | 125,227,745 | 105 | 118,638,958 | 118,734,138 | 100 |
| Short-term liabilities | 36,891,767 | 37,975,638 | 97 | 39,373,218 | 39,525,060 | 100 |
| Financial liabilities | 126,332,908 | 121,896,954 | 104 | 110,332,958 | 111,866,534 | 99 |
| **Statement of cash flows** | **2016** | **2015** | **IND 2016/ 2015** | **2016** | **2015** | **IND 2016/ 2015** |
| Expenditure on investments in property, plant and equipment, investment property and intangible assets | 60,313,916 | 36,871,798 | 164 | 61,781,064 | 37,402,753 | 165 |

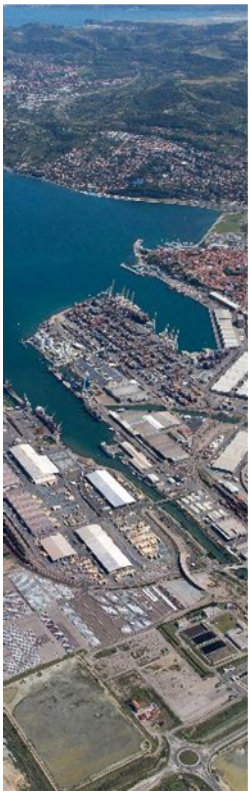
[1] Added value = net sales + capitalised own products and own services + other revenue – costs of goods, material, services – other operating expenses excluding revaluation operating expenses.

| (in EUR) | Luka Koper, d.d. | | | Luka Koper Group | | |
|---|---|---|---|---|---|---|
| Ratios (in %) | 2016 | 2015 | IND 2016/ 2015 | 2016 | 2015 | IND 2016/ 2015 |
| Return on sales (ROS) [2] | 23.9 % | 22.4 % | 107 | 24.7 % | 23.0 % | 107 |
| Return on equity (ROE) | 13.8 % | 10.5 % | 132 | 13.9 % | 10.9 % | 127 |
| Return on assets (ROA) | 8.8 % | 6.5 % | 136 | 9.3 % | 7.1 % | 132 |
| EBITDA margin[3] | 37.3 % | 37.6 % | 99 | 38.0 % | 38.0 % | 100 |
| Financial liabilities/equity | 41.5 % | 43.1 % | 96 | 33.2 % | 36.5 % | 91 |
| Net financial debt /EBITDA[4] | 1.8 | 1.8 | 99 | 1.4 | 1.4 | 97 |
| Dividend payout ratio | 27.0 % | 22.5 % | 120 | 27.0 % | 22.5 % | 120 |

| Maritime throughput (in tons) | 2016 | 2015 | IND 2016/ 2015 | 2016 | 2015 | IND 2016/ 2015 |
|---|---|---|---|---|---|---|
| Maritime throughput | 22,010,649 | 20,711,872 | 106 | 22,010,649 | 20,711,872 | 106 |

| Number of employees | 2016 | 2015 | IND 2016/ 2015 | 2016 | 2015 | IND 2016/ 2015 |
|---|---|---|---|---|---|---|
| Number of employees | 886 | 852 | 104 | 1,071 | 1,040 | 103 |

[2] Return on sales (ROS) = earnings before interest and taxes (EBIT) / net sales
[3] EBITDA margin = earnings before interest, taxes, depreciation and amortisation (EBITDA) / net sales
[4] Net financial debt /EBITDA = (financial liabilities – cash and cash equivalents)/EBITDA



# 2 Vision, mission, values

**Vision**

Luka Koper to become a leading port operator and global logistics solutions provider for the countries of Central and Eastern Europe.

Mission

To offer a reliable port system, developing and promoting global logistics solutions to the heart of Europe by meeting the requirements of economy and most demanding clients.

Values

Cooperation, responsibility, respect, loyalty, creativity

# 3 Presentation of the Luka Koper Group

**1957 – 2017**

**WE CELEBRATE THE 60TH ANNIVERSARY OF OPERATIONS IN 2017**

### History of Luka Koper, d.d.

The history of the Port of Koper or about the Slovene origin of the 'window to the world' dates back to the period after the Second World War and is associated with the search for new economic ideas in order to develop the impoverished coastal area of the Slovene Istria. The state leadership of the then Yugoslavia was not enthusiastic about the idea of construction a commercial port. Only owing to the courage and persistence of the original architects and contractors Slovenia has its own port of international importance that plays the role of an important crossroads of the world trade flows.

> *The first 135-meter berth on the operational coast in the Port of Koper was constructed by the Water Community of Koper. The initiators of this economic venture decided on the beginning of the port of Koper in spite of the opposition some Republic and Federal authorities and political bodies to constructing a modern port on the Slovene coast that would meet the domestic and European economic conditions. Its construction began with the excuse that the Water Community of Koper started the melioration of the extensive section of the Koper bay.*
>
> Petrinja, The construction of Luka Koper and the railway Koper – Prešnica, 1999, p. 5

The company Port of Koper was founded on 23 May 1957. The company was renamed into Luka Koper five years later. In 1958, the construction of the first 135 m long operational coast was completed and in December 1958 the first ocean liner Gorica arrived in the port.

Gorica

The construction of the first coast was followed by building new berths and by simultaneous development of the infrastructure and warehouses in the hinterland. The transport grew rapidly from year to year and the company rose above the local and republic borders. The number of services performed for the partners from transit markets increased. At that time the coast was not connected with the railway and the roads hardly tolerated the increasing quantity of throughput. In order to be able to accelerate the construction of the rail Luka Koper acted as the investor of the construction of a 31.4 km long railway track from Prešnica to Koper in spite of the fact that the then authorities did not support the project. The construction started in 1964 and was completed three years later.

> *The Slovene authorities rejected the construction of the railway track Koper-Prešnica as they did not believe in the economic feasibility and profitability of the construction of the port and the railway.*
>
> Petrinja, Construction of Luka Koper and railway track Koper – Prešnica, 1999, p. 52

New development opportunities opened up to the Port of Koper by the railway connection, the transport increased and exceeded a million tons in 1968. A period of considerable investments followed, the first pier was constructed at which the container terminal was built. After that the second pier, new warehouses were constructed, new equipment and modern technology were purchased. In 1989, over five million tons of cargo were loaded and unloaded from the ships. A period of political and economic changes followed and Slovenia became independent. Gradually, the transport from the ex-Yugoslav republics was replaced by the transport from Central European markets. In 1996, the process of ownership transformation (privatisation) was completed and the company was entered into the court register as a public limited company. The state has become the owner of the 51% share, the 49% share accounted for preference participating shares with a limited voting right, and 2% accounted for ordinary shares. In the same year the LKPG shares were listed on the Securities Exchange of Ljubljana for the first time. On its 40th anniversary the company obtained the quality management system certificate ISO 9001 for the quality performance of services and the environmental certificate ISO 14001 three years later.

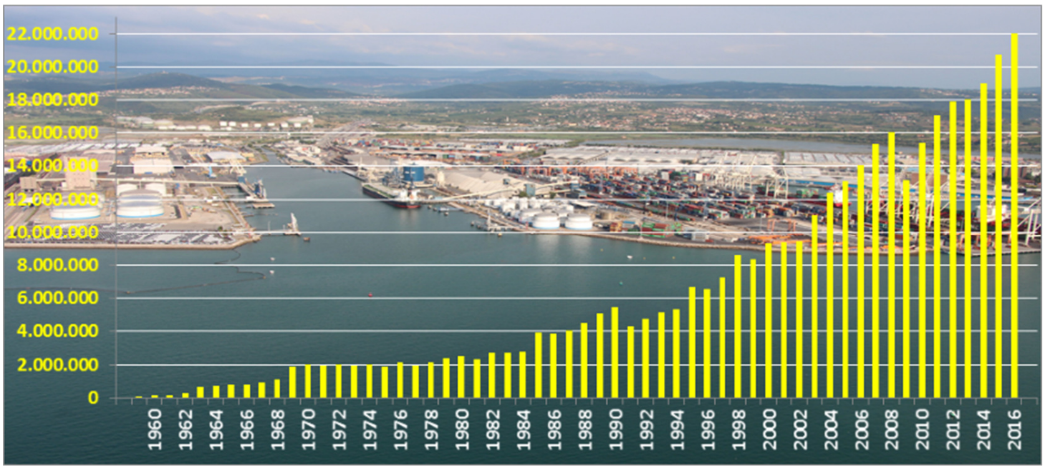
Based on the contract and against payment Luka Koper, d.d. all the state land and infrastructure rented from the Republic of Slovenia in 2000. In 2001, the Slovene Parliament adopted the Maritime Code that stipulated among others that the concession for the management of the Port of Koper should be concluded with a public sector entity performing port activities in the Port on the date of putting the Code into force.

In 2002, the Government of the Republic of Slovenia adopted the Regulation on awarding the concession for the administration, management, development and regular maintenance of the port infrastructure in the cargo port of Koper (Official Gazette of the Republic of Slovenia, No. 103/02). The Regulation required that a concession relation should be regulated by a special contract, but the concession based on this Regulation was never awarded to Luka Koper, d.d.

In 2004, when Slovenia became an equal member state of the European Union the Port of Koper became the official logistic entry point for goods intended for the European Union. In 2005, cargo activities were supplemented by new ones, namely passenger transport and an appropriate landing area was constructed in the following years. In 2007, the company's General Meeting of Shareholders transformed 49% of the preference participating shares with the limited voting right into ordinary shares.

In 2008, the state of Slovenia awarded Luka Koper, d.d. a 35-year concession for the performance of port activities based on the Concession Agreement for the Administration, Management, Development and Regular Maintenance of Port Infrastructure to Luka Koper concluded in line with the Regulation on the management of the Koper cargo port, performance of port activities, awarding of the concession for the administration, management, development and regular maintenance of the port infrastructure in this port (Official Gazette of the Republic of Slovenia, No. 71/2008). Three years later it outlined the spatial development of the port in the State Spatial Plan for the complete spatial preparation of the port for international transport. Luka Koper, d.d. successfully overcame the consequences of the global economic crisis and the after the year 2010 the transport increased significantly. The strategic meaning of the transport route via Koper was recognized also by the European Union in 2013 as it placed the Port of Koper in the Mediterranean and Baltic-Adriatic European corridor.

## Maritime throughput through history




## The most important milestons in the development of the Port

| | |
|---|---|
| 1957 | The company Port of Koper was founded. |
| 1958 | The first ocean liner Gorica was moored to the newly built pier. |
| 1962 | The company was renamed into Luka Koper. |
| 1963 | The port obtained the status of a duty-free zone. |
| 1967 | By the newly built railway Luka Koper was connected to the European railway network. |
| 1974 | The first regular container line with the Mediterranean was established. |
| 1979 | The container terminal was constructed. |
| 1984 | The dry bulk cargo terminal was constructed. |
| 1996 | When the process of ownership transformation was completed Luka Koper was entered into the register as a public limited company (the state became the owner of a 51% share; there are 49% of preference participating shares with a limited voting right and 2% of ordinary shares). |
| 1996 | The shares of Luka Koper (LKPG) were listed in the Ljubljana Stock Exchange. |
| 1996 | The new vehicle terminal was put into use. |
| 1997 | Luka Koper was awarded the ISO 9002 certificate. |
| 1999 | Luka Koper was awarded the ISO 14001 certificate. |
| 2000 | Luka Koper signed the lease agreement for the operational coast and land owned by the Republic of Slovenia in the port of Koper with the state. |
| 2001 | The Slovene Parliament adopted the Maritime Code. |
| 2002 | Based on the regulation the Government of the Republic of Slovenia determined that the concession for the administration, management, development and regular |

| | |
|---|---|
| | maintenance of the port infrastructure in the cargo port of Koper was awarded to the company Luka Koper, d.d., but it was not awarded in line with this regulation. |
| 2004 | The EU granted Luka Koper the status of the Border Inspection Point (BIP). |
| 2005 | The first passenger ship was moored. |
| 2007 | The General Meeting of Shareholders of Luka Koper, d.d. transformed 49% of the preference participating shares of the state with the limited voting right into ordinary shares. |
| 2008 | Based on the Regulation on the administration, management, development and regular maintenance of the port infrastructure in this port (Official Gazette of the Republic of Slovenia, No. 71/2008) the state awarded the 35-year concession for the performance of the port activities in the port of Koper to Luka Koper, d.d. |
| 2010 | The EMAS- European system of the environmental management was established. |
| 2011 | The State Spatial Plan was adopted for the complete spatial preparation of the port for the international transport in Koper. |
| 2013 | The EU placed Luka Koper in the Mediterranean and Baltic-Adriatic corridor. |
| 2016 | The Port reached the following records: a record annual maritime throughput amounting to 22 million tons of goods, a record throughput of containers (844.8 thousand TEU), cars (749 thousand units) and general cargoes (955.1 thousand tons). |

In all these years Luka Koper, d.d. constructed and invested its funds in the port infrastructure, piers, warehouses and equipment without the State aid.

## 3.1 Company profile of Luka Koper, d.d. as at 31 March 2017

| | |
|---|---|
| Company name | Luka Koper, pristaniški in logistični sistem, delniška družba (public limited company) |
| Shortened company name | Luka Koper, d.d. |
| Registered office | Vojkovo nabrežje 38, Koper |
| | Telephone: 05 66 56 100 |
| | Fax: 05 63 95 020 |
| | E-mail: portkoper@luka-kp.si |
| | Website: www.luka-kp.si |
| Entry in the court register of | District Court of Koper under the entry number 066/10032200 |
| Company registration number | 5144353000 |
| Tax number | SI 89190033 |
| Share capital | EUR 58,420,964.78 |
| Number of shares | 14,000,000 ordinary no-par value shares |
| Share listing | Ljubljana Stock Exchange, first listing |
| Share ticket symbol | LKPG |
| President of the Management Board | Dragomir Matić |
| Member of the Management Board | Andraž Novak |
| Member of the Management Board | Irena Vincek |
| Member of the Management Board – Employee Director | Stojan Čepar |
| Chairperson of the Supervisory Board | Alenka Žnidaršič Kranjc, PhD |
| Core activity of the company | Seaport and logistics system service provider |
| Activities performed in the Luka Koper Group | Various and ancillary services |

## 3.2 Organisation of the Luka Koper Group

The Luka Koper Group includes related parties that provide various services rounding off the offer of the port.

### The Luka Koper Group as at 31 December 2016

- Luka Koper, d.d.
- Subsidiaries
    - Luka Koper INPO, d.o.o., 100 %
    - Adria Terminali, d.o.o., 100 %
    - Luka Koper Pristan, d.o.o., 100 %
    - Logis Nova, d.o.o., 100 %
    - Adria Investicije, d.o.o., 100 %
    - TOC, d.o.o., 68,13 %

### Associated companies

- Adria Transport, d.o.o., 50 %
- Adria – Tow, d.o.o., 50 %
- Adriafin, d.o.o., 50 %
- Avtoservis, d.o.o., 49 %
- Golf Istra, d.o.o. – in bankruptcy, 20 % (in bankruptcy since 9 October 2014, completion of bankruptcy on 6 January 2017)

Further details regarding changes in the subsidiaries and associated companies are presented in the Consolidated Accounting Report under the Composition of the Luka Koper Group.

## 3.3 Activities of the Luka Koper Group

Luka Koper, the only Slovene multipurpose port is located in the coastal - Karst region that belongs to the smallest regions in Slovenia, but it is among the strongest in Slovenia in terms of economic development. The Port affects the development of the region, Slovene economy and logistics in this part of Europe. It includes the complete water and coastal area where port activities intended for cargo and passenger transport are carried out.

THE OPERATIONS OF THE PORT ARE OF VITAL IMPORTANCE FOR THE STATE

The basic port activities are throughput and warehousing of a variety of goods. They are supplemented by a range of services on goods and other services providing customers with a comprehensive logistic support. Luka Koper d.d. has set an ambitious objective to meet the wishes of its customers, company owners and the employees of the company. By implementing the development policy of the port, Luka Koper has strengthened its competitive advantages. The Port is a cross-border entry point to the European Union and has the free zone status of type I. Luka Koper, d.d. has also a status of an authorised economic operator, and the AEO certificate confirms that the duty free zone is a safe area with the lowest risk for goods transported through the port of Koper. Provision of the port security is regulated in compliance with the International Ship and Port Facility Security Code (ISPS CODE). The port is integrated into the international exchange of goods and international operations.

In 2008, Luka Koper, d.d. concluded with the State the Concession Agreement for the Administration, Management, Development and Regular Maintenance of Port Infrastructure in the area of the Koper cargo port. The Concession Agreement was concluded for a period of 35 years, as it was stipulated in the Maritime Code. The agreed concession fee amounts to 3.5% of the sales revenue of the company, but the revenue from port fees is excluded. The Concession Agreement includes also the water right, water charges and other duties related to the use of the sea belonging to the Republic of Slovenia. Luka Koper, d.d. pays the total concession fee to the Republic of Slovenia that allocates half of the amount to the local communities, the Municipality of Koper and since 1 January 2015 also to the Municipality of Ankaran.

## Port and logistic activities

The basic port activities of throughput and warehousing are carried out at twelve specialised port terminals. All the terminals are organised according to the goods/cargo they receive:

- general cargo terminal,
- timber terminal,
- reefer cargo terminal,
- animal terminal,
- container terminal,
- car and RO-RO terminal,
- liquid cargo terminal,
- dry bulk cargo terminal,
- break bulk terminal,
- alumina terminal,
- silo terminal,
- passenger terminal.

Each terminal has its own characteristics determined by goods-specific work process, technological procedures and technology. The terminals are organised in six profit centres. Luka Koper offers its customers a wide range of additional services in order to increase the value of goods. A detailed description of terminals is available on the website https://luka-kp.si/eng/terminals.

The port area consists of 274 hectares of land, with 49.2 hectares of covered storage and 111 hectares of open-air storage space. We provide 28 berths located on 3,282 metres of the shoreline along 179 hectares of the sea. In terms of logistic activities, our services include:

- Services provided by the collection and distribution centre for every cargo group;
- Services on goods (sorting, palletising, sampling, protection, labelling, weighing, cleaning and other services), which are regularly enhanced, based on the development of the transport industry and the needs of our clients;
- Management of the port area; and
- Integrated logistic solutions.

The services of individual terminals are supplemented by the companies Luka Koper INPO, d.o.o., Adria-Tow, d.o.o., and Adria Transport, d.o.o., which enables us to quickly adjust to the customers' needs. Luka Koper INPO, d.o.o. performs maritime services, i.e. berthing and casting off of ships and deepening of the seabed; it also manages the truck terminal intended for parking of trucks when truck drivers submit the documents required for the entry in the area of Luka Koper. Adria-Tow, d.o.o. provides vessel towing services, ship supply services, as well as sea rescue and vessel assistance at the Port. Adria Transport, d.o.o. is in charge of setting up an efficient logistic route between the Port of Koper and its hinterland. It ensures a greater volume of railway transport, both in and out of the Port.

### Performance of services of general economic interest

In line with the Concession Agreement for the Administration, Management, Development and Regular Maintenance of Port Infrastructure in the area of the cargo port of Koper that Luka Koper, d.d. concluded with the Republic of Slovenia for a period of 35 years in September 2008, the Company permanently and continuously performs the services of general economic interest relating to the maintenance of the port infrastructure intended for public transport.

### Other activities

In addition to the core activity, i.e. the port activity, the Luka Koper Group provides a variety of supporting activities.

### Support services

Luka Koper INPO, d.o.o. is specialised in performing support services of maintenance and public utility services. The basic mission of this company is the successful market-oriented operation as well as the employment and training of disabled persons. Therefore, they mostly introduce and develop business programmes interesting for the market and those that the disabled persons can follow under consideration of their abilities. The services are rendered at a high-quality level, which is confirmed by the ISO 9001 certificate and the ISO 14001 certificate for the responsible relation to the environment.

Since 1 January 2006 Luka Koper INPO, d.o.o. has performed the services of general economic interest relating to collecting waste from vessels in line with the Concession Agreement pursuant to Article 26, paragraph 1 of the Regulation on the method, subject and conditions for the provision of national public utility service of collecting waste from vessels (Official Gazette of the Republic of Slovenia, No. 59/2005). Initially, the company performed these services on the basis of the authorisation of the parent company as the manager of the Port of Koper. After the conclusion of the Concession Agreement between the Republic of Slovenia and Luka Koper, d.d. in 2008 it has performed them on the basis of the new agreement. After the adoption of the Development strategy of Luka Koper INPO, d.o.o. for the period 2016 - 2020 according to which the company maintains the status of a disabled company with more than 50% of disabled persons employed, the company has obtained the right to use the collective trade mark and the service mark of a disabled company.

### Catering

Luka Koper Pristan, d.o.o. offers hotel, accommodation, catering and congress services. It organises various kinds of events. The company manages also the facility in Prisoje that has become a private student dormitory.

### Quality control

TOC, tehnološko okoljski in logistični center, d.o.o. is a market-oriented company that provides services in the field of technological and ecology research and analytical laboratory services. The core activity of the company is rendering of laboratory services in the field of quality control of petroleum products, pure chemicals and gases. In recent years, the company has extended its services to the microbiological and chemical tests of water. In 2010, the company obtained the certificate SIST EN ISO/IEC 17025 that has been renewed on a regular basis and upgraded by new accredited test methods. Awarding of the certificate of golden credit rating excellence in the years 2015 and 2016 is the evidence of confirmation and an indicator of successful performance of the company.

### Hinterland logistic activity

#### Sežana

Luka Koper, d.d. owns in Sežana:

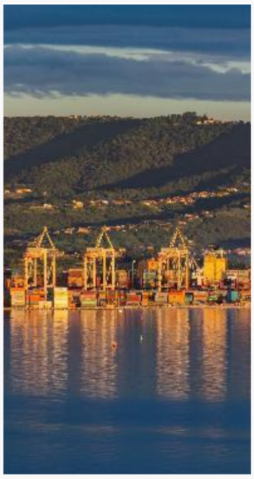
- the property in the area of the operating terminal managed by Adria Terminali, d.o.o. (Luka Koper, d.d. holds the 100% ownership share),
- the property in the immediate vicinity of the operating terminal is not used.

Adria Terminali, d.o.o. manages the hinterland logistic terminal in Sežana. The operation is focused on the throughput and warehousing of various kinds of goods, mainly on general cargoes with iron products and wood pellets as well as collective and classical throughput in container transport.

The terminal is well-connected to the railway system and road transport. It has almost 50,000 m2 of storage facilities and the machinery for handling goods and good connections to the railway and road infrastructure. The company operates as a land terminal manager and endeavours to attract goods flows in the inland transport in the areas of Central and East European markets.

#### Prekmurje

In 2008, the company Logis Nova, d.o.o. was established in order to make an acquisition of land in the area of the originally planned logistic centre in the Municipality of Beltinci. In June 2014, all the procedures relating to the capital increase by contributions in land were completed by the entry into the court register. All the planned procedures of purchasing agricultural land were performed and the ownership consolidation implemented. Luka Koper, d.d. is the 100% owner of the company and 64.9ha of land is available, of which all the agricultural land is cultivated, but the project of logistic centre has not been carried out. To the end of 2016, a part of land was cultivated by contractors of the company and a part by previous owners who leased it. At the end of October 2016 a contract was concluded on the basis of the tender. As at 1 January 2017, the entire complex, with the exception of 1 ha of land in co-ownership, was awarded to the best bidder for a long-term lease to the end of 2020 under the contract mentioned.



**THE INCREASE IN PORT CAPACITIES AND THROUGHPUT ARE OUR OBJECTIVES TO THE YEAR 2020**

# 4 Business development strategy

## 4.1 Strategic orientation

| Flexible, modern and competitive port provider | Reliable and efficient contractor of quality port services | A successful business system of long-term stability | Promotor of complete logistic solutions | Diligent institutionalised stakeholder of sustainable development |
|---|---|---|---|---|
| Implementation of recognisable market potentials by the control of the markets and setting up partnerships with the customers. | Achievement of a high-level of operational efficiency by the improvement in productivity of processes, synergies among terminals and optimal use of capacities. | Harmonisation between the core activity and support functions as well as care for the improvement in profitability of products and increase in property. | Care for connecting various links in the logistic chain and port community in order to create integrated transport solutions. | Striving for long-term sustainable development of the natural and social environment and support to the development of the port in the wider regional and international areas. |

## 4.2 Characteristics of the economic environment in 2016

The average global economic growth of 2016 was estimated at 3.1%, but the forecast was different for individual economies. In the developed countries, the economic growth was higher than the average, and it was lower than the average in the fast-growing emerging markets and developing economies. At the end of 2016, the economic growth in the developed countries was higher than expected in the USA, Spain, Great Britain and Japan. In the fast-growing emerging markets and developing economies the growth was higher than expected in China, and lower than expected in Argentina, Brazil and Turkey. In 2016, India reached the leading position and got the advantage over China as the major economic locomotive.[5]

[5] Source: World Economic Outlook: A Shifting Global Economic Landscape. Update January 2017. Washingtons. International Monetary Fund.
URL: http://www.imf.org/external/pubs/ft/weo/2017/update/01/

In 2016, a relatively favourable economic movements continued in the Eurozone, including Slovenia. The growth in private consumption as the reflection of the recovery in the labour market contributed most to the economic growth. In the Eurozone, the unemployment rate was lowest in October 2016 after the year 2008. In December 2016, the Brent oil prices reached the highest levels in 2016. The decision of the Organisation of the Petroleum Exporting Countries (OPEC) on the reduction in production affected the average dollar oil price that increased by 19% in December 2016 and by 74% throughout 2016. The prices of other raw materials increased as well, but mostly those of metals, which reflected the higher Chinese demand and the USA forecast about the increased investments in infrastructure. At the end of 2016, the euro reached the lowest level in the last twenty years when compared to the American dollar.[6]

## 4.3 Comparative analysis with the competition

### GROWTH IN CONTAINER THROUGHPUT

In 2016, the container transport on the container trade route Far East – Europe slightly improved; it increased by 1.2%, but a reduction of 3.1% was observed in 2015. A fall of 2015 was mostly the result of the reduced demand from Russia due to the applied sanctions. A higher demand in the Russian market in 2016 contributed also to the increase in the container transport in the Northern European ports. In spite of that the total quantities of transported containers were still lower in TEU than those of the record year 2014.

In 2016, the growth in the container transport was higher on the route Far East – North America; the increase amounted to 4.3%, which was a record annual quantity of TEU, i.e. 14.2 million TEU. The year 2016 was the seventh successive year of growth on this route.

In 2016, the bankruptcy started against the seventh largest global container shipping company – the Korean Hanjin Shipping. After the court declared Hanjin Shipping bankrupt it ceased to exist as a legal entity.

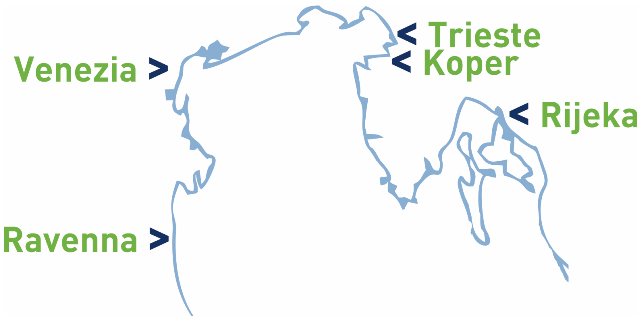
The year 2016 was also marked by numerous takeovers and acquisitions among shipping companies as global shipping companies took over the smaller ones.

Container shipping companies also started to integrate, mainly due to very low ship freight rates and poor financial results of the previous years.

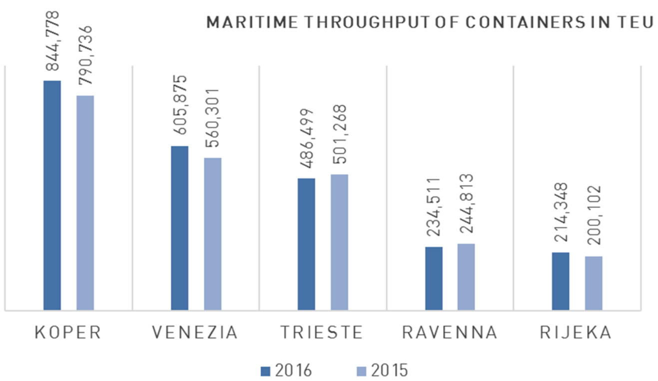
[6] Source: Economic Mirror. January 2017. Ljubljana. Instittue of Macroeconomic Analysis and Development of the Republic of Slovenia.

In 2016, container shipping companies integrated into three large alliances (2M, Ocean Alliance, THE Alliance)[7] due to poor financial results and in order to decrease the costs and ship capacity and to increase the freight rates to a satisfactory level.

### Maritime container throughput in northern Adric Ports in TEU per port[8]



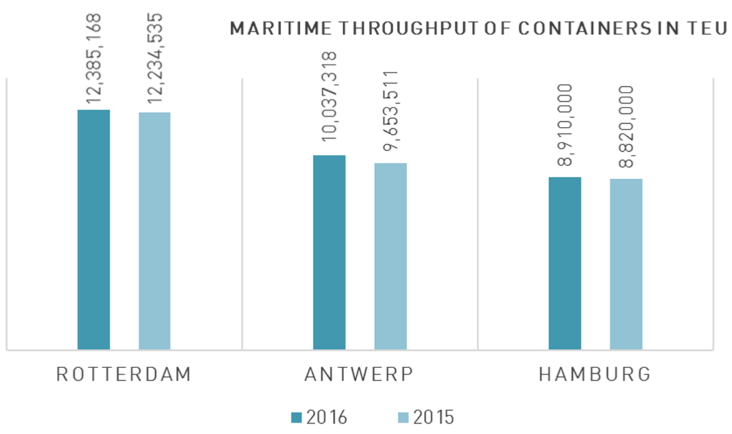

| NORTHERN ADRIATIC PORTS | 2016 | 2015 | Index 2016/2015 |
|---|---|---|---|
| Koper | 844,778 | 790,736 | 107 |
| Venezia | 605,875 | 560,301 | 108 |
| Trieste | 486,499 | 501,268 | 97 |
| Ravenna | 234,511 | 244,813 | 96 |
| Rijeka | 214,348 | 200,102 | 107 |




[7] http://worldmaritimenews.com/archives/212163/alphaliner-volumes-improve-in-far-east-europe-transpacific-lanes/
[8] Source: Websites of the ports mentioned and NAPA data

## Maritime container throughput in the most important three ports of Northern Europe in TEU per port[9]


| NORTHERN EUROPEAN PORTS | 2016 | 2015 | Index 2016/2015 |
|---|---|---|---|
| Rotterdam | 12,385,168 | 12,234,535 | 101 |
| Antwerp | 10,037,318 | 9,653,511 | 104 |
| Hamburg | 8,910,000 | 8,820,000 | 101 |




[9] Source: Websites of the ports mentioned and NAPA data

## GROWTH IN THE CAR THROUGHPUT

In accordance with the data of the ACEA Association [10] – European Automobile Manufacturers Association that issued the Economic and Market Report in EU Automotive Industry Quarter 3 2016 in December 2016 an 8% increase in the sales of new passenger cars was recorded in the European Union in 2016. To a great extent, the growth in sales in Spain had an important impact on the increase in the throughput of Luka Koper. In Spain, the export of cars increased by 11% and in Germany, the import of cars increased by 6.1%.

In the period January – September 2016 the demand for new cars reduced In the neighbouring countries – in Russia by 15.1% due to an extremely high inflation; the Ukrainian market showed some signs of probable recovery with the growth recorded in the amount of 53.4%; in Turkey the sales dropped by 2.3% due to the coup in July 2016.

At a global level, the growth in sales amounting to 4.4% was recorded in the first nine months of 2016. The growth per individual state amounted to 4% in Japan (due to a weak economy and consumption), 3.1% in South Korea, 14.7% in China, 10.5% in India and 2.4% in other Asian countries. All these countries were relevant for the export of vehicles through Luka Koper.

In the period January - September 2016 the production of new passenger cars increased by 4.7% in the European Union. The following growth rates were observed in the West European countries: 10.9% in France, 10.5% in Great Britain, 8.8% in Italy, 8.4% in Spain and 1.1% in Germany.

In the Central European countries the production dropped slightly, in Romania by 8.8% and in Hungary by 4.0%, but the Czech Republic recorded growth in the amount of 11.8%, Slovakia 1.7% and Poland 2.9%.

In the period January - September 2016 the European Union imported 4 million and exported 1.8 million of passenger cars. The growth in import amounted to 15.4 % and the reduction in export to 3.6%.

No comparison with the competition has been made due to the late publication of the results on the car throughput in other European ports for 2016 by the magazine Automotive Logistics[11] on its website http://automotivelogistics.media/.

[10] http://www.acea.be/
[11] http://automotivelogistics.media/

## 4.4 Implementation of the plans, strategic objectives and orientations in 2016

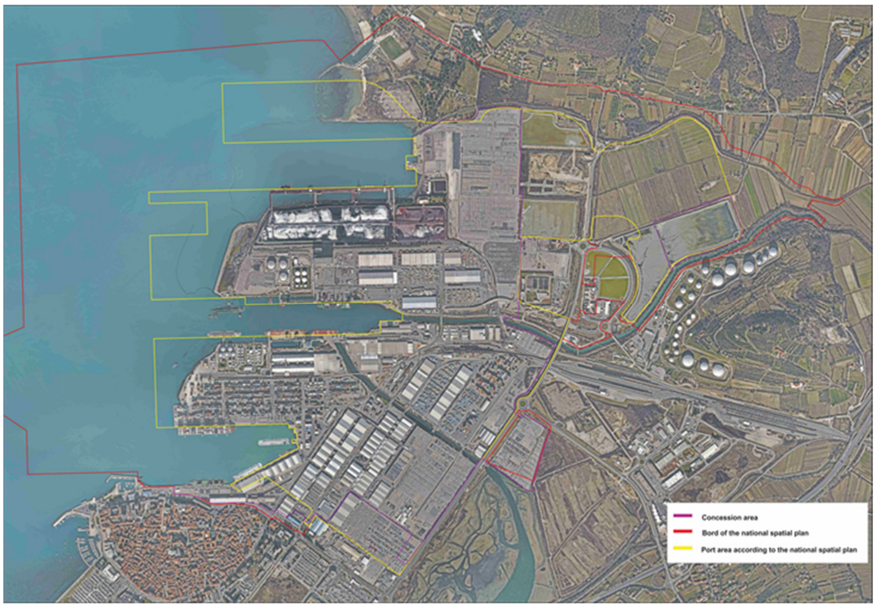
The most recent Business development strategy and the revised strategic documents of the Company to the year 2020 with the orientations to the year 2030 were adopted in 2015. In 2016, the activities were performed with the aim to adopt the strategic concepts as the annual plan was also adjusted to them. The action plan was additionally prepared in 2016; it ensures the implementation of appropriate activities for the achievement of strategic objectives from which four strategic projects were also set up and will be subsequently coordinated with the aim to control the implementation of the strategy:

- increase in the container throughput,
- increase in the car throughput,
- increase in additional services of loading and unloading containers,
- increase in the port fluidity.

The coordination of strategic projects has foreseen the complete control of individual projects from the aspect of marketing, providing capacity, process efficiency, adequacy of human resources and all the issues that determine the achievement of strategic objectives.

In 2016, the company achieved again record business results, primarily in both strategic cargo groups, i.e. container and car groups, which confirms the adequacy of the outlined orientations of the business strategy and long-term port development priorities. It should be also pointed out that further implementation of the strategy will be faced by relevant challenges relating to the provision of adequate and sufficient administrative capacities that determine a further increase in turnover. The issues concerned are mainly:

- extension of the first pier in compliance with the Slovene spatial plan,
- acquisition of new land for storing cars in compliance with the Slovene spatial plan,
- solving of all status problems relating to entrances.




The implementation of key investments was delayed and postponed due to delays related to obtaining approvals, complex administrative procedures and unexpected complications.

## 4.5 Implementation of business objectives in 2016

### Key operating ratios of Luka Koper, d.d. and the Luka Koper Group in 2016 compared to the plan for the year 2016

| (in EUR) | Luka Koper, d.d. | | | Luka Koper Group | | |
|---|---|---|---|---|---|---|
| Income statement | 2016 | PLAN 2016 | IND 2016/ PLAN 2016 | 2016 | PLAN 2016 | IND 2016/ PLAN 2016 |
| Net sales | 190,407,498 | 183,807,299 | 104 | 199,543,696 | 194,662,753 | 103 |
| Earnings before interest and taxes (EBIT) | 45,536,427 | 42,429,640 | 107 | 49,325,438 | 45,696,534 | 108 |
| Earnings before interest, taxes, depreciation and amortisation (EBITDA) | 71,043,459 | 67,729,606 | 105 | 75,794,126 | 71,962,529 | 105 |
| Profit or loss from financing activities | 963,457 | -763,805 | -126 | -459,095 | -1,821,346 | 25 |
| Profit or loss before tax | 46,499,884 | 41,665,835 | 112 | 50,763,957 | 45,129,766 | 112 |
| Net profit or tax | 40,581,116 | 34,874,304 | 116 | 44,375,981 | 37,776,901 | 117 |
| Added value[12] | 118,409,242 | 112,272,666 | 105 | 129,692,675 | 122,520,540 | 106 |

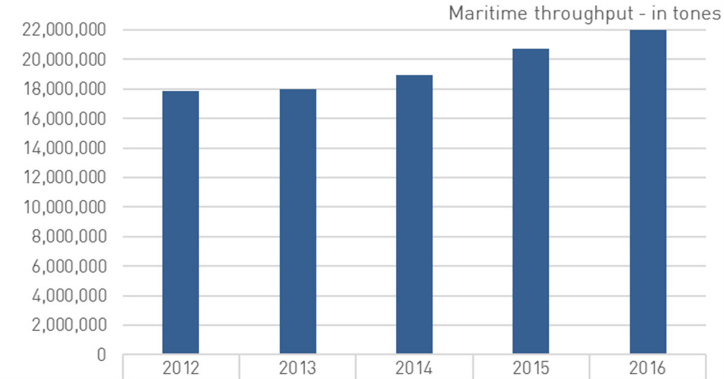
| Statement of financial position | 31 Dec 2016 | PLAN 31 Dec 2016 | IND 2016/ PLAN 2016 | 31 Dec 2016 | PLAN 31 Dec 2016 | IND 2016/ PLAN 2016 |
|---|---|---|---|---|---|---|
| Assets | 472,932,135 | 495,281,384 | 95 | 489,991,097 | 509,442,923 | 96 |
| Non-current assets | 440,055,662 | 457,558,987 | 96 | 450,729,768 | 468,205,677 | 96 |
| Current assets | 32,876,473 | 37,722,398 | 87 | 39,261,329 | 41,237,245 | 95 |
| Equity | 304,425,949 | 307,003,418 | 99 | 331,978,921 | 333,162,290 | 100 |
| Non-current liabilities with provisions and long-term accrued costs and deferred revenue | 131,614,419 | 139,200,901 | 95 | 118,638,958 | 126,075,867 | 94 |
| Short-term liabilities | 36,891,767 | 49,077,065 | 75 | 39,373,218 | 50,204,766 | 78 |
| Financial liabilities | 126,332,908 | 146,771,337 | 86 | 110,332,958 | 131,076,473 | 84 |

[12] Added value = net sales + capitalised own products and own services + other revenue – costs of goods, material, services – other operating expenses excluding revaluation operating expenses.

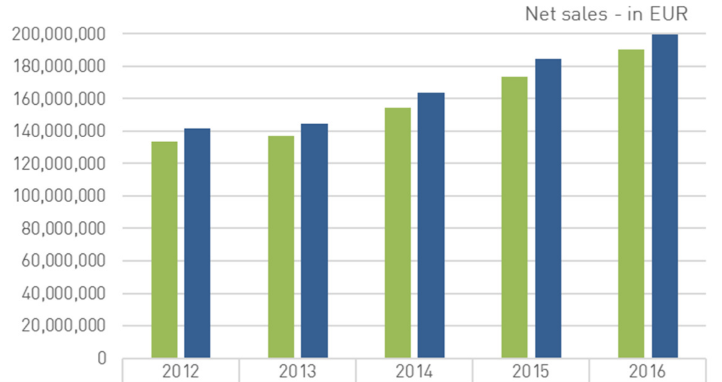
| (in EUR) | Luka Koper, d.d. | | | Luka Koper Group | | |
|---|---|---|---|---|---|---|
| Statement of cash flows | 2016 | PLAN 2016 | IND 2016/ PLAN 2016 | 2016 | PLAN 2016 | IND 2016/ PLAN 2016 |
| Expenditure on investments in property, plant and equipment, investment property and intangible assets | 60,313,916 | 77,001,767 | 78 | 61,781,064 | 78,907,927 | 78 |
| Ratios (in %) | 2016 | PLAN 2016 | IND 2016/ PLAN 2016 | 2016 | PLAN 2016 | IND 2016/ PLAN 2016 |
| Return on sales (ROS) [13] | 23.9 % | 23.1 % | 104 | 24.7 % | 23.5 % | 105 |
| Return on equity (ROE) | 13.8 % | 11.9 % | 117 | 13.9 % | 11.9 % | 117 |
| Return on assets (ROA) | 8.8 % | 7.4 % | 119 | 9.3 % | 7.8 % | 119 |
| EBITDA margin[14] | 37.3 % | 36.8 % | 101 | 38.0 % | 37.0 % | 103 |
| Financial liabilities/equity | 41.5 % | 47.8 % | 87 | 33.2 % | 39.3 % | 84 |
| Net financial debt /EBITDA[15] | 1.8 | 2.1 | 82 | 1.4 | 1.8 | 77 |
| Dividend payout ratio | 27.0 % | 15.2 % | 178 | 27.0 % | 15.2 % | 178 |
| Maritime throughput (in tons) | 2016 | PLAN 2016 | IND 2016/ PLAN 2016 | 2016 | PLAN 2016 | IND 2016/ PLAN 2016 |
| Maritime throughput | 22,010,649 | 21,428,234 | 103 | 22,010,649 | 21,428,234 | 103 |
| Number of employees | 2016 | PLAN 2016 | IND 2016/ PLAN 2016 | 2016 | PLAN 2016 | IND 2016/ PLAN 2016 |
| Number of employees | 886 | 883 | 100 | 1,071 | 1,070 | 100 |

[13]Return on sales (ROS) = earnings before interest and taxes (EBIT) / net sales
[14]EBITDA margin = earnings before inerest, taxes, depreciation and amortisation (EBITDA) / net sales
[15]Net financial debt /EBITDA = (financial liabilities – cash and cash equivalents)/EBITDA
Since 1 January 2016 the company has calculated the ratio of net financial debt to EBITDA in compliance with the above method. Due to comparability of the Plan 2016 the net financial debt /EBITDA has been recalacualted to the new method.

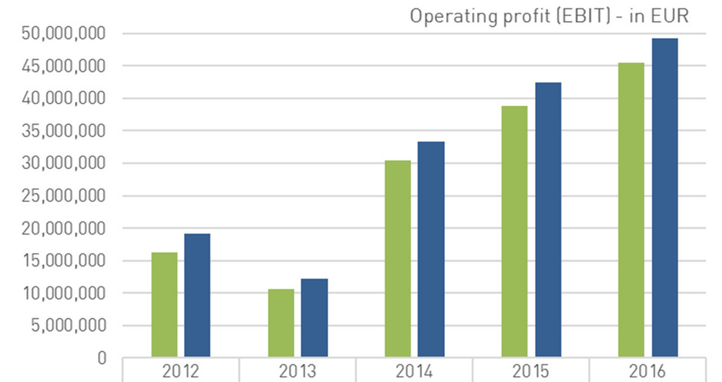
## 4.6 5-year trends



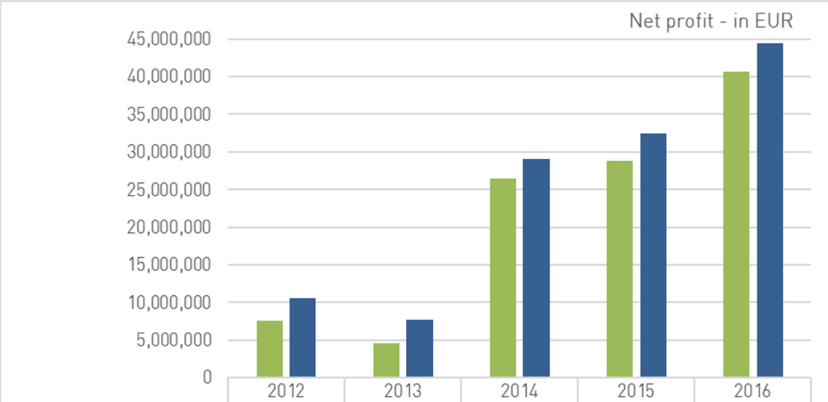

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| Luka Koper, d. d. | 17,880,698 | 17,999,662 | 18,965,351 | 20,711,872 | 22,010,649 |



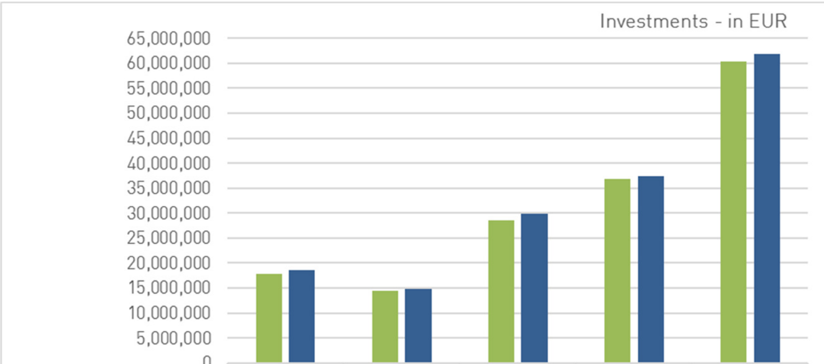

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| Luka Koper, d. d. | 133,329,178 | 136,808,792 | 154,464,507 | 173,277,749 | 190,407,498 |
| Luka Koper Group | 141,732,087 | 144,235,477 | 163,595,376 | 184,273,472 | 199,543,696 |



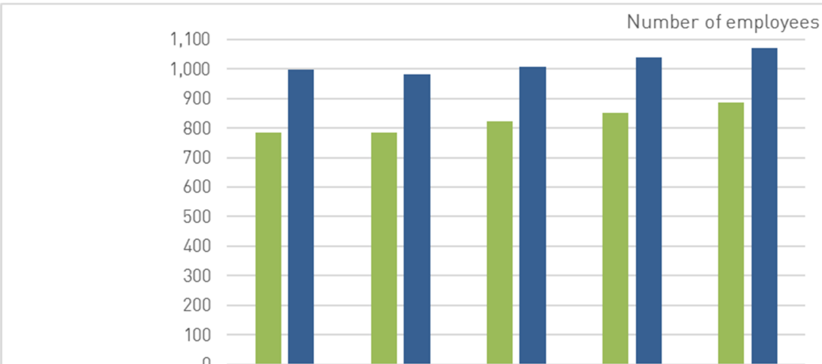

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| Luka Koper, d. d. | 16,249,361 | 10,560,216 | 30,474,904 | 38,826,283 | 45,536,427 |
| Luka Koper Group | 19,184,237 | 12,201,713 | 33,381,026 | 42,420,503 | 49,325,438 |



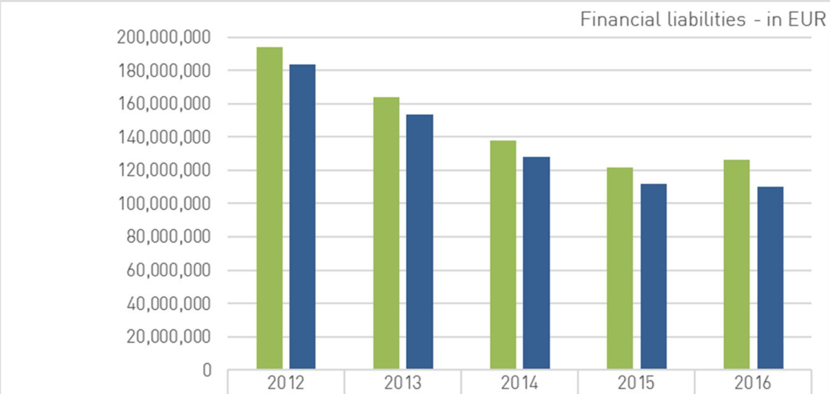

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| Luka Koper, d. d. | 7,527,590 | 4,612,246 | 26,448,414 | 28,845,074 | 40,581,116 |
| Luka Koper Group | 10,498,559 | 7,749,500 | 29,098,342 | 32,414,723 | 44,375,981 |



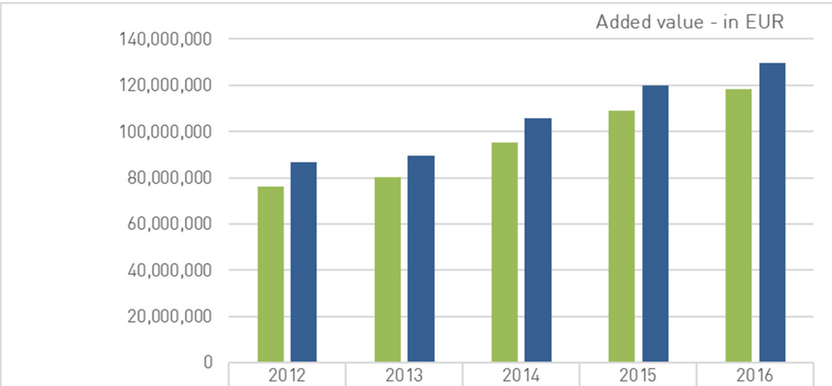

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| Luka Koper, d. d. | 17,768,219 | 14,522,369 | 28,485,811 | 36,871,798 | 60,313,916 |
| Luka Koper Group | 18,639,095 | 14,825,864 | 29,958,975 | 37,402,753 | 61,781,064 |



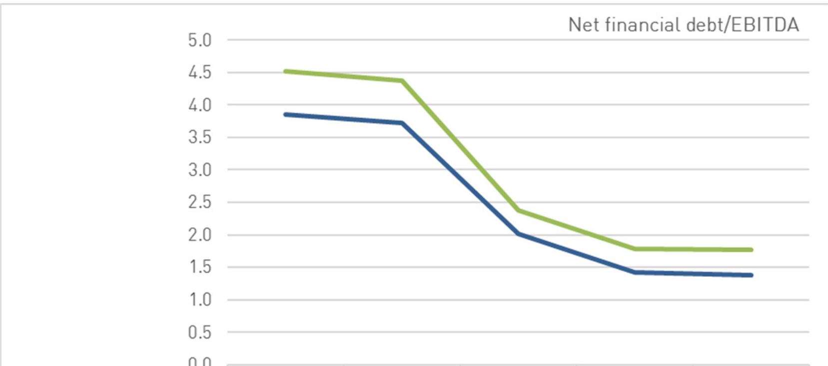

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| Luka Koper, d. d. | 785 | 784 | 824 | 852 | 886 |
| Luka Koper Group | 999 | 982 | 1,009 | 1,040 | 1,071 |



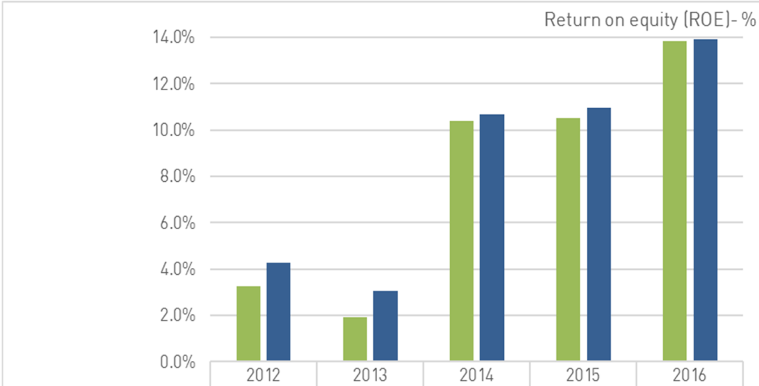

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| Luka Koper, d. d. | 193,872,630 | 163,889,772 | 138,202,764 | 121,896,954 | 126,332,908 |
| Luka Koper Group | 183,799,962 | 153,750,652 | 128,146,556 | 111,866,534 | 110,332,958 |




| | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| Luka Koper, d. d. | 76,242,198 | 80,085,543 | 95,235,916 | 108,912,973 | 118,409,242 |
| Luka Koper Group | 86,787,095 | 89,637,816 | 105,591,082 | 120,029,932 | 129,692,675 |



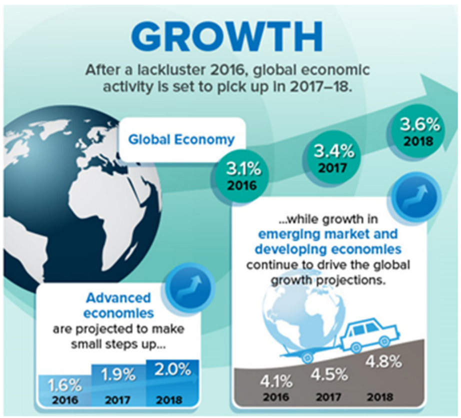

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| Luka Koper, d. d. | 4.5 | 4.4 | 2.4 | 1.8 | 1.8 |
| Luka Koper Group | 3.9 | 3.7 | 2.0 | 1.4 | 1.4 |




| | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| Luka Koper, d. d. | 3.2% | 1.9% | 10.4% | 10.5% | 13.8% |
| Luka Koper Group | 4.3% | 3.0% | 10.7% | 10.9% | 13.9% |

## 4.7 Forecasts of the economic environment in 2017[16]

After a slow recovery of the global economy in 2016, the economy will grow faster in 2017 and 2018, especially in the fast-growing emerging markets and developing economies. In 2017, the global economic growth should amount to 3.4%. Several different projections of global economy have been prepared for the following years, as there are some uncertainties relating to the new US government and its global consequences. The forecast of economic movements in 2017 will be more accurate in April 2017, as the US policy and its impacts on the global economy will become clear.




[16] Source: World Economic Outlook: A Shifting Global Economic Landscape. Update January 2017. Washingtons. International Monetary Fund.
URL: http://www.imf.org/external/pubs/ft/weo/2017/update/01/

The forecast of the economic growth for China improved because of the expected incentive policy, but the forecast for several other economies worsened (mainly for Brazil and Mexico).

Positive and negative risks have been foreseen for 2017. Relevant negative risks refer to a possible shift towards internally-oriented policies and protectionism as well as a considerable tightening of the global financial situation that may increase geo-political tension and slowing down of the Chinese economy by the interaction of the weak financial position in some parts of the Eurozone and in some emerging market economies.

### Survey of forecasts of economic growth per country

| Area /country | Estimate 2016 | Forecast 2017 | Forecast 2018 |
|---|---|---|---|
| Global economy | 3.1 | 3.4 | 3.6 |
| Developed economies | 1.6 | 1.9 | 2.0 |
| USA | 1.6 | 2.3 | 2.5 |
| Eurozone | 1.7 | 1.6 | 1.6 |
| Germany | 1.7 | 1.5 | 1.5 |
| France | 1.3 | 1.3 | 1.6 |
| Italy | 0.9 | 0.7 | 0.8 |
| Spain | 3.2 | 2.3 | 2.1 |
| Japan | 0.9 | 0.8 | 0.5 |
| Great Britain | 2.0 | 1.5 | 1.4 |
| Russia | -0.6 | 1.1 | 1.2 |
| China | 6.7 | 6.5 | 6.0 |
| Slovenia | 2.3 | 1.8 | 1.8 |

At the end of November 2016, the members of the Organisation of Petroleum Exporting Countries (OPEC) reached an agreement on cutting the oil production in Vienna. The cartel members will limit the production to 32.5 million 159-l oil barrels per day.

## 4.8 Business objectives for 2017

### Key operating ratios of Luka Koper, d.d. and the Luka Koper Group in 2017

| (in EUR) | Luka Koper, d.d. | | | Luka Koper Group | | |
|---|---|---|---|---|---|---|
| Income statement | 2016 | PLAN 2017 | IND PLAN 2017/ 2016 | 2016 | PLAN 2017 | IND PLAN 2017/ 2016 |
| Net sales | 190,407,498 | 209,570,765 | 110 | 199,543,696 | 215,383,022 | 108 |
| Earnings before interest and taxes (EBIT) | 45,536,427 | 53,348,775 | 117 | 49,325,438 | 54,652,350 | 111 |
| Earnings before interest, taxes, depreciation and amortisation (EBITDA) | 71,043,459 | 80,391,487 | 113 | 75,794,126 | 82,590,452 | 109 |
| Profit or loss from financing activities | 963,457 | 572,440 | 59 | -459,095 | -816,253 | 178 |
| Profit or loss before tax | 46,499,884 | 53,921,215 | 116 | 50,763,957 | 55,043,884 | 108 |
| Net profit or loss | 40,581,116 | 46,521,694 | 115 | 44,375,981 | 47,463,951 | 107 |
| Added value[17] | 118,409,242 | 129,151,100 | 109 | 129,692,675 | 137,714,935 | 106 |

| Statement of financial position | 31 Dec 2016 | PLAN 31 Dec 2017 | IND PLAN 2017/ 2016 | 31 Dec 2016 | PLAN 31 Dec 2017 | IND PLAN 2017/ 2016 |
|---|---|---|---|---|---|---|
| Assets | 472,932,135 | 511,606,743 | 108 | 489,991,097 | 523,094,478 | 107 |
| Non-current assets | 440,055,662 | 469,829,563 | 107 | 450,729,768 | 480,097,504 | 107 |
| Current assets | 32,876,473 | 41,777,180 | 127 | 39,261,329 | 42,996,973 | 110 |
| Equity | 304,425,949 | 338,776,121 | 111 | 331,978,921 | 367,038,642 | 111 |
| Non-current liabilities with provisions and long-term accrued costs and deferred revenue | 131,614,419 | 129,868,277 | 99 | 118,638,958 | 112,745,028 | 95 |
| Short-term liabilities | 36,891,767 | 42,962,345 | 116 | 39,373,218 | 43,310,808 | 110 |
| Financial liabilities | 126,332,908 | 137,377,452 | 109 | 110,332,958 | 117,347,122 | 106 |

[17] Added value = net sales + other revenue – costs of goods, material, services – other operating expenses excluding revaluation operating expenses.

| (in EUR) | Luka Koper, d.d. | | | Luka Koper Group | | |
|---|---|---|---|---|---|---|
| **Statement of cash flows** | 2016 | PLAN 2017 | IND PLAN 2017/ 2016 | 2016 | PLAN 2017 | IND PLAN 2017/ 2016 |
| Expenditure on investments in property, plant and equipment, investment property and intangible assets | 60,313,916 | 57,288,481 | 95 | 61,781,064 | 58,096,302 | 94 |
| **Ratios (in %)** | 2016 | PLAN 2017 | IND PLAN 2017/ 2016 | 2016 | PLAN 2017 | IND PLAN 2017/ 2016 |
| Return on sales (ROS) [18] | 23.9 % | 25.5 % | 106 | 24.7 % | 25.4 % | 103 |
| Return on equity (ROE) | 13.8 % | 14.4 % | 105 | 13.9 % | 13.6 % | 98 |
| Return on assets (ROA) | 8.8 % | 9.5 % | 107 | 9.3 % | 9.4 % | 101 |
| EBITDA margin[19] | 37.3 % | 38.4 % | 103 | 38.0 % | 38.3 % | 101 |
| Financial liabilities/equity | 41.5 % | 40.6 % | 98 | 33.2 % | 32.0 % | 96 |
| Net financial debt /EBITDA[20] | 1.8 | 1.7 | 96 | 1.4 | 1.4 | 102 |
| Dividend payout ratio | 27.0 % | 22.5 % | 83 | 27.0 % | 22.5 % | 83 |
| **Maritime throughput (in tons)** | 2016 | PLAN 2017 | IND PLAN 2017/ 2016 | 2016 | PLAN 2017 | IND PLAN 2017/ 2016 |
| Maritime throughput | 22,010,649 | 22,767,168 | 103 | 22,010,649 | 22,767,168 | 103 |
| **Number of employees** | 2016 | PLAN 2017 | IND PLAN 2017/ 2016 | 2016 | PLAN 2017 | IND PLAN 2017/ 2016 |
| Number of employees | 886 | 931 | 105 | 1,071 | 1,120 | 105 |

[18]Return on sales (ROS) = earnings before interest and taxes (EBIT) / net sales
[19]EBITDA margin = earnnigs before interest, taxes, depreciation and amortisation (EBITDA) / net sales
[20] Net financial debt /EBITDA = (financial liabilities – cash and cash equivalents)/EBITDA

## Business plan for 2017

Successful operations in the year 2016 and the adopted plan for the year 2017 will result in the efficient implementation of the business strategy of the Luka Koper Group to the year 2020 that was adopted in August 2015, which was especially proved by the fast-growing throughput of both strategic cargo groups of containers and cars. In future, the achievement of the business objectives set will, to a great extent, depend on the implementation of the planned investments in the port infrastructure. The greatest challenge will be timely obtaining of appropriate approvals and permits for the implementation of the planned investments and additional spatial capacities, which has a limiting impact on the turnover growth, but will cause higher operating costs and poor process efficiency.

In 2017, the maritime throughput is planned in the amount of 22.8 million tons, which is an increase of 3% over the year 2016.

The most important investments will be focused on the increase in container terminal capacities on the southern part of the first pier, construction of the new RO-RO berth in the third basin and the construction of the multipurpose warehouse on the second pier.

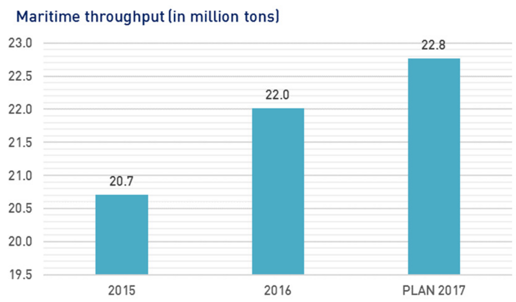
Based on the limitations that the company has faced, the strategic documents of the company will be again reviewed and adjusted in 2017 in order to further achieve efficient business results.

The question about the timing in the implementation of the substantial increase in capacities on the route Koper – Divača or the construction of the second railway track that would support the growth in throughput and further development of the port has still been open.

## Relevant data about the operations of Luka Koper, d.d. and the Luka Koper Group in 2017

**In 2017, the maritime throughput is planned in the amount of 22.8 million tons, which is an increase of 3% when compared to the maritime throughput achieved in 2016. Growth in the throughput of all cargo groups has been planned.**

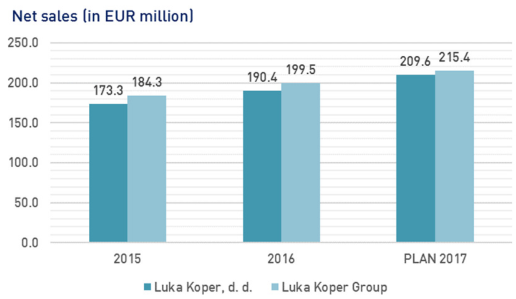
22,767,168 TONS
MARITIME THROUGHPUT
PLAN 2017/2016 **+3 %**




**In 2017, net sales of Luka Koper, d.d. are planned in the amount of EUR 209.6 million, which is an increase of 10% over 2016. Net sales of the Luka Koper Group will amount to EUR 215.4 million, which is an increase of 8% compared to the sales generated in 2016.**

EUR 209,570,765
LUKA KOPER, D.D.
NET SALES
PLAN 2017/2016 **+10 %**

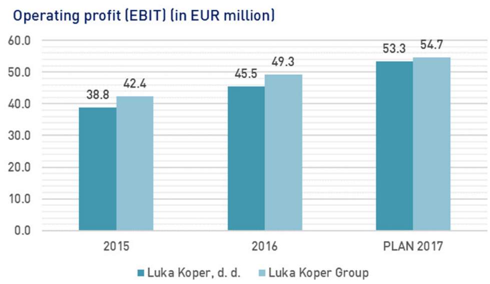
EUR 215,383,022
LUKA KOPER GROUP
NET SALES
PLAN 2017/2016 **+8 %**




**Earnings before interest and taxes (EBIT) of Luka Koper, d.d. are planned in the amount of EUR 53.3 million in 2017, which is an increase of 17% over the year 2016. Earnings before interest and taxes (EBIT) of the Luka Koper Group will amount to EUR 54.7 million in 2017, which is an increase of 11% over the result of 2016.**

EUR 53,348,775
LUKA KOPER, D.D.
EARNINGS BEFORE INTEREST AND TAXES
PLAN 2017/2016 **+17 %**

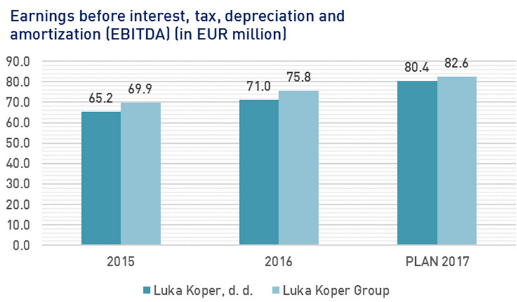
EUR 54,652,350
LUKA KOPER GROUP
EARNINGS BEFORE INTEREST AND TAXES
PLAN 2017/2016 **+11%**




**In 2017, earnings before interest, taxes, depreciation and amortisation (EBITDA) of Luka Koper, d.d. are planned in the amount of EUR 80.4 million, which is an increase of 13% than in 2016. Earnings before interest, taxes, depreciation and amortisation (EBITDA) of the Luka Koper Group will amount to EUR 82.6 million in 2017, which is an increase of 9% when compared to the result of 2016.**

EUR 80,391,487
LUKA KOPER, D.D.
EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTISATION (EBITDA)
PLAN 2017/2016 **+13 %**

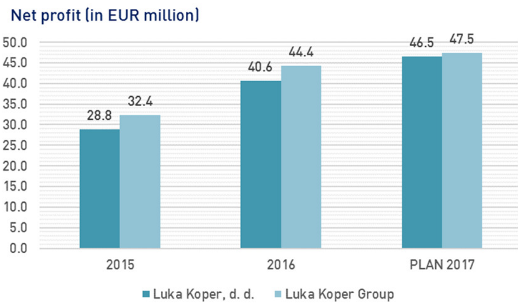
EUR 82,590,452
LUKA KOPER GROUP
EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTISATION (EBITDA)
PLAN 2017/2016 **+9%**




**In 2017, net profit or loss of Luka Koper, d.d. is planned in the amount of EUR 46.5 million, which is an increase of 15% over the year 2016. In 2017, net profit or loss of the Luka Koper Group will amount to EUR 47.5 million, which is an increase of 7% over the result of 2016.**

EUR 46,521,694
LUKA KOPER, D.D.
NET PROFIT OR LOSS
PLAN 2017/2016 **+15 %**

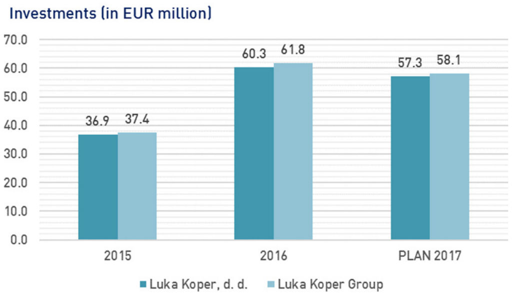
EUR 47,463,951
LUKA KOPER GROUP
NET PROFIT OR LOSS
PLAN 2017/2016 **+7 %**




**In 2017, investments in property, plant and equipment, investment property and tangible assets of Luka Koper, d.d. are planned in the amount of EUR 57.3 million, which is a reduction of 5% over the year 2016. In 2017, investments in property, plant and equipment, investment property and tangible assets of the Luka Koper Group will amount to EUR 58.1 million, which is a reduction of 6% over the results achieved in 2016. In 2017, the investments made in compliance with the strategy will be primarily focused on the increase in container terminal capacities on the southern part of the first pier, the construction of the new RO-RO berth in the third basin and the construction of the multipurpose warehouse on the second pier.**

EUR 57,288,481
LUKA KOPER, D.D.
EXPENDITURE ON INVESTMENTS
PLAN 2017/2016 **-5 %**

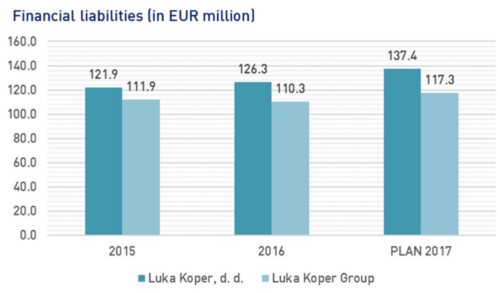
EUR 58,096,302
LUKA KOPER GROUP
EXPENDITURE ON INVESTMENTS
PLAN 2017/2016 **-6 %**




**In 2017, financial liabilities of Luka Koper, d.d. are planned in the amount of EUR 137.4 million, which is an increase of 9% over the year 2016. In 2017, the financial liabilities of the Luka Koper Group will amount to EUR 117.3 million, which is an increase of 6% over the liabilities of 2016. The financial liabilities will go up due to a higher volume of debts planned in relation to the investment activities in 2017, repayment of principals and dividend payout.**

EUR 137,377,452
LUKA KOPER, D.D.
FINANCIAL LIABILITIES
PLAN 2017/2016 **+9 %**

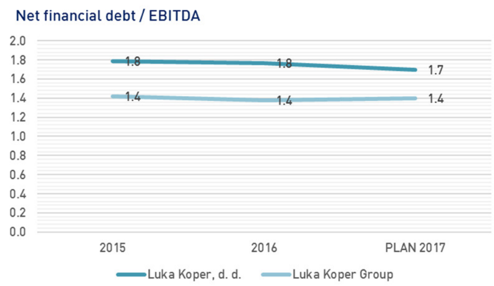
EUR 117,347,122
LUKA KOPER GROUP
FINANCIAL LIABILITIES
PLAN 2017/2016 **+6 %**




**Net financial debt /EBITDA of Luka Koper, d.d. is planned in the amount of 1.7 in 2017, which is a decrease of 4% when compared to the year 2016. Net financial debt /EBITDA of the Luka Koper Group will amount to 1.4 in 2017, which is an increase of 2% over the year 2016.**

1.7
LUKA KOPER, D.D.
NET FINANCIAL DEBT / EBITDA
PLAN 2017/2016 **-4%**

1.4
LUKA KOPER GROUP
NET FINANCIAL DEBT / EBITDA
PLAN 2017/2016 **+2 %**




**Return on equity (ROE) of Luka Koper, d.d. is planned in the amount of 14.4 % in 2017, which is an increasee of 5% when compared to 2016. Return on equity (ROE) of the Luka Koper Group will amount to 13.6% in 2017, which is a reduction of 2% over the year 2016.**

# 14.4%

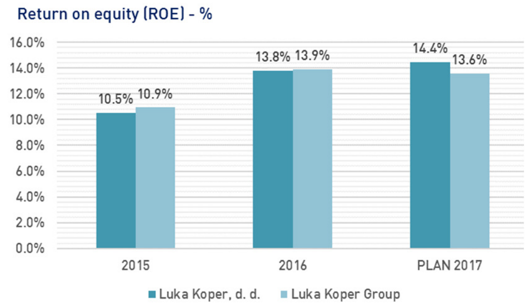
LUKA KOPER, D.D.
NET RETURN ON EQUITY (ROE)

PLAN 2017/2016 **+5%**

# 13.6%

LUKA KOPER GROUP
NET RETURN ON EQUITY (ROE)

PLAN 2017/2016 **-2 %**



WE HAD ANOTHER SUCCESSFUL YEAR AS AN INTRODUCTION TO THE 60TH ANNIVERSARY OF OPERATIONS

# 5 Letter of the President of the Management Board

Dear Ladies and Gentlemen,

Luka Koper, d.d. will celebrate the 60th anniversary this year. The company was actually renamed into Luka Koper only in 1961, but the establishment dates back to the year 1957, when the company named Pristanišča Koper was founded on 23 May. It took over the maritime throughput in the old ports in Koper, Izola and Piran. Its task was also to prepare all the necessary steps for the beginning of the transport in the newly constructed Port of Koper.

The road that the company left behind in these six decades was difficult, full of obstacles and denials. The idea about the construction of the cargo port in Koper had no political support at that time. Special thank goes to the individuals, enthusiasts and their perseverance and ingenuity; by melioration the shore along the northern side of the old town centre of Koper was changed to the first pier.

A decade later the company had to face again the rigidity of the authorities that did not understand the need for the construction of the railway connection between the port and the hinterland. Luka Koper had to finance this project by its own funds (the only case of this kind in the world), which plunged the company in a serious financial crisis, but on the other hand the railway gave a new impetus to the development of the port. Nowadays, no one can imagine the port of Koper without the railway connection. Probably, it would have been only a small local port, if it existed at all. The investments in the track of 31.4 km between Koper and Prešnica, in further extension of the port area, infrastructure and equipment made Luka Koper an important player in the European logistics – with the largest container terminal in the Adriatic Sea in terms of quantity of container throughput – and one of the largest car terminals in the Mediterranean.

Today, the Luka Koper Group is among the most successful international companies in its line of business as its return on equity amounted to 13.9% in 2016 and the return on sales to 24.7%. In the last three years, the result soared to a quadrupled amount; the growth in the throughput was accelerated by the substantial investments in the port capacities. The increase in the throughput resulted in the increase in revenue and general operating results of the Luka Koper Group. As a comparison: the Luka Koper Group ended the year 2013 with the revenue amounting to EUE 144 million and in 2016 the revenue amounted already to EUR 200 million. The growth has become even more evident in the cash flows (EBITDA) that amounted to EUR 40 million in 2013, and to EUR 76 million in 2016.

In comparison with the year 2013 when net profit amounted to almost EUR 8 million, it increased by five times and amounted to EUR 44 million in 2016.

The end of the financial year 2016 coincided also with the end of the first development cycle of deepening the first basis to -14 m that started in 2014. In these years the Luka Koper Group invested EUR 129 million in the development of its core activity. In the period 2010 - 2013 the investments almost halved. The investments yielded results and the maritime throughput increased from 18 million tons in 2013 to 22 million tons in 2016. The highest growth was recorded in two strategic cargo groups: cars that went up from 463 thousand units in 2013 to 749 thousand in 2016, and containers that ended the year 2013 with 600 thousand TEU throughput, and the year 2016 with the record 845 thousand TEU. Parallel to the growth in the throughput the need for additional human resources grew and therefore the Luka Koper Group has employed 180 new persons in recent years.

Considering the fact that these results were achieved in the same port area as ten years ago, makes the above achievements even more impressive. In 2008, the concession area was determined by signing the concession agreement and it has not been changed since then. In 2009, the throughput amounted to 13 million tons of goods in the area of 280 ha, but in 2016 the throughput amounted already to 22 million tons of goods in the same area. The future development of the port will primarily depend on the acquisition of new areas for the port activity, staring with the extension of the container shore on the first pier by 100 m, which will be the major investment in 2017. The forecast of arrivals of increasingly large container ships requires a higher number of berths, a longer shore and large warehousing areas, transition to the new RMG technology (rail mounted gantry cranes) and new equipment – new cranes of the super post-panamax type are meant. In this year, they will be used also for the largest ships with the load-bearing capacity of 20,000 TEU and they will significantly increase the productivity of the container throughput to wagons.

Besides the container terminal, the need for additional capacities has arisen also in the car terminal, as it is among the largest ones in the Mediterranean when considering the number of cars put through in a year. Due to these facts it has been planned to construct a RO-RO berth in the third basin and the sixth group of railway tracks for the car throughput to wagons in the hinterland of the third basin.

We have obtained the right to draw European funds for the investments mentioned (in 2016, the inflows from Brussels exceeded EUR 3 million), and therefore it is of essential importance that obtaining of approvals will be carried out in accordance with the plans.

We at Luka Koper are looking forward to the jubilee year, especially because of the results achieved and in the light of the potentials of the Group in the field of sustainable development which deserves special attention of the Group. We are aware that the Port of Koper is a modern, environmentally friendly port that is responsible to be local community, which has been confirmed by numerous international awards and certificates as well as the public opinion of the people who live in the immediate vicinity of the port and strongly support our development plans.

Dragomir Matić
President of the Management Board of Luka Koper, d.d.

# 6 Report of the Supervisory Board for 2016

**WE REALIZE THE STRATEGY**

## Composition of the Supervisory Board

Since the beginning of 2016 the Supervisory Board operated in the following composition: Alenka Žnidaršič Kranjc, PhD, Elen Twrdy, PhD, Žiga Škerjanec, Andrej Šercer, MSc, Capt. Rado Antolovič, MBA, Sabina Mozetič, Mladen Jovičič, Stojan Čepar, Marko Grabljevec and Nebojša Topić, MSc. The term of office of Nebojša Topić expired on 27 July and Rok Parovel became the new member of the Supervisory Board on 12 September.

It is essential for the operation of the Supervisory Board that the core members remained unchanged, which enabled the continuity for the performance of tasks that the Supervisory Board had. In its work the Supervisory Board maintained the required level of confidence among its members and readiness of all the members to face the tasks that belong to the competence of the Supervisory Board. And thus, the conditions for the efficient operation of the Supervisory Board were created, which was relevant for all the events of key importance for the company in 2016. Different opinions on various matters were also expressed among the members of the Supervisory Board, but appropriate decisions were taken on the basis of a constructive dialogue and with respect to the challenges faced. In accordance with the facts mentioned the Supervisory Board continued its work that was established at a satisfactory level in 2015 and further upgraded in 2016.

## Operation of the Supervisory Board

In 2016, the Supervisory Board duly monitored and supervised the operations of Luka Koper, d.d. and assessed the work of the Management Board. In scope of its competence it was engaged in the performance of various tasks among which the following three have to be emphasised:

1. improvement in the company profitability,
2. risk control,
3. corporate integrity.

The Supervisory Board believes that the above-mentioned objectives were successfully achieved. With respect to the improvement in profitability it has to be mentioned that the EBITDA margin of Luka Koper, d.d. amounted to 37.3% in 2016, which was a decrease of 1% or 0.3% when compared to the EBITDA margin achieved in 2015. In 2015, the reversal of provisions in the amount of EUR 1.5 million relating to the court settlement was recorded under the other revenue. If the exclusion of the impact of other revenue higher by EUR 1.5 million in 2015 were considered, the EBITDA margin of the company would have been higher by 2% or 0.6 percentage points in 2016 than the EBITDA margin achieved in 2015.

In 2016, the risk control system was extended also to the level of subsidiaries of the Luka Koper Group. The exposure to all perceived risks was monitored and reported and special measures were determined and taken for the provision of the acceptable level of operational risks.

In 2016, the Company completely renewed the existing corporate integrity system. A person authorised for corporate integrity, who was appointed at the end of 2015, started working in 2016. Three key documents from this field were adopted and they included the Strategy of corporate integrity of the Luka Koper Group, the Code of Ethics of the Luka Koper Group and the Rules on accepting gifts in the companies of the Luka Koper Group. A committee for the discussion of reported violations of corporate integrity was appointed. The Audit Committee started to regularly discuss the reports submitted by the person authorised for corporate integrity and to inform the Supervisory Board accordingly. Certain events relating to the corporate integrity were discussed also directly in the meetings of the Supervisory Board.

The Supervisory Board did not only deal with its permanent tasks, but it also quickly responded to the unplanned extraordinary situations. Extraordinary situations that the company faced in 2016 were related to the delays in deliveries and removal of railway wagons and were quite problematic from the end of 2015 to March 2016. In this regard the Supervisory Board convened an extraordinary meeting at the beginning of 2016 and helped the Management Board contact the competent government bodies and other entities in order to solve the problems. The Supervisory Board was also active when the work was spontaneously stopped in Luka Koper at the beginning of July 2016; it adopted all the measures possible for the soonest continuation of work processes in the port. In cooperation with the Management Board the Supervisory Board was successful and certain work processes began even before the spontaneous stopping of the work ended. Immediately after the end of spontaneous stopping of the work the processes were carried out more intensively than usual in order to make up for the delays.

The Supervisory Board held seven ordinary meetings, four extraordinary meetings and four sessions by correspondence in the above composition.

All the members of the Supervisory Board attended the majority of the meetings and no one was frequently absent. The President, other members of the Management Board and professional employees mostly attended the meetings because of the items on the agenda. They currently explained the issues and provided information required for decision-making.

All the members actively participated and monitored the implementation of the decisions taken. They prepared well for the meetings and obtained additional information about the issues discussed. The composition and organisation of all three compositions of the Supervisory Board enabled the efficient performance of the supervisory function.

In addition to the three issues mentioned above and solving of the problems of extraordinary events the Supervisory Board devoted its undivided attention also to:

- criteria for the rewarding of the Management Board,
- adoption of the business plan,
- monitoring of the operations of the company and the Luka Koper Group,
- management of company's investments,
- long-term development of the company,
- monitoring of the competitive position of the company with respect to other ports in the region and in wider environment,
- renewal of processes in the company,
- measures for long-term and short-term increase in company's productivity,
- measures for the improvement in the operation of the Supervisory Board,
- HR issues in the company,
- inspections in the company,
- company's investments in other companies,
- preparation of the company's general meeting of shareholders,
- relations to Slovenian Sovereign Holding,
- relations to the Republic of Slovenia and the bodies of the local community.

In its ordinary meetings the Supervisory Board discussed the following relevant issues:

In the February meeting it:

- conducted the self-assessment for 2015,
- discussed the annual report of the internal audit for the year 2015,
- discussed the problems relating to the delays in the railway network.

In the April meeting it:

- discussed the annual report of the Luka Koper Group and Luka Koper, d.d. for the year 2015,
- discussed the annual report on the risk control system,
- discussed the summary of the comparative analysis with the competition.

In the May meeting it:

- determined the variable part of the salary for the members of the Management Board for the year l 2015,
- determined the criteria and profiles for the selection of candidates for the members of the Supervisory Board,
- discussed the HR potentials of Luka Koper, d.d.,
- gave its approval to the investments in the port infrastructure,
- discussed the changes in the Articles of Association of Luka Koper, d.d.

In the August meeting it:

- discussed the inspections conducted in Luka Koper, d.d.,
- discussed the consequences related to the spontaneous stopping of work in the Port of Koper at the beginning of July 2016,
- gave approval to the purchase of property.

In the September meeting it:

- discussed the topic of the meeting with Slovenian Sovereign Holding relating to the annual management plan of Luka Koper, d.d.,
- gave approval to the establishment of the building right.

In the November meeting it:

- discussed the summary of the comparative analysis with the competition,
- discussed the Strategy of corporate integrity in the Luka Koper Group,
- gave approval to the projects,
- was informed about the draft business plan for 2017,
- discussed the financial calendar for 2017.

In the December meeting it:

- discussed the Management strategy of Luka Koper, d.d.,

- discussed the business plan of the Group and Luka Koper, d.d. for 2017 and adopted it,
- discussed the annual plan of work of the internal audit for 2017 and adopted it,
- discussed the Strategy of IT development in Luka Koper, d.d.

### Work of the Supervisory Board Committees

In 2016, the HR Committee, Audit Committee and the Committee for Infrastructure and Operations regularly operated within the Supervisory Board and all of them positively contributed to its operation.

At the beginning of 2016 the HR Committee operated in the following composition: Capt. Rado Antolovič MBA (Chairman), Andrej Šercer, MSc (Member), Sabina Mozetič (Member) and Nebojša Topić, MSc (Member). During the year a change was made in the composition of the Supervisory Board; the term of office of Nebojša Topić, MSc in the Supervisory Board expired on 27 July. Rok Parovel was appointed a member of the Supervisory Board on 25 November.

In 2016, the HR Committee held four meetings. On 26 February it discussed the criteria for the calculation of the reward of the Management Board members for the year 2016 and self-assessment of the Supervisory Board for 2015. On 15 April the criteria for the selection of Supervisory Board members were discussed, on 20 May the variable portion of the reward of the Management Board members for the year 2015 was determined, the criteria and profiles for the selection of a Supervisory Board member were determined and the report on the renewal of the HR identification and successor system was discussed. In the meeting of 16 December the members of the Committee discussed the self-assessment of the Supervisory Board for the year 2016 and the criteria for the determination of the variable portion of salary for the Management Board for the year 2017.

The Audit Committee held seven meetings in 2016. To 7 July the Committee operated in the following composition: Žiga Škerjanec (Chairman), Alenka Žnidaršič Kranjc, PhD (Member), Barbara Nose (External Member) and Mladen Jovičič (Member). As at 7 July, Polona Pergar Guzaj replaced Barbara Nose as the external member. In scope of its operation the Audit Committee currently monitored the operations of Luka Koper, d.d. and discussed numerous relevant issues in its meetings. In the meeting of 26 February it discussed the information on the operations of the Luka Koper Group and Luka Koper, d.d. in the period January - December 2015, answers of the Management Board to the Management Letter of the audit firm KPMG, d.o.o. after the conducted preliminary audit of the financial statements for the year 2015, internal regulations in the field of corporate integrity, annual report of the internal audit for the year 2015 and self-assessment of the work of the Audit Committee for the year 2015. In the meeting of 15 April the Committee discussed the following reports: report of the auditors of KPMG Slovenija after the conducted audit of the financial statements of the Group and Luka Koper, d.d. for the year 2015, audited annual report of the Luka Koper Group and Luka Koper, d.d. for the year 2015, annual report on the risk control system and key risk control in the Luka Koper Group and the report on the implemented recommendations of the internal audit. In the meeting of 20 May the Committee discussed the unaudited report on the operations of the Luka Koper Group and Luka Koper, d.d. in the period January–March 2015. It was informed about the answers of the Management Board to the Management Letter after the conducted audit of the financial statements for the year 2015 and the report on the implementation of the recommendations of the internal audit of 31 March 2016 and a quarterly report on the operation integrity. In this meeting the Committee discussed also the proposal for the appointment of external auditors for the year 2016. In the meeting of 1 June the Audit Committee was informed about the quarterly report on the risk control and the Rules of Conduct for the person authorised for corporate integrity and discussed the policies of the Audit Committee relating to the procedures of external auditing. In the meeting of 30 August the Audit Committee was informed about the semi-annual report on the risk control and discussed the unaudited report on the operations of the Luka Koper Group and Luka Koper, d.d. in the period January-June 2016. In the August meeting it was also informed about the draft contract on the audit of the financial statements and the draft contract for transactions on giving commitments for the financial year 2016 and the semi-annual report on the work of the internal audit. In the meeting of 25 November the Committee was informed about the reporting of the KPMG auditors who presented the audit plan for the year that ended on 31 December 2016. In this meeting the members were also informed about the report on the risk control of the Luka Koper Group, they discussed the unaudited report on the operations of the Luka Koper Group and Luka Koper, d.d. in the period January –September 2016 and were informed about the report on the implementation of recommendations of the internal audit of 30 September 2016. In the meeting of 16 December the Audit Committee discussed the Management Letter after the conducted preliminary audit, was informed about the changes in the management policy of the public limited company Luka Koper, d.d. and the policies for the preparation of the diversity policy. In the December meeting they discussed also the annual survey of risks and the plan of risk control of the Luka Koper Group for 2017, the plan of internal audit for 2017 and the revised Rules of Conduct for the work of the Audit Committee.

The Committee for the Infrastructure and Operations held six ordinary meetings in 2016. At the beginning of the year it operated in the following composition: Elen Twrdy, PhD (Chairperson), Capt. Rado Antolovič, MBA (Member) and Andrej Šercer, MSc (Member). On 20 May the member of the Supervisory Board - Marko Grabljevec was appointed the member of the Committee. On 26 February the Committee was informed about the implementation of the investment plan in 2015 and about the report on monitoring the short-term measures for the increase in productivity in the period January – December 2015. In the meeting of 15 April 2016 it was informed about the status of investments in the increase of capacities on the first pier, on 16 May it discussed the investments in the port infrastructure, implementation of the investment plan for the period January – March 2016 and the report on the monitoring of impacts of short-term measures for the increase in productivity in the period January – March 2016. In the meeting of 30 August the Committee reviewed the implementation of the investment plan for the period January – June 2016 and discussed the approvals of individual investments in the port infrastructure and purchase of property. In the meeting of 18 November it discussed the implementation of the investment plan for the period January – September 2016 including the report on the project status. In this meeting it discussed also the investment plan for the year 2017 with the pertaining reports, and the report on the status of the project of passenger terminal development and the report on monitoring the impacts on short-term measures for the increase in productivity in the period January – September 2016.

### Absence of the individual Supervisory Board members and members of Committees within the Supervisory Board by meeting

| Meeting No. | Date of the meeting | Absent members |
|---|---|---|
| **Supervisory Board meetings** | | |
| 19th ordinary meeting | 19 February 2016 | Marko Grabljevec |
| 21st ordinary meeting | 20 May 2016 | Elen Twrdy, PhD |
| 23rd ordinary meeting | 30 September 2016 | Mladen Jovičić, Rok Parovel |
| 24th ordinary meeting | 25 November 2016 | Elen Twrdy, PhD, Sabina Mozetič |
| 25th ordinary meeting | 16 December 2016 | Sabina Mozetič |
| 3rd extraordinary meeting | 5 July 2016 | Capt. Rado Antolovič (part of the meeting) |
| 4th extraordinary meeting | 7 July 2016 | Capt. Rado Antolovič (part of the meeting) |
| **Meetings of the HR Committee** | | |
| 13th ordinary meeting | 16 December 2016 | Sabina Mozetič |
| **Meetings of the Committee for infrastructure and operations** | | |
| 21st ordinary meeting | 18 November 2016 | Capt. Rado Antolovič |
| **Meetings of the Audit Committee** | | |
| 17th ordinary meeting | 15 April 2016 | Alenka Žnidaršič Kranjc, PhD |
| 18th ordinary meeting | 20 May 2016 | Alenka Žnidaršič Kranjc, PhD |
| 19th ordinary meeting | 1 June 2016 | Alenka Žnidaršič Kranjc, PhD |
| 20th ordinary meeting | 30 August 2016 | Polona Pergar Guzaj |

### Assessment of the work of the Supervisory Board

The present Supervisory Board has operated since October 2013. Some changes in the membership were made, as it is evident from the data stated above. In 2016, the Supervisory Board successfully performed its tasks, which is proved by the results of the company and the activities actively performed by the Supervisory Board that are described under **Operation of the Supervisory Board**.

In line with the methodology of the Slovenian Directors' Association the Supervisory Board carried out the self-assessment for the year 2016. It also appointed one of its members for the formulation of the proposal for measures aiming at the improvement in performance of the Supervisory Board in the fields that have to be improved. The members who operated in 2016, filled in also a questionnaire regarding the conflict of interest from the Corporate Governance Code for public limited companies. The company published their statements on its website.

The self-assessment in accordance with the questionnaire for the self-assessment of the Audit Committee as proposed by the Slovenian Directors' Association was carried out for 2016 also by the Audit Committee of the Supervisory Board and was informed about the analysis of the answers to questions in its meeting.

### Costs of operation of the Supervisory Board

Based on the provisions of Article 25 of the Articles of Association of Luka Koper, d. d., the General Meeting of Shareholders made a decision on 21 August 2015 on determining the payment for carrying out the function and attendance fee for the Supervisory Board Members and Members of the Committees of the Supervisory Board until revoked. In accordance with this Article the Supervisory Board Members are entitled to the payment of attendance fee in the amount of EUR 275 gross per session. The Members of the Supervisory Board, who are also Members of the Committees are entitled to 80% of this amount when they attend Committee meetings. The attendance fee for correspondence sessions amounts to 80% of the attendance fee. With respect to the facts mentioned and regardless of the attendance in the meetings in a separate financial year an individual member of the Supervisory Board is entitled to the payment of attendance fee, until the total amount of attendance fees reaches 50% of the basic pay for the performance of the function of the Supervisory Board Member at an annual level. Regardless of the number of attendances in the meetings of the Supervisory Board and Committees an individual member of Supervisory Board, who is the Member of the Committee or Committees of the Supervisory Board, is entitled to the payment of attendance fees in an individual financial year, until the total amount of attendance fees paid for the attendance of the meetings of the Supervisory Board and the Committees reaches 50% of the basic pay for the performance of the function of the Supervisory Board Member at the annual level, increased by 25%.

In addition to attendance fees, each Member of the Supervisory Board receives a basic pay for carrying out their functions in the amount of EUR 13,000 gross. The Chairman of the Supervisory Board receives a supplement of 50% of the basic pay for carrying out this function. The Deputy Chairman is entitled to the supplement in the amount of 10% of the basic pay for the performance of the function of the Supervisory Board Member. Members of Committees of the Supervisory Board receive a supplement amounting to 25% of the basic pay for the performance of the function of the Supervisory Board Member. The Chairperson of Committees is entitled to the supplement for the performance of the function in the amount of 50% of the pay for the performance of the function of the Supervisory Board Member. Regardless of the facts mentioned above and regardless of the number of the Committees it chairs or is a member of, an individual member of the Committee of the Supervisory Board is entitled to the payment of supplements, until the total amount of supplements reaches 50% of the basic pay for the performance of the function of the Supervisory Board Member at an annual level.

Should the term of an individual member of the Supervisory Board be shorter than the financial year, an individual member of the Committee of the Supervisory Board, is entitled to the payment of supplements for the duration of its term of office regardless of the facts mentioned above and the number of Committees it chairs or is a member of in an individual financial year until the amount of such supplements reaches 50% of the basic pay for the performance of the function of the Supervisory Board Member. Members of the Supervisory Board and Members of Committees of the Supervisory Board receive the basic pay and supplement for the performance of the function in proportion of the monthly pay they are entitled to as long as they perform the function. The monthly payment amounts to one twelfth of the annual amounts stated above. The limitation of the total payments of attendance fees or payments of supplements to a Member of the Supervisory Board does not affect its duty to actively participate in all the meetings of the Supervisory Board and the meetings of the Committees whose member it is and its legally determined responsibility. Members of the Supervisory Board and Members of the Committees of the Supervisory Board are entitled to the refund of travel expenses and other expenses related to the arrival and participation in the meetings in line with the Articles of Association and regulations governing the refund of work-related costs and other income not included in the tax base.

In its 17th meeting of 30 November 2015 the Supervisory Board determined also the payment to the external member of the Audit Committee of the Supervisory Board. It decided that she was entitled to the payment in the amount of 25% of the basic gross payment that an individual member of the Supervisory Board is entitled to for the performance of the function in the Supervisory Board. The external member is also entitled to the payment of attendance fees in the same amount for the presence in the Audit committee meetings as the members of the Supervisory Board for their participation in the Committees of the Supervisory Board. If the external member of the Audit Committee attends a meeting of the Supervisory Board, she is entitled to the attendance fee only if there is no meeting of the Audit Committee on the date of the meeting of the Supervisory Board. In this case the amount of attendance fee is equal to the attendance fee for the participation in the Audit Committee meeting. The external member of the Audit Committee is entitled also to the refund of travel expenses and other costs related to the arrival and participation in the meetings as the Members of the Supervisory Board.

Payments to individual Members of the Supervisory Board and Members of Committees of the Supervisory Board are presented in detail in the Accounting Report of Luka Koper, d.d. in Note No. 30 Transactions with related parties. In addition to the payments to the Members of the Supervisory Board, the Supervisory Board paid their members EUR 431 for the training and EUR 83 for judicial services and EUR 120 for the membership fee in associations in 2016.

### Adoption of the annual report and the view on the auditor's report

The Supervisory Board discussed the annual report of Luka Koper, d.d. and the Luka Koper Group for the year 2016 in its 27th ordinary meeting of 31 March 2017 and the proposal of the Management Board for the appropriation of the accumulated profit.

The Supervisory Board was informed about and discussed also the audit report in which the certified audit firm KPMG Slovenija, podjetje za revidiranje, d.o.o. established that the financial statements as the components of the annual report, presented a true and fair view of the financial position of the company and the Group and of their income statement, the statement of changes in equity and the cash flow statement.

By verifying the annual report the Supervisory Board established that the reporting on the operation of the company Luka Koper, d.d. and the Luka Koper Group was clear and transparent and gave a true and fair view of their financial position as at 31 December 2016. The Supervisory Board had no comments on the auditor's report.

The Supervisory Board Members unanimously adopted the Annual Report of Luka Koper, d.d. and the Consolidated Annual Report of the Luka Koper Group including the audit report for 2016 in the meeting of 31 March 2017. It has been established that the annual report is officially adopted in line with the provisions of Article 282 of the Companies Act and the Articles of Association of Luka Koper, d.d.

### Proposal for the appropriation of the accumulated profit for the year 2016

The Supervisory Board believes that the proposal of the Management Board for the appropriation of the accumulated profit complies with the dividend policy and the strategic development orientation of the company and takes into account the interest of shareholders for a long-term increase in the share value. In 2016, Luka Koper, d.d. generated net profit in the amount of EUR 40,581,115.50. Based on the decision of the Management Board the company created other revenue reserves amounting to half of net profit of 2016 when compiling the annual report. The company established that the accumulated profit equalled EUR 20,321,602.99 in 2016.

The Supervisory Board adopted the annual report for 2016 as well as the proposal for the appropriation of the accumulated profit that Management and Supervisory Boards will propose for adoption by the General Meeting of Shareholders. The proposal for the appropriation of the accumulated profit that amounted to EUR 20,321,602.99 as at 31 December 2016 was as follows:

- a portion of accumulated profit amounting to EUR 13,440,000.00 should be used for the payout of dividends in the gross amount of EUR 0.96 per ordinary share,
- the residual amount of accumulated profit in the amount of EUR 6,881,602.99 should remain unappropriated.

The Supervisory Board of the company establishes that the conditions for granting discharge to the Management and Supervisory Boards for 2016 have been fulfilled on the basis of the annual report of Luka Koper, d.d. and the Luka Koper Group, auditor's report and this report of the Supervisory Board.

Alenka Žnidaršič Kranjc, PhD
Chairperson of the Supervisory Board of Luka Koper, d.d.

THE COMPANY RAISES THE LEVEL OF CORPORATE INTEGRTY

# MANAGEMENT REPORT

## 7 Corporate Governance Statement

In line with the provisions of Article 70, paragraph 5 of the Companies Act Luka Koper, d.d. issues the following Corporate Governance Statement.

### CODES AND MANAGEMENT PRACTICE

The Corporate Governance Code for public limited companies of 8 December 2009 applied to the company in the period 1 January - 31 December 2016. The code was jointly drawn and adopted by the Ljubljana Stock Exchange (Ljubljanska borza, d.d.), Ljubljana, the Slovenian Directors' Association and the Managers' Association of Slovenia and put into force on 1 January 2010. The code is accessible on the websites of the Ljubljana Stock Exchange http://www.ljse.si in the Slovene and English languages. The Corporate Governance Code for Companies with Capital Assets of the State (adopted in March 2016) that is accessible in the websites of the Slovenian Sovereign Holding http://www.sdh.si/en-us/asset-management/corporate-governance-code- and the Recommendations and expectations of the Slovenian Sovereign Holding (adopted in February 2016) also applied to the company and are accessible on the websites of the Slovenian Sovereign Holding http://www.sdh.si/en-us/about-sdh/company-details. The company adopted no corporate governance of its own. The governance is carried out in compliance with the provisions of the Companies Act, the codes mentioned above and the recommendations. On 20 April 2010 the Management Board adopted the Corporate Governance Policy that the Supervisory Board adopted on 13 May 2010. This policy follows the principles of the Corporate Governance Code of public limited companies and is accessible on the websites of the Ljubljana Stock Exchange http://seonet.ljse.si/default.aspx?doc=SEARCH&doc_id=41169. In 2016, the company prepared the new corporate governance policy that the Management Board adopted on 6 December 2016 and the Supervisory Board approved it on 16 December 2016. It is accessible on the websites of the company https://luka-kp.si/eng/corporate-documents. In its corporate governance the company voluntarily decided to apply the Slovene corporate integrity guidelines that are accessible on the website http://www.korporativna-integriteta.si/Smernice/Smernice(SSKI).aspx, on the basis of which it adopted its own Corporate Integrity Strategy of the companies in the Luka Koper group and the Code of Ethics of the Luka Koper Group that are accessible on the websites of the company https://luka-kp.si/eng/corporate-documents .

## 1. Governance of Luka Koper, d.d.

In the governance the company observes the provisions of the applicable codes. Major derogations are stated and/or explained in the sections below.

- The remuneration of the Management Board members is paid in accordance with the Act Governing the Remuneration of Managers of Companies with Majority Ownership held by the Republic of Slovenia or Self-Governing Local Communities. Due to this fact the Supervisory Board of the company did not prepare any special proposal of the remuneration policy for the Management Board and submit it for the adoption by the General Meeting of Shareholders (derogation from the Corporate Governance Code of public limited companies, Items 5.7 and 8.10),

- When appointing committees the Supervisory Board does not determine the foreseen term of office, as the term of office in the committees of the Supervisory Board coincides with the term of office in the Supervisory Board. The functions of the Supervisory Board members in the committees end by the expiry of the term of office in the Supervisory Board. The framework competence of the Supervisory Board Committees is determined in the Rules of Conduct for the work of the Supervisory Board (derogation from the Corporate Governance Code of public limited companies, Item 13.2),

- The benefit for liability insurance of company bodies and managers is charged to the Supervisory Board members and it is considered the only benefit (derogation from the Corporate Governance Code for Companies with Capital Assets of the State, Item 6.9.3),

- In the remuneration policy of the management bodies the company strictly follows the provisions of the Act Governing the Remuneration of Managers of Companies with Majority Ownership held by the Republic of Slovenia or Self-Governing Local Communities. Due to this fact the Supervisory Board of the company did not prepare any special proposal of the remuneration policy in compliance with the Code (derogation from the Corporate Governance Code for Companies with Capital Assets of the State, Item 7.3),

- In case of delays in the implementation of the internal audit recommendations the reasons are to be stated and explained (derogation from the Corporate Governance Code for Companies with Capital Assets of the State, Item 9.2.7),

- Luka Koper, d.d. prepares 5-year business plans. With respect to the compliance with the provisions of the Concession Agreement the company has to prepare a 5-year programme of port development and therefore it pursues the timing of both documents (derogation from the Recommendations and expectations of the Slovenian Sovereign Holding, Item 1.1.)

- As a rule, the company does not conclude any lump-sum agreements. Exceptions are only the agreements where such a method of cooperation is more economical due to the nature of the service performance (derogation from the Recommendations and expectations of the Slovenian Sovereign Holding, Item 3.7),

- With respect to the good operating results Luka Koper, d.d. paid out 13$^{th}$ salary in 2016 in line with the company's collective agreement in the amount of 100% of the average monthly salary of an employee (derogation from the Recommendations and expectations of the Slovenian Sovereign Holding, Item 4.2.2.)

- The company's collective agreement has not been made public as both parties to the agreement do not agree with the publicly available company's collective agreement (derogation from the Recommendations and expectations of the Slovenian Sovereign Holding, Item 4.4).

- The self-assessment process in line with the EFQM excellence model has been at the staring phase. In 2016, the company organised a presentation workshop for potential participants – employees in the self-assessment procedure - in cooperation with the Metrology institute of the Republic of Slovenia that was awarded by the Republic of Slovenia for business excellence in line with the EFQM model and the promotor of the model. In 2017, further activities will be carried out for the self-assessment in line with the EFQM excellence model (derogation from the Recommendations and expectations of the Slovenian Sovereign Holding, Item 5.1.)

Pursuant to the Slovenian Corporate Integrity Guidelines that were prepared by the Chamber of Commerce and Industry of Slovenia, the Managers' Association, the

Slovenian Directors' Association and Faculty of Economics in Ljubljana in January 2014 that the company voluntarily accepted in October 2014, the Corporate Integrity Strategy of the companies in the Luka Koper Group was adopted at the level of the Luka Koper Group on 9 November 2016 and the Code of Ethics of the Luka Koper Group on 29 November 2016.

There were no relevant derogations from the Slovenian Corporate Integrity Guidelines in the governance of the company. In the Slovenian Corporate Integrity Guidelines of the companies in the Luka Koper Group the Group obliged to continuously upgrade the corporate integrity system. In 2016, a committee for the discussion of reported violations of corporate integrity was appointed. This committee helps the person authorised for corporate integrity in the discussion and exploration of individual issues that could be considered possible violations in the field of corporate integrity. Training of the employees in the field of corporate integrity was also established in 2016. By signing the accession statement relating to the provisions of the Code of Ethics of the Luka Koper Group the employees supported the zero-tolerance of the company to non-ethical corruptive and unlawful acts.

## 2. Governance of the subsidiaries

The Corporate Governance Code for Companies with Capital Assets of the State (adopted in March 2016) and Recommendations and expectations of the Slovenian Sovereign Holding (adopted in February 2016) apply also to subsidiaries in the Luka Koper Group where Luka Koper, d.d. is a controlling company. In compliance with the facts mentioned Luka Koper, d.d. gives a report on the observance of the provisions of the Code mentioned and the recommendations also for its subsidiaries, i.e. Adria Terminali, d.o.o., Luka Koper Pristan, d.o.o., Adria Investicije, d.o.o., Luka Koper INPO, d.o.o., Logis Nova, d.o.o., and TOC, d.o.o. In the governance the subsidiaries follow the provisions of the Code and the recommendations; major derogations are stated in the sections below.

- In the annual report the subsidiaries gave no statement on the governance compliance with the Code, which will be harmonised with the recommended practice in future (derogation from the Corporate Governance Code for Companies with Capital Assets of the State, Item 3.4).

- On the basis of the results achieved, in line with the Collective agreement and the conditions met for the payment of the 13th salary the subsidiaries Luka Koper INPO, d.o.o., Adria Terminali, d.o.o. and TOC, d.o.o. paid the 13th salary to the employees in the amount of the average salary (derogation from the

Recommendations and expectations of the Slovenian Sovereign Holding, Item 4.2.2.).

- The collective agreements of Luka Koper INPO, d.o.o. and Adria Terminali, d.o.o. have not been made public as both parties to the agreement do not agree with the publicly available company's collective agreement (derogation from the Recommendations and expectations of the Slovenian Sovereign Holding, Item 4.4).

- The subsidiaries did not conduct the self-assessment in line with the EFQM model as the re-introduction of this approach has been in progress at the level of the controlling company - Luka Koper, d.d. (derogation from the Recommendations and expectations of the Slovenian Sovereign Holding, Items 5.1 and 5.4).

## INTERNAL CONTROLS AND RISK MANAGEMENT RELATED TO FINANCIAL REPORTING

The Luka Koper Group manages risk related to financial reporting, implementation of the orientations and internal control procedures adopted. The purpose of internal control is to provide accuracy, reliability and completeness of acquiring data on transactions and preparation of financial statements that give a true and fair view of the financial position, profit or loss, cash flows and changes in equity in accordance with the applicable laws, International Accounting Standards and other external and internal regulations. All has been provided also by the centralised accounting function in a uniform IT system in the controlling company that includes all the subsidiaries and the majority of associated companies.

The accounting controls have been designed in accordance with the principle of reality and division of responsibility and focusing on the control of accuracy and completeness of data processing, reconciliation of the balance, presented in the books of account, and the actual balance, separation of records from conducting transactions, professionalism of accountants and independence. Internal controls in accounting are related also to the controls in the field of IT that provide also limitations and supervision over the access to the network, data and applications as well as accuracy and completeness of data acquisition and processing.

The Luka Koper Group manages risks related to the consolidated financial statements also by the conduct of external audit of the consolidated financial statements, audit of the financial statements of the controlling company and the subsidiary Luka Koper INPO, d.o.o. and the examination of the reporting package for the needs of the consolidation of subsidiaries Adria Terminali, d.o.o., Luka Koper Pristan, d.o.o., and TOC, d.o.o.

## DATA IN COMPLIANCE WITH ARTICLE 70, PARAGRAPH 6 OF THE COMPANIES ACT

Luka Koper, d.d. as a company subject to the application of the act regulating acquisitions states data as at 31 December 2016 and all the required explanations in line with the provision of Article 70, paragraph 6 of the Companies Act:

### Structure of the company's share capital

The company shares are ordinary no-par value shares that grant a right to participate in the company management to their holders, right to profit sharing - dividend and the right to the appropriate share of the remaining property after the liquidation or bankruptcy of the company. All the shares are registered shares, of one class and issued in book-entry form. The company shares are freely transferrable and listed on the Ljubljana Stock Exchange, first listing. Detailed data about the share and ownership structure is presented in Section LKPG share.

### Share transfer limitations

All company shares are freely transferrable.

### Qualified shares in accordance with the Takeovers Act

Pursuant to Article 77, paragraph 1 of the Takeovers Act the achievement of the qualified share on 31 December 2016 was as follows:

- the Republic of Slovenia held 7,140,000 shares issued by Luka Koper, d.d., which accounted for 51.00% of the initial capital of the issuer of the shares,
- Slovenian Sovereign Holding (Slovenski državni holding, d.d.) held 1,557,857 shares issued by Luka Koper, d.d., which accounted for 11.13% of the initial capital of the issuer of the shares.

### Holders of securities granting special control rights

The company issued no securities that would grant special control rights.

### Employee share scheme

The company has no employee share scheme.

### Limitation of voting rights

There is no limitation of voting rights.

### Agreements among shareholders that may result in limitation of share transfer or voting rights

The company has not been informed of any such agreements.

### Company rules concerning the appointment or replacement of members in the management or supervisroy bodies

The Management Board of the company has the President and up to three members, of which one is the Employee Director. The President of the Management Board and other Management Board members are appointed and dismissed by the Supervisory Board. The Employee Directors as the Management Board member is appointed and dismissed by the Supervisory Board on a proposal of the Workers' Council. The term of office of the President of the Management Board, Management Board members and the Employee Director is five years with the possibility of re-appointment. The Supervisory Board has the right and competence to dismiss the entire Management Board or an individual the Management Board member.

The Supervisory Board can early dismiss the President of the Management Board, Management Board members and the Employee Director due to reasons stated in the act. At least half of the Supervisory Board members have to be present in the meeting for the quorum of the Supervisory Board when appointing or dismissing the President of the Management Board, Management Board member or the Employee Director and at least half of the present Supervisory Board members have to be representatives of the capital, of which the Chairman of the Supervisory Board and deputy Chairman of the Supervisory Board are to be present as well.

The President and members of the Management Board, except the Employee Director, shall have at least university education, a thorough knowledge of one world language, and minimally five years of work experience in decision-making positions in large companies in accordance with the criteria stipulated by the act regulating companies. Detailed conditions and the criteria for the president and member of the Management Board are determined by the Supervisory Board. The conditions for the Employee Director are jointly determined by the Supervisory Board and the Workers' Council.

The Supervisory Board has a HR Committee that carries out preliminary procedures relating to the selection of candidates for the Management Board of the company and proposes the most suitable candidates for the Management Board members to the Supervisory Board. Before submitting the proposal it verifies if the candidates suggested meet the legal and statutory criteria for the Management Board members.

The Supervisory Board of the company consists of nine members, of which six are elected by the General Meeting of Shareholders by the simple majority of votes of the shareholders present and three members are elected by the Workers' Council. One of six Supervisory Board members can be proposed by the municipality or municipalities in the port area. On the basis of the decision the General Meeting of Shareholders established the election and discharge of the Supervisory Board members elected by the Workers' Council. The decision on an early discharge of the Supervisory Board members has to be taken by a three-quarters majority of the votes submitted in the General Meeting of Shareholders. The Supervisory Board members elected out of the employees can be discharged before the expiry of the term of office by the Workers' Council. On the basis of a decision the General Meeting of Shareholders only establishes their discharge. Each elected Supervisory Board member can be proposed and re-appointed as the Supervisory Board member after the expiry of the term of office.

The Management and the Supervisory Boards have not formulated the diversity policy relating to the representation in the management and control bodies of the company as it is stipulated in the new Companies Act and the new Slovenian Corporate Governance Code of public limited companies adopted on 27 October 2016 that was put into force on 1 January 2017. Irrespective of the facts mentioned the company has pursued the objective of diversity relating to the representation in the management and control bodies. The gender diversity has significantly improved in the management and control bodies in recent years and intergenerational diversity and educational diversity have also been observed. In December 2016 the Management Board prepared the orientations for the formulation of the company's diversity policy and informed the Supervisory Board of the company accordingly.

### Company rules concerning changes in the Articles of Association

The General Meeting of Shareholders decides on the changes in the Articles of Association with three-quarters majority of the initial capital represented.

### Powers of the Management Board members, especially those relating to own shares

Powers of the Management Board members are determined in the Section **COMPANY MANAGEMENT**. The Management Board has no special powers relating to the issue or purchase of own shares.

### Relevant agreements that are put into effect, are changed or terminated on the basis of the change in the company control as a result of the public takeover offer

The company has not been informed of any such agreements.

### Agreements between the company and the members of its management or control body or employees that foresee compensation if they resign, are dismissed without valid grounds or their employment contract expires because of the offer stipulated by the Takeovers Act

There have been no agreements in accordance with the Takeovers Act.

## MANAGEMENT SYSTEM

Luka Koper, d. d. operates under a two-tier management system, under which the Company has three management bodies: the General Meeting of Shareholders, the Supervisory Board, and the Management Board. The competencies of individual bodies and the rules on their operation, appointment, discharge and the changes in the Articles of Association are determined in the Companies Act, Articles of Association of the company, Rules of Procedure on the Work of the Supervisory Board, Management Board and the General Meeting of Shareholders. Individual provisions on the operation of the Management Board are available also in other general acts on internal company regulation. The Articles of Association of the Company are available at https://luka-kp.si/eng/corporate-documents.

## GENERAL MEETING OF SHAREHOLDERS

The General Meeting of Shareholders is the highest body of the Company and decides on its status changes, appropriation of the profit, the appointment or discharge of Members of the Supervisory Board and all other issues. It makes decisions in accordance with the Companies Act and the Articles of Association of Luka Koper, d. d. The ownership structure of Luka Koper, d.d. is presented in Section The LKPG Share.

### Convening the General Meeting of Shareholders

The Management Board usually convenes the General Meeting of Shareholders once a year or several times, if necessary. The convening of the General Meeting of Shareholders is published at least once a month on the AJPES website, on the electronic system of the Ljubljana Stock Exchange SEOnet, and on the Company's website. The Company's website https://luka-kp.si/eng/general-assembly includes the complete material with the proposals for decisions, which is also made available to shareholders at the Company's head office. In compliance with the rules of the Ljubljana Stock Exchange, all decisions taken at the General Meeting of Shareholders are published.

### Participation and voting rights

Shareholders may take part in the General Meeting and exercise their voting right if their presence is reported to the Management Board by the end of the fourth day set for the General Meeting and if shares or a share certificate is submitted for inspection.

The company has no limitations relating to the voting rights, as all shares of Luka Koper, d.d. provide voting rights in line with the legislation.

Luke Koper, d.d. has no securities that would give any special control rights to their holders

### Decisions of the General Meeting of Shareholdes

In 2016, the shareholders had one General Meeting:

- the 27th General Meeting of Shareholders that took place on 1 July 2016.

In the 27th General Meeting of 1 July 2016 the shareholders:

- were informed about the adopted Annual Report of the Luka Koper Group and Luka Koper, d.d. for 2015, auditor's opinion and the Report of the Supervisory Board about the verification of the annual report of Luka Koper, d.d. and the Luka Koper Group for 2015,
- decided on the proposal for the appropriation of the accumulated profit for 2015 in the amount of EUR 15,880,814.24, where it was defined that:
    - a portion of the accumulated profit amounting to EUR 15,820,000.00 should be used for the payout of dividends in the gross amount of EUR 1.13 per ordinary share,
    - the residual amount of accumulated profit amounting to EUR 60,814.24 should remain unappropriated,
- granted discharge to the Management and Supervisory Boards for 2015,
- appointed the audit firm KPMG Slovenija, podjetje za revidiranje, d.o.o. as the auditor for the financial year 2016,
- adopted the changed in the Articles of Association of Luka Koper, d.d.,
- decided on the amount of payment for the performance of the function and attendance fees paid to the Supervisory Board Members and Members of the Committees of the Supervisory Board for the period until revoked,
- adopted amendments to the Articles of Association of Luka Koper, d.d.,
- were informed about the decision of the Workers' Council of Luka Koper, d.d. of 18 January 2016. It derives from this decision that the Workers' Council appointed Marko Grabljevec as the representative of the employees in the Supervisory Board for the 4-year term of office.

## THE SUPERVISORY BOARD

The Supervisory Board oversees the running of the Company's operations. Other tasks and powers of the Board, in accordance with the law and the Company's Articles of Association, are: appointing and dismissing the Management Board, determining the amount of Management Board's remuneration, approval of the annual report, preparing proposals for the appropriation of the accumulated profit, and convening the General Meeting of Shareholders.

### Composition of the Supervisory Board

The Supervisory Board of Luka Koper, d.d. consists of nine members. Six are elected by the General Meeting of Shareholders, and three by the Workers' Council of the Company. The Members of the Supervisory Board are elected for a 4-year term of office.

### Composition of the Supervisory Board of Luka Koper, d.d. as at 31 December 2016:

**Representatives of shareholders:**

**Alenka Žnidaršič Kranjc, PhD,** Chairperson of the Supervisory Board

Beginning of a 4-year term of office: 7 October 2013 (23rd General Meeting of Shareholders)

Membership in other management or supervisory bodies: Management Board of Prva osebna zavarovalnica, d.d.

**Elen Twrdy, PhD,** Deputy-Chairperson of the Supervisory Board

Beginning of a 4-year term of office: 7 October 2013 (23rd General Meeting of Shareholders)

Membership in other management or supervisory bodies: Dean of the Faculty of Maritime Studies and Transport, Member of the Supervisory Board of Primorske novice, d.o.o.

**Capt. Rado Antolović, MBA,** Supervisory Board Member

Beginning of a 4-year term of office: 7 October 2013 (23rd General Meeting of Shareholders)

Membership in other management or supervisory bodies: President of the Management Board of P&O Maritime, Director in the companies: Anderson Hughes Pty Ltd, Base Marine Norway AS, Eureka Maritime Pte Ltd, Hannah Kristina AS, P & O Maritime Services (South Africa) (Proprietary) Limited, P&O Maritime Cyprus Limited, P&O Maritime Cyprus Offshore Limited, P&O Maritime FZE, P&O Maritime Holdings (Australia) Pty Limited, P&O Maritime Services (Ireland) Ltd, P&O Maritime Services (UK) Limited, P&O Maritime Services Pty Ltd, Remolcadores de Puerto y Altura, S.A.

**Andrej Šercer, MSc,** Supervisory Board Member

Beginning of a 4-year term of office: 7 October 2013 (23rd General Meeting of Shareholders)

**Žiga Škerjanec,** Supervisory Board Member

Beginning of a 4-year term of office: 7 October 2013 (23rd General Meeting of Shareholders)

**Sabina Mozetič,** Supervisory Board Member

Beginning of a 4-year term of office: 21 August 2015 (26th General Meeting of Shareholders)

Membership in other management or supervisory bodies: Member of the General Meeting of Rižanski vodovod Koper, d.o.o., Member of the Council of the Health Centre in Koper

**Representatives of the employees:**

**Mladen Jovičič,** Supervisory Board Member

Beginning of a 4-year term of office: 8 April 2013 (21st General Meeting of Shareholders – informing of shareholders)

**Marko Grabljevec,** Supervisory Board Member

Beginning of a 4-year term of office: 18 January 2016 (27th General Meeting of Shareholders – informing of shareholders)

**Rok Parovel,** Supervisory Board Member

Beginning of a 4-year term of office: 12 September 2016 (the shareholders will be informed in the 28th General Meeting of Shareholders)

**External member of the Audit Committee of the Supervisory Board:**

**Polona Pergar Guzaj,** External Member of the Audit Committee of the Supervisory Board

She was appointed on 7 July 2016 (8th General Meeting of Shareholders), for the period from 7 July 2016 until revoked.

Membership in other management or supervisory bodies: member of the Audit Committee of Žito, d.d. and Management Board member of 4E d.o.o.

## Work of the Supervisory Board

The work of the Supervisory Board is governed by statutory regulations, the Articles of Association and the Rules of Procedure on the work of the Supervisory Board, the Management Code for publicly traded companies, Corporate Governance Code, Governance Code for Capital Investments by the Republic of Slovenia, Recommendations and expectation of the Slovenian Sovereign Holding and Recommendations of the Slovenian Directors' Association.

In 2016, the Supervisory Board worked in the above composition. Work, decisions, and viewpoints of the Supervisory Board and the Committees of the Supervisory Board are reported in detail in the Report on the Supervisory Board for 2016.

Each individual member of the Supervisory Board signed a statement, taking into account the provisions 8 and 17.2 of the Corporate Governance Code of public limited companies and at the beginning of 2017 it signed a statement of no conflict of interest in 2016 that would imply that an individual member:

- performed the function of an executive director or member of the management board of a company and related party or performed such functions in the last five year,
- worked for a company or related party and held such a position in the last three years,
- received high extra pays from the company or related party, except the pay it received as the Supervisory Board Member,
- was a majority shareholder and represented the majority shareholder/majority shareholders,
- had important business contacts with a company or related party in the last year, either directly as a partner, shareholder, managing director or manager in a body,
- is or was a partner or employee of the present or former external auditor in the company or related party now or in the last three years,
- was the executive director or member of the management board of another company, where it was the executive director or member of the management board of the company, member of the supervisory board, or was in any way related to the executive director or members of the management board through cooperation in other companies and industries,
- was a member of the Supervisory board for longer than three terms of office (or over 12 years),
- was a close family member of the members of the management board or persons holding positions mentioned in the previous indents,
- was a member of the wider management board of a related party,
- participated in the preparation of the proposal for the annual report of the company.

Statements are also available at https://luka-kp.si/eng/corporate-documents.

### Committees of the Supervisory Board

The Supervisory Board has three committees:
- the HR Committee,
- the Audit Committee,
- the Committee for Infrastructure and Operations.

The committees perform specific tasks to help the Supervisory Board.

At the beginning of 2016 the HR Committee was appointed in the following composition: Capt. Rado Antolovič, MBA (Chairman), Andrej Šercer, MSc (Member), Sabina Mozetič (Member) and Nebojša Topić, MSc (Member). On 27 July 2017 the term of office of Nebojša Topić in the HR Committee of the Supervisory Board expired. On 25 November 2016 Rok Parovel was appointed the member of the HR Committee of the Supervisory Board.

In 2016, the Audit Committee comprised of Žiga Škerjanec (Chairman), Alenka Žnidaršič Kranjc, PhD (Member), Barbara Nose (External Member) and Mladen Jovičič (Member). On 7 July 2016 Barbara Nose was removed from the office and Polona Pergar Guzaj was appointed the external member.

In 2016, the Committee for Infrastructure and Operations comprised of Elen Twrdy, PhD (Chairperson), Capt. Rado Antolovič MBA (Member), and Andrej Šercer, MSc (Member). On 20 May 2016 Marko Grabljevec was appointed the member of the Committee for Infrastructure and Operations.

### Remuneration of the Supervisory Board

The Members of the Supervisory Board and Members of Committees of the Supervisory Board are entitled to the attendance fees and pay for the performance of functions. The General Meeting of Shareholders determines the amount of attendance fees and pays. The Members of the Supervisory Board and Members of the Committees of the Supervisory Board are also entitled to the refund of travel expenses and other costs relating to the arrival and participation in the meetings. Remuneration of the Supervisory Board and the amounts are presented in the Accounting Report of Luka Koper, d.d. in Note No. 30 Transactions with related parties and the Report of the Supervisory Board for 2016, and the ownership of shares is discussed under Section The LKPG Share.

## THE MANAGEMENT BOARD OF THE COMPANY

The work of the Management Board is regulated by the statutory provisions, Articles of Association, Rules of Procedure on the work of the Management Board, Corporate Governance Code for Companies with Capital Assets of the State, and Recommendations and Expectations of the Slovenian Sovereign Holding. Pursuant to the Articles of Association, the Management Board manages and represents the company.

### Composition of the Management Board

The Management Board of Luka Koper, d.d. worked in the following composition until 31 January 2016:

- Dragomir Matić (President of the Management Board),
- Andraž Novak (Member of the Management Board),
- Irena Vincek (Member of the Management Board in charge of Finance and Accounting),
- Stojan Čepar (Member of the Management Board- Employee Director).

### Composition of the Management Board of Luka Koper, d.d. as at 31 December 2016:

- **Dragomir Matić**, born 1964
  *President of the Management Board*

Mr Matić holds a BSc in Transport Technology. He gained his work experience in a forwarding agency and started working for Luka Koper d.d. in 1987. Initially, he worked as a transport worker in the port and gradually climbed the ladder to the position of the Executive Director for Operations and Logistics. From 2012 to the appointment as the President of the Management Board of Luka Koper, d.d. he worked as the assistant to the director in the company for international forwarding. On 10 June 2014 he started his five-year term of office at the invitation of the Supervisory Board and based on the decision on the appointment of the President of the Management Board.

- **Andraž Novak**, born 1966
  *Member of the Management Board*

After several years of service in the merchant navy, where he achieved the position of first officer, Mr Novak obtained the title of marine engineer at the Faculty of Maritime Studies and Transport in Portorož in 1995. Since 1995 Mr Novak has occupied various managerial positions at Luka Koper, d.d. including director of the Dry Bulk Terminal and the General Cargo Terminals. In 2008, he completed specialist post-graduate studies at the Faculty of Maritime Studies and Transport. On 10 June 2014 he started his five-year term of office at the invitation of the Supervisory Board and based on the decision on the appointment of the President of the Management Board.

- **Irena Vincek**, born 1972
  *Member of the Management Board in charge of Finance and Accounting*

Ms Vincek graduated from the Faculty of Economics in Ljubljana in 1996. In 1996, she got her first employment in Intereuropa, d.d., where she worked in the controlling department and then kept the ledger. In 2000, she continued her career with the audit firm Ernest & Young, and in 2004 started working for Istrabenz d.d. She was an assistant to the Management Board responsible for accounting for five years and then worked as an assistant to the Management Board responsible for Accounting and Controlling for two years. She got employed at Luka Koper, d.d. in 2012 as an internal auditor and in September 2014 she started managing finance and accounting. On 21 August 2015 the Supervisory Board appointed her the Member of the Management Board for finance and accounting for a 5-year term of office.

- **Stojan Čepar**, born 1977
  *Employee Director*

After his studies at the Technical Colleague Josef Stefan in Trieste, focusing on electronics – electrical engineering he started his career in Kobilarna Lipica and BTC Terminal in Sežana where he was responsible for various specialist projects. In 2002, he got employed at Luka Koper, d.d. as an operator of cranes and other machinery. In 2008, he was elected in the Workers' Council and in April 2009 he was appointed a representative of employees in the Supervisory Board of the Company, where he is also a member of the HR Committee and the Committee for Infrastructure and Operations. He performed his function to November 2015. The Members of the Workers 'Council appointed him the new Employee Director on 1 October 2015 and the Supervisory Board confirmed his appointment and the beginning of a five-year term of office on 30 November 2015.

A member of the Management Board has to disclose any conflict of interest to the Supervisory Board and inform other members of the Management Board accordingly.

Presentation of the Management Board Members is available also at https://luka-kp.si/eng/management.

### Work of the Management Board

The Management Board autonomously directs the operations of the Company in its best interests, and assumes the sole responsibility for its actions. It performs its work in accordance with the regulations, the Articles of Association and the binding decisions of the Company bodies.

The Company is represented by the Members of the Management Board, who are in charge of the following areas:

Management Board of Luka Koper, d.d., left to right: Stojan Čepar, Irena Vincek, Dragomir Matić, Andraž Novak

### Tasks of the President of the Management Board:

- Office of the Management Board,
- Secretary of the bodies,
- Operations and sales (profit centres, operations),
- Marketing,
- HR,
- Legal affairs,
- Public relations,
- Port safety.

### Tasks of the Membeer of the Management Board:

- Investments,
- Purchasing and maintenance,
- Strategic development.

### Tasks of the Member of the Management Board in charge of Finance and Accounting:

- Finance and accounting,
- Controlling,
- Management and development of business processes.

### Tasks of the Member of the Management Bord – Employee Director:

- Representation of interests of the employees relating to HR and social issues,
- health protection and ecology,
- activities related to written agreements between employees and employers (participating agreement and other agreements).

All members of the Management board jointly harmonise and manage the field of internal audit.

Management Board of Luka Koper, d.d., with heads of terminals and heads of departments

### Remuneration of the Management Board

The remuneration of the Members of the Management Board consists of fixed and variable portions. They are determined in employment contracts concluded for a definite time of managing the company for a Management Board member, in annexes to the employment contracts and decisions of the Supervisory Board. The employment contracts and annexes are concluded between individual members of the Management and Supervisory Boards; they specify also refunds and benefits. When concluding contracts and annexes for the Members of the Management Board the Chairperson of the Supervisory Board represents the Supervisory Board. Remuneration of the Management Board is presented in the Accounting Report of Luka Koper, d.d. in Note No. 30 Transactions with related parties. The ownership of shares is presented in Section The LKPG share.

## MANAGEMENT AND GOVERNANCE OF THE COMPANIES IN THE LUKA KOPER GROUP

Luka Koper, d.d. has established a corporate governance system which includes the controlling company and 21 companies – from single-person limited companies to the companies with the shares lower than 1%. With respect to the method of management all investments are divided into four groups:

- Strategic investments are investments in shares and stakes of the companies engaged in activities directly associated with strategic orientations of the controlling company. They are managed in accordance with the principle of the group operation.
- Other strategic investments are investments in shares and stakes of the companies engaged in activities relevant for the controlling company due to wide social and sustainable motives.  They are managed in accordance with the principle of investment trust.
- Portfolio investments are investments in shares of companies which are listed on the stock exchange, investment funds, deposits and other financial instruments. They are managed for the purpose of ensuring and managing the liquidity of the Luka Koper, d. d. and the Luka Koper Group.
- Non-strategic investments are investments in shares and stakes of the companies engaged in activities not directly linked to the strategic orientation of the controlling company, and are not portfolio investments. They are managed in accordance with the investment trust. These investments will be subject to various types of disinvestment.

The dividend policy follows the classification of an individual investment: when acting as a shareholder in non-strategic investments, we strive to achieve the objective of maximised profit payment and the role of a shareholder in strategic and other strategic investments we pursue the objective of a balanced profit payment under consideration of the investment-development company cycles.

The objectives in the field investment management were set in the strategic business plan of the company and the Group for the period 2016-2020 by the upgrade of the corporate governance system, especially in cases of strategic investments. Business control will be established for them by organising regular periodic meetings of management boards of the companies with the Management Board of the controlling company and by harmonising business processes based on the determination of minimal standards of key business processes.

### Management and governance of the subsidiaries in the Luka Koper Group as at 31 December 2016

| Company | Managing Director | Share of the controlling company in ownership (in %) |
|---|---|---|
| Luka Koper INPO, d.o.o. | Mirko Pavšič | 100.00 |
| Adria Terminali, d.o.o. | Aleš Miklavec | 100.00 |
| Luka Koper Pristan, d.o.o. | Darko Grgič | 100.00 |
| Adria Investicije, d.o.o. | Boris Jerman | 100.00 |
| Logis Nova, d.o.o. | Mirko Pavšič | 100.00 |
| TOC, d.o.o. | Ankica Budan Hadžalič | 68.13 |

## INTERNAL AUDIT

The internal audit activity in Luka Koper, d.d. has been performed on the basis of the adopted fundamental internal audit document for the field of internal audit. The purpose of the internal audit is to carry out the function of internal auditing for the public limited company - Luka Koper, d.d. and the subsidiaries. It is an independent organisational unit that directly reports to the Management Board of the company. The organisational independence has been successfully implemented through the responsibility and reporting to the Audit Committee and the Supervisory Board. Its operation has been defined in the Internal Rules on the operation of the internal audit that has been prepared in compliance with the applicable definition of the internal audit, the Code of internal audit principles, Code of Ethics of an internal auditor and International Standards for the Professional Practice of Internal Auditing. In accordance with the applicable definition the internal audit activity helps implement the objectives of the company and the Group by systematic and methodical assessment and improvement in the efficiency of risk management, control of procedures and their management. It operates with the aim to add value to more reliable achievement of the objectives set.

In 2016, the internal audit carried out internal audit engagements and other activities in accordance with the adopted annual plan of work. Eight engagements were planned, one engagement from the previous year was completed and three unplanned engagements were also conducted. In scope of the engagements the existence and operation of internal controls and risk control were examined and recommendations for their improvement were given in some areas. After-audit activities were performed on a quarterly basis in addition to the planned and unplanned auditing; they were intended for the review of implemented measures for the improved control of the risks perceived during the internal audit work. Consulting was also performed in the field of purchasing and as the informal consulting activity it was primarily focused on the assistance in the development of the internal control system, and risk management.

The internal audit reported on the individual engagement to the management of the audited unit and the Management Board; periodically it submitted a summary report on the findings, risks and implementation of the internal audit recommendations to the Management Board and the Audit Committee of the Supervisory Board. The internal audit reports to the Supervisory Board on an annual basis.

The development of the internal audit has been implemented by means of the programme for the provision and improvement in quality. Its purpose is to provide the operation of the internal control in compliance with the applicable rules of the profession to all the interested parties and the operation of internal audit which is successful and efficient. The last external audit of the internal audit quality operation that confirmed these facts was carried out in 2015 and in future the quality and improvement in its operation shall be provided by internal audits.

## EXTERNAL AUDIT

In the 27th ordinary meeting of 1 July 2016 the General Meeting of Shareholders appointed the audit firm KPMG Slovenija, podjetje za revidiranje, d.o.o., Železna cesta 8a, Ljubljana for the audit of the financial statements of Luka Koper, d.d. and the Luka Koper Group in the financial year 2016.

The costs of audit services performed for Luka Koper, d.d. and its subsidiaries are presented in the consolidated accounting report, Note 32: Transactions with the audit firm.

Dragomir Matić

President of the Management Board of Luka Koper, d.d.

Andraž Novak

Member of the Management Board of Luka Koper, d.d.

Alenka Žnidaršič Kranjc, PhD

Chairperson of the Supervisory Board of Luka Koper, d.d.

ENCOURAGE THE AWARENESS OF THE RELEVANCE OF THE SECOND RAILWAY TRACK CONSTRUCTION

# 8 Survey of relevant events, novelties and achievements in 2016

## JANUARY

- The study with the title "What would be the consequences of the non-construction of the second railway track for the Slovene economy?" was presented to the Chamber of Commerce and Industry of Slovenia.
- The members of the Workers' Council appointed Marko Grabljevec a member of the Supervisory Board and a representative of the employees.
- Luka Koper published the call for sponsorship and donations from the "Living with the Port" Fund for the year 2016.
- The meeting of the management board members of the Association of Mediterranean Cruise Ports – MedCruis took place in Koper.
- On 14 January Luka Koper sent the General Manager of the Slovenian Railways, Dušan Mes, a letter with the information about the actual situation in the railway area in Luka Koper. The problems in the Slovene railway network gradually raised from November 2015, which caused long delays in port work. In January 2016, Luka Koper faced the problems of wagon delivery due to blocking of the railway line Koper-Divača.
- A delegation of the Chinese port Tijanjim visited the Port of Koper.
- Under the auspices of the European project Fresh Food Corridors Luka Koper was presented in the largest fair of perishable goods Fruit Logistica in Berlin.
- In scope of the Slovene economic delegation Luka Koper presented the advantages of the transport route through the Port of Koper to the Iranian economists.
- Luka Koper concluded a contract on the cooperation with Sherif Rashed relating to the assistance in the promotion of the Port of Koper in Egypt.
- The renowned business service company Dun & Bradstreet assessed the creditworthiness of Luka Koper, d.d. as excellent; it granted it the assessment of 5A1, which was an improvement when compared to the previous year, when it got 5A2. The received assessment of 5A1 is the highest possible credit rating, which identifies an excellent general business situation and the lowest assessment of risks in operations.

**FEBRUARY**

- In relation with the saturation of railway capacities in the Slovene railway network and consequently congestions in the cargo transport to the Port of Koper or from it Luka Koper proposed the establishment of the crisis unit with the aim to quickly solve the problem; the representatives of all the actors participating in the railway transport in Slovenia, SŽ-Tovorni promet, Rail Cargo Carrier, Adria Transport, Association of forwarding agents of Slovenia and SŽ-Infrastruktura were invited.
- The members of the parliamentary committees for infrastructure and economy discussed the construction of the second railway track between Koper and Divača on 22 February. The President of the Management Board of Luka Koper, d.d., the representative of the Trade Union of crane operators, port workers of Luka Koper, the representative of the Trade Union of post workers KS-90 and the Deputy-President of the Workers' Council of Luka Koper were present in the meeting.
- The employees started collecting signatures under the statement that required from the government to immediately start the construction of the second railway track between Koper and Divača and thus wanted to prevent the sale of the only Slovene cargo port.
- After four months of the car export through the Port of Koper Mercedes assessed the "southern logistic route" as a turning point in the development of its global logistic network. As it was emphasised, the export of cars through Koper to the Far East represents a step forward in the improvement of the entire logistic distribution. After Bremerhaven and Zeebrugg Koper is only the third export port that Mercedes included in its supply chains. Key conditions for the selection were reliability of infrastructure and specific experience in throughput and warehousing of sensitive cargo.

**MARCH**

- The President of the Management Board of Luka Koper, d.d., Dragomir Matić received the recognition of the economic leader in the Primorska region that was awarded for the 19th successive year by Radio Koper, Primorske novice and Televizija Koper. The recognition was awarded for the excellent business results and numerous records that the company achieved in 2015. The President of the Government of the Republic of Slovenia Miro Cerar participated in the event. While enumerating the successful achievements of the government and plans for the future he emphasised also the construction of the second railway track between Koper and Divača.
- During the night of 5 March the first test container train with perishable goods bound for Rotterdam was dispatched from the Port of Koper within the framework of the EU Fresh Food Corridors project. These were the goods of largest Israeli

exporters that are transported in line with the motorway of the sea concept. This was the first train in the history that was fully loaded with mechanically refrigerated containers and travelled Europe from south to the north. The cargo that is usually transported by ships from Israel to the North European ports will reach the same destination in a significantly shorter period of time, as the transit time through the new corridor is shorter by 6 days.

- Luka Koper was presented in the fair Seatrade Cruise Global in Miami; the fair is visited by all the relevant actors in the cruising industry.
- The mayors of Primorje signed the joint declaration on the support to Luka Koper, its development plan and the construction of the second railway track.
- The Economic and Social Council discussed the development dilemmas of Luka Koper and took two decisions: the state shall ensure sufficient investments in the public railway infrastructure with the priority of the second railway track and it should have no impact on the present management model of Luka Koper that shall remain the strategic investment of the state.
- In Cairo, Luka Koper was presented to the Egyptian economic leaders.
- A consultation on the construction of the second railway track was organized by the Council of State.
- The Government of the Republic of Slovenia took a decision on the establishment of the 2TDK project company that will perform all the activities for the implementation of the second railway track project.
- The Ministry of the Environment and Spatial Planning issued the building permit for the construction of the second railway track.
- In accordance with the statistical data published by the specialised journal Automotive Logistics Luka Koper was ranked twelfth when the number of throughput cars in the EU ports and third among the Mediterranean European ports was considered.
- The Algerian state shipping company CNAN MED established a shipping line between Koper and Algerian ports.

## APRIL

- The representatives of the Government of the Republic of Slovenia and key partners discussed the project of the second railway track in a working meeting. They agreed on the appointment of the project council and reached a compromise on the search for solutions that will not require any additional concessions in the port.
- Luka Koper presented awards to its best suppliers in 2015.
- A new regular container block bound for Salzburg started running from the

container terminal of Luka Koper. The operator is Adria Kombi.

- The Supervisory Board of Luka Koper, d.d. confirmed the proposal for the appropriation of the accumulated profit for the year 2015 that the Management and Supervisory Boards proposed for adoption to the General Meeting of Shareholders. The proposal of the appropriation of accumulated profit that amounted to EUR 15,880,814.24 as at 31 December 2015 was as follows:
    - a portion of the accumulated profit in the amount of EUR 9,520,000.00 should be used for the payment of dividends in gross value of EUR 0.68 per ordinary share,
    - the residual amount of accumulated profit in the amount of EUR 6,360,814.24 should remain unappropriated.
- Luka Koper joined the Slovene transport-logistic delegation that presented the transport route to Europe through the Port of Koper to Japan.

## MAY

- Luka Koper invited the Polish and Serbian business partners to a business meeting.
- The President of the Government of the Republic of Slovenia Miro Cerar visited Luka Koper in the company of the Minister of Infrastructure Peter Gašperšič and the Minister of Economic Development and Technology Zdravko Počivalšek.
- Luka Koper discussed business cooperation with the representatives of the Chines state agencies and the Council of the State of the People's Republic of China and the Algerian economic delegation.
- Over 3,000 persons visited the Port of Koper on the tenth traditional Port Day.

## JUNE

- Luka Koper organised a business meeting for Austrian partners in Koper.
- Slovenian Sovereign Holding addressed a request to Luka Koper, d.d. for the amendment of the agenda of the General Meeting of Shareholders by a proposal for the early discharge of three members of the Supervisory Board and a proposal for the appointment of three new members.
- The Slovenian Infrastructure Agency signed a contract for the construction of the extractable track and a contract for the examination of the estimated value and the possible rationalisation and optimisation for the project of the second railway track.
- The Committee of the National Assembly for public finance control discussed the problems of performing the management function of the Slovenian Sovereign Holding (SDH) in case of Luka Koper, d.d.

- The Workers' Council of Luka Koper, d.d. organised the workers' meeting and addressed the following issues to the government bodies: issues relating to building permits, extension of the concession area, adoption of the development programme, withdrawal of the replacement of three supervisory members from the agenda of the General Meeting of Shareholders and search for the responsibility for destabilisation of the company.
- Demonstrations for the support of Luka Koper were held on the main square in Koper.
- The investment in the preparation of the 9,000 m2 warehousing area for containers and the investment in extension of the port entrance were completed.
- Luka Koper as the only port was presented in the central logistic event in Austria, the logistic days.
- Luka Koper, d.d. received the judgement of the High Court in Koper in which the judgement of the District Court in Koper was confirmed and on the basis of which the claim of the plaintiff S-5 was rejected. S-5 demanded the payment of EUR 2,138,487.63 plus legal default interest and legal costs from Luka Koper, d.d.

**JULY**

- The provision of the SOLAS international convention was put into force. It mainly refers to the container weight, which has to be verified before a container is loaded on a ship. Luka Koper was timely ready for the changes and from 1 July 2016 the additional service of container weighing is carried out.
- In the 27th General Meeting of Shareholders of Luka Koper, d.d. of 1 July 2016 the shareholders:
    - took a decision on the proposal for the appropriation of the accumulated profit for the year 2015 in the amount of EUR 15,880,814.24; the counter-proposal of SDH, d.d. as the proposing party was adopted:
        - a portion of the accumulated profit in the amount of EUR 15,820,000.00 should be used for the payment of dividends in gross value of EUR 1.13 per ordinary share,
        - the residual amount of accumulated profit in the amount of EUR 60,814.24 should remain unappropriated;
    - were informed about the adopted annual report of Luka Koper, d.d. and the Luka Koper Group for the year 2015 including the auditor's opinion and the report of the Supervisory Board on the verification of the annual report of the company and the Group for the year 2015,
    - granted discharge to the Management Board and the Supervisory Board for the year 2015,

- appointed the audit firm KPMG Slovenija, podjetje za revidiranje, d.o.o. for the audit of the financial statements of the company and the Group for the year 2016,
- adopted changes in the Articles of Association of Luka Koper, d.d.
- were informed about the decision of the Workers' Council of Luka Koper, d.d. of 18 January 2016. that the Workers' Council appointed Marko Grabljevec as the representative of the employees in the Supervisory Board for the 4-year term of office, which began on 18 January 2016,
- were informed that the shareholder SDH, d.d. submitted a written withdrawal for the amendment of the agenda on its behalf and on behalf of the shareholder the Republic of Slovenia; the amendment referred to the discharge of three members of the Supervisory Board and the appointment of three new members of the Supervisory Board in the General Meeting of Shareholders.

- By the unannounced, sudden, unexpected and spontaneous rebellion that lasted from Friday, 1 July to Sunday, 3 July the employees of Luka Koper completely stopped all work processes in the port, on two days the work were carried out on a basis of an 8-hour working day with all the available resources and the work continued for the critical processes also in the night shift. The requirements of the workers did not refer to the employer, but to the state institutions. From the first day when the work was stopped in the Port of Koper the Management Board put all the efforts in resuming the work and achieved that the work in the Port started running smoothly on 5 July at 10 p.m. In the shortest time possible all delays were made up.
- The Committee of the National Assembly for public finance control continued the session that was interrupted twice and discussed the search for responsibility for the events in Luka Koper.
- On 12 July Banka Koper and Luka Koper signed a contract for a long-term 10-year loan with one-year moratorium in the amount of EUR 28 million. In accordance with the company's strategy the loan was intended for the completion of the investment in the construction of three new reservoirs for the needs of the liquid cargo terminal and the purchase of additional equipment for the needs of the container terminal. Banka Koper granted the unsecured loan that included financial covenants. Financial covenants do not deviate substantially from the financial covenants of the already obtained loans.
- As determined in the spatial plan of Slovenia the environmental impact assessment was prepared for the extension of the first pier. The application for the issue of the environmental approval was filed on 5 October 2015 and amended on 11 April 2016. It was established in the environmental impact assessment that the

construction, operation and possible closure in future or removal of the extension would not cause any excessive environmental pollution and that it was acceptable from the environmental aspect. In the amended report on the environmental protection it was established that the introduced safety management system provided the highest possible level of safety. The public presentation was organised in the period from 21 June to 20 July. During the procedure the Municipality of Koper submitted a request for the cooperation as a party to the proceedings, which would prolong the procedure of obtaining the environmental approval. Due to time-consuming procedures and the possibility of lodging complaints the company could not assess the timing for obtaining the approval and consequently the building permit.

- On 28 July the 4-year term of office of the Supervisory Board member Nebojša Topić, MSc, expired.
- The Austrian logistic paper Verkehr published an analysis of the Austrian overseas transport through the European ports in 2015. In terms of throughput Luka Koper was the largest port for Austria for the sixth successive year.
- In accordance with the invitation of the President of the Government Dr Miro Cerar the representatives of the management level of the employees in Luka Koper met in the premises of the Government in Ljubljana. They presented the reasons for the situation in the first days of July and emphasised that they were worried about the activities of the Government for a longer period of time and therefore they warned about them for over a year.

## AUGUST

- The parts for two new rail mounted gantry cranes were delivered to the Port. They will be used for the throughput of containers to wagons and from them. They will be assembled in the following months and put into operation at the beginning of 2017.
- The Supervisory and Management Boards of the company took the view about the potential introduction of the port authority and granting of additional concessions in the Port of Koper.

## SEPTEMBER

- The economic delegation from Bavaria, Japan and the delegation of Egyptian forwarding agents and sea agents visited Luka Koper.
- Three new E-RTG electrified rubber-tyred gantry cranes were delivered to the Port of Koper by ship that Luka Koper will use for the movement of the containers stored.

- The representatives of Luka Koper met the Israeli business partners in Tel Aviv.
- The operator Liberty Global Logistic established a new ship RO-RO/car carrier service from Koper bound for Near East.
- Luka Koper was presented to the participants in the economic forum in the Austrian Velden.
- The MSC shipping company introduced a new regular container line between Koper and Turkish ports.
- The Chamber of Commerce and Industry of Slovenia presented a bronze national award for the "brick made of marine sediment" innovation to Luka Koper.
- The Workers' Council of Luka Koper, d.d. appointed Rok Parovel the new representative of the employees in the Supervisory Board.
- The Chinese shipping company Orient Overseas Container Line (OOCL) established a new regular container service from the Far East for the Adriatic Sea.
- On 19 September Luka Koper received a compensation claim from Slovenian Railway in the amount of EUR 1.774 million for the payment of the damage caused by the spontaneous stopping of work in the port at the beginning of July 2016. On 29 September Luka refused the claim as unfounded.

## OCTOBER

- An 86-member delegation of honorary consuls of the Republic of Slovenia working all over the world visited Luka Koper.
- Luka Koper obtained an operating licence for the new fender for ships carrying livestock.
- The Taiwanese shipping company Evergreen Line joined the Chinese shipping company Coscu and the existing week container service connecting northern Adriatic Sea with the Israeli ports of Haifa and Ashdod.
- The Administration of the Republic of Slovenia for Civil Protection and Disaster Relief, Municipality Koper and Luka Koper successfully carried out a regional exercise "Passenger ship 2016" on the passenger terminal, where they checked leading and cooperation of the units for the protection and rescue in cases of major disasters on passenger ships moored in the Port of Koper.
- Luka Koper put through a project cargo of exceptional dimensions that presented a great challenge. It consisted of 25 parts, the heaviest weighed 56 tons, and the longest measured 36 meters. All the required infrastructure and know-how for the throughput of the most demanding cargoes are available to Luka Koper.
- On 24 October a public hearing was organised for the applications for the environmental approval concerning the extension of the first pier: The Municipality of Koper submitted its comments and Luka Koper answered in the deadline

**WE CELEBRATE OUR ACHIEVEMENTS TOGETHER**

agreed. Due to the time-consuming procedures and possibilities of lodging complaints the company could not assess the timing for obtaining the approval and consequently the building permit.

- Luka Koper purchased a new road-rail vehicle for drawing railway wagons.
- Luka Koper organised a reception for the participants in the Olympic Games in Rio de Janeiro coming from Primorska who were also sponsored by the company: Vasilij Žbogar, Špela Ponamarenko Janić, Tina Mrak and Veronika Macarol.
- The construction of the new truck filling station for petroleum products and the extension of the additive pumping station was completed.
- The subsidiary Adria Terminali, d.o.o. obtained a new warehouse constructed as a light metal structure in an area of 3,500 m2.
- The Chinese shipping company Cosco joined the Taiwanese shipping company Evergreen Line that regularly connects Koper with the Israeli ports of Haifa and Ashdod. Each shipping company will cover this regular container line by one ship.

## NOVEMBER

- Luka Koper presented the offer of services and development plans to the business partners from Slovakia, Hungary, Austria and Czech Republic.
- Twenty years ago the Luka Koper share (LKPG) was listed for the first time on the Ljubljana Stock Exchange.
- Luka Koper joined the Slovene economic delegation on a business visit in Iran.
- The Japanese logistic company Nippon Express started promoting Koper as the best logistic solution for container transport from Asia to Central Europe (Adria Direct).
- Luka Koper was presented in TransPoland 2016, the transport and logistic fair in Warsaw.
- Luka Koper participated in the forum Fruitnet South-East Europe 2016 in Belgrade.
- Luka Koper prepared a strategic document "Technological development of the port to the year 2020 with the orientations to the year 2030.

## DECEMBER

- The first ship of As Cypria was moored; it operates on the new regular container line between Koper and the Egyptian ports of Damietta and Alexandria.
- The Slovenian Environment Agency re-awarded the EMAS certificate to Luka Koper; the certificate proved that Luka operated in compliance with the environmental legislation.

- Luka Koper organised the traditional New Year's party for the port community.
- On 12 December the Port of Koper reached a new milestone with the record quantity of container and vehicle throughput. Up to that time 800 thousand containers and 700 thousand vehicles were put through. At the end of 2016 a record quantity of general cargoes was put through – 900 thousand tons.
- The largest container ship was moored in the history of the port, MSC Paloma with a capacity of 14,000 TEU.
- In its ordinary meeting of 16 December the Supervisory Board of the company was informed about the Business plan of Luka Koper, d.d. and the Luka Koper Group for the year 2017 and the assessment of operations for the year 2016 and gave its approval to the business plan.
- Luka Koper prepared the Strategic development orientations in the environmental field to the year 2030.
- The Government of the Republic of Slovenia took a decision on the increase in capital of the state-owned 2TDK company by for the implementation of the preparatory works for the second railway track that should start in summer 2017.
- Luka Koper invited the interested public to bid for the purchase of two properties: Accommodation in Prisoje and Garni hotel Pristan.
- Luka Koper signed a contract for the purchase of the asphalt car park in the port area that was rented in the past.

# 9 Relevant events after the end of the financial year

### JANUARY 2017

- Luka Koper published a call for sponsorships and donations in scope of the Living with the Port Fund.
- A strong bora hindered the work in the port for three days.
- Luka Koper published the updated document The policy of managing a public limited company.
- The bankruptcy of the associated company Golf Istra, d.o.o. was completed.

### FEBRUARY 2017

- A record monthly maritime throughput in the history of the port amounting to 2,212,045 tons was achieved.
- The business partners visited the new crane rail and the operation of the RMG cranes for the throughput of containers from and to railway wagons.
- Adria-Tow, d.o.o. got a new Mercur tugboat that was made in Spain.

### MARCH 2017

- Luka Koper, d.d. took over the half-year presidency in the North Adriatic Ports Association (NAPA).
- In cooperation with Pokrajinski muzej Koper the company opened the exhibition devoted to the 60th anniversary of Luka Koper.
- In its ordinary meeting of 13 March 2017 the Workers' Council of Luka Koper, d.d. unanimously re-elected Mladen Jovičić as the representative of the employees in the Supervisory Board of Luka Koper, d.d.; the 4-year term of office will start on 8 April 2017.

# 10 Performance analysis in 2016

**THE YEAR 2016 EXCEEDED THE RESULTS PLANNED AND THOSE OF THE PAST YEARS**

## 10.1 Summary of performance of the LUKA KOPER GROUP in 2016

### Comparison of the results achieved by the Luka Koper Group in 2016 and 2015

In 2016, net sales of the Luka Koper Group were generated in the amount of EUR 199.5 million, which was an increase of 8% or EUR 15.3 million over the year 2015. When compared to the previous year they increased in the field of core activity, i.e. loading and unloading of cargoes, filling and emptying of containers, storing and additional services.

In 2016, capitalised own products and own services amounted to EUR 1.4 million. The Group recorded maintenance works on the infrastructure under capitalised own products and own services; the works were mostly carried out by the subsidiary Luka Koper INPO, d.o.o.

Other revenue of the Luka Koper Group amounted to EUR 3.1 million in 2016, which was a decrease of 36% or EUR 1.8 million when compared to 2015. In 2015, the reversal of provisions in the amount of EUR 1.5 million was recorded and referred to the court settlement. The major share of other revenue in 2016 represented subsidies, grants and similar revenue in the amount of EUR 2 million that referred to drawing of assets assigned from the retained contributions of Luka Koper INPO, d.o.o.

Operating expenses of the Luka Koper Group stood at EUR 154.8 million in 2016, which was an increase of 5% or EUR 8 million over the year 2015. All kinds of costs recorded under operating expenses increased, except the amortisation and depreciation expense, when compared to the previous year. The costs of material of the Group amounted to EUR 15.5 million and were higher by 3% or EUR 473.6 thousand over the year 2015. The costs of ancillary material and spare parts increased most among the costs of material due to a larger scope of maintenance works. The costs of services of the Luka Koper Group amounted to EUR 50.3 million in 2016 and went up by 10% or EUR 4.5 million when compared to the year 2015. The costs of port services increased most among the costs of services due to the increased throughput, complex procedures of car throughput and a higher occupancy rate of warehouse areas. The concession costs increased as a result of higher operating revenue and costs of maintenance. The labour costs of the Luka Koper Group amounted to EUR 51.9 million in 2016 and grew by 8% or EUR 3.8

million when compared to 2015. The labour costs were higher due to a higher number of employees, an increase of the basic salary and higher payments due to work performance and holiday allowance. Other operating expenses of the Luka Koper Group amounted to 10.6 million in 2016; they went up by 3% or EUR 292.6 thousand over the year 2015. Among other expenses, the costs of compensation for the use of building land and expenses for the provisions formed for actions increased, but legal expenses reduced.

The share of operating expenses in net sales accounted for 77.6% in 2016, which was a reduction of 2 percentage points when compared to the year 2015. Comparatively, the share of amortisation and depreciation expense and other operating expenses, costs of services and labour costs decreased in net sales over the year 2015, but the shares of costs of material, costs of services and labour costs remained at the same levels.

In 2016, earnings before interest and taxes (EBIT) of the Luka Koper Group amounted to EUR 49.3 million; they went up by 16% or EUR 6.9 million over the year 2015.

Earnings before interest, taxes, depreciation and amortisation (EBITDA) of the Luka Koper Group amounted to EUR 75.8 million in 2016, which was an increase of 8% or EUR 5.9 million over the year 2015.

The EBITDA margin of the Luka Koper Group accounted for 38% in 2016 and remained at the level of the year 2015. In 2015, the reversal of provisions in the amount of EUR 1.5 million that was related to the court settlement was recorded under other revenue. If the exclusion of the impact of other revenue higher by EUR 1.5 million in 2015 were considered, the EBITDA margin of the company would have been higher by 2% or 0.9 percentage points in 2016 than the EBITDA margin achieved in 2015.

In 2016, the profit or loss from financing activities amounted to EUR -459.1 thousand and the Group achieved the negative financial result in the amount of EUR -5.9 million in 2015 due to the recognised impairment of the investment in the amount of EUR 4.3 million. When compared to the previous year, financial expenses for financial liabilities dropped in 2016 due to lower effective interest rates and due to the recognised capitalisation of interest and/or the addition of costs of borrowing property, plant and equipment in the amount of EUR 0.7 million. The result of the associated companies amounted to EUR 1.9 million in 2016, which was an increase of 43% or EUR 569.4 thousand over the year 2015.

Net profit or loss of the Luka Koper Group amounted to EUR 44.4 million in 2016 and went up by 37% or EUR 12 million when compared to 2015.

In 2016, return on equity (ROE) amounted 13.9%, which was an increase of 27% or 3 percentage points over the year 2015.

As at 31 December 2016, the financial liabilities of the Luka Koper Group amounted to EUR 110.3 million and fell by 1% or EUR 1.5 million over the previous year-end. In accordance with the disbursement schedules the liabilities to banks reduced due to the repayment of loans.

As at 31 December 2016, non-current financial liabilities to banks of the Luka Koper Group accounted for 88.7% of total financial liabilities. When compared to the balance of the previous year-end, their share reduced by 1 percentage points.

In 2016, the Luka Koper Group allocated the amount of EUR 61.8 million to investments.

### Implementation of the plans

In 2016, the Luka Koper Group generated net sales in the amount of EUR 199.5 million, which was an increase of 3% or EUR 4.9 million over the budgeted net sales.

Net sales of the Group relating to the market activity exceeded the budgeted net sales in 2016 by 6% or EUR 10.1 million. The revenue from the performance of the services of general economic interest relating to regular maintenance of the port infrastructure intended for public transport lagged behind the plan by 40% or EUR 5.3 million, which had an impact on the total excess of the budgeted revenue of the Group by 3% in 2016.

In 2016, earnings before interest and taxes (EBIT) of the Luka Koper Group amounted to EUR 49.3 million, which was an increase of 8% or EUR 3.6 million when compared to the plan.

Earnings before interest, taxes, depreciation and amortisation (EBITDA) of the Luka Koper Group amounted to 75.8 million in 2016, which was an increase of 5 % or EUR 3.8 million in comparison with the plan.

In 2016, the EBITDA margin of the Luka Koper Group was higher by 3% or 1 percentage point when compared to the budgeted margin.

In 2016, Luka Koper, d.d. foresaw a high volume of maintenance works for the services of general economic interest relating to regular maintenance of port infrastructure when compared to the plan for 2016. Consequently, its expected revenue higher by EUR 6.1 million due to drawing of long-term deferred revenue. As the approval of the plan by the Ministry of infrastructure was delayed – Luka received the approved plan on 5 May 2016 – the volume of actually performed maintenance works of the port infrastructure intended for public transport was smaller than planned. If the exclusion of the impact of revenue higher by EUR 6.1 million in 2015 were considered, the budgeted EBITDA margin would have amounted to 38.2% and as a result, the achieved EBITDA margin of the Luka Koper Group would have been lower by 0.2 percentage points in 2016 than planned (without the mentioned impact of long-term deferred revenue).

In 2016, Luka Koper, d.d. recognised the impairment of assets being acquired from previous years in the amount of EUR 1.5 million and provisions for actions in the amount of EUR 0.9 million that were not planned. If the exclusion of the impact of costs higher by EUR 2.4 million were considered, the EBITDA margin of the Luka Koper Group would have accounted for 39.2% and would been higher by 6% or 2.3 percentage points than planned.

Net profit or loss of the Luka Koper Group amounted to EUR 44.4 million in 2016, which was an increase of 17% or EUR 6.6 million when compared to the plan.

## 10.2 Summary of operations of LUKA KOPER, D.D. in 2016

### Comparison of the results achieved by Luka Koper, d.d. in 2016 and 2015

Luka Koper, d.d. generated net sales in 2016 in the amount of EUR 190.4 million, which was by 10% or EUR 17.1 million more than in 2015. In comparison with the previous year net sales improved in the field of core activity of loading and unloading of cargoes, filling and emptying of containers, storing and additional services. In 2016, the generated net sales of the company accounted for 95.4% of net sales of the Luka Koper Group.

Other revenue of Luka Koper, d.d. amounted to EUR 1.2 million in 2016, which was a decrease of 59% or EUR 1.7 million over the year 2015. In 2015, the reversal of provisions in the amount of EUR 1.5 million related to the court settlement was recorded. The major share of other revenue in 2016 included compensation and penalties received in the amount of EUR 406 thousand.

Operating expenses of Luka Koper, d.d. amounted to EUR 146 million in 2016, which was an increase of 6% or EUR 8.8 million over the year 2015. In comparison with the same period of 2015 all kinds of costs increased under operating expenses, except the costs of material and the depreciation and amortisation expense. In 2016, the costs of material amounted to EUR 13.6 million, which was a reduction of 2% or EUR 223.9 thousand over the year 2015. The costs of energy dropped most under the costs of material. The costs of services amounted to EUR 51 million, which was an increase of 13% or EUR 5.9 million over the year 2015. The costs of port services increased most under the costs of services; the reason for the increase was the increased throughput, complex procedures of car throughput and high occupancy rate of the storing areas. The concession costs went up as a result of higher operating revenue and the costs of maintenance. In 2016, labour costs of Luka Koper, d.d. amounted to EUR 45.4 million, which was an increase of 9% or EUR 3.6 million over the year 2015. Labour costs were higher due to a higher number of employees, an increase in the basic salary and higher payments of work performance and holiday allowance. Other operating expenses of the company amounted to EUR 10.5 million in 2016, which was an increase of 4% or EUR 378.9 thousand over the year 2015. Under other expenses, the costs of compensation for the use of building land and expenses for the provisions formed for actions increased, but legal expenses reduced.

In 2016, the share of operating expenses in net sales accounted for 76.7%, which was by 2.5 percentage points less than in 2015. In comparison with the previous year the share of costs of material and depreciation and amortisation expense in net sales reduced, the share of services increased, the share of labour costs and other operating expenses remained at the same level.

Earnings before interest and taxes (EBIT) of Luka Koper, d.d. amounted to EUR 45.5 million in 2016, which was an increase of 17% or EUR 6.7 million over the year 2015.

Earnings before interest, taxes, depreciation and amortisation (EBITDA) of Luka Koper, d.d. amounted to EUR 71 million in 2016, which was an increase of 9% or EUR 5.8 million over the year 2015.

The EBITDA margin of Luka Koper, d.d. accounted for 37.3% in 2016, which was a decrease of 1% or 0.3 percentage points over the year 2015. In 2015, the reversal of provisions in the amount of EUR 1.5 million was recorded under other revenue and it referred to the court settlement. If the exclusion of the impact of other revenue higher by EUR 1.5 million in 2015 were considered, the EBITDA margin of the company would have been higher by 2% or 0.6 percentage points than the EBITDA margin achieved in 2015.

Profit or loss from financing activities was positive in 2016 and amounted to EUR 963.5 thousand, but the company had negative results from financing activities in the amount of EUR -5.1 million in 2015 due to the recognised impairment of the investment in the amount of EUR 4.3 million. Revenue from shares mainly increased under financial revenue, but the capitalisation of interest or addition of costs of borrowing property, plant and equipment in the amount of EUR 0.7 million and lower effective interest rates had an impact on lower financial expenses for financial liabilities in 2016.

In 2016, net profit or loss of Luka Koper, d.d. amounted to EUR 40.6 million, which was an increase of 41% or EUR 11.7 million over the year 2015.

Return on equity (ROE) accounted for 13.8% in 2016, which was an increase of 32% or 3.3 percentage points over the year 2015.

As at 31 December 2016, financial liabilities of Luka Koper, d.d. amounted to EUR 126.3 million, which was an increase of 4% or EUR 4.4 million when compared to the previous year-end. Loans received from group companies, i.e. Luka Koper, INPO, d.o.o. increased.

Non-current financial liabilities to banks accounted for 77.5% of total financial liabilities as at 31 December 2016. Their share reduced by 4.8 percentage points over the previous year-end.

In 2016, Luka Koper, d.d. allocated the amount of EUR 60.3 million to investments, which accounted for 98% of investments of the Luka Koper Group.

### Implementation of the plans

Luka Koper, d.d. generated net sales in the amount of EUR 190.4 million in 2016, which was an increase of 4% or EUR 6.6 million when compared to the plan.

In 2016, net sales of Luka Koper, d.d. relating to the market activity exceeded the budgeted sales by 7% or EUR 11.9 million, but the revenue from the performance of the services of general economic interest relating to the regular maintenance of the port infrastructure intended for public transport lagged behind the plan by 40% or EUR 5.3 million, which had an impact on the total excess of the budgeted revenue of Luka Koper, d.d. by 4% in 2016.

Earnings before interest and taxes (EBIT) of Luka Koper, d.d. amounted to EUR 45.5 million in 2016, which was an increase of 7% or EUR 3.1 million over the budgeted earnings.

Earnings before interest, taxes, depreciation and amortisation (EBITDA) of Luka Koper, d.d. amounted to EUR 71 million in 2016, which was an increase of 5% or EUR 3.3 million over the budgeted earnings.

In 2016, the EBITDA margin of Luka Koper, d.d. was by 1% or 0.5 percentage point higher than planned.

In 2016, Luka Koper, d.d. foresaw a high volume of maintenance works for the services of general economic interest relating to regular maintenance of port infrastructure when compared to the plan for 2016 and consequently a revenue higher by EUR 6.1 million due to drawing of long-term deferred revenue. As the approval of the plan by the Ministry of infrastructure was delayed – Luka received the approved plan on 5 May 2016 – the volume of actually performed maintenance of the port infrastructure intended for public transport was smaller than planned.

If the exclusion of the impact of revenue higher by EUR 6.1 million in 2015 were considered, the budgeted EBITDA margin would have amounted to 38.1% and as a result, the achieved EBITDA margin of Luka Koper, d.d. would have been lower by 2% or 0.8 percentage points in 2016 than planned (without the mentioned impact of long-term deferred revenue).

In 2016, Luka Koper, d.d. recognised the impairment of assets being acquired from previous years in the amount of EUR 1.5 million and provisions for actions in the amount of EUR 0.9 million that were not planned.
If the exclusion of the impact of costs higher by EUR 2.4 million in 2015 were considered, the EBITDA margin of Luka Koper, d.d. would have accounted for 38.6% in 2016 and would have been by 5% or 1.8 percentage points higher than planned.

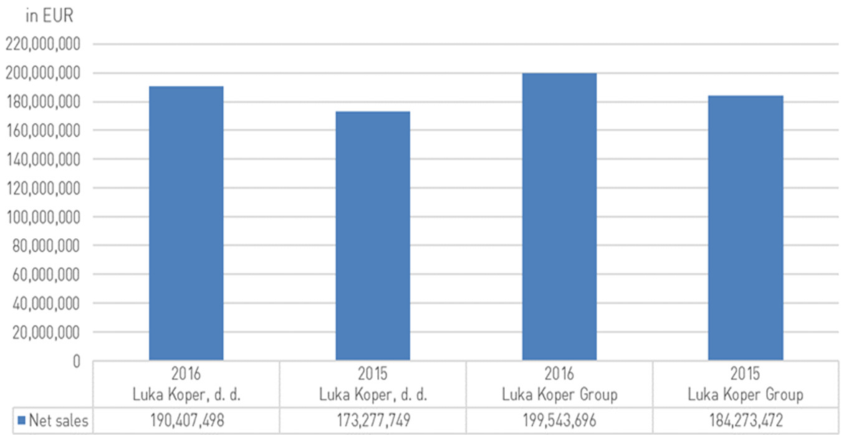
Net profit or loss of Luka Koper, d.d. amounted to EUR 40.6 million in 2016, which was an increase of 16% or EUR 5.7 over the result planned.

A detailed analysis of operations given below presents the data for Luka Koper, d.d. and the Luka Koper Group. COMMENTS AND EXPLANATIONS REFER TO THE OPERATIONS OF THE GROUP.

## NET SALES

The Luka Koper Group generated net sales in the amount of EUR 199.5 million in the year 2016, which was an increase of 8% or EUR 15.3 million over the year 2015. When compared to the previous year net sales of the Group improved in the field of core activity of loading and unloading, filling and emptying of containers, storing and additional services.

### Net sales of Luka Koper, d.d. and the Luka Koper Group




## CAPITALISED OWN PRODUCTS AND OWN SERVICES

In 2016, capitalised own products and own services amounted to EUR 1.4 million. The Group recorded maintenance works on the infrastructure under the capitalised own products and own services; these works were mostly carried out by the subsidiary Luka Koper INPO, d.o.o.

## OTHER REVENUE

Other revenue of the Luka Koper Group amounted to 3.1 million in 2016, which was a decrease of 36% or EUR 1.8 million over the year 2015. In 2015, the reversal of provisions in the amount of EUR 1.5 million relating to the court settlement was recorded. In 2016, the major share of other revenue represented subsidies, grants and similar revenue in the amount of EUR 2 million that referred to drawing of assets assigned from the retained contributions of Luka Koper INPO, d.o.o.

## OPERATING EXPENSES

Operating expenses of the Luka Koper Group stood at EUR 154.8 million in 2016, which was an increase of 5% or EUR 8 million over the year 2015. All kinds of costs increased under operating expenses, except the amortisation and depreciation expense, when compared to the previous year.

The share of operating expenses in net sales accounted for 77.6% in 2016, which was a reduction of 2 percentage points when compared to the year 2015. Comparatively, the share of amortisation and depreciation expense and other operating expenses, costs of services and labour costs decreased in net sales over the year 2015, but the shares of costs of material, costs of services and labour costs remained at the same levels.

### Costs of material

The costs of material of the Luka Koper Group amounted to EUR 15.5 million and were higher by 3% or EUR 473.6 thousand over the year 2015. In 2016, the major share of costs of material included the costs of energy that decreased by 3% or EUR 221.2 thousand due to the lower prices of electricity and lower consumption of heating oil over the year 2015. The costs of ancillary material and spare parts increased because of a higher volume of maintenance works.

### Costs of services

The costs of services of the Luka Koper Group amounted to EUR 50.3 million in 2016 and went up by 10% or EUR 4.5 million when compared to the year 2015. Among the costs of services, the major share represented the costs of port services that amounted to EUR 25.2 million, which was an increase of 15% or EUR 3.3 million over the year 2015. The increase in costs of port services was a result of the increased volume of throughput and longer work, and complex procedures relating to the throughput of new car makes on the car terminal that is one of the largest consumers of such services. A higher occupancy rate of the storing area and consequently the need for a higher number of movements and numerous construction works had an impact on higher costs.

Costs of other services also accounted for a relevant share in the costs of services; they amounted to EUR 14.5 million, which was an increase of 4% or EUR 520.2 thousand over the year 2015. The concession costs increased due to higher operating revenue.

In 2016, the costs of maintenance went up as well and amounted to EUR 6 million. They increased by 11% or EUR 587.2 thousand due to a higher volume of maintenance works.

### Labour costs

The labour costs of the Luka Koper Group amounted to EUR 51.9 million in 2016 and grew by 8% or EUR 3.8 million when compared to 2015. They were higher due to a higher number of employees and an increase of the basic salary, which is in compliance with the applicable collective agreement that has been in force since 1 January 2016 in Luka Koper, d.d. and Luka Koper INPO, d.o.o. and higher payments due to work performance and holiday allowance. On the basis of the provisions of the collective agreement Luka Koper, d.d. and its subsidiaries paid the holiday allowance for 2016 to the employees in June 2016 amounting up to 70% of the average salary of the previous months of the employees in the Republic of Slovenia published on the site of the Statistical Office of the Republic of Slovenia.

As at 31 December 2016, the companies within the Luka Koper Group employed a total of 1,071 persons, which was an increase of 3% or 31 persons when compared to the balance of 31 December 2015.

### Depreciation / amortisation expense

In 2016, the depreciation /amortisation expense of the Luka Koper Group amounted to EUR 26.5 million, which was a reduction of 4% or EUR 1 million over the year 2015.

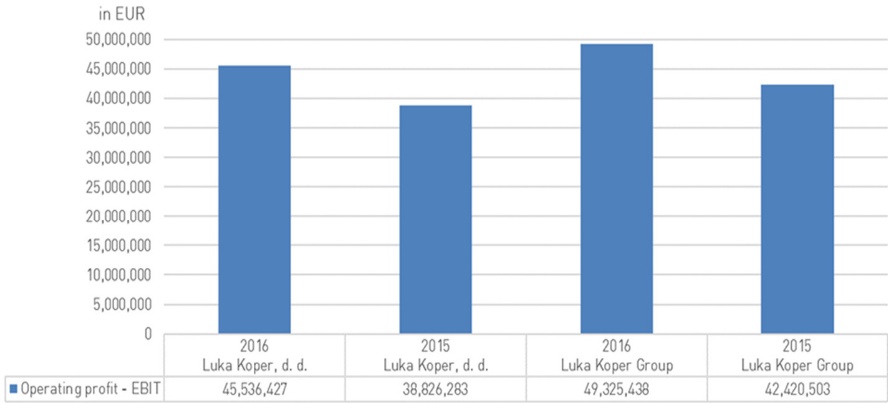
### Other operating expenses

In 2016, other operating expenses of the Luka Koper Group amounted to EUR 10.6 million, which was an increase of 3% or EUR 292.6 thousand when compared to the year 2015. The costs of compensation for the use of building land and expenses for provisions created for actions increased and amounted to EUR 905.3 thousand. The costs of administrative fees and legal expenses reduced. In 2015, legal expenses were higher due to court settlements.

### OPERATING PROFIT OR LOSS

Earnings before interest and taxes (EBIT) of the Luka Koper Group amounted to 49.3 million in 2016, which was an increase of 16% or EUR 6.9 million over the year 2015. The higher EBIT is mainly the result of net sales that were higher by 8%.

### Earnings before interest and taxes (EBIT) of Luka Koper, d.d. and the Luka Koper Group




In 2016, earnings before interest, taxes, depreciation and amortisation (EBITDA) of the Luka Koper Group amounted to EUR 75.8 million, which was an increase of 8% or EUR 5.9 million over the year 2015.

The EBITDA margin of the Luka Koper Group accounted for 38% in 2016, which was at the level of the year 2015. In 2015, the reversal of provisions in the amount of EUR 1.5 million related to the court settlement was recorded.

If the exclusion of the impact of other revenue higher by EUR 1.5 million in 2015 were considered, the EBITDA margin of the Luka Koper Group would have been higher by 2% or 0.9 percentage points in 2016 than in 2015.

## FINANCIAL REVENUE AND FINANCIAL EXPENSES

In 2016, financial revenue of the Luka Koper Group amounted to EUR 1.5 million, which was an increase of 5% or EUR 71.6 thousand over the year 2015. Financial revenue from shares in other companies went up.

Financial expenses of the Luka Koper Group amounted to 2 million in 2016, which was a reduction of 73% or EUR 5.4 million over the year 2015. Financial expenses for financial liabilities fell by EUR 1.3 million, which was partly a result of the reduced EURIBOR reference interest rate, and the recognised capitalisation of interest or addition of costs of borrowing property, plant and equipment in the amount of EUR 0.7 million. Financial expenses due to impairment and write-offs of investments declined by EUR 4.2 million as the impairment of the investment amounting to EUR 4.3 million was recognised.

In 2016, the result from financing activities amounted to EUR -459.1 thousand, but the Luka Koper Group had a negative result from financing activities in the amount of EUR -5.9 million in 2015.

## RESULTS OF THE ASSOCIATED COMPANIES

In 2016, the results of associated companies increased the profit before tax of the Luka Koper Group in the amount of EUR 1.9 million, which was an increase of 43% or EUR 569.4 thousand when compared to 2015. In 2016, the profits of the following companies were added:

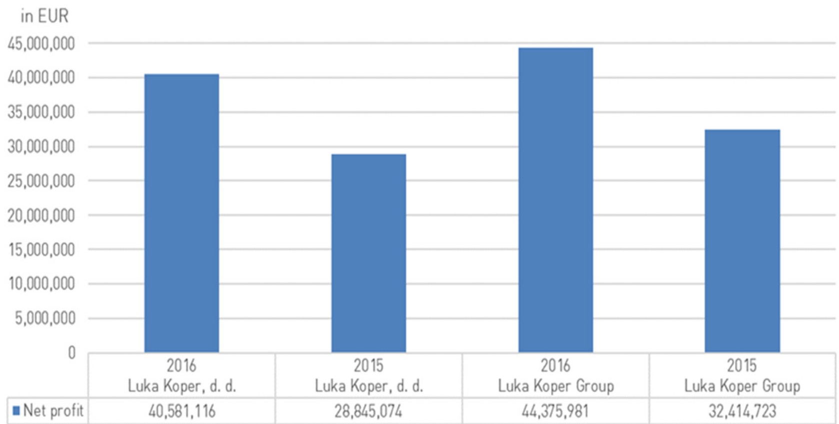
- Adria-Tow, d.o.o. in the amount of EUR 0.7 million,
- Adria Transport, d.o.o., in the amount of EUR 0.6 million,
- Avtoservis, d.o.o., in the amount of EUR 0.5 million,
- Adriafin, d.o.o., in the amount of EUR 0.1 million.

## PROFIT BEFORE TAX AND NET PROFIT OR LOSS

In 2016, profit before tax of the Luka Koper Group amounted to EUR 50.8 million, which was an increase of 34% or EUR 12.9 million over 2015.

In 2016, net profit or loss of the Luka Koper Koper amounted to EUR 44.4 million, which was an increase of 37% or EUR 12 million over 2015.

### Net profit or loss of Luka Koper, d.d. and the Luka Koper Group

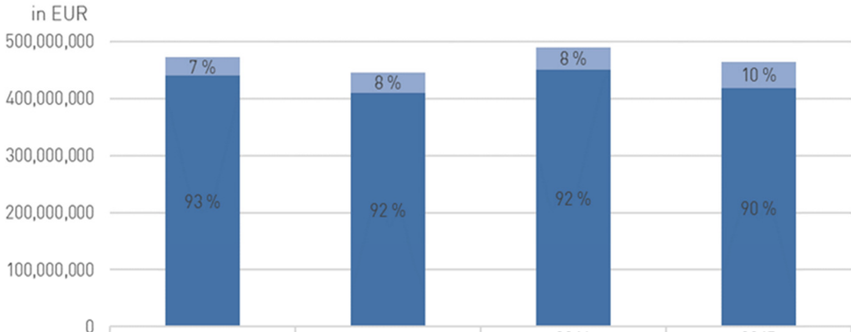


In 2016, income tax and deferred taxes decreased the net profit or loss of the Luka Koper Group by EUR 6.4 million, but in 2015 it was reduced by EUR 5.4 million.

### FINANCIAL POSITION AND FINANCIAL MANAGEMENT

As at 31 December 2016, the balance sheet total of the Luka Koper Group amounted to EUR 490 million, which was an increase of 5% or EUR 25.4 million when compared to 31 December 2015.

#### Asset structure of Luka Koper, d.d. and the Luka Koper Group as at 31 December




| | 2016 Luka Koper, d. d. | 2015 Luka Koper, d. d. | 2016 Luka Koper Group | 2015 Luka Koper Group |
|---|---|---|---|---|
| Current assets | 32,876,473 | 36,055,255 | 39,261,329 | 45,658,536 |
| Non-current assets | 440,055,662 | 409,995,606 | 450,729,768 | 418,891,131 |

As at 31 December 2016, non-current assets of the Luka Koper Group amounted to EUR 450.7 million, which was an increase of 8% or EUR 31.8 million when compared to 31 December 2015. As at 31 December 2016, non-current assets accounted for 92% of the balance sheet total of the Luka Koper Group.

Property, plant and equipment increased by 10% or EUR 34.4 million due to higher investments, of which advances amounted to EUR 16.7 million. Intangible assets and long-term deferred costs and accrued revenue reduced by 13% or EUR 606.2 thousand due to depreciation and amortisation expense. Shares and interests increased by 8% or EUR 980.5 thousand due to profits of associated companies, and reduced by 11% or EUR 3.9 million due to a decrease in the market value of non-current investments in other shares and interests that were recorded at fair value. The loans given reduced by 92% or EUR 369.4 thousand. Investments held to maturity decreased as the bonds of Nova Ljubljanska banka and Slovenska odškodninska družba, d.d. finally matured.

As at 31 December 2016, current assets of the Luka Koper Group amounted to EUR 39.3 million, which was a decrease of 14% or EUR 6.4 million when compared to 31 December 2015.

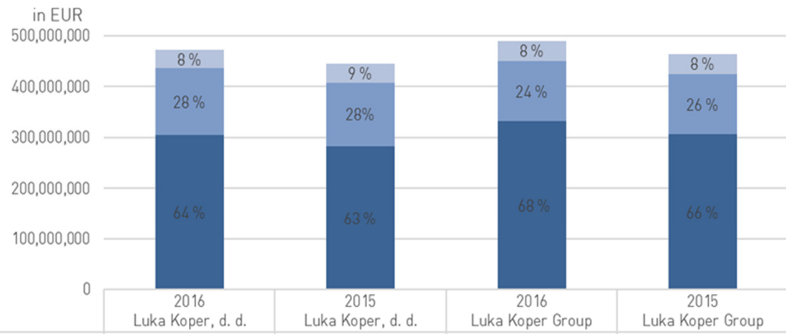
As at 31 December 2016, the balance of inventories of material used for maintenance amounted to EUR 809.5 thousand and dropped by 1% or EUR 4.3 thousand when compared to 31 December 2015. Operating and other receivables increased due to receivables due from the state that were higher by 2 % or EUR 609.6 thousand. The receivables due from the state were higher because of the refunds of the value added tax. At the end of the year 2016 the settlements for November and December were still open. Other receivables decreased by 39% or EUR 662.9 thousand, mainly due to short-term accrued revenue arising from the European projects as the assets were either transferred to revenue or reclassified to non-current accrued costs and deferred revenue. Cash and cash equivalents were reduced by 54% or EUR 6.8 million due to a decrease in deposits at call.

As at 31 December 2016, the equity of the Luka Koper Group amounted to EUR 332 million, which was an increase of 8% or EUR 25.7 million when compared to the balance as at 31 December 2015; it increased due to other revenue reserves and net profit or loss for the period. As at 31 December 2016, the equity accounted for 67.8% of the balance sheet total.

As at 31 December 2016, non-current liabilities including long-term provisions and long-term accrued costs and deferred revenue of the Luka Koper Group amounted to EUR 118.6 million, which was at the level of 31 December 2015. Due to repayments of loans the loans received from banks decreased, provisions for actions and long-term accruals and deferrals increased. As at 31 December 2016, non-current liabilities including long-term provisions and long-term accrued costs and deferred revenue accounted for 24.2% of liabilities.

As at 31 December 2016, short-term liabilities of the Luka Koper Group amounted to EUR 39.4 million, which was at the level of 31 December 2015. Loans received from banks increased, but other financial liabilities, liabilities relating to the corporate income tax and operating liabilities to suppliers reduced.

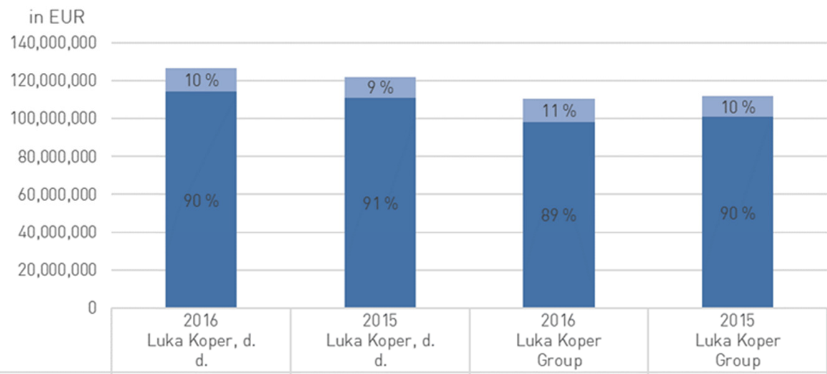
## Structure of liabilities of Luka Koper, d.d. and the Luka Koper Group as at 31 December




| | 2016 Luka Koper, d. d. | 2015 Luka Koper, d. d. | 2016 Luka Koper Group | 2015 Luka Koper Group |
|---|---|---|---|---|
| Short-term liabilities | 36,891,767 | 37,975,638 | 39,373,218 | 39,525,060 |
| Non-current liabilities with provisions and long-term accruals | 131,614,419 | 125,227,745 | 118,638,958 | 118,734,138 |
| Equity | 304,425,949 | 282,847,478 | 331,978,921 | 306,290,469 |

As at 31 December 2016, financial liabilities of the Luka Koper Group amounted to EUR 110.3 million, which was 1 % or EUR 1.5 million down when compared to 31 December 2015. Liabilities to banks fell due to the repayment of loans in accordance with disbursement schedules.

## Structure of financial liabilities to equity and liabilities of Luka Koper, d.d. and the Luka Koper Group as at 31 December by maturity




| | 2016 Luka Koper, d. d. | 2015 Luka Koper, d. d. | 2016 Luka Koper Group | 2015 Luka Koper Group |
|---|---|---|---|---|
| Short-term financial liabilities | 12,012,296 | 10,902,177 | 12,012,346 | 10,871,758 |
| Long-term financial liabilities | 114,320,612 | 110,994,776 | 98,320,612 | 100,994,776 |

As at 31 December 2016, non-current financial liabilities to banks of the Luka Koper Group accounted for 88.7% of total financial liabilities. Their share reduced by 1 percentage point when compared to 31 December 2015.

Liabilities related to the variable interest rate prevailed among the financial liabilities of the Luka Koper Group. The Group controls the interest rate risk by the established interest rate shield in the amount of EUR 33.8 million of the long-term loan. As at 31 December 2016, the loan accounted for an almost 31% share of total financial liabilities in the received loans of the Luka Koper Group and this means that 31% of total loans of the Group were secured against a possible increase in interest rates. Any changes in the variable interest rates could have an impact on 69% of total loans of the Group; in 2015, such loans accounted for 43% of financial liabilities.

As at 31 December 2016, the share of financial liabilities in equity accounted for 33.2%, which was a decrease of 3.3% over 31 December 2015. More about financial liabilities of the Luka Koper Group is explained in the consolidated accounting report.

## STATEMENT OF CASH FLOWS

### Cash flows of Luka Koper, d.d. and the Luka Koper Group

| | Luka Koper, d.d. | | Luka Koper Group | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Net cash from operating activities | 63,053,493 | 63,027,424 | 68,465,172 | 66,710,685 |
| Net cash from investing activities | -56,703,499 | -32,717,301 | -58,724,007 | -30,961,582 |
| Net cash from financing activities | -10,555,258 | -29,105,845 | -16,524,678 | -29,079,845 |
| Net increase in cash and cash equivalents | -4,205,264 | 1,204,278 | -6,783,513 | 6,669,258 |

In 2016, net cash from operating activities of the Luka Koper Group amounted to EUR 68.5 million and increased by EUR 1.8 million over the year 2015. Operating profit before the change in net current assets and taxes amounted to EUR 77.5 million, which was an increase of EUR 7.6 million over the year 2015. Changes in provisions and non-current deferred revenue had a positive impact on net cash from operating activities in scope of changes in current assets, but changes in operating receivables, operating liabilities and expenses for interest and taxes had a negative impact.

Net cash from investing activities of the Luka Koper Group was negative in 2016 and amounted to EUR 58.7 million. In 2016, expenses for the purchase of property, plant and equipment and intangible assets amounted to EUR 61.8 million in 2016 and were higher by EUR 24.4 million than in 2015.

Net cash from financing activities was negative and amounted to EUR 16.5 million. In 2016, expenses for the repayment of loans amounted to EUR 10 million and the amount of EUR 15.8 million was intended for the payment of dividends. In 2016, the Luka Koper Group recognised also revenue from non-current loans received in the amount of EUR 9.3 million.

The closing balance of cash and cash equivalents of the Luka Koper Group amounted to EUR 5.8 million in 2016 and was lower by EUR 6.8 million than at the year-end of 2015.

**THE PORT REMAINS MULTIPURPOSE WITH THE EMPHASIS ON CARGO GROUPS OF CONTAINERS AND CARS**

# 11 Marketing: cargo groups and markets

## 11.1 Marketing strategy

One of the key orientations of Luka Koper is the care for connecting various links of the logistic chain and port community with the aim to work out integrated transport solutions and an increase in transport, market control and establishment of partnerships with customers (B2B).

From the aspect of marketing the company will continue pursuing objectives that are determined in its Business Strategy:

- to obtain a container transport share in the northern Adriatic Sea that will exceed 35%,
- keep the position of the first port for Austria,
- keep the position of the first port for container transport for Hungary and Slovakia,
- acquire the position of the first port for cars in the Mediterranean.

### Key cargo groups

Luka Koper, d.d. has the best market possibilities and opportunities in the segment of containers, cars and – filling / emptying containers due to the trend of cargo containerisation. In future, it will remain focused on the throughput of perishable goods that are increasingly transferred to containers. Encouraging of intermodality and a large share of transported goods to and from the port of Koper by rail generously contributed to the ecological orientations of the company. At the same time Luka Koper, d.d. wants to maintain the multi-purpose character of the Slovene port and to increase the throughput of other cargo types and groups. Therefore, Koper is entitled to be presented as a universal port.

### Hinterland markets

In 2016, Luka Koper, d.d. carried out numerous sales activities in its traditional and most important markets, such as Slovenia, Austria, Hungary, Czech Republic, Slovakia, Germany, Italy, Poland and Serbia. The adjustment of the existing and acquisition of new capacities was of vital importance in the search for new market opportunities. In 2016, the company was present in the following fairs: Trans Poland and Fresh Poland in Warsaw, Export Tag in Linz, Fruit Logistica in Berlin and it attended the conferences Transport i logistika and Fruitnet forum in Belgrade.

### Overseas countries

In 2016, the company continued the activities in the overseas markets of the Far and Near East and Mediterranean. Luka Koper was promoted as the best entry and exit point for the operations of the markets mentioned with the European market. The traditional "port days" were organised in Israel and Egypt. Additionally, the company actively participated in several conference and fairs, economic delegations and meetings with the existing and potential customers in the overseas markets in South Korea, Japan and Iran.

## 11.2 Customers

Long-term successful operations can be achieved only by ongoing investments in customer relations that have to be upgraded and strengthened. We have to be up to date, to foresee and satisfy the wishes and needs of the customers. Luka Koper is on track to develop partner relations, which has been proved also by the excellent growth in throughput. The company will continue this strategy and simultaneously focus on the areas that can be improved.

Timely detection and adjustment to new market opportunities will be an important activity of the company in 2017.We have to be aware that the competition among the ports with the developed infrastructure has increased and therefore the customers seeking port services have gained the bargaining power and a possibility of selecting transport routes for their goods. The entire transport route is relevant for a customer and not only an individual link in a chain. The company will continue to strive for connecting and developing all participants in the logistic chain.

With respect to the strong B2B orientation in this line of business Luka Koper is well aware that relations to logistic operators, exporters, importers, traders or carriers are essential for the provision of further efficiency of the company.

In the upcoming period the following issues will be important for the development of operation:

- keeping of the existing customers while paying great attention to the sales conditions of the competition that is aware of the success of the Port of Koper and therefore uses aggressive market approaches,
- increase in the volume of cooperation with the existing customers, particularly container shipping companies, global logistic companies that manage major flows of goods and can redirect cargoes or determine transport routes,
- acquisition of new customers,

- cooperation and connections will all the actors in the transport chain and monitoring of the competition development,
- encouraging customer loyalty by maintaining good business partnerships taking into account after-sales activities and continuous dialogue,
- transfer of good references and practices with the existing customers to the new customers and business deals,
- promotion of cooperation of partners in the supply chain with the aim to provide effective solutions to customers,
- support to customers by IT solutions and process simplification,
- systematic promotion in the markets by advertising, participation in fairs and conferences and consistent communication by means of the most advanced communication tools,
- strengthening of trade mark visibility and recognition of the business system of the Port of Koper as a reliable business partner,
- promotion of business results of Luka Koper, d.d. and development plans of the port.

## 11.3 Maritime throughput

The maritime throughput achieved in 2016 amounted to EUR 22 million tons of goods and was higher by 1.3 million tons than in 2015. Thus, Luka Koper Group reached a new milestone in the history of the port. The Group recorded exceptional results and the highest throughput in the cargo groups of containers, cars and general cargoes.

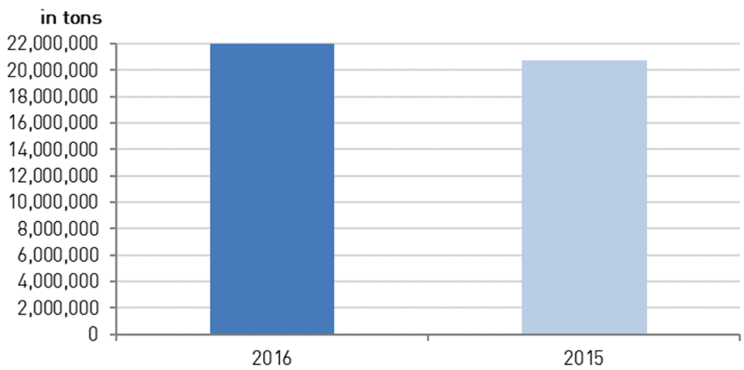
## 2016: THE HIGHEST THROUGHPUT IN THE HISTORY OF THE PORT - 22 MILLION TONS OF MARITIME THROUGHPUT

- RECORD QUANTITY OF CONTAINER THROUGHPUT: 844.8 THOUSAND TEU
- RECORD QUANTITY OF CAR THROUGHPUT: 749 THOUSAND CARS
- RECORD QUANTITY OF GENERAL CARGO THROUGHPUT: 955.1 THOUSAND TONS

The growth in the throughput was achieved in all cargo groups when compared to the year 2015. In 2016, the passenger terminal recorded 78,923 passengers, which was an increase of 36% over the year 2015.

In 2016, the Port observed a 6% increase in cargoes, loaded on ships and a 7% increase in cargoes unloaded from ships.

### Maritime throughput

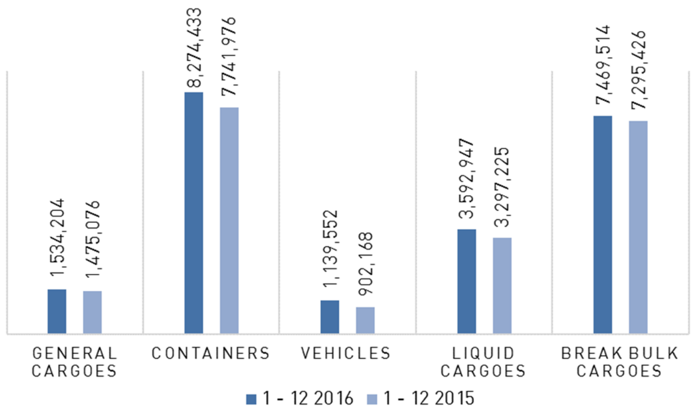



## 11.4 Throughput structure by cargo group

Containers prevail in the total maritime throughput structure and their share increased by 1 percentage point over the year 2015. The share of cars increased, but the share of dry bulk and break bulk cargoes dropped. The share of other cargo groups remained unchanged.

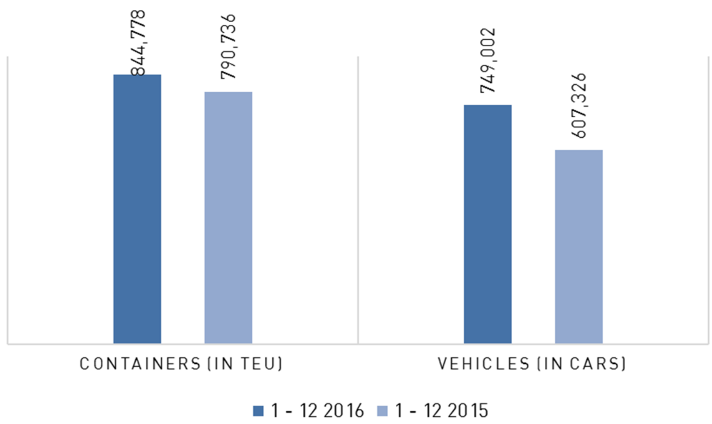
### Maritime throughput in tons per cargo group in 2016 and 2015

| CARGO GROUPS (in tons) | 2016 | 2015 | Index 2016/2015 |
|---|---|---|---|
| General cargoes | 1,534,204 | 1,475,076 | 104 |
| Containers | 8,274,433 | 7,741,976 | 107 |
| Cars | 1,139,552 | 902,168 | 126 |
| Liquid cargoes | 3,592,947 | 3,297,225 | 109 |
| Dry bulk and break bulk cargoes | 7,469,514 | 7,295,426 | 102 |
| TOTAL | 22,010,649 | 20,711,872 | 106 |




## Throughput of containers (in TEU) and cars (in pieces) in 2016 and 2015

| CARGO GROUPS | 2016 | 2015 | Index 2016/2015 |
|---|---|---|---|
| Containers – TEU | 844,778 | 790,736 | 107 |
| Cars – pieces | 749,002 | 607,326 | 123 |



## GENERAL CARGOES

The Luka Koper Group ended the year 2016 with an increase of 4% in the maritime throughput of general cargoes compared to 2015. Within the general cargo group the highest increase was observed in the throughput of iron and iron products.

In 2016, the maritime throughput of timber was lower than in 2015 due to unstable political and economic conditions in North Africa.

The changes in the sales flows of fruits and vegetables continued when taking into account the throughput of fruits and vegetables. These were mainly a result of political measures and changes in growing in some of the countries. The throughput of imported fruits (apples and energy drinks) increased owing to the improved direct shipping links with Egypt and strengthened market activities. Although the trend of importing bananas in containers has continued, the maritime throughput of bananas increased.

## CONTAINERS

The container terminal ended the year 2016 with the maritime throughput of 844,778 TEU, which is the highest throughput in the history of the Port of Koper. The terminal thus exceeded the throughput of the year 2015 by 7%.

The throughput included 713,852 full and 130,926 empty TEU. When compared to the year 2015 the number of empty containers decreased by 3% and the number of full containers increased by 9%. This ratio shows that the economies in the hinterland markets have increasingly recognised the advantages of the transport route through Koper for the import and export of goods. The Port of Koper has remained the central port for the distribution of goods to the countries of the Central and South-East Europe, but mainly Austria, Hungary, Slovakia and the Czech Republic. The visibility has increased also in the German market (Bavaria) and in Polish market, as the Port of Koper is considered a very good and competitive alternative to the ports in the north of Europe. As a result, shipping companies established new weekly connections to the Mediterranean ports and thus increased their competitiveness.

## CARS

In 2016, the throughput amounted to 749,002 cars, which was an increase of 23% over the year 2015. The quantities achieved mark the record throughput of cars in a year. The quantity of cars loaded on ships amounted to 504,224 thousand, and a quantity of unloaded cars to 244,778 thousand.

An important milestone in the field of car throughput was reached by acquiring a new line for the export of cars to the Far East.  In 2016, the land logistic routes in the European market were redirected to the maritime throughput due to lack of trucks for the transport of cars. Thus, the Port of Koper has become interesting, also for the Spanish market, primarily for export.

In addition to the container throughput cars were also defined as a strategic cargo group. In the light of the facts mentioned, several investments in the car terminal and RO-RO are planned in the future years.

## LIQUID CARGOES

In 2016, the liquid cargo throughput grew by 9% over the year 2015. The throughput in the liquid cargo group reduced by 8% over the year 2015 due to a slight fall in the transport at some of the surrounding airports that Luka Koper Group supplies with the aviation fuel. A consequence of the lower consumption was that the ship with the aviation fuel delayed. In the field of throughput of petroleum products Luka Koper Group achieved a 14% growth when compared to the year 2015.

## DRY AND BREAK BULK CARGOES

In 2016, the maritime throughput of the dry and break bulk cargoes grew by 2% over the year 2015.

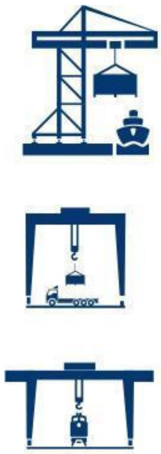
Luka Koper achieved an increase of 4% in the throughput of break bulk cargoes when compared to the year 2015, but mainly because of the increased throughput of iron ore and coal for the steel industry and the related manufacture of iron products.

The maritime throughput of the dry bulk cargoes dropped by 1% over the previous year. The decrease in the cargo groups of old iron and cereals continued to decline. The reasons are still the same, i.e. high prices of the railway transport when compared to barges on rivers and a low price in the global market. In 2016, the throughput of soy, salt and alumina increased.

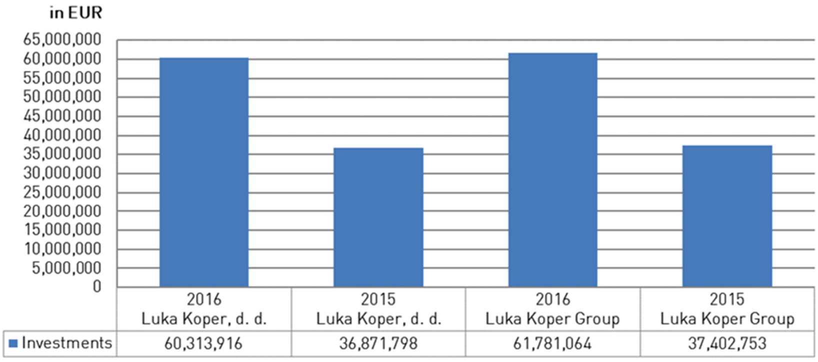
# 12 Investments in non-financial assets

In 2016, the Luka Koper Group allocated EUR 61.8 million to the investments in property, plant and equipment, investment property and intangible assets. The amount was by 65% higher than in 2015. Luka Koper, d.d. made investments in the amount of EUR 60.3 million in 2016, which accounted for 98% of investments of the Luka Koper Group.

**MODERN RMG AND RTG CRANES AND THREE NEW RESERVOIRS WERE THE KEY INVESTMENTS OF THE 2016**



**Investments in property, plant and equipment, investment property and intangible assets assets (Statement of cash flows) of Luka Koper, d.d. and the Luka Koper Group**




In 2016, the Luka Koper Group made the following major investments:

- three new reservoirs were constructed for the needs of the liquid cargo terminal;
- two additional railway tracks were constructed and three existing tracks were extended. An area of 9,000 m2 for container storing was prepared.

- The construction of the new railway track and a new bridge over the straits for the needs of the container terminal was completed.
- Covering of the cassette at the front of the second pier for the needs of the increased throughput of cars was finished and an area of 33,000 m2 was obtained.

- The construction of the rail for new rail mounted cranes and the replacement of light towers on the container terminal were completed.

- In 2016, Luka Koper, d.d. invested EUR 18.1 million in 12 new high-capacity cranes for container throughput.

- A contract for the purchase of the asphalt car park in the area of the Port of Koper was concluded; the car park was rented in the past.
- The first phase of DEPO was finished, the warehousing and handling areas were compacted for the needs of the container terminal in the area of 42,000 m2. The compacted area will enable stacking of 7 empty containers.
- Several minor investments were made.

All investments foreseen for the year 2016 were studied from the economic aspect, the aspect of eligibility, energy savings, urgency and from the aspect of legal obligations. The decisions on major investments were taken on the basis of the prepared investment studies and conducted analyses of their impact on return on equity.

Monitoring and control of impacts on the environment have remained a relevant part of regular work activities in the port. In 2016, the Luka Koper Group allocated a portion of funds to ecology and to the maintenance of harmony with the environment in line with its strategic orientations. With the aim to reduce dusting on the terminal of dry bulk cargoes a new watertight, high-capacity grab-type device was purchased and a system for cleaning filling quantities was assembled.

# 13 Development activity

In the field of research and development Luka Koper, d.d. continued the activities relating to the development needs of the ports, considering the trends of the line of business and long-term plans in 2016. Due to the fact that the new strategic documents concerning the development of the port to the year 2020 with orientations to the year 2030 were approved in 2015 and primarily determined the priorities of spatial and infrastructural interventions the company has now focused also on the technological aspect and the possibility of improvement in process efficiency. Having considered the limited and occupied existing capacities of the port a great emphasis has been placed on the quicker implementing of priority infrastructure projects and inclusion of such activities in the applications for co-financing. A great challenge is the problem of sediments or the location of their depositing. Therefore, the company initiated a special project on this topic. After a long process of adjustments the Government of the Republic of Slovenia adopted the Programme of port development in the period 2016-2020 on 30 June 2016. The implementation of investments in the port infrastructure is conditioned by the compliance with the strategic priorities of the company. For this purpose the activities for obtaining numerous approvals for some of concrete investments planned were organised in the second half of the year. Many activities emphasising the timely construction of the second railway track Koper – Divača were also carried out from the beginning of the year as it determines the possibilities of further development  of the port, logistic activities of the state and international exchange of hinterland countries of the Central and East Europe.

## 13.1 European projects

Record results from the aspect of inflows were achieved in the European projects in 2016, as the activities of the previous financial perspective were completed and the advances for new project were paid in the amount of EUR 3.1 million, which has been the highest amount so far. In 2016, the company completed reporting on five projects from the previous financial perspective and continued activities relating to four projects in progress. Three new projects were obtained and in the event the related activities are performed adequately, grants of EUR 3.6 million can be obtained.

Very intensive activities were carried out primarily on projects within the framework of the instrument Connecting Europe Facility (CEF), where Luka Koper tried hard to obtain funds for co-financing of the concrete development and infrastructure needs of the port in the light of implementation of the EU corridor policy:


- Financial reporting on projects of the TEN-T programme from the previous financial perspective NAPA STUDIES, NAPADRAG, NAPAPROG, POSEIDON MED and B2MOS was completed.
- In line with the plans activities continued on three project that were approved in 2015 in the first CEF tender: NAPA4CORE, GAINN4MOS and Fresh Fruit Corridors.
- Preparation of project applications for the new CEF tender was in progress; the application was submitted within the deadline in February 2017.
- At the beginning of 2016 the company prepared new project within the framework of the tender of the CEF 2015 programme 2015 with the deadline for the submission of new applications being 16 February 2016.

## IN JUNE 2016 LUKA KOPER OBTAINED THE INFORMATION ABOUT THE APPROVAL OF TWO PROJECTS PREPARED:

- CARESMATIC – PARTNER PROJECT WITH THE PORT AUTHORITY OF BARCELONA, CAR TERMINAL AND SHIPPING COMPANY NEPTUNE LINES THAT WILL ENABLE THE PORT OF KOPER 30% FINANCING OF THE CONSTRUCTION OF THE RO-RO BERTH IN BASIN III AND VI RAIL GROUP IN THE HINTERLAND OF BASIN III; POSSIBLE COFINANCING: EUR 3.45 MILLION.
- ELEMED – PARTNER PROJECT WITH THE GREEK AND CYPRIOT PARTNERS THAT WILL COFINANCE STUDIES AND POSSIBLE SOLUTIONS TO SHIP SUPPLY WITH ELECTRICITY UP TO 50%; POSSIBLE COFINANCING: EUR 150 THOUSAND.

The company successfully carried out the activities of the Horizon 2020 programme:

- it continued the Rethinking Container Management System (RCMS) project,
- it joined the consortium of the SAURON project applicants on the topic of cyber security in August,
- it started preparing the application for the two-phase tender on the topic of Ports of the Future that was published in September 2016 with the submission deadline in January 2017.

Within the framework of a wide consortium of Slovene partners the company joined the RRI Project of smart specialisation (utilisation of the bio mass potential for the development of advanced material and bio-based products) that the Ministry of Education, Science and Sport approved in August 2016. This will involve the study of excavated sediments and the possibly of their further use in Luka Koper. In December 2016 the company as the consortium member again responded to the invitation to tender for assets from structural funds for a competence centre.

In the field of territorial cooperation projects where topics are slightly more regionally focused and softer, with the emphasis on the partner project, the following activities were carried out:

- In March the application for the first tender of the new ADRION programme was submitted and then we joined several other partner projects.
- The company joined again the TalkNet partner project on the Central Europe programme.

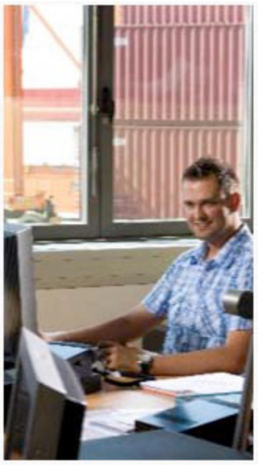
- In September the company applied for the cross-border cooperation Slovenia – Italy in two projects.
- The project of the Easyconnecting programme IPA Adriatic Sea was extended to September 2016 and successfully completed, where Luka Koper participated as a contractor.

The projects of the European territorial cooperation programmes are relevant as they place Luka Koper in the European institutional environment, mostly from the aspect of planning and development of national and pan-European transport infrastructure, logistic concepts, environmental protection, safety, security of the sea, sustainable energy supply, information upgrades, cultural heritage and similar.

In 2016, Luka Koper tried to obtain the answers to the possibilities of actual co-financing of the passenger terminal. The project documents are at the advanced stage and therefore it is relevant to get a final answer on the basis of which a decision of Luka Koper on project implementation will be taken.

The company participated in several meetings of the ESPO - The European Sea Ports Organisation and FEPORT – Federation of European Private Ports Operators in scope of international institutional activities. Special attention was devoted to forums of the Baltic-Adriatic and Mediterranean corridor and the forum of motorways of sea organised by the European Union with the aim to monitor the implementation of the CEF corridor policy. In February 2016 Luka Koper attended the meeting of the European Commissioner for Transport Violeta Bulc and the Minister Peter Gašperšič with the Slovene shareholders in Brdo pri Kranju, in March it actively participated in the Transport-Logistic conference that the Slovenian Business and Research Association (SBRA) organised in Brussels. In June 2016, the company attended the general meetings of shareholders and key events of ESPO Dublin and FEPORT Valencia. From 20 to 22 June Luka Koper participated also in the institutionally very important event - TEN-T Days 2016 in Rotterdam, where it presented the development projects of the port to the European institutions. In the associations ESPO and FEPORT Luka Koper monitored also the progress in the European port regulations. The only joint promotional event of the North Adriatic Ports Association (NAPA) in 2016 was the June presentation in the TL Shanghai traditional fair.

In order to highlight the meaning of the second railway track Koper–Divača and the development plans of the port Luka Koper attended several events (organised by the Chamber of Commerce and Industry, the Slovenian Parliament and the National Council of the Republic of Slovenia, Economic and Social Council, Propeller – port community club) in hosted various political and economic



**WE FRAMED IT SOLUTIONS IN THE DIRECTION OF THE DIGITAL TRANSFORMATION**

delegations. It has to be emphasised that the support of the state and understanding of the port activity are of essential importance for further development of the port as this is a great challenge for the development activity of the compan y.

## 13.2 Information solutions and projects

Information technology has not been only a support activity for a long time, but enables the achievement of competitive advantages and strategic objectives by the possibilities that the business intelligence and digitalisation offer. The Luka Koper Group is well aware of this and strives for a better utilisation and optimisation of processes and the increase in their efficiency and maturity.

In 2016, the Luka Koper Group strengthened its key know-how in the field of business informatics and logistic processes that enables simple and quicker development as well as efficient implementation of new solutions.

In the past and in 2016 the Luka Koper Group performed key activities for the change and development of business processes based on advanced information solutions in scope of three complex units:

- safety and availability of the information system,
- regulation of internal logistics,
- process optimisation.

Over 200 different changes were introduced to the information systems in the framework of these units.

In 2017, one of the major priorities will be the needs of the container terminal. The Luka Koper Group will invest in the optimisation of the warehouse logistics in order to ensure a high turnover in the warehouse and minimise costs of handling and internal transport. It will introduce solutions that will enable quicker better planning and consequently influence the minimisation container movements and the selection of the shortest transport routes. The electronic interchange centre (i.e. EDI centre 2) by the introduction of messages in the EDIFACT format. Optimisation of the railway segment and informatisation of new business processes for the support to new technologies, such rail mounted gantry cranes, will be continued in the field of business process optimisation. The existing solutions will be improved.

The introduction of a new system has been planned due to obsolescence and weak connections of the AVTI warehousing system and monitoring of the car throughput that is used in the car terminal for cars and RO-RO; the new system will enable easy planning and invoicing of services, simple enquiring and insight into data and better provision of information to customers.

Solutions that will enable a complete survey of entrances / departures and better planning of works and taking measures will be developed due to an increased number of transport operators that enter the port on a daily basis and due to lack of space.

The Luka Koper Group will follow the opportunities offered by the use of mobile technology and digitalisation of business processes in order to optimise the internal processes and the improvement in communications with the port community and other business partners. The first steps have already been made by the introduction of the electronic certificate for additional work and by mobile applications for keeping incidents, container damage and reading temperature of reefer container. In 2016, the application for container weighing was also launched. On 1 July 2016 the amendment to the provision of the SOLAS - International Convention for the Safety of Life at Sea was put into force which refers to the container weight that has to be verified or officially checked before loading on a ship. Authentic is only the verified gross mass (VGM) of a container that is measured in line with one of two prescribed methods: the first one involves weighing of a sealed container and in the second the weight of an individual cargo is added to the packaging and protective material and the tare weight of the container on the place of filling.

LKPG SHARE HAS BEEN LISTED ON THE LJUBLJANA STOCK EXCHANGE FOR OVER 20 YEARS

# 14 The LKPG share

The Luka Koper share marked as LKPG is listed on the Ljubljana Stock Exchange, the first listing. At the end of 2016, the value of the LKPG share was by 8.7% higher than in 2015. On the last trading day of 2016, the price per share was EUR 25.00.

The ownership structure of Luka Koper, d.d. experienced no major changes in 2016. As at 31 December 2016, 10,425 shareholders were entered in the shareholder register, which was 1,105 less than in 2015. The major shareholder of the company remains the Republic of Slovenia.

### Ten major shareholders as at 31 December

| Shareholder | Number of shares as at 31 Dec 2016 | Ownership share 2016 (in %) | Number of shares as at 31 Dec 2015 | Ownership share 2015 (in %) |
|---|---|---|---|---|
| Republic of Slovenia | 7,140,000 | 51.00 | 7,140,000 | 51.00 |
| Slovenski državni holding, d.d. | 1,557,857 | 11.13 | 1,557,857 | 11.13 |
| Kapitalska družba, d.d. | 696,579 | 4.98 | 696,579 | 4.98 |
| Municipality Koper | 439,159 | 3.14 | 466,942 | 3.34 |
| SOP Ljubljana | 319,986 | 2.29 | 406,548 | 2.90 |
| Hrvatska poštanska banka, d.d. | 129,582 | 0.93 | 0 | 0.00 |
| Aktsiaselts Trigon Funds | 126,071 | 0.90 | 66,046 | 0.47 |
| Zavarovalnica Triglav, d.d. | 104,756 | 0.75 | 104,756 | 0.75 |
| Sei Global Investments Fund plc | 102,392 | 0.73 | 42,303 | 0.30 |
| Parametric Emerging Markets Fund | 94,050 | 0.67 | 94,050 | 0.67 |
| Total | 10,710,432 | 76.50 | 10,575,081 | 75.54 |

### Ownership structure of Luka Koper, d.d. as at 31 December

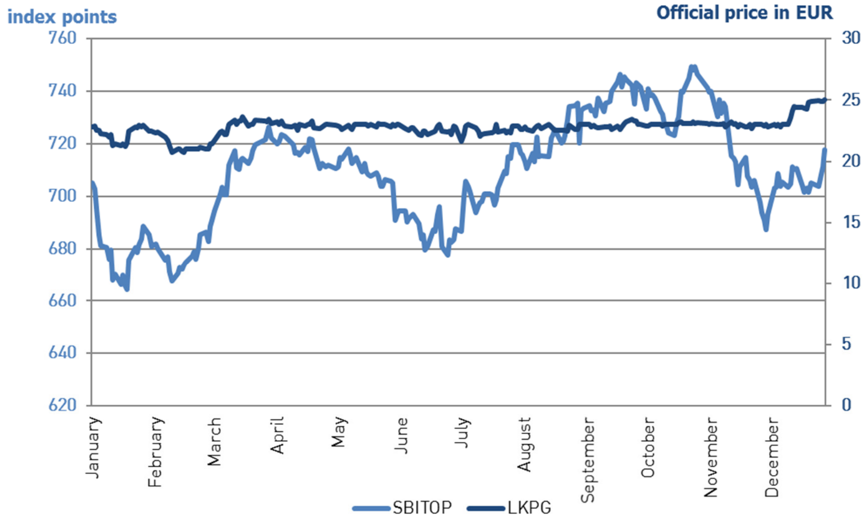
| Shareholder | No. of shares as at 31 Dec 2016 | Ownership share in 2016 (in %) | No. of shares as at 31 Dec 2015 | Ownership share in 2015 (in %) |
|---|---|---|---|---|
| Republic of Slovenia | 7,140,000 | 51.00 | 7,140,000 | 51.00 |
| Natural persons | 2,254,503 | 16.10 | 2,270,683 | 16.22 |
| Slovenski državni holding, d.d. | 1,557,857 | 11.13 | 1,557,857 | 11.13 |
| Other legal entities | 879,582 | 6.28 | 1,005,790 | 7.18 |
| Foreign legal entities | 847,891 | 6.06 | 655,867 | 4.68 |
| Kapitalska družba, d.d. | 696,579 | 4.98 | 696,579 | 4.98 |
| Municipality Koper | 439,159 | 3.14 | 466,942 | 3.34 |
| Mutual and pension funds | 123,501 | 0.88 | 131,882 | 0.94 |
| Brokerage houses | 29,961 | 0.21 | 29,961 | 0.21 |
| Banks | 25,374 | 0.18 | 23,539 | 0.17 |
| Foreign banks | 5,593 | 0.04 | 20,900 | 0.15 |
| Total | 14,000,000 | 100.00 | 14,000,000 | 100.00 |

## 14.1 Share trading

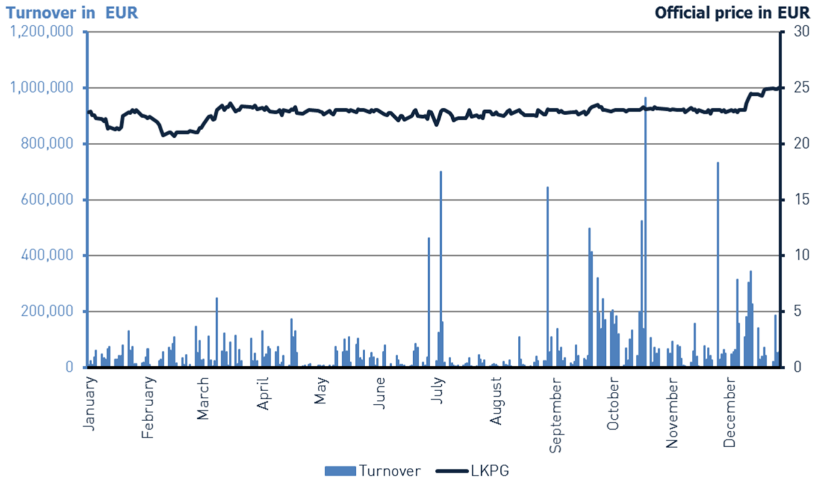
The average daily share price of the Luka Koper, d.d. amounted to EUR 22.75 in 2016. During the year, its value fluctuated between EUR 20.70 and EUR 25.00. The highest market price of the share was EUR 25.30 and the lowest EUR 20.60. The market cap of Luka Koper, d. d., shares was EUR 350,000,000 as at 31 December 2016.

The shareholders witnessed a story of success about the share of Luka Koper, d.d. in the year 2016. The owners of Slovene shares had to accept significant decreases and only an increase of 1.7% in the Slovene shares of SBITO index, the shareholders of Luka Koper experienced an 8.7% increase in the value of company shares. The total number of stock-exchange transactions and deals with lots for the share was 4,095. In 2016, the total turnover amounted to EUR 18,713,558. 815,445 shares changed owners.

## Changes in the SBI TOP index and the daily LKPG price in 2016




## Changes in the daily LKPG share and daily turnover in 2016



### Key data about the LKPG share

| | 2016 | 2015 |
|---|---|---|
| Number of shares | 14,000,000 | 14,000,000 |
| Number of ordinary no-par value shares | 14,000,000 | 14,000,000 |
| Share price on the last trading day (in EUR) | 25.00 | 23.00 |
| Share's book value as at 31 Dec (in EUR) | 21.74 | 20.20 |
| Average market price / share's book price (P/B) | 1.15 | 1.14 |
| Average market price (in EUR)[21] | 22.95 | 24.39 |
| Average share's book price (in EUR)[22] | 21.11 | 20.07 |
| Average market price / average share's book price | 1.09 | 1.21 |
| Net earnings per share (EPS) (in EUR) | 2.90 | 2.06 |
| Market price / earnings per share (P/E) | 8.62 | 11.16 |
| Market cap as at 31 Dec 2016 (in EUR million) | 350.00 | 322.00 |
| Total share turnover (in EUR million) | 18.70 | 25.26 |
| Dividend per share (in EUR) | 1.13 | 0.94 |

## 14.2 Dividend policy

The dividend policy of Luka Koper, d. d., represents a balanced combination of the owners' wish for dividend yields, and the wish to use the net profit for financing investment plans. The Company endeavours to allocate up to a third of the net generated profit of the period for dividends, including also the planned investments in the port infrastructure and equipment.

With respect to the results of 2016 and the adopted dividend policy the proposal of the Management and Supervisory Boards for the appropriation of the accumulated profit that amounted to EUR 20,321,602.99 on 31 December 2016 was as follows:

- a portion of the accumulated profit in the amount of EUR 13,440,000.00 shall be used for the payment of dividends in the gross value of EUR 0.96 per ordinary share,
- the remaining portion of the accumulated profit in the amount of EUR 6,881,602.99 shall remain unappropriated.

[21] The average market price is calculated as a ratio of total turnover from ordinary (stock exchange) transactions to quantity of LKPG trading shares in ordinary (stock exchange) transactions.
[22] The average bookkeeping value of a share is calculated on the basis of averae monthly balances of t he ration of equity to number of ordinary shares.

## 14.3 Cross-linkages with other companies

As at 31 December 2016, Luka Koper, d.d. did not hold a 5% interest in any company which owns shares of Luka Koper, d. d. Shareholders holding at least 5% of the LKPG shares are the Republic of Slovenia (51.00%) and Slovenska odškodninska družba, d. d. (11.13%).

## 14.4 Shares owned by the Supervisory Board members and Management Board members

| | Shareholder | Ownership as at 31 Dec 2016 |
|---|---|---|
| **Supervisory Board** | Marko Grabljevec, Supervisory Board member | 10 |
| | Rok Parovel, Supervisory Board member | 8 |

| | Shareholder | Ownership as at 31 Dec 2016 |
|---|---|---|
| **Management Board** | Dragomir Matić, President of the Management Board | 1.238 |

## 14.5 Own shares, authorised capital, conditional capital increase

As at 31 December 2016, Luka Koper, d. d., held no own shares. The applicable Articles of Association of the Company do not provide for categories of authorised capital up to which the Management Board could increase the share capital. The Company also had no basis for the conditional increase in the share capital.

## 14.6 Rules on restrictions on trading and presentation of trading in shares of the company and related parties

According to the recommendations of the Ljubljana Stock Exchange, Luka Koper, d.d. adopted the Rules on Trading in Issuer's Shares, which is an additional guarantee for equal informing of the interested public on all significant business events and is an important element in strengthening confidence of investors and the reputation of Luka Koper. The purpose of the Rules is to enable the persons liable to it trading in shares of Luka Koper and to prevent any possible trading based on insider information. At the same time, the Rules enable mandatory reporting in accordance with the law on the sale and purchase of the Company's shares to the Securities Market Agency.

## 14.7 Communications with investors

We regularly communicate with our investors and keep them informed on Company news through various communication tools and channels:

### SEOnet

According to the legislation, shareholders and the public are informed of operational results and all important business events in a timely manner via SEOnet, whilst information is provided to shareholders and investors also through other communication channels.

### Website

A special chapter headed "For Investors" is devoted to shareholders and investors on our website where they can find up-to-date information regarding the LKPG share, ownership structure, current interim, annual and past operating reports, information published on SEOnet, material for General Meeting of Shareholders, answers to most frequently asked questions and opinions of individual analysts.

### Port Bulletin

A copy of the Port Bulletin is sent to brokerage companies and analysts every month. The newspaper provides topics on the operations of the Port of Koper and other events.

### Events

Luka Koper regularly participated in the events organised for investors and financial analysts. On 24 May 2016, we participated in the Slovene and Croatian Investors' Day in Zagreb where it had 16 individual meetings. In November, it had over 12 meetings with Slovene and foreign investors in the investor convention in Ljubljana.

Investor information is available at the following website https://luka-kp.si/eng/lkpg-share.

Contact person:
Rok Štemberger
Investor Relations
Tel.: 05 66 56 140
E-mail: rok.stemberger@luka-kp.si

## 14.8 Calendar of relevant publications in 2017

Periodic publications and other price sensitive information will be regularly published on the Ljubljana Stock Exchange website via SEOnet electronic information system (www.ljse.si) and on the website of Luka Koper, d.d., https://luka-kp.si/eng/financial-calendar. Any changes to estimated date of individual publications will be regularly published on our website.

# 15 Risk control

## 15.1 Risk control system in the Luka Koper Group

Risk control is a complex and uniformly determined process that enables the company, together with other management processes, to increase the probability of achieving objectives. In 2016, the risk control system was extended also to the level of subsidiaries of the Luka Koper Group, but the methodology of the assessment of relevant risks did not change. The 5-level methodology was worked out for the assessment of probability and consequences.

Five dimensions are taken into account in the assessment of consequences, such as consequences for health and safety, financial consequences, consequences for the environment, company's reputation and compliance. In accordance with the materiality level, risks are classified into five classes from irrelevant to very relevant. Risks included in the highest class of risks, significant or very important risks are the key risks for Luka Koper, d.d. and are presented in further sections of this report.

When preparing the business plan for the year 2016 the plan of risk control measures was made that was amended during the year with respect to the risks perceived and implemented; the implementation of measures will continued also in 2017. The plan was amended also by the measures for recognised risks while preparing the business plan for 2017.

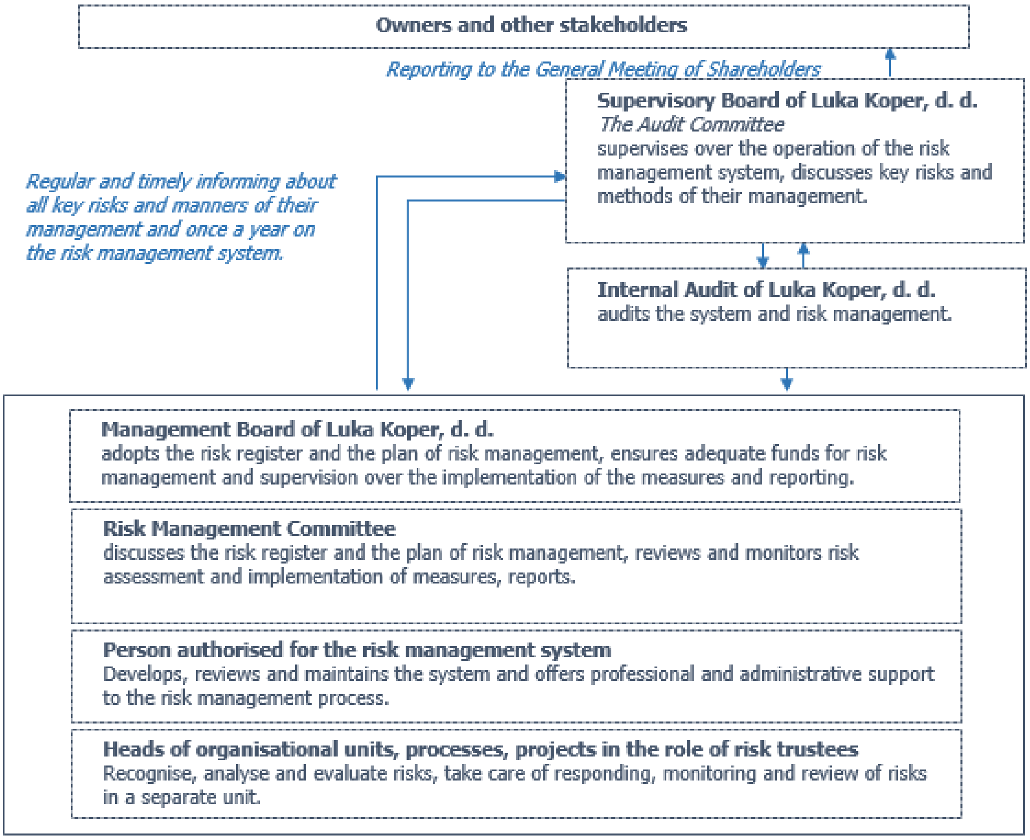
In scope of the risk management system Luka Koper Group regularly monitors the exposure to all the perceived risks and determines and implements the necessary measures for the provision of acceptable level of operational risk. The basis of the risk management system comprises of a register of risks that includes a list of all identified risks, characteristics of an individual risk, determined measures and responsible persons – custodians of individual risks. The Register is kept centrally at the level of the Luka Koper Group in order to systematically monitor and analyse the risks; it is regularly updated; it was last revised in December 2016. The risk control committee met in regular monthly meetings and discussed changes in the risk register and reported on the implementation of measures.

In 2016, regular reporting was established to the Management Board of the parent company on the most relevant risks in addition to the extension of the risk control system to subsidiaries of the Luka Koper Group; the quarterly reports on the risk control by risk  custodians was IT-based.

Key roles and responsibilities within the risk control system are presented and they remained the same as in 2015.

**WE OVERSEE RISK EXPOSURE WHILST CARRYING OUT ADEQUATE ACTIONS TO ENSURE ACCEPTABLE LEVEL OF OPERATING RISK**

Key roles and responsibilities within the risk control system




## 15.2 General risk assessment

At the end of 2016 the key risks of Luka Koper included risks that are presented in sections below and remained very similar to the map of 2015. Some of the risks were assessed lower due to successful implementation of risks. Due to the changes dictated by the environment in which the Luka Koper Group operates, additional risks were included. Some other risks were also integrated as they arise from inadequate or unsuccessful internal processes and were recognised during the implementation of the annual survey of business processes also in scope of the harmonisation of the management system with the requirements of the new version of the standard ISO 9001:2015.

## STRATEGIC RISKS

The development of Luka Koper that follows the guidelines set out in the strategic documents from the year 2015 greatly depends on the implementation of the strategic investment projects and the development of the hinterland infrastructure, as it substantially affects its competitiveness when compared to other ports.

Development projects related to the increase in the port capacities of two key cargo groups, containers and cars, are as follows: extension of the first pier, construction of the new RO-RO berth and regulations of additional areas in the hinterland of the third basis and regulation of entrances to the port that are nowadays a limitation when fluidity is concerned and cause dissatisfaction of other logistic partners and delays in the local traffic. In 2016, an action plan was prepared, which ensures the implementation of adequate activities for the achievement of strategic objectives. Four strategic projects were set up on the basis of the action plan and they will be precisely coordinated with the aim to control the implementation of the strategy. Delays in the implementation of key investments are caused by the delays in obtaining the approvals, complex administrative procedures and problems of status nature. Due to the fact that the Municipality of Koper joined the procedure of issue of the environmental approval for the extension of the first pier that procedure has lasted longer than planned. Due to time-consuming procedures and the possibility of lodging complaints, the company could not assess the timing for obtaining the approval and consequently the building permit.

Luka Koper will keep the competitive advantage only by the soonest provision of new capacities, as competitive ports in northern Adriatic Sea have also ambitious plans for the increase in capacities, and the implementation of investments represents also a condition for the optimal drawing of European funds granted. The Group controls the risks mentioned by active and constructive cooperation with the government bodies, local authorities and other institutions in obtaining adequate approvals and– due to lack of storage areas – by the search for alternative methods for depositing marine sediments in deepening seabed. A successful completion of development projects depends also on the support of the local population; the support is annually verified by a survey and opinion polls among the population of the municipalities Koper and Ankaran. The Group is satisfied with the results of the survey as the support of the local environment to its development projects is at a satisfactory level and was higher in 2016 than a year before. The increase in the reputation of the Group was also evident as it is no longer considered the main source of environmental pollution among the local population. Over 74% of the survey respondents believed that Luka Koper was a reputable or highly reputable company. 61% of the respondents were familiar with the contents of the state spatial plan for the development of the port of Koper; 81% of them agreed with the plan. The Group controls the risk by the adjustment of the communication plans to the results of the opinion polls about the support to the development plans of the port and by monitoring the adopted Policy of healthy and safe environment by which Luka Koper committed to continuous improvements and consistent pursue of the objectives of sustainable development. Luka Koper supports numerous projects, associations, societies, clubs and individuals by sponsorships and donations. The strategic documents of the Group will be reviewed again to secure further achievements of successful performance in 2017 because of the obstacles that the Group faces in obtaining approvals.

The Group still faces a risk of longer interruptions on the railway track to the Port of Koper and the risk that the modernised capacities on a monorail will be barely sufficient for the support of the growth in the port turnover to the year 2020.

In accordance with the last information of the Government that the financial plan for the second railway track construction was made at the beginning of February 2018 and it was based on the European funds of the CEF instrument and other cohesion funds. The Ministry of Infrastructure submitted two applications for tenders at the beginning of February 2017. Irrespective of this fact, the important question of the schedule of construction of new capacities on the route Koper – Divača or the second railway track that would support further development and growth in the port remains open. Luka Koper controls the risks related to timely provisions of the development of hinterland infrastructure by encouraging awareness about the importance of the construction of the second railway track at the state and EU levels.

The company faces also market risks arising from the highly competitive environment. The situation in the industry of container overseas transport, where shipping companies offer excessive capacities and record low freight rates can be long-lasting. In 2015, the world fleet grew by 3.5% in terms of load-bearing capacity of ships and although this was the lowest growth, it still exceeded the 2.1% increase in the demand, which again resulted in excessive capacities.

Shipping companies will adjust to the market conditions by increasing efficiency and cost reductions. The measures will be focused on the decrease in capacities, postponement of capacity increase to future years, simplification of processes, automation and digitalisation. Other measures that have a significant impact on the port include pooling of services or alliances to larger ships, elimination of a small number of ports with high capacities, pressure on price exercised on all customers and pressure on productivity that means direct saving of costs for shipping companies. And finally, the risk is related to the MSC shipping company that now owns TMT, the operator of the container terminal in Trieste in 2015. The Port of Koper cooperates with the majority of shipping companies with the ownership links also in the competitive ports and therefore the fact mentioned will not necessarily result in the reduction of throughput. The continuation of political instability and war situation in the countries of North Africa and the Near East hinder the increase in export to these countries to the levels of the previous years; and to a certain extent, the situation in the Turkish market also affected the throughput. The company manages the market risks mentioned also by the strategy of a multi-purpose port and greater diversification of cargo groups and customers and decreases its exposure in this way. It controls these risks also by strengthening market activities, mainly with end customers and owners of goods who actually have an important impact on the selection of the transport route and the port, and shipping companies by introducing advanced IT solutions in combination with customers and maintaining a high level of services.

In 2016, the Group again included the risk of frequent changes in the supervisory or the management board of the parent company and the new risk of changes in the concession agreement and establishment of the port authority among key risks. Luka Koper has not been informed about the content of any possible changes in the concession agreement. The changes proposed will have a negative impact on the operations of the Group, if the state granted concessions to other concessionaires that could be competitive to the Group by reducing prices, and mainly by limiting the possibility of extension of port capacities and thus the reduction in development opportunities that Luka Koper created autonomously in the market and represent its key development starting point. The Group will not waive the rights from the concession agreement in order to protect its own interests and will control the risk mentioned also by making the state, owners, and other shareholders aware of the consequences related to the possible change in the concession agreement. The Group took appropriate measures for the control of other identified strategic risks.

## OPERATIONAL RISKS

Operational risks affect the implementation of processes at all levels. They include a wide variety of risks mostly arising from inadequate and unsuccessful internal processes, unsuitable or inefficient actions of employees, inappropriate or poor operation of the systems and equipment. The occurrence of these risks often reflects in injuries of persons and/or impacts on the environment and property and they can be affected also by internal or external factors. This group of risks is controlled by the measures based on risk assessments of workplaces, training and verification of knowledge, consistent use of personal protective equipment, established and communicated technological procedures, constant measurements of conditions on workplaces, regular medical examinations and appropriate insurance of property and liability. Other measures reducing risks of damage or injuries include new investments in modern equipment, regular maintenance of work equipment and infrastructure as well as regular measuring of impacts on the environment. In 2016, Luka Koper, d.d. took certain measures relating to the throughput risk and storing of containers with hazardous substances, but the final regulations of this field is expected by the adoption of the Port order whose draft was submitted to the grantor of the concession at the end of July 2016 and is in the process of harmonisation. In 2016, the Group reviewed and renewed the insurance system, in scope of which means of transport were additionally insured against fire and the liability insurance increased.

In addition to maturity and quality of project applications the competition of other projects being more important from the aspect of the European policy and support of an individual member state has also an impact on the risk of approval of co-financing projects by the EU. The support of the state plays an important role in the recognition of the needs of the port, as the priority projects at the level of the state have to be carefully selected due to the limited grants available. The Group will control the risks to the same extent as in the past, i.e. by encouraging the awareness about the development priorities of Luka, regular communication with the competent local bodies and EU bodies and quality and reliable implementation of the projects approved that serve as a good reference for the future.

In several fields of operation the company is exposed to the risk of non-fulfilment of obligation of the other party. This risk is controlled by monitoring the quality of performance of services of the other parties and their responsibility and the development of partner relations. Since November 2015 Luka Koper, d.d. has faced extreme conditions in the Slovene railway network that reflected in the congestion of trainsets in the area of Slovenia and beyond it  and in non-delivery of forecast and projected wagons, which caused problems in the organisation of throughput in the Port. Congestions and delays forced some of the customers to redirect a part of cargo intended for the transport to the Port of Koper to other European ports. By the adoption of appropriate operational solutions and intensive communication with the business partners the situation improved in March 2016. In 2016, Luka Koper, d.d. submitted a claim for damages to the companies SŽ – Tovorni promet, d.o.o. and Slovenske železnice, d.o.o. for the damage cause in this period in the amount of EUR 1,900,254, but received no answer.

At the beginning of July Luka Koper faced a delay in the performance of throughout in the port due to the unforeseen, non-preventable, inevitable and sudden event of spontaneous rebellion of the employees. Due to disagreement with the method of work operation of some representatives of the stat in relation to the port the employees stopped work in the port for three days. The spontaneous stopping of work between 1 and 5 July 2016 is considered an event beyond the will or sphere of the management bodies and management bodies of Luka Koper as they could not have been expected or prevented. In all respects the event is considered force majeure as there was no indication and no circumstance was observed to 9 a.m. on 1 July 2016 that would suggest spontaneous stopping of work. It has to be emphasised in relation to the prevention of such events that the management board takes care that the Group operates in line with the applicable legislation and that it fully follows and fulfils the obligations to the employees and ensures all the rights of the employees in compliance with the provisions of the labour legislation and collective agreement and thus ensures all the conditions for the performance of the activity of the Group and the work process in accordance with the law, rights and expectations of the shareholders, employees, business partners and the environment. The guarantee that such and similar events would not occur was mentioned. During the spontaneous interruption of work the employees had no claims to the management. It has to be emphasised that the entire event was triggered by some factors. The employees and the general public were upset by some statements of high state officials that were proved to be unreal and were focused on the discrimination and humiliations of the results and reputation of the Group. The public expressed disagreement with the policy of competent ministries relating to their visions of the port development as they were written in some documents that were made public. The event in the Port of Koper cannot be viewed only in relation to the employees or from the aspect of the events in the Luka Koper Group. General public was involved in the event as the manifestations including up to two thousand people in front of the entrance to the port showed. And the employees of Luka Koper did not prevail among them. The management of Luka could not prevent these events; but when they occurred, the management did everything to normalize the situation in the shortest time possible and tried to prevent damage to the Group. Hazardous, perishable and other urgent cargoes were put through during the spontaneous stopping of work; threat to the port and damage to cargoes were thus prevented on 4 and 5 July, between 9 a.m. and 5 p.m. the port operations were again resumed with all the resources available and were extended also after 5 p.m. until individual cargoes were dispatched from the Port of Koper. Container ships were continuously loaded from 4 July on. On the occasion of this event some business partners praised the management board about their efficient reactions with the aim to control the situation.

During the spontaneous stoppage of work Luka Koper received only some letters with the accounted minor claims, but they were not asserted. Luka explained the arguments in the answers to these letters, but received no responses and no further claims. Additionally, Luka Koper, d.d. received a claim for damages from SŽ – Tovorni promet, d.o.o., in the amount of EUR 1,774,504.00. Luka Koper, d.d. rejected the claim by arguments and received no answer. The well-reasoned rejection by Luka Koper, d.d. was communicated also in the joint meeting of the management boards of the companies. Subsequently, Luka Koper, d.d. received also the claim from Rail Cargo Austria AG in the amount of EUR 135,704.00 and rejected it with good reasons. After this rejection Luka Koper, d.d. received no more claims.

Measures for the improvement in operations arise from other risks related to inadequate or unsuccessful internal processes; the implementation of the measures will continue in 2017 and whose objective is a reduction in the exposure to risks to the level that is acceptable to the Luka Koper Group.

## FINANCIAL RISKS

Key risks include only one financial risk and this is the fair value risk. The Group has invested 5.5% of its assets and these investments are measured at fair value. The fair value risk of these investments, is shown in the fluctuation of stock exchange prices that have impact on these assets and the result of asset disposal. The company recognised this type of risk in investments in market securities of the Slovene companies. In recent years the strategic orientation of the Luka Koper Group has been focused of investments on the development of the core activity of the company and therefore the company manages only the existing portfolio. The Group controls this risk by monitoring the situation in the financial markets, their impacts on the portfolio and takes care of high profitability and maintenance of value by active management of investments.

The control of the fair value risk and other financial risks that include the interest rate risk, liquidity risk, foreign exchange risk, credit risk and risk of adequate capital structure are assessed as moderate, less important or even irrelevant. The management of these risks is presented in detail in the Accounting Report of Luka Koper, d.d. in Note No. 36: Financial instruments and control of financial risks.

## COMPLIANCE RISKS

Key risks of compliance include risks associated with exceeding the legally determined limit values of noise for the town centre of Koper that can be caused by the construction works related to the extension of the first pier, driving piles as well as noise due to increased activities of at the container terminal or arrival of a noisy ship. The Group has already taken the measures that will consider the limitation of the noise level in the phase of design and later on when selecting a contractor of construction works. The Group controls the risks associated with the excessive noise by a gradual transition of the technological equipment driven by electricity, the first equipment is expected in 2017, when the company will start using rail mounted gantry cranes. Some alternative solutions that could contribute to the decrease in the noise were presented in the strategic orientations of the development of Luka Koper in the environmental filed to the year 2030 that were adopted in 2016. In order to reduce the level of noise, mooring of noisy ships is arranged in second basin that is far from the centre of the town. Levels of ship noise have been constantly monitored and in cooperation with shipping companies the company tries to agree on the replacement of ships by less noisy ones. The risk of impossibility of deepening the seabed for the maintenance of the existing depths because of the unavailability of the disposal areas for waterborne sediments has been managed as the risks associated with the deepening to provide greater depths, i.e. by active and constructive cooperation with the government bodies, local authorities and other institutions in obtaining adequate approvals for the construction of disposal sites and the search for alternative methods of disposal and managing marine sediments.

Risks of compliance include also risks of fraud. In the past, the Port of Koper directly and indirectly introduced elements of corporate integrity. In 2014, it introduced the commitment to respect and follow the Slovenian Corporate Integrity Guidelines. In 2016, three key documents from this field were adopted and they included the Strategy of corporate integrity of the Luka Koper Group, the Code of Ethics of the Luka Koper Group and the Rules on accepting gifts in the companies of the Luka Koper Group. The person authorised for corporate integrity, who was appointed at the end of 2015, started working in 2016. The possibility of accepting reports on violations of corporate integrity was IT-supported on the website of the company. The reports on received violations were currently discussed by the person authorised for corporate integrity in the Luka Koper Group, Audit Committee of the Supervisory Board or the Supervisory Board, if necessary. The Group controls risks of fraud by clearly determined and communicated rules of operating and concluding business deals, transfer of authorisation and approving invoices and the introduced 4-eye control and other controls integrated into processes; the purchasing policy was adopted in 2016.

Several inspections, reviews and controls were carried out in the company in 2016. No violations were recorded or were of minor importance and subsequently eliminated and the procedures were suspended. In one case the company received a final decision because of the violation of the labour legislation and started an administrative dispute for the protection of company's interest.

The Group controls other compliance risks by the adopted measures that will be implemented also in 2017. The Group will study the requirements of the IFRS standard 15 and carry out the adjustments for the provision of compliance with the standard in 2017. An upgrade of the system for the provision of operation compliance of the Luka Koper Group is also planned in 2017.

THE EMAS CERTIFICATE WAS AGAIN AWARDED TO LUKA KOPER

# SUSTAINABLE DEVELOPMENT

## 16 Natural environment

THE GROUP FOLLOWS THE OBJECTIVE – TO ACHIEVE THE HIGHER ENVIRONMENTAL STANDARDS

In 2016, Luka Koper, d.d. again obtained the EMAS certificate. The EMAS scheme represents an upgrade of the already established environmental management SYSTEM (ISO 14001) and the evidence that the company operated in compliance with the environmental legislation and the obtained environmental approvals and certificates. Continuous improvement in the environmental management system, objective and regular assessment of efficiency of such systems, ensuring information about the environmental efficacy, an open dialogue with the public and other interested parties and active participation of the employees are required in addition to the compliance with the legislation and approvals.

### 16.1 Harmony with the environment

Luka Koper has always been focused on the improvement in the quality of life in the environment where the port is located. Being aware that the impacts of the port on the environment exist, Luka Koper committed in its business policy to manage the environment reasonably as it would like to preserve it for the coming generations. Monitoring and control of environmental impacts has become a part regular work activities. In this field, Luka Koper cooperates also with competent professional institutions.

**Strategic orientations of Luka Koper by environmental aspect**

| ENVIRONMENTAL ASPECT | STRATEGIC ORIENTATIONS |
|---|---|
| Use of land plots and water and generation of waste water | • efficient use of water<br>• rational use of natural resources<br>• reduction in emissions and quantities of waste water and precipitation |

| | |
|---|---|
| **Climate factors and air quality** | • use of alternative drives of machinery<br>• modernisation of machinery and equipment<br>• process automation<br>• arrival of modern cargo ships<br>• use of alternative sources for heating and cooling of rooms |
| **Deepening of seabed and management of marine sediment** | • alternative use of marine sediment for construction purposes<br>• use of modern techniques of sediment excavations<br>• returning marine sediment to the sea environment |
| **Noise pollution** | • reduction in noise at port sources<br>• electrification of machinery<br>• arrival of modern cargo ships<br>• reduction in noise sources due to construction works<br>• implementation of mitigating measures with respect to the proposals and initiatives of local communities |
| **Energy efficiency** | • use of alternative energy sources<br>• improvement in energy efficiency<br>• almost zero-energy buildings<br>• optimisation of use of throughput machinery by the use of IT<br>• reduction in harmonic distortion in the electric grid<br>• smart grids |
| **Waste management** | • prevention of waste generation<br>• increase in the share of re-use of generated waste |
| **Light pollution** | • replacement of lights by energy-efficient ones in line with the development of lights in the market<br>• automatic system of lighting switching on/off with respect to the conditions in the port |
| **Sea quality** | • provision of quality of the sea, suitable as bathing water<br>• upgrade of the coast draining system and consequently reduction in emission of precipitation<br>• carrying out activities for the reduction in accidents at sea and pollution by ships<br>• modernisation and purchase of new equipment and devices for actions and help in actions and education and training of the employees for the efficient interventions |

**STRATEGIC ORIENTATIONS OF THE DEEVLOPMENT IN THE ENVIROMENTAL FIELD TO THE YEAR 2030 WERE ADOPTED**

In the development the company strives for the introduction of modern sustainable solutions that are relevant for the local and wide social community. It provides conditions for healthy and safe work of the employees and their continuous training. It tries to currently inform all its shareholders about its plans and achievements through various communication channels and tools. By the assistance and control of the competent professional institutions the company regularly conducts measurements of emissions in the environment and reports on the results to the competent government institutions. It takes care for the efficient management of waste and energy products and it greens the port areas and thus improves the visual image of the port complex.

The most important achievements in the field of natural environment in 2016 were:

- renewal of the EMAS certificate,
- elaboration of the document of Strategic orientation of the
- development of Luka Koper, d.d. in the field of environment to the year 2030,
- the company was presented a bronze award for the innovation of the manufacture of a brick made of marine sediment,
- the Municipality of Koper, the DOPPS – Birdlife Slovenia and the company were presented the award for the formation of the Škocjanski zatok nature reserve.

The most important objectives in the field of natural environment in 2016 were:

- successful conduct of the audit in line with the requirements of the EMAS directive,
- reduction in the emissions of total dust at ten port locations in the amount of 250 mg/m2/day and max 5 deviations from 120 measurements during the year,
- preservation of the PM10 value (size up to 10 μm) in the entire port under 30 μg/m3 (in the direction of Ankaran, Koper and Bertoki),
- maintenance of the share of separately collected waste, excluding waste from vessels above 84%,
- reduction of the noise level to 48 dBA at night in the direction of the town,
- maintenance of the daily noise level at 58 dB in front of the closest facilities outside the port area in spite of the increase in throughput and extension of the port,

- modernisation of the drainage system on the shore of the break bulk terminal, of the sewage treatment plant on the livestock terminal and replacement of some oil catchers,
- no measures are needed in case of developments (inspections and internal measures),
- no pollution in the sea outside the port aquatorium,
- adjustment of the external lighting with the aim to reduce light pollution,
- maintenance of the specific use of energy products at the level from the year 2016 in spite of the increase in throughput and warehousing capacities; the consumption is limited to 0.25l/t of fuel and 1.17 kWh/t of electricity and 6.4 l/t of drinking water.

## 16.2 EMAS certificate

In 2010, Luka Koper, d.d. received the EMAS certificate - the most important environmental certificate (SI 00004) that has been renewed on an annual basis. The strategic orientations of the company are achieved by meeting the standards for obtaining EMAS as the highest environmental certificate. The Environmental report of Luka Koper for 2016 has been prepared and is due to be published in April 2017.

## 16.3 Atmosphere

Striving for constant reduction in emissions that are produced by the performance of port activities involves many activities. The most important measures for the reduction in dusting are the introduced technology of applying paper mill sludge to the coal and iron ore disposal area. Paper mill sludge builds a solid layer that prevents drifting of dust.

Measurements of emissions were carried out at the terminal of liquid cargoes. Emissions of substances coming from devices for vapour collection that appear when loading wagons and heavy goods vehicles were measured. They were in compliance with the legislation.

Measurements of dusting were carried out on key places at the dry bulk terminal and at the European energy terminal. Values were within the legislative framework.

### 16.3.1 Quantity of the total dust in the port

Since 2002 Luka Koper, d.d. has monitored the total dust concentration on ten locations in the Port. In accordance with our annual objective the average value of all measurements should be lower than 250 mg/m2day and this value could be exceeded only five times out of 120 measurements during the year. The legislation does not prescribe any limit values or tolerances for such measurements.

In 2016, the average annual value of total measurements amounted to 105 mg/m2day; no exceeding of values was observed, which means that the objective was fully achieved. The measured average value of all results was by 25% lower over the average of the last year and the average value was lower than the target set.

### 16.3.2 Quantity of harmful dust particles ($PM_{10}$)

The legally prescribed measurements of particles (PM10) that are carried out by an authorised organisation, are continuously monitored on three Port locations. In 2016, the measurements showed values lower than the target value of 30 µg/m3 and it was below the legally determined value of 40 µg/m3. The values measured did not exceed the legally prescribed values. On an hourly basis, the results of two measuring devices that enable such measuring are automatically displayed on the port website www.zivetispristaniscem.si.

**Comparison of average measurements of PM10 in the years 2016 and 2015**

| | 2016 | 2015 | INDEX 2016/2015 |
|---|---|---|---|
| Ankaran – Rožnik | 18 $\mu g/m^3$ | 21 $\mu g/m^3$ | 86 |
| Bertoki | 20 $\mu g/m^3$ | 25 $\mu g/m^3$ | 80 |
| Koper – passenger terminal | 20 $\mu g/m^3$ | 26 $\mu g/m^3$ | 77 |

In 2016, the values were slightly lower in comparison with those of the year 2015 at all port locations. There were less foggy days in 2016, which contributed to the air quality.

The average annual values of PM10 were slightly lower in Slovenia in 2016. A comparison with the measurements carried out by the Slovenian Environment Agency showed that the values measured in the Port in 2016 were lower than in the majority of other Slovene places.

### 16.3.3 Emissions of dust particles on key sources

Since the permitted values of dust particle emissions on key sources are stipulated by law, the measurements are carried out in the direct vicinity of dust-generating sources (e.g. at loading/unloading of wagons, lorries and ships). The limit permitted value of emissions is 20 mg/m3. All measured results were in compliance with the law in 2016.

## 16.4 Waste

The Port produces various types of waste. In terms of the commitment to the care for the environment, the company regularly ensures separate waste collection, recycling and processing. Waste separation is carried out at all terminals, with users of the economic zone and on ships. Separately collected fractions of waste are delivered to authorised collectors, and organic waste is processed at the composting facility. In waste processing Luka cooperates also with other companies.

In 2016, the share of separately collected waste totalled 91%, which exceeded the target of 84% of separately collected Port waste.

In 2016, Luka Koper organised also the removal of old railway sleepers and asbestos roofing. In 2017, the company plans further removal of old railway sleepers that will be replaced by new ones.

## 16.5 Noise

Luka Koper constantly monitors the noise level on three limit points of the Port by three measuring devices and presents the results on the portal www.zivetispristaniscem.si. The table shows the collected average annual noise values measured on three different locations in the port.

Periodical noise measurements were also carried out in accordance with the requirements of the legislation and the results show meeting of the environmental requirements.
The port area belongs to level 4 of noise protection in scope of which Luka Koper monitors also the noise level. The port environment is classified into level 3 of noise protection. The legally prescribed limit values of noise for the port area (level 4) and the average annual values measured by continuous measurements are presented in the table below. It shows the measured values of all noise sources:

road traffic, port processes, ships and other sources of noise located outside the port.

### Comparison of average noise measurements (in dB) in the years 2016 and 2015

| Year 2016 | | | Year 2015 | | | Limit values |
|---|---|---|---|---|---|---|
| East border of the Port (Bertoki) | North border of the Port (Ankaran) | South border of the Port (Koper) | East border of the Port (Bertoki) | North border of the Port (Ankaran) | South border of the Port (Koper) | |
| $L_D$=54 | $L_D$=54 | $L_D$=63 | $L_D$=54 | $L_D$=54 | $L_D$=63 | $L_D$=73 |
| $L_V$=52 | $L_V$=51 | $L_V$=62 | $L_V$=53 | $L_V$=52 | $L_V$=62 | $L_V$=68 |
| $L_N$=50 | $L_N$=51 | $L_N$=61 | $L_N$=49 | $L_N$=50 | $L_N$=60 | $L_N$=63 |
| $L_{DVN}$=57 | $L_{DVN}$=58 | $L_{DVN}$=68 | $L_{DVN}$=57 | $L_{DVN}$=58 | $L_{DVN}$=67 | $L_{DVN}$=73 |

Legend: $L_D$ – daily noise level, $L_V$ –evening noise level, $L_N$ – night noise level, $L_{DVN}$ – noise level – day – evening – night

The target of 48 dB is set for the night time at the level of the company. It is measured in front of the first buildings along the port, i.e. at a minimal distance from the port and without considering the noise of ships, road traffic and other noise sources outside the port that are beyond the direct influence of the port. The noise values the company reached in the last two years were higher than the objective set; in 2015 they ranged from 47 to 49 dB and in 2016 they amounted to 49 dB.

The main sources of noise in the Port are related to the performance of throughput of goods and the use of Port machinery. Construction works carried in the port area also cause noise. Ships whose engines have to be constantly switched on because of their smooth operation also cause perceptible noise in the Port.

The following measures were taken at the container terminal in scope of the activities of annual planning of noise reduction in 2016:

- re-surfacing of a part of roads,
- purchase of seven electrified rubber tyred gantry cranes (E-RTG),
- purchase of two rail mounted gantry cranes (RMG),
- construction of rails for the use of RMG cranes,
- construction of the handling areas for electrified rubber tyred gantry cranes (E-RTG).

## 16.6 Energy

ELECTRIFICATION OF GANTRY CRANES ON THE CONTAINER TERMIAN STARTED WITH THE AIM TO REDUCE THE ENVIRONMENTAL POLLUTION

In 2016, the first phase of the investment of installing measuring and communication equipment in transformer stations was completed. This equipment enables measuring of electricity consumption in the entire port at a minute interval. During the second phase of the investment that will be carried out in 2017 the entire process of installing measuring devices and communication equipment in other transformer stations and programming of the SCADA control system for the energy consumption in the port will be completed.

In the third quarter of 2016 the first phase of the investment of the existing high-pressure sodium lighting was replaced by the modern LED lighting in the container terminal. In the second quarter of 2017 the second phase of the investment will be completed and then all high-pressure sodium reflectors will be replaced by LED ones on the container terminal. The investment will enable considerable savings in electricity consumption.

In 2016, fossil fuel boilers were replaced by heat pumps in two buildings of the port. Within the framework of the European ELEMED project the technical possibilities of connecting ships to the grid while they are moored in the port have been studied.

In 2017, an investment in the upgrade of the existing lighting in cooling chambers 13, 14 and 16 is planned. Sensors will be installed and the SCADA control system for the remote control and the control of internal and external lighting will be established.

### 16.6.1 Consumption of energy products and water

Due to the detailed monitoring of energy product consumption the Port of Koper started monitoring also the specific consumption of energy products of the total throughput in 2015, which is a sum of the maritime throughput, loading/unloading containers and the land throughput.

### Specific consumption of energy products and water per ton of total throughput[23] in 2016 and 2015

| | 2016 | 2015 | INDEX 2016/2015 |
|---|---|---|---|
| Electricity consumption (kWh/t) | 0,617 | 0,623 | 99 |
| Fuel consumption (l/t) | 0,139 | 0,135 | 103 |
| Consumption of drinking water (l/t) | 3,491 | 3,900 | 90 |

### Electricity consumption

The port activity is carried out using machinery and equipment with high nominal power and, consequently, high electricity consumption. Berth cranes, engine rooms for cooling food in the reefer terminal, the lighting and supply of cooling containers consume particularly high levels of energy. Due to the use of new electrified rubber tyred gantry cranes (E-RTG) and rail mounted gantry cranes (RMG) at the container terminal the consumption of electricity will grow All new gantry cranes have systems for the return of electricity to the grid when lowering cargo. The increased electricity consumption due to new cranes will be partly set-off by the investments in the new LED lighting in the port.

### Fuel consumption

Working processes at the Port require much floor machinery, which is fossil fuel driven (diesel). The major consumers are rubber tyred gantry cranes (RTG), terminal tugs, manipulators, railway articulate vehicles and tractors.

In 2016, the container terminal consumed fuel accounting for 63% of the fuel of the entire port. By the delivery of new rubber tyred gantry cranes and rail mounted gantry cranes the percentage of fuel consumption will gradually decrease. When considering the purchase of new transport machinery the company follows the latest technological environmental requirements.

### Water

A variety of safety and cleaning measures is taken in connection with water, which is considered the most important life necessity. Since water is used for sanitary purposes and the supply of ships, the concern for water cleanliness is a part of everyday activities.

[23] Total throughput = maritime throughput + loading /unloading of containers + land throughput

### Drinking water

Consumption of drinking water does not directly depend on the throughput. Due to the increased utilisation of the port and a high number of trucks and transport machinery additional leakage occurs in the water supply network. Constant reconstructions of the old parts of the water supply network and current elimination of leakage reduced the occurrence of leakages in the Port of Koper in 2016 and thus decreased also the consumption of drinking water.

Annual measurements of the quality of drinking water in the entire water supply network of the Port, and additionally monthly measurements of the quality of drinking water at the passenger terminal were carried out. All results show compliance with the laws.

### Waste water

The Port primarily produces municipal waste water, and on a smaller scale also technological waste water. The latter is properly cleaned in the treatment plants of the port prior to being discharged, while most of municipal waste water is cleaned in a central treatment plant in Koper. In 2016, technological waste water produced inside the Port was measured.

## 16.7 Lighting

In accordance with regulations for safe work, Luka Koper, d. d., ensures proper lighting, which is required for continuous performance of work processes. Unfortunately, the lighting, which illuminates warehousing areas, sites, transportation routes and tracks at night is the source of environmental pollution by light.

Therefore, Luka Koper has been adjusting and changing lights on the basis of the performed Study for Comprehensive Coordination of the Port's Existing Outdoor Lighting, ensuring the light is not directed upwards. In recent years, the external lighting has been intensively adjusted and only some percent is missing to the final compliance that will be reached when the container terminal is completed. The arrangements relating to the container terminal have been in progress since spring 2016 and are due to be finished in April 2017.


Schematic consistency lighting (green) and plan arrangements for the 2016 (yellow)

## 16.8 Marine protection

In accordance with the provisions of the Concession Agreement for the Administration, Management, Development and Regular Maintenance of Port Infrastructure at Koper Port Terminal, Luka Koper, d. d. takes regular care of the prevention and elimination of consequences of any kind of marine pollution. To carry out such an activity the company needs special equipment and vessels, as well as properly trained staff; therefore regular trainings and drills are provided. In 2016, special training for the actions taken in the event of sea pollution was organised for certain employees in accordance with standards of the International Maritime Organization (IMO). Each participant of the training received a certificate that is valid for 36 months. A refresher training for the extension of certificate validity was organised for certificate holders.

In the event of industrial accidents Luka Koper acts in compliance with the applicable protection and rescue plans of Luka Koper, d.d.

In 2016, 23 minor incidents were detected in the Port aquatorium. Sources of pollution were identified and the costs of cleaning were refunded to the company.

### Statistical data on interventions at sea

| | 2016 | 2015 | INDEX 2016/2015 |
|---|---|---|---|
| Number of identified incidents at sea | 27 | 23 | 117 |
| Number of interventions in the Port aquatorium | 17 | 23 | 74 |
| Number of incidents not requiring intervention | 10 | 0 | - |
| Number of pollution incidents outside the Port's aquatorium | 0 | 0 | - |

Modern measuring equipment for monitoring the quality of the sea that is installed in front of the entrance to the third basin displays the results of measurements that are available at the website http://www.zivetispristaniscem.si/.

During the year the REBEKA buoy continuously monitored the general parameters of sea water in the third basin. The lowest temperature of the sea (7.8°C) was measured in February, and the highest (25.6°C) in August. When compared to the year 2015 the highest temperature measured was significantly lower in 2016, as the maximal temperature measured in 2015 was 29.9°C. The average salinity level amounted to 36 g/l in 2016. The dissolved oxygen levels ranged from 4 to 10 mg/l. The lowest oxygen levels in the sea were recorded in March and August. pH values ranged from 8 to 8.5. Opacity expressed in NTU units was about 1 NTU. Especially in the second half of the year higher opacity concentrations were measured. Deepening of the marine sea was not carried out.

In 2016, the company continued monitoring the microbiological parameters of the sea water quality in all three port basins, although this was not imposed by the law. It monitored the parameters showing faecal pollution of the sea. The measurements showed that the values were mostly lower than legally prescribed, which meant that the sea water in the port basis was suitable for bathing.

The system for the hydrocarbon spillage control that consists of three sensor units recorded no pollution in 2016. In December 2016, new xenon lights were purchased for hydrocarbon sensors; replacement and testing of operation of these lights are planned for 2017.

## 16.9 Protection and rescue plan of Luka Koper in case of industrial accidents

Luka Koper uses, transports and stores hazardous substances, petroleum products in its work process and manages work equipment and tools that represent a potential risk of accidents. Therefore, the Risk Assessment and the Protection and Rescue Plan in case of industrial accidents for the area of concession implementation have to be prepared on the basis of the Protection Against Natural and Other Disasters Act (Official Gazette of the Republic of Slovenia, No. 51/06 – UPB1, 95/07 – ZSPJS and 97/10).

The Protection and Rescue Plan was prepared in 2010 in accordance with the Protection Against Natural and Other Disasters Act and the Decree on the content and elaboration of protection and rescue plans. When preparing the plan the Fire Protection Act, Fire Service Act, general legislation, implementing regulations and internal acts of the company were taken into account. The Plan and Risk Assessment were revised in 2013, and the Plan was again amended in 2015.

Pursuant to Article 14 of the Decree on the content and elaboration of protection and rescue plans (Official Gazette of the Republic of Slovenia, No. 24/2012) the Protection and Rescue Plan is reviewed and changed or amended due to the change in the risk assessment or change in the availability of resources and protection, rescue and assistance, if necessary and in adequate intervals, but at least each three years for major accidents with hazardous substances and for the facilities that are used for mining waste management and each five years for all other accidents. New knowledge of the line of business and experience acquired in rescue actions and drills in protection, rescue and assistance have to be considered.

Due to the changes in the throughput and storing of hazardous substances, arrival of increasingly large ships and analysis of all the events it is necessary to update the Risk assessment as it was last revised three years ago. Due to the reorganization in the fields that include the organization of intervention teams or due to the changes in the resources available for protection, rescue and assistance it will be necessary to update the Plan as well. Thus, all the conditions for the conduct of revision of the Risk assessment and the Protection and Rescue Plan were met. The company started the activities in November 2016 and the project was completed in February 2017.

## 16.10 Ensuring security in the Port area

Ensuring Port security is a complex and dynamic process that enables smooth performance of the port activity, operation of all systems of the port infrastructure and the work of employees. The measures for the protection and security of the port and its operations and for the safety of the employees and property within the secured area are implemented in order to ensure security.

The Security Policy of Luka Koper is an umbrella document of the company that determines the key areas of general security. By adopting the Security Policy the management board committed to ensuring security in all company processes.

The International Convention for the Safety of Life at Sea (SOLAS) is the fundamental act in the field of safety at sea. The international Ship and Port Facility Security Code (ISPS) is an amendment to the SOLAS convention that the European Union implemented in the European acquis communautaire, by the Decree on the increase in ship and port facility security. The regulation represents the foundation for the coordinated and harmonised interpretation, implementation and possibility of control of carrying out safety measures and it was introduced into the Slovene law by the Decree on the implementation of protective measures in ports and on board ships.

At the beginning of 2016 the European Committee for the control of port safety conducted an inspection in the Port of Koper. The purpose of inspection was verification of meeting requirements and recommendations of the ISPS Code.

In relation with the meeting of requirements and recommendations of the ISPS Code the "Passenger ship 2016" exercise was carried out in the port on 16 October 2016. The purpose of the exercise was to check leading and operation as well as readiness and appropriateness of the concept for the protection and rescue in case of accidents on a passenger terminal in Luka Koper.

"Passenger ship– 2016" exercise, 16 October 2016

In addition to the regional exercise Luka Koper participated also the annual exercise on the COMMON FAITH cargo ship, moored in the Port of Koper, in compliance with the ISPS Code. The exercise was intended for the exchange of information about the conducted protective measures in the port in case of a bomb threat on a cargo ship.

## 16.11 Construction work

In 2016, some regular construction works were carried out on the roads and water pipeline. The construction of three reservoirs for fossil fuel was the major completed construction project. Car parks were also arranged for new vehicles at the front of the second pier. Some construction works have still been in progress on the container terminal where handling areas for the container throughput by electrified gantry cranes are prepared and the rails for the use rail mounted gantry cranes for loading and unloading of containers on railway wagons are constructed. A new hall for storing cereals has been under construction on the second pier.

In 2016, the company started the process of obtaining the environmental approval for the complete set-up of the first pier in the Port of Koper for the international transport and the construction of a RO-RO berth in the third basin.

## 16.12 Maritime sediments

Certain basin depth has to be constantly provided for the assurance of safe navigation of ships in the port. Deepening of the basis is continuously carried out for this purpose and this generates marine sediments. The sediment is deposited in the area within the port. As the areas available are limited the company has started studying the alternative possibilities for the use of excavated material. Besides the brick made of marine sediment, a project has been prepared and approved that will study the possibilities of compacting sludge by binders.

# 17 Human capital

The employees of the Luka Koper Koper prove their commitment to the company and co-create its future by partner relations, their knowledge, energy and enthusiasm for work. The activity of the Luka Koper Group requires a flexible approach to the organisation of work and therefore the employees have to adjust to the needs of the business and social environment.

The qualified and motivated employees are strategic wealth and a condition for the implementation of the development plan of Luka Koper. Cooperation, responsibility, respect, loyalty and creativity of each individual are the values that the Group implements in practice.

FIFTY-NINE NEW EMPLOYEES JOINED THE TEAM OF LUKA KOPER

## 17.1 Employment, employee turnover and structure of employees

As at 31 December 2016, the Luka Koper Group employed 1,071 staff, which was an increase of 31 persons over the same period in 2015 and represented a 3% growth for the third successive year.

In 2016, the Luka Koper Group employed 59 new persons, of which 51 in Luka Koper, d.d., which was an increase over the year 2015. The majority of new employments involved jobs in the basic throughput process and some in the support processes.

**Number of employees by company in the Luka Koper Group as at 31 December**

| | 2016 | 2015 | Index 2016/2015 |
|---|---|---|---|
| Luka Koper, d.d. | 886 | 852 | 104 |
| Luka Koper INPO, d.o.o. | 155 | 159 | 97 |
| Luka Koper Pristan, d.o.o. | 4 | 4 | 100 |
| Adria Terminali, d.o.o. | 22 | 22 | 100 |
| TOC, d.o.o. | 4 | 3 | 133 |
| Luka Koper Group | 1,071 | 1,040 | 103 |

### Comparison between employment, number of employment contract terminations and employee turnover

| | Number of new employments | | Number of employment contract terminations | | EMPLOYEE TURNOVER (in %)[24] | |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Luka Koper, d.d. | 51 | 48 | 17 | 20 | 1.9 | 2.3 |
| Luka Koper Group | 59 | 62 | 28 | 33 | 2.5 | 3.1 |

In 2016, the number of employment contract terminations in the Luka Koper Group was slightly lower than in 2015. The main reason for termination was retirement. There were also some terminations of employment contracts based on mutual agreement. The employee turnover rate in the Luka Koper Group was lower in 2016 over the previous year and amounted to 2.5.

The low employee turnover rate had an impact on the increase in the average age of the employees and a large share of performing various forms of career development.

The company employs far more men than women due to the nature of work. The employment in the basic throughput process has an impact on the gradual reduction of women's share in the structure of employees. In spite of only one tenth of women in the total structure of employee in the Group, the share of women in the management staff amounted to 21%.

### Employee structure by gender

| | 2016 | 2015 |
|---|---|---|
| **Luka Koper, d.d.** | | |
| Number of women | 106 | 105 |
| Share of women in the structure of employees (%) | 12.2 | 12.3 |
| **Luka Koper Group** | | |
| Number of women | 120 | 120 |
| Share of women in the structure of employees (%) | 11.2 | 11.5 |

[24] Method of employee tunover calculation = number of employment contract terminations /(opening balance of the employees + new employments) x100

### Average age of employees

| | 2016 | 2015 |
|---|---|---|
| Luka Koper, d.d. | 43.0 | 42.8 |
| Luka Koper Group | 44.1 | 43.9 |

The average age of employees in the Luka Koper Group increased, which was the results of low employee turnover.

### Education structure of the employees as at 31 December

| | Luka Koper, d.d. | | | | Luka Koper Group | | | |
|---|---|---|---|---|---|---|---|---|
| Level of education | Number of employees 2016 | Share (%) 2016 | Number of employees 2015 | Share (%) 2015 | Number of employees 2016 | Share (%) 2016 | Number of employees 2015 | Share (%) 2015 |
| VIII/2 | 2 | 0.2 | 2 | 0.2 | 2 | 0.2 | 2 | 0.2 |
| VIII/1 | 21 | 2.4 | 17 | 2.0 | 22 | 2.1 | 18 | 1.7 |
| VII | 107 | 12.1 | 104 | 12.2 | 116 | 10.8 | 113 | 10.9 |
| VI/2 | 148 | 16.7 | 137 | 16.1 | 153 | 14.3 | 142 | 13.7 |
| VI/1 | 68 | 7.7 | 65 | 7.6 | 77 | 7.2 | 74 | 7.1 |
| V | 260 | 29.3 | 256 | 30.1 | 294 | 27.5 | 286 | 27.5 |
| IV | 224 | 25.3 | 214 | 25.1 | 284 | 26.5 | 273 | 26.3 |
| III | 13 | 1.5 | 13 | 1.6 | 23 | 2.1 | 22 | 2.1 |
| I–II | 43 | 4.9 | 44 | 5.2 | 100 | 9.3 | 110 | 10.6 |
| Total | 886 | 100.0 | 852 | 100.0 | 1,071 | 100.0 | 1,040 | 100.0 |

The level of education in Luka Koper, d.d. has remained higher than in the Group in spite of the fact that the majority of new employments involved jobs in the basic throughput process and warehousing. Retirement was observed mostly in employees with a low level of education.

## 17.2 Occupational health and safety

Luka Koper successfully implements the occupational health and safety system in accordance with the Policy of the environment, occupational health and safety, the BS OHSAS 18001 standard, which has been confirmed by successfully conducted audits.

The Group analyses serious or repetitive injuries at work on a monthly basis. The measures for the reduction in injuries are prepared on the basis of these results.

### Statistics of injuries at work

| Participants | Year 2016 | | Year 2015 | |
|---|---|---|---|---|
| | All injuries | Of which serious ones | All injuries | Of which serious ones |
| Luka Koper, d.d. | 11 | 0 | 12 | 1 |
| Performers of port services | 45 | 4 | 32 | 1 |
| Subsidiaries | 11 | 0 | 4 | 0 |
| External contractors | 9 | 1 | 8 | 2 |

In 2016, 140 inspections were carried out in the internal traffic and on sites in addition to regular rounds. The emphasis was placed on following the traffic rules, use of multimedia devices while driving and the use of personal protective equipment for external participants. Tests of alcohol levels were conducted at random on the basis of the internal rules and in order to reduce the risk of extraordinary events. In 2016, training of employees in the field of administering first aid was organised. A special container for the administration of first aid to the injured was purchased and erected.

In 2016, the project for the complete treatment of employees and monitoring of their habits was implemented. The training of the managerial staff in the field of recognising and managing the problem of excessive alcohol consumption was also completed.

A Health Day was organised in scope of health promotion between 5 and 9 December.

## 17.3 Education and training of employees

In 2016, Luka Koper Group reached a higher average number of training hours per employee, i.e. 17.3 hours. The average number of hours per employee in Luka Koper, d.d. was even higher, i.e. 19.9 hours, which was a result of the systematically planned training and numerous internally organised training forms. In the Luka Koper Group 67% of training courses were provided internally and were devoted to the identified problems at work, adjusted training programmes, and some courses were led by internal employees in the role of lecturers or instructors. The training courses included the majority of employees, i.e. 94% of them.

In 2016, the Luka Koper Group financed off-the-work-studies or professional training of 29 employees, which accounted for 2.7% of employees; of which 25 were employed in Luka Koper, d.d.

The Luka Koper Group allocated EUR 213,591 to the training of employees, of which Luka Koper, d.d. allocated EUR 183,068.

## 17.4 Ensuring personal and professional growth of employees

In 2016, internal mobility of the employees was substantially lower than in 2015. It mainly included various possibilities of career development and to a lesser extent, processes of internal reorganisation.

Luka Koper, d.d. completed the competence model and introduced the Method 360° for collecting feed-back and evaluation of competence development. An extended and qualified group of employees was included in the performance of the annual dialogue and they will be able to conduct IT-supported annual dialogues in the following year. The system identifying and developing HR potentials and successors was reformed.

Annual dialogues were carried out in the disabled company Luka Koper INPO, d.o.o., and for the first time also in Adria Terminali, d.o.o.

### Career development of the employees

| | Vertical and horizontal promotion | | Classification into a higher level of qualifications and flexibility | | Total internal employee mobility | |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| **Luka Koper, d.d.** | 90 | 177 | 162 | 168 | 252 | 345 |
| Employee share) | 10 | 21 | 19 | 20 | 29 | 40 |
| **Luka Koper Group** | 102 | 198 | 194 | 217 | 296 | 415 |
| Employee share) | 10 | 19 | 18 | 21 | 28 | 40 |

## 17.5 Ensuring safety of employment and social security of employees

In 2016, the employees regularly received salaries; the holiday allowance and 13th salary based on the achieved business performance were also paid. The majority of the employees was also included in the fund of voluntary pension insurance fund.

Part-time employment contracts were concluded with 1.2% of the employees, of which 12 due to disability and 1 due to parenthood.

The disability issue was dealt with by employing a share of disabled employees in the Luka Koper Group, in the disabled company Luka Koper INPO, d.o.o. The share of disabled employees in Luka Koper INPO, d.o.o. stood at 52%. In 2016, the share of disabled persons at the level of the Luka Koper Group was slightly lower, primarily due to retirement in Luka Koper INPO, d.o.o.

**Disability – Number of disabled employees and their share**

| | 2016 | 2015 |
|---|---|---|
| **Luka Koper, d.d.** | | |
| Number of disabled employees | 17 | 17 |
| Share (%) | 2% | 2% |
| **Luka Koper Group** | | |
| Number of disabled employees | 100 | 102 |
| Share (%) | 9.3% | 9.8% |

## 17.6 Cooperation with educational institutions

Luka Koper, d. d., operates as a socially responsible company in the field of development and education in the local and wide community. It cooperates with many educational institutions in ensuring mentoring of seminar and diploma papers, providing students with compulsory on-the-job trainings and expert excursions. Luka Koper, d.d. and its examples of good practice were often presented to the professional and other interested public. In 2016, the company had three students who received scholarships.

## 17.7 Monitoring the HR management efficiency and ensuring motivation of employees

The efficiency of the HR management in Luka Koper, d.d. has been confirmed by the achieved ratios / objectives of the business process of HR assurance and development resources:

- 81% of internal recruiting relating to Čnon-entry« jobs,
- 1% employee turnover on key positions and 1.9% employee turnover,

- 100% meeting the needs for employees,
- achieved 19.9 hours of training per employee on average,
- 11.46% share in white-collar workers.

Luka Koper, d.d. and Luka Koper INPO, d.o.o. will again carry out measuring of organisational climate, satisfaction and commitment of employees in 2017. In the meantime activities for the improvement of the results of previous measurements will be introduced.

Motivation of employee is promoted by presenting public recognitions and awards to the best employees of the Luka Koper Group, by organizing social events for the employees, meetings and promotion of employees who have successfully completed off-the-job studies, employees, who retired in the current year and jubilants. The company organised also informal sports meetings, visits of cultural and sports events, and offered holiday facilities to the employees.

## 17.8 Internal communication with the employees

Luka Koper communicated with the employees mostly through two key communication channels:

- short information that all employees receive by e-mail or secretariats hang it on bulletin boards;
- monthly Port bulletin is issued in printed form.

Due to the nature of work and the fact that almost half of employees has no access to a computer at work, the classical printed communication with the employees is still the most useful tool.

The company has a website - Lukanet where the general information, all internal documents of the company, platforms and instructions are available to the employees, if they need them for the performance of work.

## 17.9 Human resource management strategy

The HR management strategy in the Luka Koper Group for the period 2016 – 2020 supports the Business strategy of the company and the Luka Koper Group for the period 2016 – 2020 that highlights the increase in productivity, efficiency and competitive services among its development priorities.

In order to support the achievement of the strategic business

- provision of a safe working environment,
- introduction of a culture of good work performance,
- provision of excellent management and mutual relations,
- acquisition and maintenance of the best staff,
- improvement in the system developing future leaders and employee potentials,
- targeted acquiring of functional expertise.

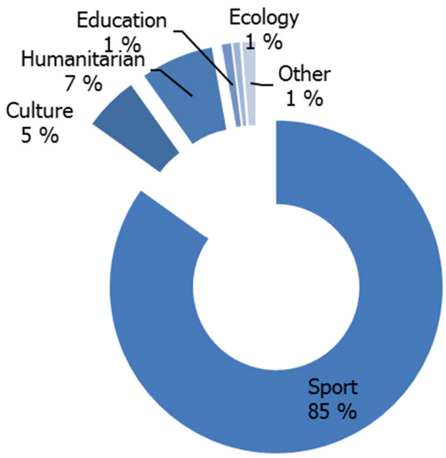
# 18 Social environment

Luka Koper has a wide circle of shareholders and in compliance with the Management policy it communicates with them in an up-to-date and timely manner. It uses various channels, adjusted to the interested public. The corporate website www.luka-kp.si is intended for the customers and investors and the sustainable portal www.zivetispristaniscem.si and the company's Facebook profile to the wide public. The Linkedin network is used for technical publications. An adjusted printed version of the monthly Port bulletin has been prepared since January 2015; it has a character of an internal bulletin and is sent free of charge to business partners and the port community in Slovenia, to the media, financial analysts and local and government bodies and institutions. Comprehensive communication has been primarily intended for better understanding of the organisation and operation of the company and the search for wide support to the implementation of development projects.

In December 2016, the company conducted the annual the survey and opinion polls among the inhabitants of the municipalities of Koper and Ankaran. The survey and opinion polls for 600 respondents comprised of four topics: relations to Luka Koper, impact of the port on the environment, spatial development of the port and the method of giving information about Luka Koper. The company is satisfied with the results, as the support of the local population to the development project is very strong. An increase in the reputation of the company is evident and the local population does not consider it the main source of environmental pollution. As much as 74% of the survey respondents believed that Luka Koper was a reputable or highly reputable company. 61 of the respondents were familiar with the contents of the state spatial plan for the development of the port of Koper; 81% of them agreed with the plan. Eighty percent of the respondents agreed with the extension of the first pier and 75% of the respondents with the extension of the second pier.

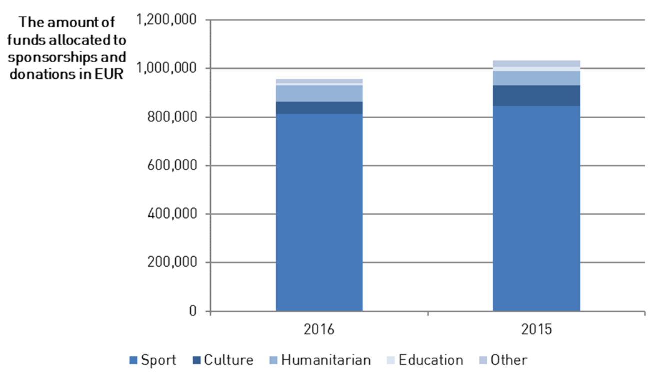
**LUKA KOPER SUPPORTS SPORTSMEN, SPORTS ORGANISATIONS AND OTHER PROJECTS**

### Distribution and amount of donations and sponsorships in 2016




The impact of the port activity mostly affects people living in the immediate vicinity of the port and therefore Luka Koper is very active in the field of social responsibility, but mostly at the local level. The company's policy concerning the sustainable development foresees also the care for the improvement in the quality of the population in the local and wide communities. The company supports numerous projects, associations, clubs and individuals through sponsorships and donations. In 2016, the company allocated EUR 956.7 thousand to this field. A portion of sponsorships and donations was allocated directly to contracts concluded for several years and a portion was distributed on the basis of the measurable criteria and a tender that is annually published on the sustainable portal www.zivetispristaniscem.si in January.

### Distribution and amount of donations and sponsorships in 2015 and 2016



# 19 Suppliers

Suppliers provide an important support to our operations. Quality suppliers contribute to higher efficiency of business processes in the company, either directly by performing various services or delivery of products, or indirectly by increasing effectiveness and performance of work processes and business practices of the company. Therefore, Luka Koper strives for the best suppliers and to establish partnerships with them. In 2016, the purchasing policy was adopted.

Luka Koper, d.d. strives for long-term partnerships with suppliers, searches mutual solutions to the quality control of the purchasing process, and researches novelties in the market and new technologies. Communications are established with all the potential suppliers who have a possibility of registration on the company's website https://luka-kp.si/slo/za-dobavitelje. The company tries hard to select the best on the basis of the communication with the suppliers, offers submitted, certificates, references and experience.

The selection and cooperation with the suppliers are carried out in a transparent method determined by the company. The suppliers whose operations have been harmonised with the requirements of the international management standards, meet the requirements of occupational health and safety and are environmentally aware, cooperate with the company and the Group in the spirit of these principles and values that apply to Luka Koper have been in a more favourable position. The commitment to social responsibility has been also considered in the selection of suppliers. Therefore, purchasing has been effectively promoted that contributes to the economic development of the local environment of the municipalities of Koper and Ankaran, where the port activity is carried out.

The company aims at the optimal number of suppliers and wants to establish a manageable structure of the purchasing process and sufficient dispersion of suppliers for the provision of timely and adequate deliveries that meet the expectations at the level of the Luka Koper Group. For this purpose the company continued the restructuring of the purchasing process by centralization which contributed to better efficiency of work and reduction in the number of suppliers of some product / service groups in 2016.The level of centralization of decisions on purchasing has been asserted through the responsibilities determined in advance and the competence of all the employees involved in the purchasing process. The purchasing process is managed centrally and the implementation of purchasing processes is performed by decentralised organisational units of the company or the Group enabling a higher level of adjustment to specific needs of individual organisational units. In this way the company strives for a well-organised and

**THE COMPANY PURSUES THE OBJECTIVE OF BUSINESS EXCELLENCE AND REPUTATION BY THE ADOPTED PRINCIPLES OF PURCHASING ALSO IN THE FIELD OF WORK WITH THE SUPPLIERS**

transparent operation with the suppliers and for the maintenance of the efficient and adjustable purchasing process that enables smooth and effective flow of work.

Luka Koper regularly monitors and assesses its cooperation with suppliers. Once a year key suppliers are assessed on the basis of the pre-determined criteria. Considering the assessment, suppliers are classified into various groups and cooperation with top-ranking suppliers is the company's priority in the following year. Moreover, the best supplier is selected for each important group of cargoes and/or services.

# 20 Management system

The quality management system represents a comprehensively designed and targeted approach to the increase in process efficiency and to adding value to the internal and external customers. Its full implementation is possible only by the systemic support of the process owners and other participants within individual phases.

In 2016, the key activities of the development of management system were focused on planning and implementation of the majority of changes at the systemic level that are required by the new publication of the standard ISO 9001:2015. Gaps between the present and future requirements of the management system standard were studied at the beginning of the year with the aim to prepare well for the gradual transition. A programme of gradual transition with the final awarding of the certificate in 2018 was prepared on this basis.

The continuity of the integrated management system has been ensured in the Luka Koper Group and especially in Luka Koper, d.d. by adjusting to the requirements and by the growth of the system as a whole and its individual parts. In 2016, the core activities on the systemic and operative levels were:

- preparation of the programme and the beginning of gradual transition to the renewed standard ISO 9001:2015,
- introduction of process owners and internal reviewers who understand the requirements of the new standard based on training courses and internal workshops,
- conduct of 15 internal audits throughout the year in compliance with the plan,
- preparation and conduct of the external review by an external certification body (20 – 21 April 2016),
- renewal of the annual management review,
- design and implementation of changes in the process approach,
- streamlining of the system support in the document system and an increase in efficiency of measures for improvement,
- meeting of requirements of the standard for food safety ISO 22000:2005 and requirements of Non-GMO, EKO and ISCC EU certificates in scope of management systems,
- formulation of the approach in accordance with the EFQM excellence model (organisation of a workshop in cooperation with the Ministry of Infrastructure of the Republic of Slovenia for potential entities performing self-assessment due to the selection of the most appropriate methodology),
- introduction of changes in the Management policy of Luka Koper, d.d.

**ISO 9001 2015**

**THE COMPANY SUCCESSFULLY FOLLOWS THE PROGRAMME OF GRADUAL TRANSITION TO THE RENEWED STANDARD**

# ACCOUNTING REPORT

# 21 Separate Financial Statements of Luka Koper, d.d.

## 21.1 Separate Income Statement

| (in EUR) | Note | 1-12 2016 | 1-12 2015 |
|---|---|---|---|
| Revenue | 1 | 190,407,498 | 173,277,749 |
| Capitalised own products and services | | 5,243 | 0 |
| Other income | 2 | 1,151,914 | 2,816,077 |
| | | | |
| Costs of material | 3 | -13,629,976 | -13,853,899 |
| Cost of services | 4 | -50,982,018 | -45,122,343 |
| Employee benefits expense | 5 | -45,396,062 | -41,788,800 |
| Amortisation and depreciation expense | 6 | -25,507,032 | -26,368,281 |
| Other operating expenses | 7 | -10,513,140 | -10,134,220 |
| **Operating profit** | | **45,536,427** | **38,826,283** |
| | | | |
| Finance income | | 3,070,990 | 2,453,970 |
| Finance expenses | | -2,107,533 | -7,518,972 |
| **Profit or loss from financing activity** | **8** | **963,457** | **-5,065,002** |
| | | | |
| **Profit before tax** | | **46,499,884** | **33,761,281** |
| | | | |
| Income tax expense | 9 | -7,093,243 | -5,132,716 |
| Deferred taxes | 9,17 | 1,174,475 | 216,509 |
| | | | |
| **Net profit for the period** | | **40,581,116** | **28,845,074** |
| **Net earnings per share** | **10** | **2.90** | **2.06** |

Notes to the financial statements are a constituent part thereof and must be read in conjunction therewith.

## 21.2 Separate Statement of Other Comprehensive Income

| (in EUR) | Note | 1-12 2016 | 1-12 2015 |
|---|---|---|---|
| **Profit for the period** | | **40,581,116** | **28,845,074** |
| Actuarial gains/losses from post-employment benefits | 21 | 20,420 | -464,503 |
| Deferred taxes on actuarial gains or losses | 17 | 8,297 | 39,483 |
| Change in actuarial gains and losses in retained earnings or losses | | -29,769 | 19,330 |
| Items that will not be reclassified subsequently to profit or loss | | -1,052 | -405,690 |
| Change in revaluation surplus of available-for-sale financial assets | 16 | -4,213,091 | 1,361,150 |
| Deferred tax on revaluation of available-for-sale financial assets | 17 | 510,470 | -231,395 |
| Change in fair value of cash flow hedging instruments | 25 | 220,082 | 418,153 |
| Deferred tax on the change in fair value of cash flow hedging instruments | 17 | -29,016 | -71,086 |
| Effective portion of change in fair value of cash flow hedging instruments, transferred to profit or loss | 25 | 397,546 | 0 |
| Deferred tax on the effective portion of change in fair value of cash flow hedging instruments, transferred to profit or loss | 17 | -67,583 | 0 |
| Item that will be reclassified subsequently to profit or loss | | -3,181,592 | 1,476,822 |
| **Total comprehensive income for the period** | | **37,398,472** | **29,916,206** |

## 21.3 Separate Statement of the Statement of Financial Position

| (in EUR) | Note | 31 Dec 2016 | 31 Dec 2015 |
|---|---|---|---|
| ASSETS | | | |
| | | | |
| Property, plant and equipment | 11 | 358,594,707 | 324,333,651 |
| Investment property | 12 | 29,918,504 | 30,445,956 |
| Intangible assets | 13 | 3,761,498 | 4,326,997 |
| Shares and interests in Group companies | 14 | 4,533,063 | 4,533,063 |
| Shares and interests in associates | 15 | 6,737,709 | 6,737,709 |
| Other non-current investments | 16 | 27,338,863 | 31,677,981 |
| Deposits and loans given | | 31,005 | 400,419 |
| Non-current operating receivables | | 41,772 | 37,931 |
| Deferred tax assets | 17 | 9,098,541 | 7,501,899 |
| **NON-CURRENT ASSETS** | | **440,055,662** | **409,995,606** |
| Inventories | 18 | 809,467 | 813,734 |
| Deposits and loans given | | 68,123 | 177,124 |
| Trade and other receivables | 19 | 31,015,578 | 29,875,828 |
| Cash and cash equivalents | 20 | 983,305 | 5,188,569 |
| **Current assets** | | **32,876,473** | **36,055,255** |
| **TOTAL ASSETS** | | **472,932,135** | **446,050,861** |
| | | | |
| EQUITY AND LIABILITIES | | | |
| | | | |
| Share capital | | 58,420,965 | 58,420,965 |
| Capital surplus (share premium) | | 89,562,703 | 89,562,703 |
| Revenue reserves | | 129,035,652 | 108,745,094 |
| Reserves arising from valuation at fair value | | 7,085,026 | 10,237,902 |
| Retained earnings | | 20,321,603 | 15,880,814 |
| **EQUITY** | **21** | **304,425,949** | **282,847,478** |
| Provisions | 22 | 4,265,164 | 3,190,453 |
| Deferred income | 23 | 12,334,719 | 10,857,961 |
| Non-current loans and borrowings | 24 | 113,900,739 | 110,354,823 |
| Other non-current financial liabilities | 25 | 419,873 | 639,954 |
| Non-current operating liabilities | | 693,924 | 184,554 |
| **NON-CURRENT LIABILITIES** | | **131,614,419** | **125,227,745** |
| Current loans and borrowing | 26 | 11,761,732 | 10,054,104 |
| Other current financial liabilities | | 250,564 | 848,073 |
| Income tax liabilities | | 1,960,528 | 2,761,153 |
| Trade and other payables | 27 | 22,918,943 | 24,312,308 |
| **CURRENT LIABILITIES** | | **36,891,767** | **37,975,638** |
| **TOTAL EQUITY AND LIABILITIES** | | **472,932,135** | **446,050,861** |

## 21.4 Separate Statement of Cash Flows

| (in EUR) | 1-12 2016 | 1-12 2015 |
|---|---|---|
| **CASH FLOWS FROM OPERATNG ACTIVITIES** | | |
| **Profit for the period** | **40.581.116** | **28.845.074** |
| **Adjustments for:** | | |
| Amortisation/Depreciation | 25,507,032 | 26,368,281 |
| Reversal and impairment losses on property, plant and equipment, and intangible assets | 1,632,731 | 1,746,595 |
| Gain on sale of property, plant and equipment, and investment property | -30,082 | -69,366 |
| Allowances for receivables | 336,990 | 82,755 |
| Collected written-off receivables and liabilities | -211,754 | -277,142 |
| Reversal of provisions | -2,323 | -1,501,667 |
| Finance income | -3,070,990 | -2,453,970 |
| Finance expenses | 2,107,533 | 7,518,972 |
| Income tax expense and income (expenses) from deferred taxes | 5,918,768 | 4,916,207 |
| **Profit before change in net current operating assets and taxes** | **72,769,021** | **65,175,739** |
| Change in operating receivables | -1,269,975 | -5,127,858 |
| Change in inventories | 4,267 | -349,777 |
| Change in assets (disposal group) held for sale | 0 | 223,306 |
| Change in operating liabilities | -883,995 | 7,543,340 |
| Change in provision | 1,095,131 | 34,527 |
| Change in non-current deferred income | 1,476,758 | 3,470,245 |
| **Cash generated in operating activities** | **73,191,207** | **70,969,522** |
| Interest expenses | -2,243,846 | -3,198,972 |
| Tax expenses | -7,893,868 | -4,743,126 |
| **Net cash from operating activities** | **63,053,493** | **63,027,424** |
| | | |
| **CASH FLOWS FROM INVESTMENT ACTIVITIES** | | |
| Interest received | 177,564 | 244,700 |
| Dividends received – subsidiaries | 672,918 | 575,188 |
| Dividends received – associates | 917,101 | 475,000 |
| Dividends received – other companies | 1,302,259 | 1,152,515 |
| Proceeds from sale of property, plant and equipment, and intangible assets | 26,390 | 172,667 |
| Proceeds from investment property | 9,742 | 897 |
| Proceeds from sale, less investments and loans given | 564,443 | 1,610,392 |
| Acquisition of property, plant and equipment, and intangible assets | -60,313,916 | -36,871,798 |
| Acquisition of investments, increase in loans given | -60,000 | -76,862 |
| **Net cash used in investing activities** | **-56,703,499** | **-32,717,301** |
| | | |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from non-current borrowings | 15,300,000 | 0 |
| Repayment of non-current borrowings | 0 | -2,018,065 |
| Repayment of current borrowings | -10,054,104 | -13,927,780 |
| Dividends paid | -15,801,154 | -13,160,000 |
| **Net cash used in financing activities** | **-10,555,258** | **-29,105,845** |
| | | |
| **Net increase in cash and cash equivalents** | **-4,205,264** | **1,204,278** |
| Opening balance of cash and cash equivalents | 5,188,569 | 3,984,291 |
| **Closing balance of cash and cash equivalents** | **983,305** | **5,188,569** |

## 21.5 Separate Statement of Changes in Equity

Financial year 2016

| (in EUR) | Share capital | Capital surplus | Legal reserves | Other revenue reserves | Retained earnings | Reserves arising on valuation at fair value | | | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Investments | Financial instruments | Actuarial gains and losses | |
| **Balance at 31 December 2015** | **58,420,965** | **89,562,703** | **18,765,115** | **89,979,979** | **15,880,814** | **12,035,712** | **-861,126** | **-936,685** | **282,847,477** |
| **Changes of equity – transactions with owners** | | | | | | | | | |
| Dividends paid | 0 | 0 | 0 | 0 | -15,820,000 | 0 | 0 | 0 | -15,820,000 |
| | **0** | **0** | **0** | **0** | **-15,820,000** | **0** | **0** | **0** | **-15,820,000** |
| **Total comprehensive income for the period** | 0 | | | | | | | | |
| Profit for the period | 0 | 0 | 0 | 0 | 40,581,116 | 0 | 0 | 0 | 40,581,116 |
| Change in revaluation surplus of financial assets, less tax | 0 | 0 | 0 | 0 | 0 | -3,702,621 | 0 | 0 | -3,702,621 |
| Change in fair value of cash flow hedging instruments, less tax | 0 | 0 | 0 | 0 | 0 | 0 | 521,029 | 0 | 521,029 |
| Actuarial gains/losses, less taxes | 0 | 0 | 0 | 0 | -29,769 | 0 | 0 | 28,717 | -1,052 |
| | **0** | **0** | **0** | **0** | **40,551,347** | **-3,702,621** | **521,029** | **28,717** | **37,398,472** |
| **Changes within equity** | | | | | | | | | |
| Allocation of part of profit for the period to other equity components pursuant to resolution of the Management and Supervisory Board | 0 | 0 | 0 | 20,290,558 | -20,290,558 | 0 | 0 | 0 | 0 |
| | **0** | **0** | **0** | **20,290,558** | **-20,290,558** | **0** | **0** | **0** | **0** |
| **Balance at 31 December 2016** | **58,420,965** | **89,562,703** | **18,765,115** | **110,270,537** | **20,321,603** | **8,333,091** | **-340,097** | **-907,968** | **304,425,949** |

## Financial year 2015

| | | | | | Reserves arising on valuation at fair value | | | |
|---|---|---|---|---|---|---|---|---|
| | Share capital | Capital surplus | Total revenue reserves | Retained earnings | Investments | Financial instruments | Actuarial gains and losses | Total equity |
| **Balance at 31 December 2014** | **58,420,965** | **89,562,703** | **94,322,557** | **14,598,947** | **10,905,958** | **-1,208,193** | **-511,665** | **266,091,272** |
| **Changes of equity – transactions with owners** | | | | | | | | |
| Dividends paid | 0 | 0 | 0 | -13,160,000 | 0 | 0 | 0 | -13,160,000 |
| | **0** | **0** | **0** | **13,160,000** | **0** | **0** | **0** | **-13,160,000** |
| **Total comprehensive income for the period** | 0 | | | | | | | |
| Profit for the period | 0 | 0 | 0 | 28,845,074 | 0 | 0 | 0 | 28,845,074 |
| Change in revaluation surplus of financial assets, less tax | 0 | 0 | 0 | 0 | 1,129,756 | 0 | 0 | 1,129,756 |
| Change in fair value of cash flow hedging instruments, less tax | 0 | 0 | | 0 | 0 | 347,067 | 0 | 347,067 |
| Actuarial gains/losses, less taxes | 0 | 0 | 0 | 19,330 | 0 | 0 | -425,020 | -405,690 |
| | **0** | **0** | **0** | **28,864,404** | **1,129,756** | **347,067** | **-425,020** | **29,916,206** |
| **Changes within equity** | | | | | | | | |
| Allocation of part of profit for the period to other equity components pursuant to resolution of the Management and Supervisory Board | 0 | 0 | 14,422,537 | -14,422,537 | 0 | 0 | 0 | 0 |
| | **0** | **0** | **14,422,537** | **14,422,537** | **0** | **0** | **0** | **0** |
| **Balance at 31 December 2015** | **58,420,965** | **89,562,703** | **108,745,094** | **15,880,814** | **12,035,714** | **-861,126** | **-936,685** | **282,847,478** |

# 22 Notes to Separate Financial Statements

## 22.1 Basis for preparation of financial statements

### Reporting entity

Luka Koper, d.d., pristaniški in logistični sistem (hereinafter referred to also as: Company), with its registered office at Vojkovo nabrežje 38 in Koper, Slovenia, is the controlling company of the Luka Koper Group.

The port's core activity is the cargo handling and warehousing of all types of goods, which the Company supplements with diverse goods-related services and other services and thereby secures an overall logistics support. Given the Concession Agreement, Luka Koper, d.d. maintains the port infrastructure and provides for the port's development.

Financial statements of the controlling period have been compiled for the financial year ended 31 December 2016.

### Statement of compliance

The financial statements of Luka Koper, d.d. have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the International Accounting Standards Board (IASB), and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and adopted by the European Union, and in accordance with provisions of the Slovenian Companies Act.

The Management Board of Luka Koper, d.d. approved the financial statements on 14 March 2017.

### Basis of measurement

The financial statements have been prepared on the historical cost basis, except for derivatives and available-for-sale financial assets that were measured at fair value.

### Functional and presentation currency

These financial statements are presented in EUR (exclusive of cents), which is the Company's functional currency.

### Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs, requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates are formed with respect to experience and expectations in the accounting period. Formation of estimates and the related assumptions are disclosed in the notes to individual items.

Estimates, judgements and assumptions are reviewed on a regular basis. Actual results may differ from these estimates, hence estimates and underlying assumptions are reviewed and relevant adjustments formed on an ongoing basis. Changes in the accounting policies are recognised in the period, for which the estimates are modified or coming periods, which are impacted by the respective amendments.

**Estimates and judgements are used primarily with following accounting items:**

**Assessing the impairment of property, plant and equipment (Note 11 and 12 and policy 23.1.2)**

Existence of possible indication of impairment for property, plant and equipment is assessed based on IAS 36. As at each reporting date, the Company assesses whether there is any indication (significant technological changes, market changes, obsolescence or physical wear and tear of individual property, plant and equipment) of possible impairment. If such indication exists, the Company is required to evaluate the recoverable value of the asset. Any asset is subject to impairment if its carrying amount exceeds its recoverable value. The recoverable value is higher among following items: its fair value less selling expenses or its value in use.

**Assessing the formation of provisions for legal disputes (Note 22 and 28 and policy 23.1.16)**

Provisions are recognised in the financial statements when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Contingent liabilities are not recognised as their exact amount could not be established or their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company.

Company's management assesses on a monthly basis contingent liabilities continually to determine whether an outflow of resource embodying economic benefits has become probable. If it becomes probable that an outflow of future economic benefits will be required, provisions for legal disputes are formed for the possible liability in the financial statements.

**Assessing the adequacy of useful lives of assets (Note 11 and 13 and policy 23.1.2 and 23.1.4)**

While assessing the useful lives of assets, the expected physical wear and economic and technical aging is taken into account. In this relation, the Company regularly verifies the useful lives with significant assets and in case of changed circumstances, the Company changes the useful life and consequently revalued the cost of depreciation.

**Assessing the adequacy of revenue recognition (Note 1 and policy 23.1.25)**

Company discloses its revenue in accord with IAS 18. Revenue is classified as revenue on sales, other income and finance income. For the purpose of revenue recognition, the Company applies the method of percentage of work finality as at the date of statement of financial position i.e. cargo handling by volume and working hours performed, for warehousing by days and volume. The revenue is recognised under this method in the reporting period, in which the services were performed.

Company's core activity is cargo handling and warehousing of all types of goods, goods-related services, and other related services. Operating income is recognised when it can be reasonably expected that it will result in receipts, unless these were already realised when revenue was generated, and their amount can be reliably measured.

The Management assessment of the method of recognising revenue applied by the Company has not changed in recent years and fully corresponds and observes the standards.

### Assessing the impairment of financial instruments and non-financial assets

Information on significant estimates about uncertainty and critical judgment in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements, was applied in assessment of:

- the value of property, plant and equipment (Note 11),
- the value of investment property (Note 12),
- the valuation of investments in subsidiaries and associates (Notes 14, 15 and 16), and
- the recognition of deferred tax assets (Note 17).

### Assessing the possibility of using receivables for deferred taxes (Note 17 and policy 23.1.23)

Based on the estimate that sufficient profit will be available in the future, the Company created deferred tax assets provided under following (Note 19):

- provisions for jubilee premiums and retirement benefits,
- financial instruments,
- impairment of investments,
- differences arising on revaluation of available-for-sale investments,
- impairment of receivables.

Deferred tax assets recognised, under the formation of provisions for jubilee premiums and retirement benefits, are reduced by the relevant amounts of provisions utilised or increased by the amounts of newly formed provisions.

Deferred tax assets were recognised in the relevant amount of impairment loss on investments and receivables as impairment losses are not recognised as tax expenditure until the investments' derecognition. Deferred tax assets will be capitalised on sale or disposal of the investment or financial instrument as well as on final write-off of receivables.

The tax rate applied for calculating deductible temporary differences is 19 percent, which is also the general tax rate for corporate income tax since 1 January 2017.

Deferred tax liabilities are recognised for temporary differences arising on revaluation of available-for-sale financial assets (at fair value through profit or loss) to a higher value, whereas on revaluation of available-for-sale financial assets to a lower value, deferred tax assets are recognised.

At the reporting date, the amount of deferred tax assets and liabilities is reassessed. If there is not sufficient amount of available taxable profits, the amount of deferred tax assets is reduced accordingly.

**Assessment of provisions formed for retirement benefits and jubilee premiums (Note 22 and policy 23.1.16)**

Within liabilities for certain post-employment and other benefits, the Company recorded the present value of retirement benefits and jubilee premiums. These were recognised on the basis of the actuarial calculations approved by the Management. The actuarial calculation is based on assumptions and estimates applicable while preparing the respective calculation, which may differ in coming periods due to actual assumptions, which will then apply. This relates mostly to defining the discount rates, estimate on staff fluctuation, mortality estimate and the estimate on wage increase. Liabilities for certain post-employment benefits are items sensitive to changes due to complexity of the actuarial calculation and the long-term.

***Estimate of fair value and efficiency of financial instruments (Note 25 and 30)***

Interest rate swaps used as derivatives are measured on a monthly basis at fair (or market) value. The fair or market value of the instrument is calculated by the bank via which the Company entered into the hedging instrument and represents the value at which the Company could dispose the instrument prior to its maturity. The change in fair (or market) value of the instrument is recognised through equity items, as the derivative is within the hedge accounting earmarked exclusively to hedge the selected borrowing against the rate of interest rate increase.

In addition, the Company assesses on an annual basis at the end of the reporting period the effectiveness or efficiency of the hedge against interest rate risk, each time when key elements of hedge and compliance of the instrument are checked with the selected borrowing that is subject of the respective hedging.

# 23 Summary of significant accounting policies and disclosures

## 23.1 Accounting policies applied

The accounting policies detailed below were consistently applied in all the periods presented in the financial statements.

### 23.1.1 Foreign currency transactions

Transactions in foreign currency are translated into euro at the reference exchange rate of the European Central Bank prevailing at the transaction date. Monetary assets and liabilities expressed in foreign currency as at the date of the statement of financial position are translated at the reference exchange rate of the ECB at the reporting date. All differences resulting from foreign currency translation are recognised in profit or loss.

### 23.1.2 Property, plant and equipment

The items of property, plant and equipment are carried at cost. Under the cost model, an item of property, plant and equipment is carried at its cost less accumulated depreciation and accumulated impairment losses. The manner and methods used in the valuation of assets due to impairment are described in the section 'Impairment of property, plant and equipment'. The cost of an item of property, plant and equipment is equal to the monetary price on the date of the asset's recognition.

In addition to property, plant and equipment being acquired, the item of assets being acquired includes also advances for acquiring property, plant and equipment.

Parts of property, plant and equipment with different useful lives are treated as individual assets that are depreciated during the estimated useful life.

Land is accounted for separately and is not subject to depreciation.

#### Borrowing costs

The purchase cost of property, plant and equipment can include also the borrowing costs pursuant to IAS 23 if they can be directly written up to the purchase, construction or the production of the asset in course of construction. If assets are borrowed not intentionally and cannot be written up directly to the purchase of the asset in course of construction, the company or group capitalises the proportionate share of costs calculated on the basis of the weighted annual interest rate by taking into account the interest rate hedging but solely for significant investments (with value exceeding EUR 1 million and its construction period longer than 1 year). Investments that last over years but in the reporting period record no inputs (halted investments) are excluded from the method of capitalising interest.

Borrowing costs are capitalised until the asset is in course of construction. When the asset is transferred to use, the borrowing costs are no longer capitalised. The amount of borrowing costs capitalised in the period must not exceed the borrowing costs, which arise in the same period.

### Subsequent expenditure

Subsequent expenditure incurred to replace a component of an item of property, plant and equipment increases its cost. The replaced component is no longer subject to recognition. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is expensed when incurred.

### Depreciation

Depreciation charge is recognised in an individual period in profit or loss. An asset is subject to depreciation when it is made available for its use. The items of property, plant and equipment are depreciated under the straight-line method of depreciation, considering the assessed economic life of an individual asset. The depreciation method used is reassessed at the end of each financial year. As a rule, the residual value of an asset is considered only for significant items of property, plant and equipment as is their cost of disposal. Land, assets being acquired, non-current assets classified to disposal groups (held for sale) and works of art are not depreciated. Useful lives applied with property, plant and equipment are as follows:

| Assets | 2016 | 2015 |
|---|---|---|
| | | |
| Buildings | 16.67 to 66.67 years | 16.67 to 66.67 years |
| Transport and transhipment equipment | 5 to 17.86 years | 5 to 17.86 years |
| - locomotives | 6.67 to 10 years | 6.67 to 10 years |
| - forklifts, shippers | 8 years | 8 years |
| Computer hardware | 4 to 5 years | 4 to 5 years |
| Other equipment | 4 to 10 years | 4 to 10 years |

### Derecognition

The carrying amount of an individual item of property, plant and equipment is derecognised upon its disposal or when no future economic benefits are expected from the asset's use or disposal. Any profit or losses resulting from disposal of individual item of property, plant and equipment is determined as the differences between the revenue from disposal and the carrying amount and are included in profit or loss.

### 23.1.3 Investment property

Investment properties are held to bring rent and/or appreciate in their value. Investment property is measured under the cost model. Depreciation is accounted for under the straight-line depreciation method over the estimated useful life of an individual asset. Land is not depreciated. Facilities under lease are divided into individual parts according to their estimated useful lives. The following depreciation rates are in average used for investment property:

| Investment property | 2016 | 2015 |
|---|---|---|
| | | |
| Buildings | 16.67 to 66.67 years | 16.67 to 66.67 years |

### 23.1.4 Intangible assets

Initially, intangible assets are recognised at cost. Subsequent to initial recognition, they are recognised at their cost reduced by accumulated amortisation and accumulated impairment losses.

#### Amortisation

Amortisation begins when an asset is ready for its use, i.e. when the asset is on the location and in the condition necessary for it to operate as intended.

The carrying amount of an item of intangible assets with final useful life is reduced using the straight-line amortisation method over the period of its useful life. All items of intangible assets have finite useful lives.

The period and method of amortisation of an intangible asset with finite useful life are reassessed at least at the end of each financial year. When expected useful life of an intangible asset differs from previous assessments, its amortisation period is adjusted accordingly.

The useful life of an item of intangible assets that arises from contractual or other legal rights does not exceed the period of these contractual rights or legal rights, however, it may be shorter, depending on the period during which the asset is expected to be used. Assessed useful life of other items of intangible assets is 10 years (useful lives used are presented below).

| Intangible assets | 2016 | 2015 |
|---|---|---|
| | | |
| Non-current property rights (concessions, patents, licences, trademarks and similar rights) | 5 to 10 years | 5 to 10 years |

### 23.1.5 Investments in related entities

Investments in subsidiaries, associated and other entities are measured at cost. The Company assesses on each balance sheet date whether there is any indication of impairment. Any impairment loss on investment is recognised in the income statement.

### 23.1.6 Financial instruments

Financial instruments are classified into following categories:

1. financial instruments at fair value through profit or loss,
2. financial investments held to maturity,
3. loans and receivables,
4. available-for-sale financial assets.

### 23.1.7 Loans and receivables

Loans and receivables are recognised on the settlement date and measured at amortised cost using the effective interest rate method.

### 23.1.8 Trade receivables

Non-current and current receivables are carried separately in books of account. Interest arising on stated receivables are recorded among off balance sheet items. Current and non-current trade receivables are upon recognition disclosed at amounts agreed in the contracts or recorded in the relevant accounting documents. Other operating receivables include short-term deferred costs or expenses and accrued income.

#### Allowances for trade receivables

Company forms allowances for all trade receivables and interest receivables based on individual assessment and forms allowances in their full amount. Allowances for receivables due from companies, which are in bankruptcy or liquidation procedure, are formed in the total amount (100 percent) immediately once such proceeding begins.

Impairment loss is charged against revaluation operating expenses associated with receivables.

### 23.1.9 Loans given

On initial recognition, loans are carried at their amortised cost using the effective interest rate method. In terms of their maturity, loans are classified on the settlement date into non-current or current financial assets. With a view of credit risk management, maturity of individual loans as well as the method of settlement and collateral is determined taking into consideration the credit rating of a borrower (e.g. bills of exchange, pledge of securities and other movable or immovable property, potential for unilateral netting of mutual liabilities, etc.). In the event of the borrower failing to meet his contractual liabilities, collateral is liquidated or, if legal proceedings have been instituted, the investment is impaired.

### 23.1.10 Borrowings

On initial recognition, borrowings are carried at their fair value and thereupon at amortised cost using the effective interest rate method. In terms of their maturity, borrowings are classified into non-current and current financial liabilities. On the last day of the year, all financial liabilities maturing in the next year are reclassified to current financial liabilities. Borrowings are insured with bills of exchange and certain loan covenants, whereby one borrowing is collateralised with assignment of receivables.

### 23.1.11 Available-for-sale financial assets

Available-for-sale financial assets comprise all of the investments in equity securities. On initial recognition they are measured at fair value, increased by the cost of transaction relating to the acquisition of individual financial assets. Fair value is considered market value based on the quotation value of securities or published daily value of a unit of a mutual fund's assets. Fair value changes are recognised in other comprehensive income within equity. Declining volume of securities is accounted for in books of account using the average prices method. When available-for-sale financial assets are derecognised, the accumulated gains or losses are transferred to the profit or loss. Additions and disposals of available-for sale financial assets are recognised on the trading date.

All other investments, for which no operating market exists and the fair value of which cannot be measured reliably, are measured at the cost.

### 23.1.12 Inventories

Inventories of material are valued at the lower of cost or net realisable value. An item of inventories of materials is initially recognised at cost, comprising its purchase price, import duties and other non-refundable purchase taxes, and directly attributable costs of acquisition. Non-refundable purchase taxes include also the non-refundable VAT. The cost is lower by discounts and rebates obtained. The weighted average price method is used for lowering the inventories of material. Small tools put in use are immediately transferred among costs. Inventories are not subject to revaluation due to impairment.

### 23.1.13 Cash

Cash comprises cash on hand and sight deposits, deposits redeemable at notice or deposits with maturities of up to three months.

### 23.1.14 Derivatives

The Company does not enter into derivative financial instruments for trading purposes. Derivative financial instruments are used to hedge the Company's exposure to risks arising from financing and investing activities. Derivative financial instruments are recognised at fair value. The method of recognition of gains or losses arising from the change in fair value depends on the type of hedging and whether hedge accounting has been applied or not.. When hedge accounting has been applied, gains or losses arising from the change in fair value are recognised by recognising the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge, in other comprehensive income. When the forecasted transaction results in the recognition of an asset or a liability, the associated cumulative gains or losses are removed from equity and entered into the initial measurement of the acquisition cost or other carrying amount of the asset or liability. The ineffective portion of the cash flow hedge is immediately recognised in profit or loss.

### 23.1.15 Equity

#### Share capital

The share capital of Luka Koper, d.d. is divided into 14,000,000 ordinary, freely transferable, registered, no par value shares.

#### Dividends

Dividends are recognised in the Company's financial statements once the decision on the distribution of dividends is adopted by the Shareholders' Meeting.

#### Authorised capital

On 31 December 2016, the Company had no authorised capital.

### 23.1.16 Provisions

#### Provisions for legal disputes and damages

The Company made provisions for disputes and damages related to alleged business offences. The amount of provisions and the need for their recognition is determined in consideration of the following criteria:

- whether present obligation (legal or constructive) exists as a result of past events,
- it is probable that an outflow of resources will be required to settle the obligation (legal dispute) – provision is recognised if the probability is high,
- a reliable estimate can be made of the amount of the obligation.

#### Provisions for retirement benefits and jubilee premiums

In accordance with statutory requirements and the collective agreement, the Company is obligated to pay jubilee premiums and termination benefits on retirement. These payments are measured using the method of accounting, which requires that an actuarial liability is assessed on the basis of the expected salary increase from the valuation date until the anticipated retirement of an employee. This means that benefits are accrued in proportion with the work performed. The assessed liability is recognised as the present value of expected future expenditure. Anticipated salary increase and employee turnover are also considered as part of the measurement.

Actuarial gains or losses of the current year from termination benefits are recognised in other comprehensive income under equity based on an actuarial calculation, whereas current and previous employee benefits and interest are recognised in profit or loss.

Current employee benefit costs and interest expense associated with jubilee premiums are recognised in profit or loss as actuarial gains or losses.

Calculation of provisions for jubilee premiums and retirement benefits is based on the actuarial calculation as of 31 December 2016 and data as at 31 October 2016 (no major deviations), which took into account following assumptions:

- currently applicable amount of termination benefits upon retirement and jubilee premiums;
- mortality rate that is based on mortality tables from 2007 applicable for Slovenia and presented separately for men and women, decreased by 10% (active population). In total, the aforesaid shows as at 31 December 2016 a 0.3 percent decline in mortality for the next fiscal year (in terms of number of staff);
- staff fluctuation, which is declining on a straight-line basis from 1.0 percent at 15 years to 0.5 percent at 54 years, and thereupon remains constant at 0.5 percent. In total, the aforesaid indicates as at 31 December 2016 an annual fluctuation of 0.6 percent for the next year;
- for 2017 and 2018 rates of wage's average growth in the Republic of Slovenia taken from the Autumn forecast of economic development for 2016 (UMAR). The average wages in Slovenia are from 2019 onwards expected to increase with the 2 percent inflation and the actual growth by 0.5 percent. It is assumed, the amounts as set in the Decree on the levels of reimbursed work-related expenses and of certain income not to be included in the tax base (Official Journal of RS, no. 140/06 and 76/08) in 2017 and 2018 shall not increase, whereby an increase of these amounts is expected subsequently in accordance with the inflation;
- increase in basic salaries in the amount of the annual inflation, increased by 0.2 percent from 2021 onwards; the growth of the basic gross salaries is taken into account due to promotion i.e. 0.5 percent p.a. Bonus for the overall years in services is taken into account at 0.5 percent of the basic salary for each fully employed year of total period of employment. In case of four individual contracts, the bonus for the overall years in service in not accounted. Accordingly, the Company's nominal growth rate of monthly wages would in view of the inflation and the actual growth be 1.4 percent in the next year, 1.5 percent in 2018, whereby in 2019 and 2020 the growth would be 2 percent, and 2.2 percent from 2021 onwards;
- the discount rate for the calculation as at 31 December 2016 is stipulated at 1.8 percent on the basis of the yield of Slovenia's government bonds announced as at 16 November 2016, and by interpolation with respect to the average weighted duration of Company's commitments (13.7 years).

### 23.1.17 Non-current deferred income

The Company forms non-current deferred income for maintenance. These are formed if costs of the public commercial services of regularly maintaining the port infrastructure are formed up to the amount that corresponds the amount of income from port duties, and are eliminated on a long term in the amount of surplus.

### 23.1.18 Subsidies

All types of subsidies are initially recognised in the statement of financial position as deferred income, when there is assurance that the Company will receive them and meet the related requirements. Subsidies received for covering costs are on an ongoing basis recognised in the income statement in periods, in which the relevant costs arise and which the subsidies are to replace.

### 23.1.19 Concession-related activity

In September 2008, Luka Koper, d.d. (or Company) and the Government of the Republic of Slovenia have within the Decree on the administration of the freight port of Koper, port operations, and on granting concession for the administration, management, development and regular maintenance of its infrastructure, settled the relations in this port by means of a Concession Agreement in compliance with the Maritime Code, and defined the concession relationship for the period of 35 years from the date of the Agreement's conclusion.

Pursuant to provisions of the Concession Agreement, the concession operator is required to keep its books of account in a way that provides for separate financial monitoring of the activity, which is carried out on the basis of exclusive rights granted.

In its books of account, the Company keeps separate records of income from port tax in an individual year and costs of performing concessions activities. Possible income surplus generated through port tax over maintenance costs relating to port infrastructure, is kept by the concession provider as short-term deferred income for costs of maintaining the port infrastructure in the coming years as required by Article 9.3. of the Concession Agreement. The accounting monitoring of the public commercial services is based on policies and principles of cost accounting and criteria of separate bookkeeping that were customised and confirmed by the Ministry of Transport of the Republic of Slovenia on 15 March 2011 and remained up to the balance sheet date unchanged. Regardless of the reorganisation, the method of performing and recording the public commercial services that are earmarked for public transport has in the relevant period not changed.

In accordance with the Concession Agreement concluded with the Government of the Republic of Slovenia, and criteria approved by the latter, the controlling company Luka Koper, d.d. recognises non-current deferred income for ordinary maintenance of the port infrastructure to the amount equal to the surplus of the income from the port dues over the costs. In the event of a surplus of costs over income from port dues, the non-current deferred income is eliminated in the amount of surplus.

The Company as concession operator obtained from the Government of the Republic of Slovenia as concession provider the exclusive right for performing the port activity of cargo operation and maritime passenger transport in the area of the port, and the related exclusive right for port management, management of the port infrastructure that is earmarked for public transport, and (within the Article 44 of the Maritime Code) also the exclusive right to perform public commercial services of regular maintenance of the port infrastructure that is intended for public transport.

Furthermore, the Company keeps pursuant to Article 7.9.6. of the Concession Agreement also records on investments made in the port infrastructure for individual years. The Company is required to indicate investments in each individual year by the structure as stated in the previous paragraph and in an appendix to the annual report, which is to be examined and confirmed by a certified auditor.

In accordance with Article 10.1. of the Concession Agreement, the Company is obliged to pay the concession tax, which amounts to 3.5% of the annual revenue generated less port taxes collected in the relevant year. The basis for assessing the concession tax is established by means of the audited Company's income statement. The amount of the annual concession tax is during the year settled in form of monthly advance payments calculated not later than by 30 July on the basis of audited data for the previous calendar year. Duck dues account for 4 percent of Company's operating income and are in terms of their content a constituent part thereof. The amount of duck dues is defined by Luka Koper, d.d. in agreement with the government. The remainder of 96 percent of operating income is generated through rendering of services in connection with cargo handling and warehousing, whose fees and prices are formed on the basis of market regularities. The development and overhaul of the port infrastructure is carried out by the Company in its own capacity and account. Upon the concession's expiry, the concession operator is entitled to the refund of unamortised part of investments. Given the above-mentioned provisions of the Concession Agreement, the Company does not apply IFRIC 12.

### 23.1.20 Financial liabilities

On initial recognition borrowings are carried at their fair value less attributable transaction costs. The difference between historical cost and amortised cost is reported in profit or loss over the loan repayment period, using the effective interest rate method.

### 23.1.21 Operating liabilities

Non-current operating liabilities include collaterals received for rented business premises. Trade liabilities and payables to the state and employees are shown separately. Other operating liabilities include short-term deferred income and short-term accrued costs or expenses.

### 23.1.22 Income tax expense

Income tax is accounted for in compliance with provisions of the Corporate Income Tax Act. The basis for the income tax calculation is the gross profit increased by the amount of non-deductible expenditure and reduced by the amount of statutory tax relief. Such basis is used for accounting the corporate income tax liability. As for 2016 and the comparative 2015, income tax liability was calculated at the rate of 17 percent.

### 23.1.23 Deferred taxes

With a view of reporting the relevant profit or loss for the period, the Company also accounted for deferred tax. Deferred tax includes deferred tax assets and deferred tax liabilities. Deferred tax was provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences were divided into taxable and deductible. Taxable temporary differences resulted in an increase of the taxable amounts and deferred tax liabilities, whereas deductible temporary differences resulted in a decrease of taxable amounts and an increase in deferred tax assets.

Deferred tax assets are offset against deferred tax liabilities when an entity has a legal right to offset current assets and liabilities, and deferred tax assets and liabilities relate to the same taxable entity and the same tax authority.

### 23.1.24 Earnings per share

The basic and diluted earnings per share were calculated by dividing the net profit for the period with the number of ordinary shares in issue.

### 23.1.25 Revenue

#### Operating income

#### Revenue from services rendered

Company's core activity is cargohandling and warehousing of all types of goods, goods-related services and other accompanying services. Apart from raw oil and gas, the Company tranships and renders services for all groups of goods, including passengers. The respective services are all carried out in Slovenia, for both local as well as foreign customers. Foreign customers come from European markets, which are considered as Company's most significant customers, as well as from Asia and America. Company's customers include the world's largest shipping companies, major international corporations, end-users of our services, and other major and smaller domestic and foreign companies that deem the port of Koper as the provider of the fastest and the most qualitative logistics service.

Operating income is recognised when it can be reasonably expected that it will result in receipts, unless these were already realised when revenue was generated, and their amount can be reliably measured.

Income from services rendered is recognised using the stage of completion method on the date of the statement of financial position. Under the method, income is recognised in the accounting period in which the services are rendered. The amount of each significant category of revenue recognised in the accounting period is disclosed, as well as revenue generated in connection with domestic and foreign customers.

### Rental income

Rental income comprises of primarily income from investment property i.e. income generated from facilities and land that are leased out under operating lease. Rental income is recognised within operating income.

### Other income

Other operating income comprises of revaluation operating income from the sale of property, plant and equipment, subsidies, donations, insurance proceeds and other income. Government grants and other subsidies primarily refer to funds received for activities within the European development projects that aim to increase the port's competitiveness, energy efficiency, environmental safety, and ensuring efficient port processes. Subsidies received for covering costs incurred are recognised strictly as income in the same periods in which the costs are incurred. Other income is recognised when it can be justifiably expected that the related receipts will flow to the Company.

## 23.1.26 Finance income and finance expenses

Finance income comprises of interest income from loans, default interest on late payment of services and receivables, dividend income, income from disposal of available-for-sale financial assets, and foreign exchange gains. Interest income is recognised when accrued using the effective interest rate method. Dividend income is recognised in profit or loss when a shareholder's right to payment is established.

Finance expenses comprise of interest costs on borrowings, foreign exchange losses and impairment losses on financial assets recognised through profit or loss. Costs of borrowings and approval of these are recognised in the profit or loss over the entire maturity of the borrowings.

## 23.1.27 Costs and expenses

Costs are recognised as expenses in the accounting period in which they are incurred. They are classified according to their nature. Costs are carried and disclosed by types. Expenses are recognised when decrease in economic benefits in the accounting period results in a decrease of assets or increase in liabilities and this can be reliably measured.

## 23.1.28 Impairment of assets

### Impairment of non-financial assets

If there is any indication that an asset may be impaired, the asset's recoverable amount is assessed in accordance with IAS 36. When the asset's recoverable amount cannot be assessed, the Company determines the recoverable amount of cash generating unit to which the asset belongs. Impairment loss is recognised in the income statement. Impairment losses should be reversed if the estimates used to determine the asset's recoverable amount have changed. Impairment loss is reversed to the extent that the increased carrying amount of the asset does not exceed its carrying amount that would have been determined net of depreciation, had no impairment loss been recognised in respect of the asset. The reversal of the impairment loss is recognised as revenue in profit or loss.

### Impairment of financial assets

On each reporting date, financial assets are tested for impairment using criteria set out in the accounting manual in order to determine whether there is any objective evidence of financial asset's impairment. If such objective evidence exists, the Company calculates the amount of impairment loss.

When the Company determines that investments carried at amortised cost should be impaired, the amount of the loss is measured as the difference between the investment's carrying amount and the present value of expected future cash flows discounted at the original effective interest rate. The amount of impairment loss is recognised in profit or loss. When the reasons for impairment of an investment cease to exist, the reversal of the impairment of the investment carried at amortised cost is recognised in profit or loss.

When the Company determines that investments in subsidiaries, associates and other companies carried at cost should be impaired, the impairment loss is recognised in profit or loss as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows (or other assessed value) discounted at the current market rate of return for similar financial assets.

## 23.1.29 Statement of other comprehensive income

The statement of comprehensive income outlines the net profit or loss for the period as well as other comprehensive income inclusive of items that will be reclassified to profit and loss at a future date and those that will never be reclassified to profit or loss in accordance with the provisions and requirements of other IFRSs.

## 23.1.30 Statement of cash flows

The statement of cash flows is presented by applying the indirect method, on the basis of items reported in the statement of financial position as at 31 December 2016 and 31 December 2015, as well as items in the income statement for the financial year then ended, inclusive of any necessary adjustments of the cash flow.

## 23.1.31 Statement of changes in equity

The statement of changes in equity outlines changes in individual equity components during the financial year (total income and expenses, in addition to transactions with stakeholders that act owners), inclusive of the net profit or loss distribution. The statement of other comprehensive income is also included which increases net profit of the accounting period by total revenue and expenses directly recognised in the equity.

## 23.1.32 Risk management

The Company monitors and strives to manage risks at all levels of business. In the assessment of risks, the Company considers various risk factors and measures cost of management with benefits. Efficient risk management is ensured by timely identification and management of risks and by relevant guidelines and policies, which are laid down in documents of the overall management system.

Company's operations are exposed to risks, which largely depend on market laws and thereby requires active and ongoing monitoring. In addition to strategic and operational risks, the Company also encounters financial risks, of which the most significant ones include the risk of fair value changes, interest rate risk, liquidity risk, currency risk and credit risk, as well as the risk of adequate capital composition. How financial risks are identified and managed is disclosed in Note 30 'Financial instruments and financial risk management'.

### 23.1.33 Newly adopted standards and interpretations

The following new standards and interpretations are not yet effective for the annual period ended 31 December 2016 and have not been applied in preparing the financial statements hereunder:

#### IFRS 9 Financial instruments (2014)

Effective for annual periods beginning on or after 1 January 2018. Effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively with some exemptions. The restatement of prior periods is not required, and is permitted only if information is available without the use of hindsight. Early application is permitted.

This Standard replaces IAS 39, Financial Instruments: Recognition and Measurement, except that the IAS 39 exception for a fair value hedge of an interest rate exposure of a portfolio of financial assets or financial liabilities continues to apply, and entities have an accounting policy choice between applying the hedge accounting requirements of IFRS 9 or continuing to apply the existing hedge accounting requirements in IAS 39 for all hedge accounting.

Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL) – are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different.

A financial asset is measured at amortized cost if the following two conditions are met:

- the assets is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and,
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

In addition, for a non-trading equity instrument, a company may elect to irrevocably present subsequent changes in fair value (including foreign exchange gains and losses) in OCI. These are not reclassified to profit or loss under any circumstances.

For debt instruments measured at FVOCI, interest revenue, expected credit losses and foreign exchange gains and losses are recognised in profit or loss in the same manner as for amortised cost assets. Other gains and losses are recognised in OCI and are reclassified to profit or loss on derecognition.

The impairment model in IFRS 9 replaces the 'incurred loss' model in IAS 39 with an expected credit loss' model, which means that a loss event will no longer need to occur before an impairment allowance is recognised.

IFRS 9 includes a new general hedge accounting model, which aligns hedge accounting more closely with risk management. The types of hedging relationships – fair value, cash flow and foreign operation net investment – remain unchanged, but additional judgment will be required.
The standard contains new requirements to achieve, continue and discontinue hedge accounting and allows additional exposures to be designated as hedged items.

Extensive additional disclosures regarding an entity's risk management and hedging activities are required.

The Company does not expect the IFRS 9 to have a significant impact on financial statements when initially applied. The classification and measurement of Company's financial instruments will not materially change while taking into account provisions of IFRS 9.

### IFRS 15 Revenue from contracts with customers

Effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted. This pronouncement is not yet endorsed by the EU.

The new Standard provides a framework that replaces existing revenue recognition guidance in IFRS. Entities will adopt a five-step model to determine when to recognise revenue, and at what amount. The new model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised:

- over time, in a manner that depicts the entity's performance; or
- at a point in time, when control of the goods or services is transferred to the customer.

IFRS 15 also establishes the principles that an entity shall apply to provide qualitative and quantitative disclosures, which provide useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

Although the initial estimate of the IFRS 15's possible impact on the Company's financial statements is not fully completed, the Management assesses that the standard on the day of its first use shall not have a significant impact on its financial statements. The Company does not expect that the time and measurement of its revenue under IFRS 15 will not change due to its nature of business operations and type of revenue.

### Amendments to IAS 40 Investment property

Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively. This pronouncement is not yet endorsed by the EU.

The amendments reinforce the principle for transfers into, or out of investment property in IAS 40 Investment Property to specify that such a transfer should only be made when there has been a change in use of the property. Based on the amendments a transfer is made when and only when there is an actual change in use – i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer.

The Company does not expect that the amendments will have a material impact on the financial statements because the Group transfers a property asset to, or from, investment property only when there is an actual change in use of the real property.

### IFRS 16 Leases

Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the entity also applies IFRS 15 – Revenue from contracts with customers. (This pronouncement is not yet endorsed by the EU.)

IFRS 16 supersedes IAS 17 Leases and related interpretations. The Standard eliminates the current dual accounting model for lessees and instead requires companies to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases.

Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals.

The new Standard introduces a number of limited scope exceptions for lessees which include:

- leases with a lease term of 12 months or less and containing no purchase options, and
- leases where the underlying asset has a low value ('small-ticket' leases)

Accounting of leases by lessors does not significantly change. The lessee defines the lease either as an operating or a finance lease. The lease is classified as a finance lease if all significant risks and benefits relating to the asset's ownership are transferred. Otherwise, it is an operating lease.

It is expected that the amendment, when initially applied, will not have a significant impact on the financial statements as the Company has no lease contracts that would be subject to provisions of IFRS 16.

### Amendments to IFRS 2: Share-based Payment: Classification and Measurement of Share-based Payment Transactions

Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively. Early application is permitted. This pronouncement is not yet endorsed by the EU.

The amendments clarify share-based payment accounting on the following areas:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity settled.

The Company expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the entity because it does not enter into share-based payment transactions.

### Amendments to IAS 7

Effective for annual periods beginning on or after 1 January 2017, to be applied prospectively. Early application is permitted. This pronouncement is not yet endorsed by the EU.

The amendments require new disclosures that help users to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as the effect of foreign exchange gains or losses, changes arising for obtaining or losing control of subsidiaries, changes in fair value).

The Company expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the Company.

### IFRIC 22 Foreign Currency Transactions and Advance Consideration

Effective for annual periods beginning on or after 1 January 2018. This pronouncement is not yet endorsed by the EU.

The Interpretation clarifies how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. In such circumstances, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The Company does not expect that the Interpretation, when initially applied, will have material impact on the financial statements as the Company uses the exchange rate on the transaction date for the initial recognition of the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

### Amendments to IAS 12: Income Tax: Recognition of Deferred Tax Assets for Unrealised Losses

Effective for annual periods beginning on or after 1 January 2017; to be applied prospectively. Early application is permitted. This pronouncement is not yet endorsed by the EU.

The amendments clarify how and when to account for deferred tax assets in certain situations and clarify how future taxable income should be determined for the purposes of assessing the recognition of deferred tax assets.
The Company expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the Company.

### Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Investments in Sale or contribution of assets between an investor and its associate or joint venture

The effective date has not yet been determined by the IASB, however earlier adoption is permitted.)

The Amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that:

- a full gain or loss is recognised when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while
- a partial gain or loss is recognised when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

The Company does not expect that the amendments, when initially applied, will have material impact on the financial statements.

### Fair value

Fair value is used with available-for-sale financial assets and hedging instruments, whereas all other financial statement items are presented at cost or amortised cost. Fair value is used with available-for-sale financial assets and hedging instruments, whereas all other financial statement items are presented at cost or amortised cost.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 - valuation techniques for which the lowest level input is directly or indirectly observable.

Level 3 - valuation techniques for which the lowest level input is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the reporting period.

The fair value measurement hierarchy of the Company's assets and liabilities is presented in Note 30.

# 24 Additional Notes to separate Income Statement

## Note 1. Revenue

| (in EUR) | 1-12 2016 | 1-12 2015 |
|---|---|---|
| **Revenue generated on sales with domestic customers** | **58,754,660** | **52,358,602** |
| - services | 57,284,695 | 50,882,844 |
| - goods and material | 38,788 | 1,802 |
| - rentals | 1,431,177 | 1,473,956 |
| **Revenue generated on sales with foreign customers** | **131,652,838** | **120,919,147** |
| - services | 131,589,237 | 120,830,516 |
| - rentals | 63,601 | 88,631 |
| **Total** | **190,407,498** | **173,277,749** |

The item of total revenue comprises no individual customer that would exceed 10 percent of total sales.

## Note 2. Other income

| (in EUR) | 1-12 2016 | 1-12 2015 |
|---|---|---|
| **Other operating income** | **244,159** | **1,854,175** |
| Reversal of provisions | 2,323 | 1,501,667 |
| Subsidies, grants and similar income | 0 | 6,000 |
| **Revaluation operating income** | **241,836** | **346,508** |
| Income on sale of property, plant and equipment and investment property | 30,082 | 69,366 |
| Collected written-off receivables and written-off liabilities | 211,754 | 277,142 |
| **Other income** | **907,755** | **961,902** |
| Compensations and damages | 405,969 | 441,414 |
| Subsidies and other income not related to services | 229,011 | 503,630 |
| Other income | 272,775 | 16,858 |
| **Total** | **1,151,914** | **2,816,077** |

## Note 3. Cost of material

| (in EUR) | 1-12 2016 | 1-12 2015 |
|---|---|---|
| Cost of auxiliary material | 2,316,770 | 2,158,264 |
| Cost of spare parts | 4,787,344 | 4,904,682 |
| Cost of energy | 6,047,228 | 6,289,254 |
| Cost of office stationary | 121,619 | 124,297 |
| Other cost of material | 357,015 | 377,402 |
| **Total** | **13,629,976** | **13,853,899** |

## Note 4. Cost of services

| (in EUR) | 1-12 2016 | 1-12 2015 |
|---|---|---|
| Port services | 25,291,457 | 21,862,640 |
| Cost of transportation | 265,257 | 285,640 |
| Cost of maintenance | 8,339,284 | 6,892,423 |
| Rentals | 775,734 | 745,826 |
| Reimbursement of labour-related costs | 368,411 | 349,610 |
| Costs of payment processing, bank charges and insurance premiums | 712,075 | 621,385 |
| Cost of intellectual and personal services | 734,827 | 783,470 |
| Advertising, trade fairs and hospitality | 1,153,061 | 1,219,845 |
| Costs of services provided by individuals not performing business activities | 290,062 | 258,210 |
| Cost of other services | | |
| Sewage and disposal services | 857,723 | 730,668 |
| Information support | 2,976,972 | 3,011,799 |
| Concession-related costs | 6,397,118 | 5,925,897 |
| Costs of other services | 2,820,037 | 2,434,930 |
| **Total** | **50,982,018** | **45,122,343** |

As in previous years, port services (EUR 25,291,457) account for the highest amount within cost of services. Providers of port services are subcontracted by Luka Koper and render port activities such as goods-related services (e.g. sorting, sampling, preparing pallets, protection, labelling, weighting, cleaning, reloading and other services), managing of port mechanisation and similar.

Concession-related costs increase as the result of higher operating income.

## Note 5. Employee benefits expense

| (in EUR) | 1-12 2016 | 1-12 2015 |
|---|---|---|
| Wages and salaries | 30,156,877 | 27,413,885 |
| Wage compensations | 4,658,890 | 4,207,554 |
| Costs of additional pension insurance | 1,381,522 | 1,255,951 |
| Employer's contributions on employee benefits | 5,714,609 | 5,198,639 |
| Annual holiday pay, reimbursements and other costs | 3,484,164 | 3,712,771 |
| **Total** | **45,396,062** | **41,788,800** |

Apart from members of the Management Board and employees employed under individual contracts, the employees have in December 2016 received an additional average monthly salary (13th salary) for having reached the planned added value in 2016.

Other benefits awarded to employees include the payment of voluntary pension insurance premium by the employer, which has been funding the pension scheme for the 15th consecutive year.

The annual holiday pay amounted to EUR 1,100 per employee in 2016 (2015: EUR 791).

In 2016, no loans were granted to employees under individual contracts and to members of the Management or Supervisory Board. The Company records no receivables due from members of the Management and Supervisory Board.

### Average number of employees by education:

| Level of education | Headcount in 2016 | Headcount in 2015 |
|---|---|---|
| VIII/2 | 2 | 2 |
| VIII/1 | 21 | 18 |
| VII | 107 | 105 |
| VI/2 | 148 | 131 |
| VI/1 | 68 | 65 |
| V | 260 | 251 |
| IV | 224 | 208 |
| III | 13 | 13 |
| I–II | 43 | 45 |
| **Total** | **886** | **838** |

## Note 6. Amortisation and depreciation expense

| (in EUR) | 1-12 2016 | 1-12 2015 |
|---|---|---|
| Depreciation of buildings | 12,414,691 | 11,938,448 |
| Depreciation of equipment and spare parts | 11,807,539 | 13,200,241 |
| Depreciation of small tools | 21,251 | 19,607 |
| Depreciation of investment property | 626,054 | 623,456 |
| Amortisation of intangible assets | 637,497 | 586,529 |
| **Total** | **25,507,032** | **26,368,281** |

## Note 7. Other expenses

| (in EUR) | 1-12 2016 | 1-12 2015 |
|---|---|---|
| Provisions | 905,267 | 0 |
| Impairment costs, write-offs and losses on property, plant and equipment and investment property | 1,632,731 | 1,846,854 |
| Expenses for allowances for receivables | 336,990 | 82,755 |
| Levies that are not contingent upon employee benefits expense and other types of cost | 6,711,659 | 6,256,233 |
| Donations | 130,030 | 153,497 |
| Environmental levies | 135,086 | 66,727 |
| Awards and scholarship to students inclusive of tax | 9,905 | 13,470 |
| Awards and scholarship to students | 6,002 | 8,260 |
| Other costs and expenses | 645,470 | 1,706,424 |
| **Total** | **10,513,140** | **10,134,220** |

Other expenses comprise costs of forming provisions relating to legal disputes, costs relating to impairment, write-offs and losses on disposal of property, plant and equipment, and investment property, referring mostly to write-off of assets being acquired in previous year (EUR 1,409,142), and impairment of assets being acquired (EUR 140,000) based on valuations. Levies that are independent of employee benefits expense and other type of costs, include primarily the charge for the use of construction land, which amounted in the reporting period to EUR 6,534,290.

## Note 8. Finance income and finance expenses

| (in EUR) | 1-12 2016 | 1-12 2015 |
|---|---|---|
| **Finance income from shares and interests** | | |
| Finance income from shares and interests in Group companies | 672,918 | 575,188 |
| Finance income from shares and interests in associated entities | 917,101 | 475,000 |
| Finance income from shares and interests in other companies | 1,302,259 | 1,152,515 |
| **Finance income - interest** | | |
| Interest income - Group companies | 839 | 3,212 |
| Interest income - other | 15,670 | 62,993 |
| **Finance income from operating receivables** | | |
| Finance income from operating receivables due from others | 162,203 | 185,062 |
| **Total finance income** | **3,070,990** | **2,453,970** |
| Finance expenses for investments | -100,000 | -4,320,000 |
| **Finance expenses – interest** | | |
| Interest expenses – Group companies | -150,311 | -158,469 |
| Interest expenses – associates and jointly controlled entities | -4,228 | -7,895 |
| Interest expenses – banks | -1,742,553 | -3,004,441 |
| **Finance expenses for financial liabilities** | | |
| Finance expenses for trade payables | -6 | -366 |
| Finance expenses for other operating liabilities | -110,435 | -27,801 |
| **Total finance expenses** | **-2,107,533** | **-7,518,972** |
| **Net financial result** | **963,457** | **-5,065,002** |

Finance income from shares and interests in Group companies include profits for 2015 i.e. profits of Luka Koper INPO, d.o.o. (EUR 661,172) and Adria investicije, d.o.o. (EUR 11,746).
Finance income from shares and interests in associates refer to sharing of profits for 2015 of companies Adria Transport, d.o.o. (EUR 500,000), Adria-Tow, d.o.o. (EUR 200,000), and Avtoservis, d.o.o. (EUR 217,101).
Finance income from shares and interests in other entities refer to dividends paid under securities invested in the company Krka, d.d. and repayment of the share in the company Poteza Adriatic Fund Amsterdam, which started liquidation procedures.

Financial expenses arising on interest amounted in 2016 to EUR 1,897,092 and show a decline over the previous year due to lower effective interest rates and due to recognised capitalised borrowing costs.

## Note 9. Taxes and effective tax rate

| (in EUR) | 2016 | 2015 |
|---|---|---|
| **Profit before tax** | **46,499,884** | **33,761,281** |
| **Income tax (17%)** | **7,904,980** | **5,739,418** |
| Non-taxable income and increase in expenditure | -45,446 | -540,677 |
| Non-taxable dividends received | -491,307 | -374,460 |
| Tax incentives | -722,664 | -801,018 |
| Expenses not recognised for tax purposes | 407,663 | 281,707 |
| Impairment loss not recognised for tax purposes | 7,500 | 631,996 |
| Other reduction in the tax basis | | -39,482 |
| Other increase in the tax basis | 26,301 | 18,723 |
| Change in tax rate | -1,168,259 | 0 |
| **Total tax expense** | **5,918,768** | **4,916,207** |
| | | |
| **Effective tax rate** | **12.73%** | **14.56%** |

During the income tax calculation, the Company observed provisions of the Corporate Income Tax Act. The total tax expense comprises the income tax and deferred taxes recognised in the income statement. The largest share of tax incentives include investments in plant and equipment.

## Note 10. Net earnings per share

| (in EUR) | 31 Dec 2016 | 31 Dec 2015 |
|---|---|---|
| Net profit for the period | 40,581,116 | 28,845,074 |
| Total number of shares | 14,000,000 | 14,000,000 |
| Number of ordinary shares | 14,000,000 | 14,000,000 |
| **Basic and diluted earnings per share** | **2.90** | **2.06** |

Net earnings per share were calculated by dividing the net operating profit with the weighted average number of ordinary shares in issue during the year.

Following the conversion of all preference shares, the Company's registered capital consists solely of ordinary shares. Accordingly, the diluted earnings per share equal the basic earnings per share.

# 25 Additional Notes to the separate Statement of Financial Position

## Note 11. Property, plant and equipment

| (in EUR) | 31 Dec 2016 | 31 Dec 2015 |
|---|---|---|
| Land | 15,086,203 | 7,276,705 |
| Buildings | 226,377,007 | 221,904,040 |
| Plant and machinery | 52,370,362 | 57,306,790 |
| Property, plant and equipment being acquired and advances given | 64,761,135 | 37,846,116 |
| **Total** | **358,594,707** | **324,333,651** |

None of Company's items of property, plant and equipment were pledged as collateral.

The cost of the property, plant and equipment in use, of which the carrying value as at 31 December 2016 equalled zero, is recorded at EUR 225.769.504 (2015: EUR 210,096,978).

As at 31 December 2016, the outstanding trade payables to suppliers of items of property, plant and equipment amounted to EUR 6,859,931 (2015: EUR 9,957,454).

The item of assets being acquired include advances given for acquiring property, plant and equipment. As at the reporting date, they were recorded at EUR 26,461,875 and refer to the largest projects.

In 2016, total investments amounted to EUR 60,223,062, whereof EUR 16,736,917 refers to advances. Company's largest investments comprise:

- further construction of the three new reservoirs at the terminal for current cargo,
- purchase of land,
- infrastructure activities for the RMG over the railway,
- setting of transport and warehouse areas for the needs of container terminal,
- building for warehousing of and grain cargo handling,
- terminal towing vehicles,
- construction of the new truck bottler for Jet and D2 at the Pier II, and
- further construction of the track 21 a, b, c and the bridge over the channel.

The Company regularly verifies whether there is indication of required impairment to be carried out with respect to the assets. An item of asset is subject to impairment in there are signs from internal and external sources of information on whether the asset is still useful, executable, technically obsolete or whether market circumstances essentially altered. If there is such indication, the recoverable value of the asset must be established and if necessary also impaired. In this way the Company checks in the reporting period assets being acquired and not activated for a longer period of time and following was established:

- Barka II – construction project – the Company performed an impairment testing for the assets and thus decided to impair the project to the appraiser's value;
- new entrances to Luka Koper – the Company established that no impairments are required as the entrances to the Company and the vicinity are indispensable but the timetable to continue the projects depends on obtaining permits and consents.
- setting of areas at the Pier III – the Company decided to halt the project linked to setting of the area at the Pier III and consequently write-off the assets invested hitherto.

The amount of all write-offs of assets being acquired was in 2016 recorded at EUR 1,409,142, whereof the largest relates to the settling the area at Pier III in the amount of EUR 1,354,291. The set of impairments comprises the impaired assets being acquired in connection with the Barka II project in the amount of EUR 140,000 to the amount established through the valuation of a certified valuer of properties based on the cost method. Write-offs, impairments and eliminated assets are recognised among costs for impairment, write-offs and losses on sale of property, plant and equipment and investment property (Note 7).

## Movements in property, plant and equipment for 2016

| (in EUR) | Land | Buildings | Plant and equipment | Assets being acquired | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| **Balance at 31 Dec 2015** | **7,276,705** | **425,901,404** | **249042403** | **37,846,116** | **720,066,628** |
| | | | | | |
| Additions | 0 | 0 | 0 | 60,223,062 | 60,223,062 |
| Transfer from investments in progress | 7,809,498 | 16,952,885 | 6,842,017 | -31,604,400 | 0 |
| Disposals | 0 | -578,557 | -465,333 | -3,726 | -1,047,616 |
| Write-offs | 0 | 0 | 0 | -1,409,142 | -1,409,142 |
| Impairment | 0 | 0 | 0 | -140,000 | -140,000 |
| Transfer to intangible assets | 0 | 0 | 0 | -37,472 | -37,472 |
| Transfer from intangible assets | 0 | 0 | 56,329 | 0 | 56,329 |
| Transfer to investment properties | 0 | -117 | 0 | -113,303 | -113,420 |
| Transfer from investment properties | 0 | 5,779 | 0 | 0 | 5,779 |
| Reclassifications within property, plant and equipment | 0 | -27,568 | 27,568 | 0 | 0 |
| | | | | | |
| **Balance at 31 Dec 2016** | **15,086,203** | **442,253,826** | **255,502,984** | **64,761,135** | **777,604,148** |
| **Accumulated depreciation** | | | | | |
| **Balance at 31 Dec 2015** | **0** | **203,997,363** | **191,735,613** | **0** | **395,732,976** |
| | | | | | |
| Depreciation | 0 | 12,414,691 | 11,828,790 | 0 | 24,243,481 |
| Disposals | 0 | -508,633 | -459,086 | 0 | -967,719 |
| Transfer to investment property | 0 | -99 | 0 | 0 | -99 |
| Transfer from investment property | 0 | 802 | 0 | 0 | 802 |
| Reclassifications within property, plant and equipment | 0 | -27,305 | 27,305 | 0 | 0 |
| | | | | | |
| **Balance at 31 Dec 2016** | **0** | **215,876,819** | **203,132,622** | **0** | **419,009,441** |
| **Carrying amount** | | | | | |
| **Balance at 31 Dec 2015** | **7,276,705** | **221,904,041** | **57,306,790** | **37,846,116** | **324,333,652** |
| **Balance at 31 Dec 2016** | **15,086,203** | **226,377,007** | **52,370,362** | **64,761,135** | **358,594,707** |

## Movements in property, plant and equipment in 2015

| (in EUR) | Land | Buildings | Plant and equipment | Assets being acquired | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| **Balance at 31 Dec 2014** | **7,276,705** | **405,931,859** | **243,288,085** | **31,501,874** | **687,998,523** |
| | | | | | |
| Additions | 0 | 27,144 | 23,542 | 36,633,694 | 36,684,380 |
| Transfer from investments in progress | 0 | 19,413,166 | 9,030,240 | -28,443,406 | 0 |
| Disposals | 0 | -284,954 | -3,275,947 | 0 | -3,560,901 |
| Write-offs | 0 | 0 | -384,567 | -497,940 | -882,507 |
| Impairment | 0 | 0 | 0 | -1,147,080 | -1,147,080 |
| Transfer to intangible assets | 0 | 0 | 0 | -113,499 | -113,499 |
| Transfer to investment properties | 0 | 0 | 0 | -87,527 | -87,527 |
| Transfer from assets (disposal groups) held for sale | 0 | 826,300 | 348,939 | 0 | 1,175,239 |
| Reclassifications within property, plant and equipment | 0 | -12,111 | 12,111 | 0 | 0 |
| | | | | | |
| **Balance at 31 Dec 2015** | **7,276,705** | **425,901,404** | **249,042,403** | **37,846,116** | **720,066,628** |
| **Accumulated depreciation** | | | | | |
| **Balance at 31 Dec 2014** | **0** | **192,313,106** | **181,642,502** | **0** | **373,955,608** |
| | | | | | |
| Depreciation | 0 | 11,938,448 | 13,219,849 | 0 | 25,158,297 |
| Disposals | 0 | -257,189 | -3,200,411 | 0 | -3,457,600 |
| Write-offs | 0 | 0 | -282,992 | 0 | -282,992 |
| Transfer from assets (disposal groups) held for sale | 0 | 10,725 | 348,939 | 0 | 359,664 |
| Reclassifications within property, plant and equipment | 0 | -7,726 | 7,726 | 0 | 0 |
| | | | | | |
| **Balance at 31 Dec 2015** | **0** | **203,997,364** | **191,735,613** | **0** | **395,732,977** |
| **Carrying amount** | | | | | |
| **Balance at 31 Dec 2014** | **7,276,705** | **213,618,753** | **61,645,583** | **31,501,874** | **314,042,915** |
| **Balance at 31 Dec 2015** | **7,276,705** | **221,904,040** | **57,306,790** | **37,846,116** | **324,333,651** |

## Note 12. Investment property

| (in EUR) | 31 Dec 2016 | 31 Dec 2015 |
|---|---|---|
| Investment property - land | 18,160,734 | 18,160,734 |
| Investment property - buildings | 11,757,770 | 12,285,222 |
| **Total** | **29,918,504** | **30,445,956** |

The item of investment property includes land and buildings leased out, and properties that are owned for the purpose of increasing their value.

Investment properties are valued by using the cost model.

## Leased properties

| (in EUR) | 1-12 2016 | 1-12 2015 |
|---|---|---|
| Rental income on investment property | 1,084,074 | 1,030,784 |
| Depreciation of investment property | 626,054 | 623,456 |

Investment properties are not pledged as collateral.

Fair value of investment property amounted as at 31 December 2016 to EUR 31,186,193 (2015: EUR 31,052,529).

Fair value of investment property was assessed on the basis of valuation, based on value the buyer is willing to pay, and by means of total value of expected future cash flows generated through renting.

## Movements in investment property in 2016

| (in EUR) | Land | Buildings | Total |
|---|---|---|---|
| **Cost** | | | |
| **Balance at 31 Dec 2015** | **18,160,734** | **19,802,947** | **37,963,681** |
| | | | |
| Transfer from investments in course of construction | 0 | 113,303 | 113,303 |
| Disposals, write-offs | 0 | -21,985 | -21,985 |
| Transfer to property, plant and equipment | 0 | -5,779 | -5,779 |
| Transfer from intangible assets | 0 | 117 | 117 |
| | | | |
| **Balance at 31 Dec 2016** | **18,160,734** | **19,888,603** | **38,049,337** |
| **Accumulated depreciation** | | | |
| **Balance at 31 Dec 2015** | **0** | **7,517,725** | **7,517,725** |
| | 0 | | |
| Depreciation | 0 | 626,054 | 626,054 |
| Disposals, write-offs | 0 | -12,243 | -12,243 |
| Transfer to property, plant and equipment | 0 | -802 | -802 |
| Transfer from property, plant and equipment | 0 | 99 | 99 |
| | | | |
| **Balance at 31 Dec 2016** | **0** | **8,130,833** | **8,130,833** |
| **Carrying amount** | | | |
| **Balance at 31 Dec 2015** | **18,160,734** | **12,285,222** | **30,445,956** |
| **Balance at 31 Dec 2016** | **18,160,734** | **11,757,770** | **29,918,504** |

## Movements in investment property in 2015

| (in EUR) | Land | Buildings | Total |
|---|---|---|---|
| **Cost** | | | |
| **Balance at 31 Dec 2014** | **17,411,596** | **19,621,986** | **37,033,582** |
| | | | |
| Disposals, write-offs | 0 | -21,088 | -21,088 |
| Transfer from property, plant and equipment | 0 | 87,527 | 87,527 |
| Transfer from assets (disposal groups) held for sale | 321,284 | 542,376 | 863,660 |
| Reclassifications within investment property | 427,854 | -427,854 | 0 |
| | | | |
| **Balance at 31 Dec 2015** | **18,160,734** | **19,802,947** | **37,963,681** |
| **Accumulated depreciation** | | | |
| **Balance at 31 Dec 2014** | **0** | **6,793,301** | **6,793,301** |
| | | | |
| Depreciation | 0 | 623,455 | 623,455 |
| Disposals, write-offs | 0 | -20,191 | -20,191 |
| Transfer from assets (disposal groups) held for sale | 0 | 121,160 | 121,160 |
| | | | |
| **Balance at 31 Dec 2015** | **0** | **7,517,725** | **7,517,725** |
| **Carrying amount** | | | |
| **Balance at 31 Dec 2014** | **17,411,596** | **12,828,685** | **30,240,281** |
| **Balance at 31 Dec 2015** | **18,160,734** | **12,285,222** | **30,445,956** |

## Note 13. Intangible assets

| (in EUR) | 31 Dec 2016 | 31 Dec 2015 |
|---|---|---|
| Industrial property rights | 3.761.498 | 4.326.997 |
| **Total** | **3,761,498** | **4,326,997** |

Company's intangible assets comprise industrial property rights and other rights such as computer software, information systems and development-related projects and programmes.

The cost of intangible assets in use, whose carrying amount as at 31 December 2016 equalled zero, is recorded at EUR 6,829,230 compared to the 31 December 2015 balance when it was EUR 8,449,652.

Payables to suppliers for intangible assets were as at the reporting date disclosed at EUR 21,110 (2015: EUR 11,543).

Intangible assets were not pledged as collateral as at 31 December 2016.

## Movements in intangible assets in 2016

| (in EUR) | Industrial property and other rights | Intangible assets being acquired | Total |
|---|---|---|---|
| **Cost** | | | |
| **Balance at 31 Dec 2015** | **14,638,714** | **306,030** | **14,944,744** |
| | | | |
| Additions | 0 | 90,854 | 90,854 |
| Transfers from investments in course of construction | 191,318 | -191,318 | 0 |
| Disposals, write-offs | -1,620,422 | 0 | -1,620,422 |
| Transfer from property, plant and equipment | 37,473 | 0 | 37,473 |
| Transfer to property, plant and equipment | 0 | -56,329 | -56,329 |
| | | | |
| **Balance at 31 Dec 2016** | **13,247,083** | **149,237** | **13,396,320** |
| **Accumulated depreciation** | | | |
| **Balance at 31 Dec 2015** | **10,617,747** | **0** | **10,617,747** |
| | | | |
| Depreciation | 637,497 | 0 | 637,497 |
| Disposals, write-offs | -1,620,422 | 0 | -1,620,422 |
| | | | |
| **Balance at 31 Dec 2016** | **9,634,822** | **0** | **9,634,822** |
| **Carrying amount** | | | |
| **Balance at 31 Dec 2015** | **4,020,967** | **306,030** | **4,326,997** |
| **Balance at 31 Dec 2016** | **3,612,261** | **149,237** | **3,761,498** |

## Movements in intangible assets in 2015

| (in EUR) | Industrial property and other rights | Intangible assets being acquired | Total |
|---|---|---|---|
| **Cost** | | | |
| **Balance at 31 Dec 2014** | **14,090,470** | **553,357** | **14,643,827** |
| | | | |
| Additions | 0 | 187,418 | 187,418 |
| Transfers from investments in course of construction | 434,745 | -434,745 | 0 |
| Transfer from property, plant and equipment | 113,499 | 0 | 113,499 |
| | | | |
| **Balance at 31 Dec 2015** | **14,638,714** | **306,030** | **14,944,744** |
| **Accumulated depreciation** | | | |
| **Balance at 31 Dec 2014** | **10,031,218** | **0** | **10,031,218** |
| | | | |
| Depreciation | 586,529 | 0 | 586,529 |
| | | | |
| **Balance at 31 Dec 2015** | **10,617,747** | **0** | **10,617,747** |
| **Carrying amount** | | | |
| **Balance at 31 Dec 2014** | **4,059,252** | **553,357** | **4,612,609** |
| **Balance at 31 Dec 2015** | **4,020,967** | **306,030** | **4,326,997** |

## Note 14. Shares and interests in Group companies

### Investments in subsidiaries

As at 31 December 2016, investments in subsidiaries amounted to EUR 4,533,063. No changes were recorded in 2016 with respect to investments in subsidiaries.

Investments in subsidiaries are not pledged as collateral.

Detailed presentation of basic data on subsidiaries is provided in Note 29 of this report.

### Investments in subsidiaries

| (in EUR) | Equity interest | Investments at 31 Dec 2016 | Revenue for 1-12 2016 | Profit or loss for 1-12 2016 | No. of employee at 31 Dec 2016 |
|---|---|---|---|---|---|
| **Subsidiaries:** | | | | | |
| Luka Koper Inpo, d.o.o. | 100% | 1,336,288 | 12,941,850 | 3,206,716 | 155 |
| Luka Koper Pristan, d.o.o. | 100% | 485,000 | 800,390 | 21,796 | 4 |
| Adria Terminali, d.o.o. | 100% | 226,000 | 2,164,034 | 287,649 | 22 |
| Adria Investicije, d.o.o. | 100% | 1,775,775 | 39,936 | 13,183 | 0 |
| Logis Nova, d.o.o. | 100% | 710,000 | 21,123 | 3,363 | 0 |
| TOC, d.o.o. | 68.14% | 0 | 339,170 | 2,140 | 4 |

## Note 15. Shares and interests in associates

| (in EUR) | Equity interest | Investments at 31 Dec 2016 | Investments at 31 Dec 2015 |
|---|---|---|---|
| **Associates:** | | | |
| Adriafin, d.o.o. | 50% | 5,986,104 | 5,986,104 |
| Adria Tow, d.o.o. | 50% | 159,842 | 159,842 |
| Adria Transport, d.o.o. | 50% | 450,000 | 450,000 |
| Avtoservis, d.o.o. | 49% | 141,764 | 141,764 |
| Golf Istra – in bankruptcy, d.o.o. | 20% | 0 | 0 |
| **Total** | | **6,737,709** | **6,737,709** |

## Note 16. Other current investments

| (in EUR) | 31 Dec 2016 | 31 Dec 2015 |
| --- | --- | --- |
| Other investments measured at cost | 928,827 | 1,054,854 |
| Other investments measured at fair value through equity | 26,410,036 | 30,623,127 |
| **Total** | **27,338,863** | **31,677,981** |

In 2016, non-current investment comprise primarily investments in securities and equity interests. Investments in securities include investments in shares in Krka, d.d. and Intereuropa, d.d., whose value was EUR 24,540,857 as at the reporting date, and mutual funds, whose value was EUR 1,869,179 was as at 31 December 2016.

Investments measured at cost refer to investments in other companies, where its equity interest is less than 20%.

### Movements in other non-current investments

| (in EUR) | 2016 | 2015 |
| --- | --- | --- |
| Balance at 1 Jan | 31,677,981 | 34,850,365 |
| Increase | | |
| Revaluation to fair value through equity | 0 | 1,361,149 |
| Decrease | | |
| Payout | -26,028 | -213,533 |
| Impairment | -100,000 | -4,320,000 |
| Revaluation to fair value through equity | -4,213,090 | 0 |
| Balance at 31 Dec | 27,338,863 | 31,677,981 |

Other non-current investments declined in 2016 over the previous year primarily due to the change in the fair value of investments in securities.

Other non-current investments are not pledged as collateral.

## Note 17. Deferred tax assets and deferred tax liabilities

| | Receivables | | Liabilities | |
|---|---|---|---|---|
| (in EUR) | 31 Dec 2016 | 31 Dec 2015 | 31 Dec 2016 | 31 Dec 2015 |
| **Deferred tax assets and liabilities relating to:** | | | | |
| impairment of investments in subsidiaries | 572,368 | 512,122 | 0 | 0 |
| impairment of investments in associates | 17,575 | 15,725 | 0 | 0 |
| impairment of other investments and deductible temporary differences arising on securities | 9,334,430 | 8,310,762 | 1,954,676 | 2,432,357 |
| financial instruments | 79,776 | 176,375 | 0 | 0 |
| allowances for trade receivables | 225,729 | 192,372 | 0 | 0 |
| provisions for retirement benefits | 318,854 | 273,623 | 0 | 0 |
| provisions for jubilee premiums | 50,502 | 44,186 | 0 | 0 |
| non-current accrued costs and deferred income for public commercial services | 453,983 | 409,091 | 0 | 0 |
| **Total** | **11,053,217** | **9,934,256** | **1,954,676** | **2,432,357** |
| Off-set with deferred tax liabilities relating to impairment of other investments and deductible temporary differences arising on securities | -1,954,676 | -2,432,357 | -1,954,676 | -2,432,357 |
| **Total** | **9,098,541** | **7,501,899** | **0** | **0** |

As at the balance sheet date, the Company conducted an off-set of its deferred tax liabilities with receivables in the amount of EUR 1,954,676. For the purpose of ensuring data comparability, the Company concurrently performed an off-set in 2015 in the amount of EUR 2,432,357.

Deferred tax assets represent deductible temporary differences arising on securities, non-current investments, interest rate hedging, impairment of receivables, provisions for retirement benefits and jubilee premiums, and deferred income from public commercial services. Deferred taxes increase in 2016 the operating result (EUR 1,174,474), mostly due to the changed tax rate; the relevant increase is recorded at EUR 1,168,259.

## Movements in deferred tax assets and deferred tax liabilities in 2016

| | Balance at 31 Dec 2015 | Recognised in the income statement | Recognised in the statement of other comprehensive income | Balance at 31 Dec 2016 | Balance at 31 Dec 2015 | Recognised in the statement of other comprehensi ve income | Balance at 31 Dec 2016 |
|---|---|---|---|---|---|---|---|
| **Deferred tax assets relating to:** | | | | | | | |
| impairment of investments in subsidiaries | 512,122 | 60,246 | 0 | 572,368 | 0 | 0 | 0 |
| impairment of investments in associates | 15,725 | 1,850 | 0 | 17,575 | 0 | 0 | 0 |
| Impairment of other investments and deductible temporary differences arising on securities | 8,310,762 | 990,879 | 32,788 | 9,334,428 | 2,432,357 | -477,682 | 1,954,675 |
| financial instruments | 176,375 | 0 | -96,599 | 79,776 | 0 | 0 | 0 |
| allowances for trade receivables | 192,372 | 33,357 | 0 | 225,729 | 0 | 0 | 0 |
| provisions for retirement benefits | 273,623 | 36,934 | 8,297 | 318,854 | 0 | 0 | 0 |
| provisions for jubilee premiums | 44,186 | 6,316 | 0 | 50,502 | 0 | 0 | 0 |
| non-current accrued costs and deferred income from public commercial services | 409,091 | 44,893 | 0 | 453,984 | 0 | 0 | 0 |
| **Total** | **9,934,256** | **1,174,475** | **-55,514** | **11,053,216** | **2,432,357** | **-477,682** | **1,954,675** |
| Off-set with deferred tax liabilities relating to impairment of other investments and deductible temporary differences arising on securities | -2,432,357 | 0 | 477,682 | -1,954,675 | -2,432,357 | 477,682 | -1,954,675 |
| **Deferred tax assets in the statement of financial position** | **7,501,899** | **1,174,475** | **422,168** | **9,098,541** | **0** | **0** | **0** |

## Movements in deferred tax assets and deferred tax liabilities in 2015

| | Receivables | | | | Liabilities | | |
|---|---|---|---|---|---|---|---|
| | Balance at 31 Dec 2014 | Recognised in the income statement | Recognised in the statement of other comprehensive income | Balance at 31 Dec 2015 | Balance at 31 Dec 2014 | Recognised in the statement of other comprehensive income | Balance at 31 Dec 2015 |
| Deferred tax assets and liabilities relating to: | | | | | | | |
| impairment of investments in subsidiaries | 512,122 | 0 | 0 | 512,122 | 0 | 0 | 0 |
| impairment of investments in associates | 254,388 | -238,663 | 0 | 15,725 | 0 | 0 | 0 |
| Impairment of other investments and deductible temporary differences arising on securities | 7,839,865 | 341,066 | 129,831 | 8,310,762 | 2,071,131 | 361,226 | 2,432,357 |
| financial instruments | 247,461 | 0 | -71,086 | 176,375 | 0 | | 0 |
| allowances for trade receivables | 227,593 | -35,220 | 0 | 192,372 | 0 | 0 | 0 |
| provisions for retirement benefits | 96,833 | 137,307 | 39,483 | 273,623 | 0 | 0 | 0 |
| provisions for jubilee premiums | 32,167 | 12,019 | 0 | 44,186 | 0 | 0 | 0 |
| non-current accrued costs and deferred income from public commercial services | 409,091 | 0 | 0 | 409,091 | 0 | 0 | 0 |
| **Total** | **9,619,520** | **216,509** | **98,228** | **9,934,256** | **2,071,131** | **361,226** | **2,432,357** |
| Off-set with deferred tax liabilities relating to impairment of other investments and deductible temporary differences arising on securities | -2,071,131 | 0 | -361,226 | -2,432,357 | -2,071,131 | -361,226 | -2,432,357 |
| **Deferred tax assets in the statement of financial position** | **7,548,389** | **216,509** | **-262,998** | **7,501,899** | **0** | **0** | **0** |

## Note 18. Inventories

As at 31 December 2016, inventories are recorded at EUR 809,467 (2015: EUR 813,734). Larger portion thereof relates to maintenance material and spare parts, as well as to overhead-related material and auxiliary material.

## Note 19. Trade and other receivables

| (in EUR) | 31 Dec 2016 | 31 Dec 2015 |
|---|---|---|
| Current trade receivables: | | |
| domestic market | 16,874,155 | 16,253,109 |
| foreign markets | 10,610,265 | 10,392,229 |
| Current operating receivables due from Group companies | 50,291 | 76,049 |
| Current operating receivables due from associates | 44,443 | 43,763 |
| **Current trade receivables** | **27,579,154** | **26,765,150** |
| Current receivables due from dividends | 50,000 | 200,000 |
| Advances and collaterals given | 4,083 | 81,542 |
| Current receivables related to finance income | 2,246 | 3,393 |
| Receivables due from the state | 2,506,533 | 1,299,823 |
| Other current receivables | 125,106 | 177,310 |
| **Trade receivables** | **30,267,122** | **28,527,218** |
| Short-term deferred costs and expenses | 371,499 | 252,831 |
| Accrued income | 376,957 | 1,095,779 |
| **Other receivables** | **748,456** | **1,348,610** |
| **Total** | **31,015,578** | **29,875,828** |

With most trade receivables, the Company has an option to enforce a legal lien over the stored goods in its possession.

The Company checks its overdue receivables in accord with the accounting manual and regularly formed related allowances should it be established that repayment is not possible. Irrespective of maturity, the Company formed allowances also for receivables due from customers that announced bankruptcy in 2016.

In 2016, the Company formed allowances for receivables in the amount of EUR 336,990 but simultaneously recorded collected written-off receivables amounting to EUR 211,121.

At 31 December 2016, no receivables were due from members of the Management Board or the Supervisory Board.

For the purpose of collateralising a bank loan that as at 31 December 2016 amounted to EUR 4,100,000, the Company signed a contract on assigning receivables. As of the reporting date, these receivables amounted to EUR 258,734.

Other receivables include short-term accrued income in the amount of EUR 376,957, which refer to income arising on expenses for European development projects, co-financed by European institutions and short-term deferred costs in the amount of EUR 371,499.

## Maturity of trade receivables and receivables relating to finance income:

| (in EUR) | 31 Dec 2016 | Allowances 2016 | 31 Dec 2015 | Allowances 2015 |
|---|---|---|---|---|
| Outstanding and undue trade receivables | 24,642,936 | -93,553 | 22,700,489 | 0 |
| Past due receivables: | | | | |
| up to 30 days | 2,163,559 | -1,572 | 3,060,815 | 0 |
| 31 to 60 days overdue | 582,498 | -5,274 | 804,985 | 0 |
| 61 to 90 days overdue | 66,819 | -3,331 | 67,298 | 0 |
| 91 to 180 days overdue | 172,588 | -2,177 | 118,995 | 0 |
| more than 180 days overdue | 2,187,657 | -2,128,751 | 2,195,852 | -2,179,891 |
| **Total** | **29,816,057** | **-2,234,658** | **28,948,434** | **-2,179,891** |

Note: the amount comprises trade receivables due from subsidiaries and associates, and interest receivables.

## Movements in allowances for receivables

| (in EUR) | 2016 | 2015 |
|---|---|---|
| **Balance at 1 January** | **2,179,891** | **2,387,075** |
| **Increase:** | | |
| Formation of allowances | 336,990 | 82,755 |
| **Decrease:** | | |
| Collected receivables written off | -211,121 | -230,606 |
| Final write-off of receivables | -71,102 | -59,333 |
| **Balance at 31 Dec ember** | **2,234,658** | **2,179,891** |

## Note 20. Cash and cash equivalents

| (in EUR) | 31 Dec 2016 | 31 Dec 2015 |
|---|---|---|
| Cash in hand | 46 | 21 |
| Bank balances | 983,259 | 367,030 |
| Current deposits | 0 | 4,821,518 |
| **Total** | **983,305** | **5,188,569** |

## Note 21. Equity

### Share capital

The share capital in the amount of EUR 58,420,965 consists of 14,000,000 ordinary no-par value shares of the controlling company Luka Koper, d.d. that are freely transferable. Nominal value of one share is EUR 4.17.

### Capital surplus (share premium) and revenue reserves

The Company records legal reserves in the amount of 10% of share capital as required by the Companies Act (ZGD-1). Legal reserves and share premium are not included in the accumulated profit and are not subject to distribution. The Company has no statutory reserves, as they are not envisaged under the Articles of Association.

| (in EUR) | 31 Dec 2016 | 31 Dec 2015 |
|---|---|---|
| Share premium | 89,562,703 | 89,562,703 |
| Legal reserves | 18,765,115 | 18,765,115 |
| Other revenue reserves | 110,270,537 | 89,979,979 |
| **Total** | **218,598,355** | **198,307,797** |

### Reserves arising from valuation at fair value

Reserves arising on valuation at fair value exemplify investments measured at fair value, which refer to valuation of hedging instruments' fair value, and arising on unrealised actuarial gains and losses that amounted to EUR 8,864,614 at the end of 2016. After deducting deferred taxes, they are recorded at EUR 7,085,026.

### Retained earnings

Retained earnings consist of the unappropriated portion of the net profit for the period, which as at 31 December 2016 amounted to EUR 20,290,558 and net profit brought forward that were recorded at EUR 31,045.

### Use of accumulated profit

The Management and Supervisory Board proposed the Shareholders' Meeting to appropriate the accumulated profit of 2015 in the amount of EUR 15,880,814 as follows:

- portion of accumulated profit in the amount of EUR 9,520,000 is used for dividend pay-out i.e. EUR 0.68 gross per share,
- the residual amount of accumulated profit in the amount of EUR 6,360,814 remains unappropriated.

In a counter-proposal from 1 July 2016 filed during the 27th Shareholders' Meeting of Luka Koper, d.d., filed by SDH, d.d, the accumulated profit is to be appropriated as follows:

- portion of the accumulated profit in the amount of EUR 15,820,000 is used for dividend pay-out i.e. EUR 1.13 gross per share,
- the residual amount of accumulated profit in the amount of EUR 60,814 remains unappropriated.

Statement of accumulated profit for the financial year 2016 and the proposal for its distribution are provided in Section 26 'Statement of accumulated profit'.

## Note 22. Provisions

| (in EUR) | 31 Dec 2016 | 31 Dec 2015 |
|---|---|---|
| Provisions for retirement benefits and jubilee premiums | 2,884,673 | 2,715,229 |
| Provisions for legal disputes | 1,380,491 | 475,224 |
| **Total** | **4,265,164** | **3,190,453** |

Larger part of the increase among provisions relates to legal disputes as they were formed in an additional amount for the purpose of labour legislation (EUR 702,077) and economic nature (EUR 203,190). Additionally formed provisions result from Management's assessment regarding the possibility of disputes' favourable outcome based on the current judgements by competent courts.

At the year-end of 2016, the Company discloses provisions for termination benefits and jubilee premiums in the amount of EUR 2,884,673, which were created on the basis of an actuarial calculation using the data as at 31 October 2016 (no material differences over the 31 December 2016 balance).

### Movements of provisions in 2016

| (in EUR) | Termination benefits | Jubilee premiums | Total post-employment benefits | Claims and damages | Total |
|---|---|---|---|---|---|
| Balance at 31 Dec 2015 | 2,195,397 | 519,832 | 2,715,229 | 475,224 | 3,190,453 |
| | | | | | |
| **Movement:** | | | | | |
| Formation | 233,423 | 82,088 | 315,511 | 905,267 | 1,220,778 |
| Use | -75,747 | -70,320 | -146,067 | 0 | -146,067 |
| | | | | | |
| **Balance at 31 Dec 2016** | **2,353,073** | **531,600** | **2,884,673** | **1,380,491** | **4,265,164** |

### Movements of provisions in 2015

| (in EUR) | Termination benefits | Jubilee premiums | Total post-employment benefits | Claims and damages | Total |
|---|---|---|---|---|---|
| Balance at 31 Dec 2014 | 1,139,211 | 378,438 | 1,517,649 | 2,675,441 | 4,193,090 |
| | | | | | |
| **Movement:** | 42,735 | | | | |
| Formation | 1,122,442 | 202,778 | 1,325,220 | 0 | 1,325,220 |
| Use | -66,256 | -61,384 | -127,640 | -698,550 | -826,190 |
| Reversal | 0 | 0 | 0 | -1,501,667 | 1,501,667 |
| | | | | | |
| **Balance at 31 Dec 2015** | **2,195,397** | **519,832** | **2,715,229** | **475,224** | **3,190,453** |

## Note 23. Deferred income

| (in EUR) | 31 Dec 2016 | 31 Dec 2015 |
|---|---|---|
| Non-current deferred income for regular maintenance | 7,987,214 | 7,823,250 |
| Non-current deferred income | 4,347,505 | 3,034,711 |
| **Total** | **12,334,719** | **10,857,961** |

Non-current deferred income comprise income on regular maintenance since in compliance with the Concession Agreement, Luka Koper, d.d., has the right and obligation to collect port dues, which is income intended to cover the costs of performing commercial services. In connection with any annual surplus of revenue over costs, the Company forms deferred income for covering costs for public commercial services relating to regular maintenance of the port infrastructure in the coming years and vice versa, and utilises deferred income if the public commercial services of regular port infrastructure maintenance exceed the amount of revenue.

Non-current deferred income refer to EU funds and are drawn in accord with the assets' useful life.

### Movement of deferred income in 2016

| (in EUR) | Non-current deferred income for regular maintenance | Non-refundable grants received | Total |
|---|---|---|---|
| Balance at 31 Dec 2015 | 7,823,250 | 3,034,711 | 10,857,961 |
| | | | |
| **Movement:** | | | |
| Formation | 163,964 | 2,291,152 | 2,455,116 |
| Transfer to other liabilities | 0 | -924,798 | -924,798 |
| Use | 0 | -53,560 | -53,560 |
| | | | |
| **Balance at 31 Dec 2016** | **7,987,214** | **4,347,505** | **12,334,719** |

### Movement of deferred income in 2015

| (in EUR) | Non-current deferred income for regular maintenance | Non-refundable grants received | Total |
|---|---|---|---|
| Balance at 31 Dec 2014 | 6,279,210 | 1,095,904 | 7,375,114 |
| | | | |
| **Movement:** | | | |
| Formation | 1,544,040 | 2,124,296 | 3,668,336 |
| Transfer to other liabilities | 0 | -150,696 | -150,696 |
| Use | 0 | -22,191 | -22,191 |
| Reversal | 0 | -12,602 | -12,602 |
| | | | |
| **Balance at 31 Dec 2015** | **7,823,250** | **3,034,711** | **10,857,961** |

## Note 24. Non-current loans and borrowings

| (in EUR) | 31 Dec 2016 | 31 Dec 2015 |
|---|---|---|
| Non-current financial liabilities to Group companies | 16,000,000 | 10,000,000 |
| Non-current borrowings from domestic banks | 66,383,117 | 66,544,845 |
| Non-current borrowings from foreign banks | 31,517,622 | 33,809,978 |
| **Total** | **113,900,739** | **110,354,823** |

Non-current financial liabilities to Group companies grew by EUR 6,000,000 and refer to the subsidiary Luka Koper Inpo, d.o.o. All borrowings among Group companies have their tax acknowledged related-party interest rate defined in the loan contracts.

As at the balance sheet date, non-current borrowings from banks amounted to EUR 97,900,739, which is 2.4 percent to EUR 2,454,084 less over the 2015 balance. In 2016, the Company raised a new non-current borrowing in the amount of EUR 28 million, whereof solely EUR 9,300,000 were drawn as at 31 December 2016. All bank borrowings are subject to the variable interest rate. The largest borrowing is hedged against interest rate risk by means of an interest rate swap. As at 31 December 2016, the total amount of the hedged borrowing is recorded at EUR 33,852,459. Further details on the relevant interest rate hedging are provided in Note 30 Financial instruments and financial risk management, in the section 'Management of interest rate risk'.

All non-current loans are repaid according to a predetermined schedule. For some of the loans the Company was granted a moratorium on the payment of the principal. All liabilities from non-current borrowings from banks are collateralised with blank bills of exchange and financial covenants, whereby one borrowing by assignment of receivables. The Company complies with all financial covenants under the loan agreements.
The item of borrowings comprises also costs of loan approval, which reduce the balance of borrowings received. In this way, the Company ensures that the borrowings are managed by observing the effective interest rate principal, hence any expenses related to an individual borrowing are upon accrual deferred among non-current liabilities and thereupon reversed on a monthly basis until the date of maturity. Accordingly, deferred costs referring to non-current liabilities for loans received amounted to EUR 141,935 as at 31 December 2016 (2015: EUR 149,583) and they reduce the actual balance of loan principals.

### Movement of non-current borrowings in 2016

| | Lender | | |
|---|---|---|---|
| **(in EUR)** | **Group companies** | **Banks** | **Total** |
| Balance at 31 Dec 2015 | 10,000,000 | 100,354,822 | 110,354,822 |
| | | | |
| New borrowings | 6,000,000 | 9,300,000 | 15,300,000 |
| Deferred costs of approval | 0 | 7,648 | 7,648 |
| Transfer to current borrowings – portion that matures within 1 year | 0 | -11,761,731 | -11,761,731 |
| **Balance at 31 Dec 2016** | **16,000,000** | **97,900,739** | **113,900,739** |

### Movement of non-current borrowings in 2015

| | Lender | | | |
|---|---|---|---|---|
| **(in EUR)** | **Group companies** | **Associates** | **Banks** | **Total** |
| Balance at 31 Dec 2014 | 10,056,580 | 500,000 | 109,821,422 | 120,378,002 |
| | | | | |
| Transfer from current borrowings | 0 | 0 | 2,000,000 | 2,000,000 |
| Repayments | -26,000 | 0 | -1,992,065 | -2,018,065 |
| Deferred costs of approval | 0 | 0 | 48,989 | 48,989 |
| Transfer to current borrowings – portion that matures in 2016 | -30,580 | -500,000 | -9,523,523 | -10,054,103 |
| **Balance at 31 Dec 2015** | **10,000,000** | **0** | **100,354,823** | **110,354,823** |

## Loan principals (non-current and current borrowings) in 2016

| (in EUR) | Currency of loan | Interest rate | Date of maturity | Approved principal amount | Principal at 31 Dec 2016 |
|---|---|---|---|---|---|
| Loans A | EUR | 1.095 to 1.108 | 31 Dec 2021 | 16,000,000 | 16,000,000 |
| Loans B | EUR | Euribor3m + from 0.650 to 2.500 | from 30 Sep 2018 to 21 Jul 2031 | 123,000,000 | 67,518,691 |
| Loans C | EUR | Euribor6m + from 1.550 to 2.000 | from 30 Jun 2018 to 14 Apr 2025 | 50,000,000 | 42,285,714 |
| **Total** | | | | **189,000,000** | **125,804,405** |
| - whereof current portion | | | | | 11.761.732 |

## Loan principals (non-current and current borrowings) in 2015

| (in EUR) | Currency of loan | Interest rate | Date of maturity | Approved principal amount | Principal at 31 Dec 2015 |
|---|---|---|---|---|---|
| Loans A | EUR | 1,579 | from 31 Dec 2016 to 31 Dec 2021 | 12,000,000 | 10,530,580 |
| Loans B | EUR | Euribor3m + from 0.706 to 2.500 | from 30 Sep 2018 to 21 Jul 2031 | 95,000,000 | 62,885,072 |
| Loans C | EUR | Euribor6m + from 1.550 to 2.000 | from 30 Jun 2018 to 14 Apr 2025 | 50,000,000 | 47,142,857 |
| **Total** | | | | **157,000,000** | **120,558,509** |
| - whereof current portion | | | | | 10,054,104 |

## Balance of non-current and current borrowings from banks at par value and by their maturity in 2016

| (in EUR) | Principal amount at 31 Dec 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | Period 2022–2032 |
|---|---|---|---|---|---|---|---|
| Principal amount of bank borrowings by maturity | 109,804,405 | 11,761,732 | 16,060,399 | 16,004,399 | 17,898,602 | 7,702,225 | 40,377,049 |
| Expected interest | | 1,378,841 | 1,224,865 | 952,547 | 675,464 | 484,349 | 1,118,250 |
| **Total** | **109,804,405** | **13,140,573** | **17,285,264** | **16,956,946** | **18,574,066** | **8,186,574** | **41,495,299** |

**Balance of non-current and current borrowings from banks at par value and by their maturity in 2015**

| (in EUR) | Principal amount at 31 Dec 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | Period 2021–2031 |
|---|---|---|---|---|---|---|---|
| Principal amount of bank borrowings by maturity | 110,027,930 | 9,523,524 | 11,761,732 | 14,310,399 | 12,504,399 | 14,398,602 | 47,529,274 |
| Expected interest | | 1,787,257 | 1,473,925 | 1,233,259 | 972,803 | 704,356 | 1,816,240 |
| **Total** | **110,027,930** | **11,310,781** | **13,235,657** | **15,543,658** | **13,477,202** | **15,102,958** | **49,345,514** |

## Note 25. Other non-current financial liabilities

| (in EUR) | 31 Dec 2016 | 31 Dec 2015 |
|---|---|---|
| Other non-current financial liabilities | 419,873 | 639,954 |
| **Total** | **419,873** | **639,954** |

Other non-current financial liabilities include the fair value of instrument (i.e. interest rate swap), which the Company entered into in connection with the largest borrowing. Further details on interest rate hedging are outlined in Note 30 Financial instruments and financial risk management, in the section 'Management of interest rate risk'.

## Note 26. Loans and borrowings

| (in EUR) | 31 Dec 2016 | 31 Dec 2015 |
|---|---|---|
| Current financial liabilities to Group companies | 0 | 30,580 |
| Current financial liabilities to associates | 0 | 500,000 |
| Current borrowings from domestic banks | 9,466,650 | 8,375,983 |
| Current borrowings from foreign banks | 2,295,082 | 1,147,541 |
| **Total** | **11,761,732** | **10,054,104** |

Current borrowings from banks refer as at 31 December 2016 to the portion of non-current principal amounts, which mature in 2017 according to amortisation schedules.

## Movement of current borrowings in 2016

| (in EUR) | Lender: Group companies | Associates | Banks | Total |
|---|---|---|---|---|
| Balance at 31 Dec 2015 | 30,580 | 500,000 | 9,523,524 | 10,054,104 |
| | | | | |
| Repayments | -30,580 | -500,000 | -9,523,524 | -10,054,104 |
| Transfer from non-current borrowings – portion that matures in 2017 | 0 | 0 | 11,761,732 | 11,761,732 |
| | | | | |
| **Balance at 31 Dec 2016** | **0** | **0** | **11,761,732** | **11,761,732** |

## Movement of current borrowings in 2015

| (in EUR) | Lender: Group companies | Associates | Banks | Total |
|---|---|---|---|---|
| Balance at 31 Dec 2014 | 0 | 0 | 15.927.780 | 15.927.780 |
| | | | | |
| Repayments | 0 | 0 | -13,927,780 | -13,927,780 |
| Transfer from non-current borrowings – portion that matures in 2016 | 30,580 | 500,000 | 9,523,524 | 10,054,104 |
| Transfer to non-current borrowings | 0 | 0 | -2,000,000 | -2,000,000 |
| | | | | |
| | | | | |
| **Balance at 31 Dec 2015** | **30,580** | **500,000** | **9,523,524** | **10,054,104** |

## Note 27. Trade and other payables

| (in EUR) | 31 Dec 2016 | 31 Dec 2015 |
|---|---|---|
| Current liabilities to: | | |
| domestic suppliers | 12,787,935 | 12,111,020 |
| foreign suppliers | 342,852 | 2,720,702 |
| Current liabilities to Group companies | 570,253 | 488,206 |
| Current liabilities to associates | 145,110 | 99,564 |
| **Current trade payables** | **13,846,150** | **15,419,492** |
| Current liabilities from advances | 19,234 | 42,340 |
| Current liabilities to employees | 3,190,575 | 3,028,348 |
| Current liabilities to state and other institutions | 915,307 | 909,664 |
| **Total operating liabilities** | **17,971,266** | **19,399,844** |
| Accrued costs | 4,947,677 | 4,912,464 |
| **Other operating liabilities** | **4,947,677** | **4,912,464** |
| **Total** | **22,918,943** | **24,312,308** |

Trade and other payables declined over the previous period by 5.7 percent or EUR 1,393,364. The largest decline is recorded with trade payables to foreign suppliers, which is attributable to lower balance of trade payables for investments.

Accrued costs relate to costs for the use of the construction land, accrued costs of the concession, costs for the collective job performance, accrued interest for loans and borrowings, accrued costs for remunerations and bonuses paid under individual contracts, and accrued costs for unused vacation days.

## Note 28. Contingent liabilities

| (in EUR) | 31 Dec 2016 | 31 Dec 2015 |
|---|---|---|
| Guarantees given | 1,560,000 | 1,560,000 |
| Securities given | 7,235,468 | 7,152,284 |
| Contingent liabilities under legal disputes | 93,809 | 3,012,100 |
| Approved borrowing | 54,700,000 | 36,000,000 |
| **Total contingent liabilities** | **63,589,277** | **47,724,384** |

Guarantees issued in 2016 refer to customs operations and as at the reporting date amounted to EUR 1,560,000.

The Company provided securities:

- in the amount of EUR 4,514,973 to the company Adria Transport, d.o.o. in connection with a lease of locomotives,
- in the amount of EUR 938,479 to the company Adria-Tow, d.o.o. for a borrowing received,
- in the amount of EUR 250,000 to the company Adria Terminali, d.o.o. in connection with liabilities under customs charges.

Companies that received collaterals and guarantees from the Company regularly pay their liabilities in this connection and as at 31 December 2016 discloses no outstanding instalments.

Contingent liabilities under legal disputes include as at 31 December 2016 two lawsuits filed against the Company. With respect to the reports submitted by the lawyers, no risks exist based on which the contingent liabilities hereunder should be disclosed among provisions for legal disputes.
Contingent liabilities arising on legal disputes have decreased in 2016 by 2,247,540, as no payment of claims was made; both disputes were terminated in favour of Luka Koper, d.d. The contingent liabilities declined by EUR 692,701 as liabilities were transferred to provisions for legal disputed after the two received legal claims.

The item of approved borrowing refers to the borrowing from the European Investment Bank (project of extending the first pier), which was approved at end of December 2014. As at 31 December 2016, terms for drawing the first tranche of the borrowing were not met since the Company had not yet received the building permit. Further, the Company has not drawn the entire principal amount of the borrowing approved in 2016; this part is accordingly disclosed among off balance sheet items.

The Company studied the received complaints and compensation claims linked to the spontaneous termination of work in the port between 1 July 2016 and 5 July 2016 and refused them fully informed. Upon the relevant refusal, the Company received no answers or further claims. Given the aforesaid, the Company assessed that no contingent liabilities or related provisions are required to be formed.

## Note 29. Related party transactions

### Remuneration of Members of the Management Board in 2016

| | Gross wages (fixed part) | Gross wages (variable part) | Annual holiday pay and jubilee premiums | Insurance premium benefits | Benefits and other receipts | Total remune ration |
|---|---|---|---|---|---|---|
| Dragomir Matić, President since 10 June 2014 | 172,656 | 23,246 | 1,100 | 207 | 4,346 | 201,555 |
| Andraž Novak, Member since 10 June 2014 | 155,031 | 20,840 | 1,100 | 207 | 2,691 | 179,868 |
| Irena Vincek, Member since 21 August 2015 | 154,451 | 7,512 | 1,100 | 207 | 6,261 | 169,531 |
| Stojan Čepar, Workers Director since 30 November 2015 | 156,761 | 1,759 | 1,100 | 207 | 9,345 | 169,173 |
| Matjaž Stare, Workers Director untill17 October 2015 | 0 | 33,337 | 0 | 0 | 0 | 33,337 |
| **Total** | **638,900** | **86,695** | **4,400** | **826** | **22,643** | **753,464** |

### Remuneration of Members of the Management Board in 2015

| | Gross wages (fixed part) | Gross wages (variable part) | Annual holiday pay and jubilee premiums | Insurance premium benefits | Benefits and other receipts | Total remuneration |
|---|---|---|---|---|---|---|
| Dragomir Matić, President since 10 June 2014 | 162,162 | 12,001 | 791 | 282 | 6,015 | 181,251 |
| Andraž Novak, Member since 10 June 2014 | 148,658 | 17,984 | 791 | 282 | 3,340 | 171,055 |
| Irena Vincek, Member since 21 August 2015 | 40,936 | 0 | 0 | 94 | 803 | 41,833 |
| Stojan Čepar, Workers Director since 30 November 2015 | 538 | 0 | 0 | 0 | 0 | 538 |
| Matjaž Stare, Workers Director untill 17 October 2015 | 128,895 | 64,070 | 791 | 256 | 919 | 194,931 |
| Tine Svoljšak, Member from 1 February 2015 to 30 June 2015 | 61,732 | 0 | 724 | 116 | 809 | 63,381 |
| Jože Jaklin, Member from 1 February 2014 to 2 January 2015 | 12,479 | 17,521 | 0 | 46 | 137 | 30,183 |
| Gašpar Gašpar-Mišič, President until 11 April 2014 | 0 | 5,894 | 0 | 0 | 0 | 5,894 |
| Marko Rems, Member until 5 March 2014 | 0 | 3,083 | 0 | 0 | 0 | 3,083 |
| **Total** | **555,400** | **120,553** | **3,097** | **1,076** | **12,023** | **692,149** |

To determine the variable income, i.e. remuneration for the Management Board, several quantitative indicators were applied, which contribute to the non-current interests of the Company.

A Member of the Management Board is remunerated in accordance with the 4th bullet of Article 4, Paragraph 1 of the Act Governing the Remuneration of Managers of Companies with Majority Ownership held by the Republic of Slovenia or Self-Governing Local Communities. Accordingly, one half of the remuneration is paid on the basis of the resolution of the Supervisory Board, after two years of the individual annual report consideration. A Member of the Management Board has a duty to return the variable income provided that all conditions for the return of the remuneration for performance have been fulfilled pursuant to the Companies Act.

An end-of-term allowance is not paid to President/member of the Management Board when his mandate ends and he/she continues to work in the Company. Should, however, the President/member of the Management Board upon the end of his/her term issue a written statement that he/she will no longer be employed in the Company, a severance pay is paid the amount equalling six times the average monthly earnings he/she received during the term of office as President/member of Management Board, unless the term of office ended in a way that according to the contract omits the right to severance pay.

The contracts of the Members of the Management Board do not include the variable income or remuneration determined in form of shares.

### Receipts of group of persons in 2016

| Groups of persons | Gross wages (fixed and variable part) | Annual holiday pay and jubilee premiums | Insurance premium benefits | Benefits and other receipts | Total receipts |
|---|---|---|---|---|---|
| Members of the Management Board | 725,595 | 4,400 | 826 | 22,643 | 753,464 |
| Members of the Supervisory Board (nine members) | 246,632 | 0 | 1,818 | 0 | 248,450 |
| Employees with individual employment contracts | 2,439,204 | 26,420 | 0 | 39,176 | 2,504,800 |
| **Total** | **3,411,431** | **30,820** | **2,644** | **61,819** | **3,506,714** |

### Receipts of group of persons in 2015

| Groups of persons | Gross wages (fixed and variable part) | Annual holiday pay and jubilee premiums | Insurance premium benefits | Benefits and other receipts | Total receipts |
|---|---|---|---|---|---|
| Members of the Management Board | 675,953 | 3,097 | 1,076 | 12,023 | 692,149 |
| Members of the Supervisory Board (nine members) | 224,657 | 0 | 2,538 | 0 | 227,195 |
| Employees with individual employment contracts | 2,153,997 | 18,544 | 0 | 43,510 | 2,216,051 |
| **Total** | **3,054,607** | **21,641** | **3,614** | **55,533** | **3,135,395** |

**Gross remuneration of members of the Supervisory Board and its Committees in 2016**

| | Performance of function | Insurance premium benefits (SB) | Attendance fees and reimbursement of costs | Total gross earnings |
|---|---|---|---|---|
| Alenka Žnidaršič Kranjc, member since 7 October 2013 | 19,500 | 207 | 5,797 | 25,503 |
| Elen Twrdy, member since 7 October 2013 | 19,175 | 207 | 4,730 | 24,112 |
| Rado Antolovič, member since 7 October 2013 | 19,500 | 207 | 46,540 | 66,247 |
| Andrej Šercer, member since 7 October 2013 | 19,500 | 207 | 7,028 | 26,734 |
| Žiga Škerjanec, member since 7 October 2013 | 17,875 | 207 | 6,125 | 24,207 |
| Sabina Mozetič, member since 21 August 2015 | 16,250 | 207 | 4,262 | 20,719 |
| Mladen Jovičič, member since 18 March 2013 | 16,250 | 207 | 4,770 | 21,226 |
| Marko Grabljevec, member since 18 January 2016 | 13,044 | 182 | 3,575 | 16,800 |
| Rok Parovel, member since 12 September 2016 | 2,907 | 45 | 283 | 3,235 |
| Stojan Čepar, member since 18 March 2013 to 29 November 2015 | 0 | 0 | 220 | 220 |
| Nebojša Topič, member since 28 July 2012 to 27 July2016 | 10,659 | 146 | 3,685 | 14,489 |
| Polona Pergar Guzaj, external members of the SB's Audit Committee since 7 July 2016 | 1,302 | 0 | 397 | 1,699 |
| Barbara Nose, external members of the SB's Audit Committee from 23 August 2014 to 6 July 2016 | 1,948 | 0 | 1,311 | 3,260 |
| **TOTAL** | **157,909** | **1,818** | **88,723** | **248,451** |

On the basis of the provisions of Article 25 of the Articles of Association of Luka Koper, d.d., the 26th General Meeting adopted on 21 August 2015 a decision on determining the payment for performance of functions and attendance fees to the Members of the Supervisory Board and Members of Committees of the Supervisory Board.

For attending a session, Members of the Supervisory Board receive attendance fee of EUR 275 gross each. For attending a session of the Committee, Members of the Committee of the Supervisory Board receive a fee amounting to 80 percent of the fee for the attendance at a session of the Supervisory Board. The fee for a correspondence session is 80 percent of the fee for an ordinary session.

Irrespective of the aforementioned, an individual Member of the Supervisory Board is entitled to the payment of attendance fees in an individual year until the total amount of such fees (either from sessions of the Supervisory Board or sessions of the Committees of the Supervisory Board) reaches the value of 50 percent of the basic payment for performing the function of an individual Member of the Supervisory Board.

In addition to attendance fees, Members of the Supervisory Board each receive the basic payment for carrying out their functions in the amount of EUR 13,000 gross annually. The Chairman of the Supervisory Board is entitled to the supplement of 50 percent of the basic payment for carrying out the function of a Member of the Supervisory Board, whereas his deputy is entitled to 10 percent of the basic payment for carrying out the function of a Member of the Supervisory Board.

Members of the Committee of the Supervisory Board each receive a supplement for carrying out their functions, amounting to 25 percent of the basic payment for carrying out the function of a Member of the Supervisory Board. The Chairman of the Committee is also entitled to an additional supplement of 50 percent for carrying out the function of a Member of the Supervisory Board.

An external member of a Supervisory Board's Committee, who is not a Member of the Supervisory Board, receives payment for carrying out the function in the amount of 25 percent of the basic gross payment for carrying out the function of a Member of the Supervisory Board.

Members of the Supervisory Board and the Committees of the Supervisory Board receive basic salary and an additional fee for carrying out the function in proportionate monthly payments, which they are entitled to while carrying out their function. A monthly payment is equal to one twelfth of the aforementioned annual sums. If they have carried out their function for less than a month, they are entitled to a pro rata payment considering the number of working days.

Members of the Supervisory Board and of Committees of the Supervisory Board, including the external members of the Committees of the Supervisory Board, are entitled to refund of travel expenses and other attendance-related expenses in compliance with the Company's Articles of Association.

### Transactions with the Government of the Republic of Slovenia

Transactions between Luka Koper, d.d. and the Government of the Republic of Slovenia in 2016 included following:

| (in EUR) | Payments in 2016 | Costs/expenses in 2016 | Payments in 2015 | Costs/expenses in 2015 |
|---|---|---|---|---|
| Concessions | 6,158,558 | 6,397,118 | 5,574,406 | 5,922,700 |
| Dividends | 8,068,200 | 0 | 6,711,600 | 0 |
| Corporate income tax (taxes and advance payments) | 5,132,716 | 7,093,243 | 4,743,126 | 5,132,716 |
| Other taxes and contributions | 5,678,335 | 5,714,609 | 5,584,741 | 5,198,639 |
| **Total** | **25,037,809** | **19,204,970** | **22,613,873** | **16,254,055** |

No other transactions between the Government of the Republic of Slovenia and the Company were recorded.

Dividends were paid out to two other companies, where the Government of the Republic of Slovenia holds a controlling interest i.e. to the company SDH, d.d. in the amount of EUR 1,760,378 and the company Kapitalska družba, d.d. in the amount of EUR 787,134.

The Company records transactions also with companies, where the Government of the Republic of Slovenia has (direct or indirect) controlling influence or 20%.

**Transactions with companies where Government of the Republic of Slovenia has, directly or indirectly, controlling influence**

In 2016, transactions conducted between Luka Koper, d.d. and companies where the Government of the Republic of Slovenia has a direct or indirect influence amounted to EUR 28,222,098 and include sales to these companies (EUR 11,865,748) and purchases (EUR 16,356,350). Most of sales referred to services in connection with the port activity, whereby most of purchases to the purchase of land, followed by costs for railway transport and costs of insurance. As at 31 December 2016, Luka Koper, d.d. recorded receivables to these companies in the amount of EUR 1,972,455 and liabilities at EUR 27,600,731. The larger part of liabilities includes the loan by SID - Slovenska izvozna in razvojna banka, d.d., which was raised under market terms.

## Transactions with subsidiaries and associates

| (in EUR) | 1-12 2016 | 1-12 2015 |
|---|---|---|
| | | |
| **Sale to subsidiaries:** | | |
| Luka Koper INPO, d.o.o. | 315,229 | 1,262,738 |
| Luka Koper Pristan, d.o.o. | 110,220 | 108,285 |
| Adria Terminali, d.o.o. | 376,138 | 412,365 |
| TOC, d.o.o. | 4,200 | 4,200 |
| Adria Investicije, d.o.o. | 828 | 2,657 |
| Logis-Nova, d.o.o. | 1,200 | 1,200 |
| **Sale to associates:** | | |
| Adria Transport, d.o.o. | 226,787 | 213,242 |
| Adria-Tow, d.o.o. | 210,257 | 168,596 |
| Avtoservis, d.o.o. | 223,202 | 192,810 |
| Adriafin, d.o.o. | 13,440 | 13,440 |
| | | |
| **Total** | **1,481,501** | **2,379,533** |

All transactions with related parties were performed under market terms.

| (in EUR) | 1-12 2016 | 1-12 2015 |
|---|---|---|
| | | |
| **Purchase from subsidiaries:** | | |
| Luka Koper INPO, d.o.o. | 6,277,739 | 4,045,740 |
| Luka Koper Pristan, d.o.o. | 8,250 | 9,685 |
| Adria Terminali, d.o.o. | 0 | 0 |
| TOC, d.o.o. | 16,405 | 12,947 |
| Adria Investicije, d.o.o. | 39,936 | 39,936 |
| **Purchase from associates:** | | |
| Adria Transport, d.o.o. | 89,021 | 179,383 |
| Adria-Tow, d.o.o. | 23,025 | 29,194 |
| Avtoservis, d.o.o. | 1,107,051 | 840,973 |
| | | |
| **Total** | **7,561,427** | **5,157,858** |

The substantial part of purchases from subsidiaries refers to the company Luka Koper INPO, d.o.o., which carried out maintenance work on the port infrastructure and electrical installation work for the Company.

| (in EUR) | 31 Dec 2016 | 31 Dec 2015 |
|---|---|---|
| **Trade and other receivables due from subsidiaries:** | | |
| Luka Koper INPO, d.o.o. | 14,275 | 40,531 |
| Luka Koper Pristan, d.o.o. | 972 | 846 |
| Adria Terminali, d.o.o. | 34,667 | 34,406 |
| TOC, d.o.o. | 427 | 427 |
| Adria Investicije, d.o.o. | 84 | 0 |
| Logis-Nova, d.o.o. | 122 | 0 |
| **Trade and other receivables due from associates:** | | |
| Adria Transport, d.o.o. | 25,308 | 21,521 |
| Adria-Tow, d.o.o. | 6,734 | 9,663 |
| Avtoservis, d.o.o. | 11,034 | 11,213 |
| Adriafin, d.o.o. | 51,366 | 201,366 |
| **Total** | **144,989** | **319,973** |

| (in EUR) | 31 Dec 2016 | 31 Dec 2015 |
|---|---|---|
| | | |
| **Trade and other payables due from subsidiaries:** | | |
| Luka Koper INPO, d.o.o. | 581,702 | 811,580 |
| Luka Koper Pristan, d.o.o. | 63 | 230 |
| TOC, d.o.o. | 3,318 | 2,822 |
| Adria Investicije, d.o.o. | 1,733 | 0 |
| **Trade and other payables due from associates:** | | |
| Adria Transport, d.o.o. | 23,599 | 20,331 |
| Adria-Tow, d.o.o. | 0 | 1,653 |
| Avtoservis, d.o.o. | 121,510 | 77,580 |
| **Total** | **731,925** | **914,196** |

| (in EUR) | 31 Dec 2016 | 31 Dec 2015 |
|---|---|---|
| **Loans to subsidiaries:** | | |
| Adria Terminali, d.o.o. | 60,000 | 161,819 |
| **Total** | **60,000** | **161,819** |

| (in EUR) | 1-12 2016 | 1-12 2015 |
|---|---|---|
| **Finance income from loans to subsidiaries:** | | |
| Adria Terminali, d.o.o. | 839 | 3.211 |
| **Total** | **839** | **3.211** |

Finance income from shares and interests in associates relate to profit sharing in 2015 by Adria Transport, d.o.o. (EUR 500,000), Adria-Tow, d.o.o. (EUR 200,000) and Avtoservis, d.o.o. (EUR 217,101).

| (in EUR) | 31 Dec 2016 | 31 Dec 2015 |
|---|---|---|
| **Borrowings from subsidiaries:** | | |
| Luka Koper INPO, d.o.o. | 16,000,000 | 10,000,000 |
| Luka Koper Pristan, d.o.o. | 0 | 30,580 |
| **Borrowings from associates:** | | |
| Adria-Tow, d.o.o. | 0 | 500,000 |
| **Total** | **16,000,000** | **10,573,315** |

| (in EUR) | 1-12 2016 | 1-12 2015 |
|---|---|---|
| **Finance expenses for liabilities to subsidiaries:** | | |
| Luka Koper INPO, d.o.o. | 149,853 | 157,890 |
| Luka Koper Pristan, d.o.o. | 458 | 569 |
| **Finance expenses for liabilities to associates:** | | |
| Adria-Tow, d.o.o. | 4,228 | 7,895 |
| **Total** | **154,539** | **166,354** |

## Note 30. Financial instruments and financial risk management

The most significant financial risks to which Luka Koper, d.d. is exposed to, include:

1. risk of change in fair value,
2. interest rate risk,
3. liquidity risk,
4. currency risk,
5. credit risk, and
6. risk of adequate capital structure.

The management of financial risks has been organised within the parent Company's finance department. The specifics of the existing economic environment make forecasting future financial categories even more demanding and introduce into the plans a higher degree of unpredictability and, consequently, higher level of risk. The Company has consequently tightened the control over individual financial categories. Other, mainly non-financial risks are described in detail in the section Risk Management of the Business Report.

## 1. Risk management and change in fair value

As at 31 December 2016, the Company has invested 5.6 percent of its assets (2015: 6.8 percent) in investments measured at fair value. The fair value risk associated with these investments is demonstrated through changes in stock market prices that affect the value of these assets and, consequently the potential capital gain on their disposal. This type of risk was identified in association with investments in market securities of successful Slovenian companies. As at 31 December 2016, the value of current available-for-sale investments at fair value through equity amounted to EUR 26,410,036. This value comprises shares of Slovenian companies and units of mutual fund assets.

### Sensitivity analysis of investments at fair value

Risk of change in fair value of securities as at 31 December 2016

| Change of index (in %) | Impact on equity |
|---|---|
| -10% | -2,641,004 |
| 10% | 2,641,004 |

Risk of change in fair value of securities as at 31 December 2015

| Change of index (in %) | Impact on equity |
|---|---|
| -10% | -3,062,313 |
| 10% | 3,062,313 |

The sensitivity analysis of investments at fair value was based on the assumption of a 10 percent increase in the value of the index and accordingly such growth would result in an increase in the fair value of the market securities portfolio by EUR 2,641,004. A 10 percent decrease in the comparable class would have the opposite effect, reducing the fair value of these investments by that same amount.

If this case, the amount of the difference in fair value would be recognised as either an increase or decrease in other comprehensive income within equity.

### Fair value hierarchy in 2016

| (in EUR) | Note | Valuation at fair value | | | |
|---|---|---|---|---|---|
| | | Carrying amount at 31 Dec 2016 | Direct stock market quotation (Level 1) | Value defined on the basis of comparable market inputs (Level 2) | No observable market inputs (Level 3) |
| **Assets measured at fair value** | | | | | |
| Other non-current investments | 16 | 26,410,036 | 26,410,036 | 0 | 0 |
| | | | | | |
| **Liabilities measured at fair value** | | | | | |
| Interest rate hedging for borrowings | 25 | 419,873 | 0 | 419,873 | 0 |

### Fair value hierarchy in 2015

| (in EUR) | Note | Valuation at fair value | | | |
|---|---|---|---|---|---|
| | | Carrying amount at 31 Dec 2015 | Direct stock market quotation (Level 1) | Value defined on the basis of comparable market inputs (Level 2) | No observable market inputs (Level 3) |
| **Assets measured at fair value** | | | | | |
| Other non-current investments | 16 | 30,623,127 | 30,623,127 | 0 | 0 |
| | | | | | |
| **Liabilities measured at fair value** | | | | | |
| Interest rate hedging for borrowings | 25 | 1,037,501 | 0 | 1,037,501 | 0 |

Shares and interests measured at fair value were valued at publicly applicable exchange rates of the Ljubljana Stock Exchange and the list of quotations of mutual funds.

Fair value of the interest rate swap was calculated by the bank.

### 2. Management of interest rate risk

With respect to its liabilities structure, the Company faces also interest rate risk as an unexpected growth in variable interest rates can have an adverse effect on the planned results. By partial drawing of the newly approved borrowing, the Company increased in

2016 its financial liabilities by 3.64 percent if compared to the previous year, thus amounting to EUR 126,332,906 at the year-end of 2016.

The share of financial liabilities in the overall structure of liabilities decreased from 27.2% in 2015 to 26.7% in 2016. The effect of possible changes in variable interest rates on the Company's future operating results is presented in the table below.

In 2016, the first instrument of the two entered into in 2011 as interest rate hedging relating to two largest borrowings, has matured. Thus, the amount of borrowings hedged against interest rate amounted as at 31 December 2015 to EUR 62,142,857, while as at the year-end of 2016 this amount accordingly declined and was recorded at EUR 33,852,459 – as for the future period, solely the borrowing with its maturity in 2031 and interest rate hedge concluded in 2013, remains insured. Possible interest rate fluctuations would consequently have an impact on 60.4 percent (2015: 39.7 percent) of Company's total borrowings. The remaining 39.6 percent of borrowings is hedged against interest rate fluctuations or concluded with a fixed interest rate.

### Overview of exposure

| (in EUR) | 31 Dec 2016 | Exposure in 2016 | 31 Dec 2015 | Exposure in 2015 |
|---|---|---|---|---|
| Borrowings received at variable interest rate (without interest rate hedge) | 75,951,946 | 60.4% | 47,885,073 | 39.7% |
| Borrowings received at variable interest rate (with interest rate hedge) | 33,852,459 | 26.9% | 62,142,856 | 51.5% |
| Borrowings received at nominal interest rate | 16,000,000 | 12.7% | 10,530,580 | 8.7% |
| **Total** | **125,804,405** | **100.0%** | **120,558,509** | **100.0%** |

The interest rate hedging instrument is entered into for the period of five years and was during the hedging period fully compliant with the borrowing that is subject of the relevant hedge. The Company recognised possible changes to instrument's market values in the items of equity. The derivative interest rate swap is carried in the books of account under the principle of hedge accounting. As at 31 December 2016, the fair value of the derivative interest rate swap is recognised as the non-current liability in the amount of EUR 419,873.

Sensitivity analysis of borrowings from banks in view of the variable interest rate fluctuations:

| (in EUR) | Non-hedged bank borrowings under the variable interest rate at 31 Dec 2016 | Increase by 15 bp | Increase by 25 bp | Increase by 50 bp |
|---|---|---|---|---|
| 3M EURIBOR | 33,666,232 | 21,304 | 35,507 | 106,243 |
| 6M EURIBOR | 42,285,714 | 0 | 12,263 | 157,757 |
| **Total effect on interest expenses** | **75,951,946** | **21,304** | **47,770** | **264,000** |

| (in EUR) | Non-hedged bank borrowings under the variable interest rate at 31 Dec 2015 | Increase by 15 bp | Increase by 25 bp | Increase by 50 bp |
|---|---|---|---|---|
| 3M EURIBOR | 47,885,073 | 19,252 | 82,203 | 201,916 |
| **Total effect on interest expenses** | **47,885,073** | **19,252** | **82,203** | **201,916** |

The analysis of financial liabilities' sensitivity to changes in variable interest rates was based on the assumption of potential growth in interest rates of 15, 25 and 50 base points. Given the assumption that variable interest rates will grow by 15 base points, Company's interest expenses would in view of unchanged borrowing grow by EUR 21,304. If the variable interest rates are to grow by 25 or 50 base points, the interest expenses would increase by EUR 47,770 or by EUR 264,000 respectively. At the year-end of 2016, Company's borrowings subject to the movement of the 3M or 6M Euribor were not hedged against interest rate risk. One borrowing in the amount of EUR 33,852,459 was hedged with interest rate swap, hence it is not included in the loan sensitivity overview for 2016 above and is subject to the variable interest rate.

### 3. Management of liquidity risk

Liquidity risk is the risk that the Company will fail to settle its liabilities at maturity. The Company manages liquidity risk by regular planning of cash flows required to settle liabilities with diverse maturity. Additional measures for preventing delays in receivable collection include regular monitoring of payments and immediate response to any delays and charging penalty interest in accordance with the Company's uniform policy of receivable management.

| (in EUR) | Up to 3 months | 3 to 12 months | 1 to 2 years | 3 to 5 years | More than 5 years | Total |
|---|---|---|---|---|---|---|
| **31 Dec 2016** | | | | | | |
| Loans and borrowings* | 1,153,481 | 10,608,251 | 16,060,399 | 57,605,225 | 40,377,049 | 125,804,405 |
| Accrued interest maturing in the next calendar year | 59,034 | 0 | 0 | 0 | 0 | 59,034 |
| Expected interest on all borrowings | 302,951 | 1,251,870 | 1,400,845 | 2,640,300 | 1,118,250 | 6,714,216 |
| Other financial liabilities | 250,564 | | 419,873 | 0 | 0 | 670,437 |
| Payables to suppliers | 13,846,150 | 0 | 0 | 0 | 0 | 13,846,150 |
| Other operating liabilities | 4,125,116 | 0 | 0 | 0 | 0 | 4,125,116 |
| **Total** | **19,737,296** | **11,860,121** | **17,881,117** | **60,245,525** | **41,495,299** | **151,219,358** |
| **31 Dec 2015** | | | | | | |
| Loans and borrowings* | 579,710 | 9,474,394 | 11,761,732 | 41,213,399 | 57,529,274 | 120,558,509 |
| Accrued interest maturing in the next calendar year | 33,947 | 0 | 0 | 0 | 0 | 33,947 |
| Expected interest on all borrowings | 335,166 | 1,569,968 | 1,583,425 | 3,238,917 | 1,925,740 | 8,653,216 |
| Other financial liabilities | 450,527 | 397,546 | 0 | 639,954 | 0 | 1,488,027 |
| Payables to suppliers | 15,419,492 | 0 | 0 | 0 | 0 | 15,419,492 |
| Other operating liabilities | 3,980,352 | 0 | 0 | 0 | 0 | 3,980,352 |
| **Total** | **20,799,194** | **11,441,908** | **13,345,157** | **45,092,270** | **59,455,014** | **150,133,543** |

*The item includes also borrowings from subsidiaries and associates

### 4. Management of currency risk

The risk of changes in foreign exchange rates arises from trade receivables denominated in US dollars (USD). The average monthly balance of outstanding trade receivables amounted to USD 110 thousand at the end of 2016. As at 31 December 2016, outstanding receivables denominated in US dollars amounted to 0.72 percent (2015: 0.79 percent) of total outstanding trade receivables. According to the Company's estimates, the share of receivables denominated in US dollars was insignificant and for this reason, it was decided not to hedge this risk item.

### 5. Credit risk management

Management of the risk of default on the side of the counterparty or the credit risk has gained in importance in recent years. Customer defaults are being passed on to economic entities, much like a chain reaction, which significantly reduces the assessed probability of timely inflows and increases additional costs of financing the operation. Accordingly, the Company accelerated collection-related activities in the past five years and more consistently monitored trade receivables past due. In case of customers, where the Company detects late payments and inconsistency in observing adopted business agreements, an advance payment system is set up for all ordered services with the aim to avoid late-payment culture. The latter area is positively impacted by the specific structure of Company's customers, which are predominantly major companies, freight forwarders and forwarding agents that have been Company's business partners for a number of years.

Certain receivables have been secured with collaterals, which are returned to the customers once all obligations have been settled. Investments include loans, which are secured with blank bills of exchange and other movable and immovable property.

Assets exposed to credit risk:

| (in EUR) | Note | 31 Dec 2016 | 31 Dec 2015 |
|---|---|---|---|
| Non-current loans granted | | 31,005 | 400,419 |
| Non-current operating receivables | | 41,772 | 37,931 |
| Current loans granted | | 68,123 | 177,124 |
| Trade receivables | 19 | 27,579,155 | 26,765,150 |
| Other current receivables | 19 | 2,687,967 | 1,762,068 |
| Cash and cash equivalents | 20 | 983,305 | 5,188,569 |
| Securities and guarantees given | 28 | 8,795,468 | 8,712,284 |
| **Total** | | **40,186,795** | **43,043,545** |

## 6. Risk management relating to adequate capital structure

Equity is the most expensive source of financing, hence it is vital for the Company to successfully identify the optimal capital structure as equity is in its form the most expensive source of financing. As at the year-end of 2016, Company's financial liabilities amounted to EUR 126,332,908 and show an increase over the previous period by EUR 4,435,954.

| (in EUR) | 31 Dec 2016 | | 31 Dec 2015 | |
|---|---|---|---|---|
| | in EUR | Share (%) | in EUR | Share (%) |
| Equity | 304,425,948 | 64,4% | 282,847,477 | 63,1% |
| Non-current liabilities | 131,614,417 | 27,8% | 127,660,102 | 28,5% |
| Current liabilities | 36,891,768 | 7,8% | 37,975,640 | 8,5% |
| **Equity and liabilities** | **472,932,133** | **100,0%** | **448,483,219** | **100,0%** |

Company's non-current strategic goal is to maintain the debtor's share within the liabilities side below 40%. The decline in Company's financial liabilities is reflected in the equity's share within total equity and liabilities, which grew in 2016 by a good percentage point and as at 31 December 2016 amounted to 64.4 percent.

## Note 31. Transactions with the audit firm

The contractual value of audit services render for the Company by the company KPMG Slovenija, d.o.o. for the fiscal year 2016 amounted to EUR 29,000 (exclusive of VAT). The contractual value of providing assurance on financial statements for the commercial public service for the financial year 2016, which was for the Company carried out by KPMG Slovenija, d.o.o. amounted to EUR 2,000 (exclusive of VAT).

# 26 Statement of Accumulated Profit

In 2016, Luka Koper, d.d. generated a net profit of EUR 40,581,116. At the year-end of 2016, Company's Management Board earmarked half of the profit in the amount of EUR 20,290,558 to other revenue reserves in accord with Article 230, Paragraph 3 of the Companies Act. Thus, Company's accumulated profit in 2016 was recorded at EUR 20,321,603.

| (in EUR) | 31 Dec 2016 | 31 Dec 2015 |
|---|---|---|
| Profit for the period | 40,581,116 | 28,845,074 |
| Retained earnings | 31,045 | 1,458,277 |
| Increase in revenue reserves | -20,290,558 | -14,422,537 |
| **Total accumulated profit** | **20,321,603** | **15,880,814** |

The Company's dividend policy is maintaining the stakeholders' tendency towards dividend earnings and towards using the net profit for the period in order to finance investment projects. Taking into account the financial results achieved in 2016 and the Company's dividend policy, the appropriation of accumulated profit, which was EUR 20,321,603 as at 31 December 2016, as proposed by the Management and Supervisory Board is as follows:

- a portion in the amount of EUR 13,440,000 is to be used for dividend payout in the gross value of EUR 0.96 per ordinary share,
- the residual amount of accumulated profit of EUR 6,881,603 remain unallocated.

# 27 Events after the Reporting Date

Upon concluding the financial year, the Company recorded no significant events or transactions that would have an impact on its financial statements.

# 28 Independent Auditor's Report

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## Independent Auditor's Report[1]

## To the owners of Luka Koper d.d.

### *Opinion*

We have audited the separate financial statements of the Luka Koper d.d. ("the Company"), which comprise the separate statement of financial position as of 31 December 2016, the separate statement of profit or loss, separate statement of other comprehensive income, the separate statement of cash flows, and the separate statement of changes in equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements give true and fair view of the separate financial position of the Company as at 31 December 2016, and of its separate financial performance and its separate cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union ("IFRS as adopted by the EU").

### *Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibility for the Audit of separate Financial Statements* section of our report. We are independent of the Company in accordance with both the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the separate financial statements in Slovenia and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

### *Key Audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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| Revenue recognition | |
|---|---|
| *Revenue for the year ended 31 December 2016 amounted to EUR 190,407,498 (2015: EUR 173,277,749).*<br><br>*We refer to the separate financial statements Note 22.1 Basis for preparation of financial statements (revenue recognition judgments), 23.1.25 Revenue (accounting policy) and Note 24 Additional notes to separate statement of profit and loss note 1 Net revenue from sales (notes).* | |
| **Key audit matter** | **Our response** |
| The Company's core activities include transshipment of goods and rendering other accompanying and supporting services.<br><br>Revenue from these core services is generally recognized by reference to their stage of completion on the reporting date, calculated based on proportion of the service rendered.<br><br>Transshipment and other accompanying and supporting services are frequently contracted by the Company within a single customer arrangement.<br><br>While a contract may identify separate activities, reflecting its economic substance may require for them to be accounted for as an integrated package and one performance obligation. Conversely, for those arrangements which comprise components with stand-alone value to the customer and reliably measurable fair value, the transaction consideration may need to be allocated to separately identifiable components with different patterns of revenue recognition.<br><br>Accounting for such bundled arrangements requires significant management judgment in determining the appropriate measurement and timing of revenue, hence we considered this area to be a key audit matter. | Our audit procedures included, among others:<br>• Testing of the design, implementation and operating effectiveness of controls over the revenue cycle. This included using our own IT specialists in evaluating the controls in the IT systems that support the recording of revenue;<br>• Assessing the Company's policy for recognizing revenue, including considering whether the policy is in accordance with relevant financial reporting standards;<br>• Based on our inspection of a sample of contracts with key customers:<br>– challenging the Company's identification of identifiable components within the revenue contracts;<br>– critically assessing the Company's selection of revenue recognition patterns for identified revenue components by reference to the Company's accounting policies;<br>• Critically evaluating the Company's identification of the stage of completion of the services by inspecting of contracts and supporting documents, such as ship documentation, for all the ships berthed in the Luka Koper harbor in the end of December 2016;<br>• Inspecting manual journal entries posted to revenue accounts focusing on unusual and irregular items, or entries modified subsequent to the balance sheet date. |

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| Impairment of assets under construction | |
|---|---|
| *The carrying amount of assets under construction as at 31 December 2016: EUR 64,761,135 (2015: EUR 37,846,116) impairment loss recognized in 2016 in respect of assets under construction: EUR 140,000.*<br><br>*We refer to the separate financial statements Note 22.1 Basis for preparation of financial statements (impairment testing for Property, Plant and equipment), 23.1.2 Property, Plant and Equipment, 23.1.28 Impairment of assets (accounting policy), and to Note 24 Additional notes to separate statement of profit and loss, Note 7 Other expenses, Note 25 Additional notes to the separate statement of financial position and Note 11 Property, Plant and equipment (notes).* | |
| **Key audit matter** | **Our response** |
| As at 31 December 2016, the Company had significant assets under construction, mainly in respect of the port entrances and an office building (Barka II) projects.<br><br>The project of building port entrances was mothballed several years ago, with their resumption depending on resolution of the current uncertainty regarding the ownership of the land needed for the purpose of the entrances as well as local and state government's plans and related approvals. These uncertainties may affect the projects' timing of completion.<br><br>Barka II project was mothballed several years ago, with its resumption depending on the analysis of the management regarding the local needs for additional office space. In case of change of the size of the building, local government's plans and related approvals will need to be taken into consideration. These uncertainties may affect the projects' size as well as timing of completion.<br><br>The Company concluded that the above mentioned factors represented an indication that certain assets under construction may be impaired and performed impairment tests as required by relevant financial reporting standards.<br><br>Determining the recoverable amounts of assets requires a number of significant judgments and estimates, in particular in relation to ability of the Company to complete these projects. | Our audit procedures included, among others:<br>• Assessing and testing the Company's internal controls designed to identify impairment indicators;<br>• Evaluating the appropriateness of the Company's judgments regarding identification of assets under construction which may be impaired;<br>• Inspecting the minutes of the management and supervisory board of Luka Koper d.d. to identify any decisions with regards to the status of port entrance and Barka II projects;<br>• Analyzing publically available local and state spatial development plans for the area of Luka Koper to critically assess the possibility to complete investment in port entrances.<br>• Critically assessing the Company's assumptions and estimates used to determine the recoverable amounts of assets under construction and any impairment losses recognized, if any, using external valuation expert engaged by us. Our procedures included, among others:<br>- assessing the valuation technique used for valuation of Barka II,<br>- assessing the competence and independence of the external experts used by the Company,<br>- assessing the reasonableness of key assumptions used by the Company, such as discount rates. |

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### *Other Information*

Management is responsible for other information. The other information comprises the Introduction, Business Report and Sustainability report included in the Annual report, but does not include the separate financial statements and our auditor's report thereon.

In connection with our audit of the separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Business Report, we have considered whether the Business Report includes the disclosures required by the Company's Act (hereafter referred to as "the applicable legal requirements").

Based solely on the work required to be undertaken in the course of the audit of the separate / financial statements and the procedures above, in our opinion:

- the information given in the Business Report for the financial year for which the separate financial statements are prepared, is consistent with the separate financial statements; and
- the Business Report has been prepared in accordance with the applicable legal requirements.

In addition, in light of the knowledge and understanding of the Company and its environment in which it operates, obtained in the course of our audit, we are required to report if we have identified material misstatements in the Business Report and other information. We have nothing to report in this respect.

### *Responsibility of Management and Those Charged with Governance for the Separate Financial Statements*

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

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

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### *Auditor's Responsibility for the Audit of Separate Financial Statements*

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

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

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

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- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

On behalf of the auditing company

**KPMG SLOVENIJA,**
**podjetje za revidiranje, d.o.o.**

| | |
|---|---|
| Tomaž Mahnič, FCCA | Katarina Sitar Šuštar, MBA |
| *Certified auditor* | *Certified auditor* |
| | *Partner* |

Ljubljana, 17 March 2017

KPMG Slovenija, d.o.o.
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[i] The Independent Auditor's Report hereof is a translation of the original Independent Auditor's Report in Slovene, issued on the financial statements and the notes thereto in Slovene and is not to be signed. This translation is provided for reference purposes only.

# 29 Consolidated Financial Statements of the Luka Koper Group

## 29.1 Consolidated Income Statement

| (in EUR) | Note | 1-12 2016 | 1-12 2015 |
|---|---|---|---|
| Revenue | 1 | 199,543,696 | 184,273,472 |
| Capitalised own products and services | 2 | 1,400,175 | 8,247 |
| Other income | 3 | 3,145,245 | 4,906,217 |
| | | | |
| Costs of material | 4 | -15,541,573 | -15,067,925 |
| Cost of services | 5 | -50,280,131 | -45,829,483 |
| Employee benefits expense | 6 | -51,901,043 | -48,075,673 |
| Amortisation and depreciation expense | 7 | -26,468,688 | -27,514,749 |
| Other operating expenses | 8 | -10,572,243 | -10,279,603 |
| **Operating profit** | | **49,325,438** | **42,420,503** |
| | | | |
| Finance income | | 1,507,871 | 1,436,307 |
| Finance expenses | | -1,966,966 | -7,366,822 |
| **Profit or loss from financing activity** | | **-459,095** | **-5,930,515** |
| | | | |
| **Profit of associates** | | **1,897,614** | **1,328,228** |
| | | | |
| **Profit before tax** | **9** | **50,763,957** | **37,818,216** |
| | | | |
| Income tax expense | 10 | -7,538,193 | -5,641,987 |
| Deferred taxes | 10,17 | 1,150,217 | 238,494 |
| | | | |
| **Net profit for the period** | | **44,375,981** | **32,414,723** |
| **Net profit attributable to the parent /controlling company** | | **44,375,299** | **32,407,833** |
| **Net profit attributable to non-controlling interests** | | **682** | **6,890** |
| **Net earnings per share** | **11** | **3.17** | **2.31** |

## 29.2 Consolidated Statement of Other Comprehensive Income

| (in EUR) | Note | 1-12 2016 | 1-12 2015 |
|---|---|---|---|
| **Profit for the period** | | **44,375,981** | **32,414,723** |
| Actuarial gains/losses from post-employment benefits | 20 | 20,205 | -511,731 |
| Deferred taxes on actuarial gains or losses | 17 | 9,195 | 43,497 |
| Change in actuarial gains and losses in retained earnings or losses | | -38,410 | 19,330 |
| Items that will not be reclassified subsequently to profit or loss | | -9,010 | -448,904 |
| Change in revaluation surplus of available-for-sale financial assets | 16 | -3,812,866 | 959,078 |
| Deferred tax on revaluation of available-for-sale financial assets | 17 | 433,319 | -163,043 |
| Change in fair value of cash flow hedging instruments | 24 | 220,082 | 418,153 |
| Deferred tax on the change in fair value of cash flow hedging instruments | 17 | -29,016 | -71,086 |
| Effective portion of change in fair value of cash flow hedging instruments, transferred to profit or loss | 24 | 397,546 | 0 |
| Deferred tax on the effective portion of change in fair value of cash flow hedging instruments, transferred to profit or loss | 17 | -67,583 | 0 |
| Item that will be reclassified subsequently to profit or loss | | -2,858,518 | 1,143,102 |
| | | | |
| **Total comprehensive income for the period** | | **41,508,453** | **33,108,921** |
| **Total comprehensive income of owners of the company** | | **41,507,771** | **33,102,031** |
| **Total comprehensive income of non-controlling interests** | | **682** | **6.890** |

## 29.3 Consolidated Statement of Financial Position

| (in EUR) | Note | 31 Dec 2016 | 31 Dec 2015 |
|---|---|---|---|
| ASSETS | | | |
| | | | |
| Property, plant and equipment | 12 | 376,011,980 | 341,565,465 |
| Investment property | 13 | 18,575,530 | 18,749,424 |
| Intangible assets | 14 | 4,126,170 | 4,732,332 |
| Shares and interests in associates | 15 | 12,680,341 | 11,699,829 |
| Other non-current investments | 16 | 30,551,199 | 34,490,093 |
| Deposits and loans given | | 31,005 | 400,419 |
| Non-current operating receivables | | 41,772 | 37,931 |
| Deferred tax assets | 17 | 8,711,771 | 7,215,638 |
| **Non-current assets** | | **450,729,768** | **418,891,131** |
| Assets (disposal groups) held for sale | | 1,372 | 14,047 |
| Inventories | | 809,467 | 813,734 |
| Deposits and loans given | | 105,489 | 311,887 |
| Trade and other receivables | 18 | 32,518,465 | 31,908,819 |
| Cash and cash equivalents | 19 | 5,826,536 | 12,610,049 |
| **Current assets** | | **39,261,329** | **45,658,536** |
| | | | |
| **TOTAL ASSETS** | | **489,991,097** | **464,549,667** |
| | | | |
| EQUITY AND LIABILITIES | | | |
| | | | |
| Share capital | | 58,420,965 | 58,420,965 |
| Capital surplus (share premium) | | 89,562,703 | 89,562,703 |
| Revenue reserves | | 129,035,652 | 108,745,096 |
| Reserves arising from valuation at fair value | | 7,374,500 | 10,203,618 |
| Retained earnings | | 47,414,033 | 39,187,701 |
| **Equity of owners of the parent** | **20** | **331,807,853** | **306,120,083** |
| **Non-controlling interests** | | **171,068** | **170,386** |
| **Equity** | | **331,978,921** | **306,290,469** |
| Provisions | 21 | 4,781,422 | 3,690,601 |
| Deferred income | 22 | 14,764,838 | 13,785,360 |
| Non-current loans and borrowings | 23 | 97,900,739 | 100,354,822 |
| Other non-current financial liabilities | 24 | 419,873 | 639,954 |
| Non-current operating liabilities | 25 | 772,086 | 263,401 |
| **Non-current liabilities** | | **118,638,958** | **118,734,138** |
| Current loans and borrowings | 26 | 11,761,732 | 10,023,524 |
| Other current financial liabilities | 27 | 250,614 | 848,234 |
| Income tax liabilities | | 1,896,207 | 2,923,564 |
| Trade and other payables | 28 | 25,464,665 | 25,729,738 |
| **Current liabilities** | | **39,373,218** | **39,525,060** |
| **TOTAL EQUITY AND LIABILITIES** | | **489,991,097** | **464,549,667** |

## 29.4 Consolidated Statement of Cash Flows

| (in EUR) | 1-12 2016 | 1-12 2015 |
|---|---|---|
| **CASH FLOWS FROM OPERATNG ACTIVITIES** | | |
| **Profit for the period** | **44,375,981** | **32,414,723** |
| **Adjustments for:** | | |
| Amortisation/Depreciation | 26,468,688 | 27,514,749 |
| Reversal and impairment losses on property, plant and equipment, and intangible assets | 1,646,276 | 1,807,704 |
| Gain on sale of property, plant and equipment, and investment property | -30,822 | -112,875 |
| Allowances for receivables | 351,230 | 111,044 |
| Collected written-off receivables and liabilities | -232,105 | -286,317 |
| Reversal of provisions | -2,380 | -1,501,667 |
| Finance income | -1,507,871 | -1,436,307 |
| Finance expenses | 1,966,966 | 7,366,822 |
| Recognised result of subsidiaries under equity method | -1,897,614 | -1,328,228 |
| Income tax expense and income (expenses) from deferred taxes | 6,387,976 | 5,403,493 |
| **Profit before change in net current operating assets and taxes** | **77,526,325** | **69,953,141** |
| Change in operating receivables | -732,612 | -5,876,821 |
| Change in inventories | 4,267 | -349,777 |
| Change in assets (disposal group) held for sale | 12,675 | 225,396 |
| Change in operating liabilities | 243,612 | 7,660,183 |
| Change in provision | 1,113,406 | 296,945 |
| Change in non-current deferred income | 979,478 | 2,913,255 |
| **Cash generated in operating activities** | **79,147,151** | **74,822,322** |
| Interest expenses | -2,115,428 | -3,046,822 |
| Tax expenses | -8,565,550 | -5,064,815 |
| **Net cash from operating activities** | **68,466,173** | **66,710,685** |
| | | |
| **CASH FLOWS FROM INVESTMENT ACTIVITIES** | | |
| Interest received | 193,866 | 274,900 |
| Dividends received – associates | 917,101 | 475,000 |
| Dividends received – other companies | 1,314,005 | 1,161,407 |
| Proceeds from sale of property, plant and equipment, and intangible assets | 30,245 | 254,344 |
| Proceeds from investment property | 0 | 897 |
| Proceeds from sale, less investments and loans given | 699,207 | 4,286,554 |
| Acquisition of property, plant and equipment, and intangible assets | -61,781,064 | -37,402,753 |
| Acquisition of investments, increase in loans given | -97,367 | -11,931 |
| **Net cash used in investing activities** | **-58,724,007** | **-30,961,582** |
| | | |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from non-current borrowings | 9,300,000 | 0 |
| Repayment of non-current borrowings | 0 | -1,992,065 |
| Repayment of current borrowings | -10,023,524 | -13,927,780 |
| Dividends paid | -15,802,155 | -13,160,000 |
| **Net cash used in financing activities** | **-16,525,679** | **-29,079,845** |
| **Net increase in cash and cash equivalents** | **-6,783,513** | **6,669,258** |
| Opening balance of cash and cash equivalents | 12,610,049 | 5,940,791 |
| **Closing balance of cash and cash equivalents** | **5,826,536** | **12,610,049** |

## 29.5 Consolidated Statement of Changes in Equity

Financial year 2016

| (in EUR) | Share capital | Capital surplus | Legal reserves | Other revenue reserves | Retained earnings | Reserves arising on valuation at fair value: Investments | Reserves arising on valuation at fair value: Financial instruments | Reserves arising on valuation at fair value: Actuarial gains and losses | Total equity of holders of the parent company | Equity of non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at 31 December 2015** | **58,420,965** | **89,562,703** | **18,765,115** | **89,979,979** | **39,187,701** | **12,081,707** | **-861,126** | **-1,016,963** | **306,120,083** | **170,386** | **306,290,469** |
| **Changes of equity – transactions with owners** | | | | | | | | | | | |
| Dividends paid | 0 | 0 | 0 | 0 | -15,820,000 | 0 | 0 | 0 | -15,820,000 | 0 | -15,820,000 |
| | **0** | **0** | **0** | **0** | **-15,820,000** | **0** | **0** | **0** | **-15,820,000** | **0** | **-15,820,000** |
| **Total comprehensive income for the period** | | | | | | | | | | | |
| Profit for the period | 0 | 0 | 0 | 0 | 44,375,299 | 0 | 0 | 0 | 44,375,299 | 682 | 44,375,981 |
| Change in revaluation surplus of financial assets, less tax | 0 | 0 | 0 | 0 | 0 | -3,379,547 | 0 | 0 | -3,379,547 | 0 | -3,379,547 |
| Change in fair value of cash flow hedging instruments, less tax | 0 | 0 | 0 | 0 | 0 | 0 | 521,029 | 0 | 521,029 | 0 | 521,029 |
| Actuarial gains/losses, less taxes | 0 | 0 | 0 | 0 | -38,410 | 0 | 0 | 29,400 | -9,010 | 0 | -9,010 |
| | **0** | **0** | **0** | **0** | **44,336,889** | **-3,379,547** | **521,029** | **29,400** | **41,507,771** | **682** | **41,508,453** |
| **Changes within equity** | | | | | | | | | | | |
| Allocation of part of profit for the period to other equity components pursuant to resolution of the Management and Supervisory Board | 0 | 0 | 0 | 20,290,558 | -20,290,558 | 0 | 0 | 0 | 0 | 0 | 0 |
| | **0** | **0** | **0** | **20,290,558** | **-20,290,558** | **0** | **0** | **0** | **0** | **0** | **0** |
| **Balance as at 31 Dec 2016** | **58,420,965** | **89,562,703** | **18,765,115** | **110,270,537** | **47,414,033** | **8,702,160** | **-340,097** | **-987,563** | **331,807,853** | **171,068** | **331,978,921** |

## Financial year 2015

| (in EUR) | | | | | | Reserves arising on valuation at fair value | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Capital surplus | Legal reserves | Other revenue reserves | Retained earnings | Investments | Financial instruments | Actuarial gains and losses | Total equity of owners of the parent company | Equity of non-controlling interests | Total equity |
| **Balance at 31 December 2014** | **58,420,965** | **89,562,703** | **18,765,117** | **75,557,442** | **34,325,097** | **11,285,672** | **-1,208,193** | **-548,729** | **286,160,074** | **163,496** | **286,323,570** |
| **Changes of equity – transactions with owners** | | | | | | | | | | | |
| Dividends paid | 0 | 0 | 0 | 0 | -13,160,000 | 0 | 0 | 0 | -13,160,000 | 0 | -13,160,000 |
| Other changes in equity – correction of previous errors | 0 | 0 | 0 | 0 | 17,977 | 0 | 0 | 0 | 17,977 | 0 | 17,977 |
| | **0** | **0** | **0** | **0** | **-13,142,023** | **0** | **0** | **0** | **-13,142,023** | **0** | **-13,142,023** |
| **Total comprehensive income for the period** | 0 | | | | | | | | | | |
| Profit for the period | 0 | 0 | 0 | 0 | 32,407,833 | 0 | 0 | 0 | 32,407,833 | 6,890 | 32,414,723 |
| Change in revaluation surplus of financial assets, less tax | 0 | 0 | 0 | 0 | 0 | 796,035 | 0 | 0 | 796,035 | 0 | 796,035 |
| Change in fair value of cash flow hedging instruments, less tax | 0 | 0 | 0 | 0 | 0 | 0 | 347,067 | 0 | 347,067 | 0 | 347,067 |
| Actuarial gains/losses, less taxes | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -468,234 | -448,904 | 0 | -448,904 |
| | **0** | **0** | **0** | **0** | **32,407,833** | **796,035** | **347,067** | **-468,234** | **33,102,031** | **6,890** | **33,108,921** |
| **Changes within equity** | | | | | | | | | | | |
| Allocation of part of profit for the period to other equity components pursuant to resolution of the Management and Supervisory Board | 0 | 0 | 0 | 14,422,537 | -14,422,537 | 0 | 0 | 0 | 0 | 0 | 0 |
| | **0** | **0** | **0** | **14,422,537** | **-14,422,537** | **0** | **0** | **0** | **0** | **0** | **0** |
| **Balance at 31 December 2015** | **58,420,965** | **89,562,703** | **18,765,117** | **89,979,979** | **39,168,370** | **12,081,707** | **-861,126** | **-1,016,963** | **306,120,083** | **170,386** | **306,290,469** |

# 30 Composition of the Luka Koper Group

The consolidated financial statements of the Luka Koper Group for the year ended 31 December 2016 consist of the financial statements of the controlling company Luka Koper d.d., its subsidiaries, as well as attributable profits or losses of associates and jointly controlled entities.

Subsidiaries included in the consolidated financial statements:

- Luka Koper INPO, d.o.o. (100%)
- Adria Terminali, d.o.o. (100%)
- Luka Koper Pristan, d.o.o. (100%)
- TOC, d.o.o. (68.13%)

Associates included in the consolidated financial statements:

- Adria Transport, d.o.o. (50%)
- Adria-Tow, d.o.o. (50%)
- Adriafin, d.o.o. (50%)
- Avtoservis, d.o.o. (49%)

Companies excluded from the consolidated financial statements as at 31 December 2015:

- Logis Nova, d.o.o. (100%)
- Adria Investicije, d.o.o. (100%)
- Golf Istra, d.o.o. – in bankruptcy, 20% (compulsory settlement proceedings started as at 9 October 2014 and ended on 6 January 2017)

The companies Adria Investicije, d.o.o. and Logis Nova, d.o.o. were not included in the consolidated financial statements as they operate in a limited scope and are not considered significant for the fair presentation of the Group's financial position.

# 31 Notes to the Consolidated Financial Statements

## 31.1 Basis for preparation of financial statements

### Reporting entity

Luka Koper, d.d., pristaniški in logistični sistem (hereinafter referred to also as 'Company') with its registered office at Vojkovo nabrežje 38 in Koper, Slovenia, is the controlling company of the Luka Koper Group. Consolidated financial statements for the year ended 31 December 2016 refer to the Luka Koper Group, which contains the controlling company and its subsidiaries, jointly controlled entities and associates.

The port's core activity is the cargo handling and warehousing of all types of goods, which the Group supplements with diverse goods-related services and other services and thereby secures an overall logistics support. Given the concessions agreement, Luka Koper, d.d. maintains the port infrastructure and provides for the port's development.

### Statement of compliance

The consolidated financial statements of the Luka Koper Group have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the International Accounting Standards Board (IASB), and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and adopted by the European Union, and in accordance with provisions of the Slovenian Companies Act.

The Management Board of Luka Koper, d.d. approved the consolidated financial statements on 14 March 2017.

### Basis of measurement

The financial statements have been prepared on the historical cost basis, except for derivatives and available-for-sale financial assets that were measured at fair value. Methods applied for fair value measurement are clarified within the note 'Fair value'.

### Functional and presentation currency

Consolidated financial statements are presented in EUR (exclusive of cents), which is the functional currency of the controlling company.

### Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs, requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates are formed with respect to experience and expectations in the accounting period. Formation of estimates and the related assumptions are disclosed in the notes to individual items.

Estimates, judgements and assumptions are reviewed on a regular basis. Actual results may differ from these estimates, hence estimates and underlying assumptions are reviewed and relevant adjustments formed on an ongoing basis. Changes in the accounting policies are recognised in the period, for which the estimates are modified or coming periods, which are impacted by the respective amendments.

**Estimates and judgements are used primarily with following accounting items:**

**Assessing the impairment of property, plant and equipment (Note 12 and 13 and policy 32.2.5)**

Existence of possible indication of impairment for property, plant and equipment is assessed based on IAS 36. As at each reporting date, the Group assesses whether there is any indication (significant technological changes, market changes, obsolescence or physical wear and tear of individual property, plant and equipment) of possible impairment. If such indication exists, is required to evaluate the recoverable value of the asset. Any asset is subject to impairment if its carrying amount exceeds its recoverable value. The recoverable value is higher among following items: its fair value less selling expenses or its value in use.

**Assessing the formation of provisions for legal disputes (Note 21 and 29 and policy 32.2.16)**

Provisions are recognised in the financial statements when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Contingent liabilities are not recognised as their exact amount could not be established or their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Managements of each company assess on a monthly basis contingent liabilities continually to determine whether an outflow of resource embodying economic benefits has become probable. If it becomes probable that an outflow of future economic benefits will be required, provisions for legal disputes are formed for the possible liability in the financial statements.

**Assessing the adequacy of useful lives of assets (Note 12 and 14 and policy 32.2.5 and 32.2.7)**

While assessing the useful lives of assets, the expected physical wear and economic and technical aging is taken into account. In this relation, the Group regularly verifies the useful lives with significant assets and in case of changed circumstances, Group changes the useful life and consequently revalued the cost of depreciation.

**Assessing the adequacy of revenue recognition (Note 1 and policy 32.2.25)**

Group discloses its revenue in accord with IAS 18. Revenue is classified as revenue on sales, other income and finance income. For the purpose of revenue recognition, the each company applies the method of percentage of work finality as at the date of statement of financial position i.e. cargo handling by volume and working hours performed, for warehousing and logistics by days and volume, for maintenance upon construction situations and hours performed, and overnight services by days and services rendered. The revenue is recognised under this method in the reporting period, in which the services were performed.

The Management of each company recognises revenue when it reasonably expects that it will lead to inflows, if they are not already realised during occurrence, and if its measurement can be reliably carried out.

### Impairment of financial instruments and non-financial assets

Information on significant estimates about uncertainty and critical judgment in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements, was applied in assessment of:

- the value of property, plant and equipment (Note 12),
- the value of investment property (Note 13),
- the valuation of investments in subsidiaries, associates and other companies (Notes 15 and 16), and
- the recognition of deferred tax assets (Note 17).

### Assessing the possibility of using receivables for deferred taxes (Note 17 and policy 32.2.23)

Based on the estimate that sufficient profit will be available in the future, the Group created deferred tax assets provided under following (Note 17):

- provisions for jubilee premiums and retirement benefits,
- financial instruments,
- impairment of investments,
- differences arising on revaluation of available-for-sale investments,
- impairment of receivables.

Deferred tax assets recognised, under the formation of provisions for jubilee premiums and retirement benefits, are reduced by the relevant amounts of provisions utilised or increased by the amounts of newly formed provisions.

Deferred tax assets were recognised in the relevant amount of impairment loss on investments and receivables as impairment losses are not recognised as tax expenditure until the investments' derecognition. Deferred tax assets will be capitalised on sale or disposal of the investment or financial instrument as well as on final write-off of receivables.

The tax rate applied for calculating deductible temporary differences is 19 percent, which is also the general tax rate for corporate income tax since 1 January 2017.

Deferred tax liabilities are recognised for temporary differences arising on revaluation of available-for-sale financial assets (at fair value through profit or loss) to a higher value, whereas on revaluation of available-for-sale financial assets to a lower value, deferred tax assets are recognised.

At the reporting date, the amount of deferred tax assets or liabilities is assessed. If there is not sufficient amount of available taxable profits recorded by the Group, the amount of deferred tax assets is reduced accordingly.

**Assessment of provisions formed for retirement benefits and jubilee premiums (Note 21 and policy 32.2.16)**

Within liabilities for certain post-employment and other benefits, the present value of retirement benefits and jubilee premiums is recorded. These were recognised on the basis of the actuarial calculations approved by the Management. The actuarial calculation is based on assumptions and estimates applicable while preparing the respective calculation, which may differ in coming periods due to actual assumptions, which will then apply. This relates mostly to defining the discount rate, estimate on staff fluctuation, mortality estimate and the estimate on wage increase. Liabilities for certain post-employment benefits are items sensitive to changes in said estimates due to complexity of the actuarial calculation and the non-current nature of the item.

***Estimate of fair value and efficiency of financial instruments (Note 24 and 31)***

Interest rate swaps used as derivatives are measured on a monthly basis at fair (or market) value. The fair or market value of the instrument is calculated by the bank via which the Group entered into the hedging instrument and represents the value at which could dispose the instrument prior to its maturity. The change in fair (or market) value of the instrument is recognised through equity items, as the derivative is within the hedge accounting earmarked exclusively to hedge the selected borrowing against the rate of interest rate increase.

In addition, the Group assesses on an annual basis at the end of the reporting period the effectiveness or efficiency of the hedge against interest rate risk, each time when key elements of hedge and compliance of the instrument are checked with the selected borrowing that is subject of the respective hedging.

# 32 Summary of Significant Accounting Policies and Disclosures

## 32.1 Introduction

The accounting policies detailed below were consistently applied in all the periods presented in the consolidated financial statements.

Luka Koper Group companies apply uniform accounting policies that were changed and adjusted to Group's policies where necessary.

## 32.2 Basis for consolidation and accounting policies applied

### 32.2.1 Subsidiaries

Subsidiaries are entities controlled by the parent or controlling company. Control exists when the controlling company has the ability to make decisions on the company's financial and business policies in order to obtain benefits from its operations. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

### 32.2.2 Associates

Associates are those entities in which the Group has significant influence but not control over the financial and operating policies. Investments in associates are initially recognised at cost and thereupon accounted for under the equity method. The consolidated financial statements of the Luka Koper Group comprise the company's share and profits and losses of jointly controlled entities, accounted for under the equity method, upon the adjustment of accounting policies from the date when significant influence begins until the date when it ends. If Group's share in the losses of associates exceeds their share, the book value of the Group's share is reduced to zero, whereas the share in further losses is no longer recognised.

### 32.2.3 Transactions eliminated on consolidation

Balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is evidence of impairment.

### 32.2.4 Foreign currency transactions

Transactions in foreign currency are translated into euro at the reference exchange rate of the European Central Bank prevailing at the transaction date. Monetary assets and liabilities expressed in foreign currency are translated at the reference exchange rate of the ECB at the date of the statement of financial position. All differences resulting from foreign currency translation are recognised in the income statement.

### 32.2.5 Property, plant and equipment

The items of property, plant and equipment are carried at cost. Under the cost model, an item of property, plant and equipment is carried at its cost less accumulated depreciation and accumulated impairment losses. The manner and methods used in the valuation of assets due to impairment are described in the section 'Impairment of property, plant and equipment'. The cost of an item of property, plant and equipment is equal to the monetary price on the date of the asset's recognition.

In addition to property, plant and equipment being acquired, the item of assets being acquired includes also advances for acquiring property, plant and equipment.

Parts of property, plant and equipment, which have different useful lives, are accounted for as individual assets, which are depreciated within the estimated useful life.

Land is accounted for separately and is not subject to depreciation.

#### Borrowing costs

The purchase cost of property, plant and equipment can include also the borrowing costs pursuant to IAS 23 if they can be directly written up to the purchase, construction or the production of the asset in course of construction. If assets are borrowed not intentionally and cannot be written up directly to the purchase of the asset in course of construction, the Group capitalises the proportionate share of costs calculated on the basis of the weighted annual interest rate by taking into account the interest rate hedging but solely for significant investments (with value exceeding EUR 1 million and its construction period longer than 1 year). Investments that last over years but in the reporting period record no inputs (halted investments) are excluded from the method of capitalising interest.

Borrowing costs are capitalised until the asset is in course of construction. When the asset is transferred to use, the borrowing costs are no longer capitalised. The amount of borrowing costs capitalised in the period must not exceed the borrowing costs, which arise in the same period.

#### Subsequent expenditure

Subsequent expenditure incurred to replace a component of an item of property, plant and equipment increases its cost. The replaced component is no longer subject to recognition. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is expensed when incurred.

### Depreciation

Depreciation charge is recognised in an individual period in profit or loss. An asset is subject to depreciation when it is made available for its use. The items of property, plant and equipment are depreciated under the straight-line depreciation method, considering the assessed economic life of an individual asset. The depreciation method used is reassessed at the end of each financial year. As a rule, the residual value of an asset is considered only for significant items of property, plant and equipment as is their cost of disposal. Land, assets being acquired, non-current assets classified to disposal groups (held for sale) and works of art are not depreciated. Useful lives applied with property, plant and equipment are as follows:

| Assets | 2016 | 2015 |
|---|---|---|
| | | |
| Buildings | 16.67 to 66.67 years | 16.67 to 66.67 years |
| Transport and transhipment equipment | 5 to 17.86 years | 5 to 17.86 years |
| - locomotives | 6.67 to 10 years | 6.67 to 10 years |
| - forklifts, shippers | 8 years | 8 years |
| Computer hardware | 4 to 5 years | 4 to 5 years |
| Other equipment | 4 to 10 years | 4 to 10 years |

### Derecognition

The carrying amount of an individual item of property, plant and equipment is derecognised upon its disposal or when no future economic benefits are expected from the asset's use or disposal. Any profit or losses resulting from disposal of individual item of property, plant and equipment is determined as the differences between the revenue from disposal and the carrying amount and are included in profit or loss.

### 32.2.6 Investment property

Investment properties are held to bring rent and/or appreciate in their value. Investment property is measured under the cost model. Depreciation is accounted for under the straight-line depreciation method over the estimated useful life of an individual asset. Land is not depreciated. Facilities under lease are divided into individual parts according to their estimated useful lives. Following depreciation rates are in average used for investment property:

| Investment property | 2016 | 2015 |
|---|---|---|
| Buildings | 16.67 to 66.67 years | 16.67 to 66.67 years |

### 32.2.7 Intangible assets

Initially, intangible assets are recognised at cost. Subsequent to initial recognition, they are recognised at their cost reduced by accumulated amortisation and accumulated impairment losses.

#### Amortisation

Amortisation begins when an asset is ready for its use, i.e. when the asset is on the location and in the condition necessary for it to operate as intended.

The carrying amount of an item of intangible assets with final useful life is reduced using the straight-line amortisation method over the period of its useful life. All items of intangible assets have finite useful lives.

The period and method of amortisation of an intangible asset with finite useful life are reassessed at least at the end of each financial year. When expected useful life of an intangible asset differs from previous assessments, its amortisation rate is adjusted accordingly.

The useful life of an item of intangible assets that arises from contractual or other legal rights does not exceed the period of these contractual rights or legal rights, however, it may be shorter, depending on the period during which the asset is expected to be used. Assessed useful life of other items of intangible assets is 10 years (amortisation rates used are presented below).

| Intangible assets | 2016 | 2015 |
|---|---|---|
| Non-current property rights (concessions, patents, licences, trademarks and similar rights) | 5 to 10 years | 5 to 10 years |
| Costs of development | 10 years | 10 years |

### 32.2.8 Investments in associates and other companies

Investments in associates and other companies are measured at their cost. As at the date of the statement of financial statement, the Group assesses whether there is any indication that the investment is to be impaired. Any impairment of investment is disclosed in the income statement.

### 32.2.9 Financial instruments

Financial instruments are classified into following categories:

1. financial instruments at fair value through profit or loss,
2. financial investments held to maturity,
3. loans and receivables,
4. available-for-sale financial assets.

### 32.2.10 Loans and receivables

Loans and receivables are recognised on the settlement date and measured at amortised cost using the effective interest rate method.

#### Trade receivables

Non-current and current receivables are carried separately in books of account. Interest arising on stated receivables are recorded among off balance sheet items. Current and non-current trade receivables are upon recognition recognised at amounts agreed in the contracts or recorded in the relevant accounting documents. Other operating receivables include short-term deferred costs or expenses and accrued income.

#### Allowances for trade receivables

Allowances are created for all trade receivables and interest receivables individually and in their full amount. Allowances for receivables due from companies, which are in bankruptcy or liquidation procedure, are formed in the total amount (100 percent) immediately once such proceeding begins.

Impairment loss is charged against revaluation operating expenses associated with receivables.

#### Loans given

On initial recognition, loans are carried at their amortised cost using the effective interest rate method. In terms of their maturity, loans are classified on the settlement date into non-current or current financial assets. With a view of credit risk management, maturity of individual loans as well as the method of settlement and collateral is determined taking into consideration the credit rating of a borrower (e.g. bills of exchange, pledge of securities and other movable or immovable property, potential for unilateral netting of mutual liabilities, and similar collateral). In the event of the borrower failing to meet his contractual liabilities, collateral is liquidated or, if legal proceedings have been instituted, the investment is impaired.

#### Borrowings

On initial recognition, borrowings are carried at their fair value and thereupon at amortised cost using the effective interest rate method. Major amount of borrowings represent bank loans with repayment of principal when the loan contract matures. In terms of their maturity, borrowings are classified into non-current and current financial liabilities. On the last day of the year, all financial liabilities maturing in the next year are reclassified to current financial liabilities. Borrowings are insured with bills of exchange and certain loan covenants, whereby one borrowing is collateralised with assignment of receivables.

### 32.2.11 Available-for-sale financial assets

Available-for-sale financial assets comprise all of the investments in equity securities. On initial recognition they are measured at fair value, increased by the cost of transaction relating to the acquisition of individual financial assets. Fair value is considered market value based on the quotation value of securities or published daily value of a unit of a mutual fund's assets. Fair value changes are recognised in other comprehensive income within equity. Declining volume of securities is accounted for in books of account using the average prices method. When available-for-sale financial assets are derecognised, the accumulated gains or losses are transferred to the profit or loss. Additions and disposals of available-for sale financial assets are recognised on the trading date.

All other investments, for which no operating market exists and the fair value of which cannot be measured reliably, are measured at the cost.

### 32.2.12 Inventories

Inventories of material are valued at the lower of cost or net realisable value. An item of inventories of materials is initially recognised at cost, comprising its purchase price, import duties and other non-refundable purchase taxes, and directly attributable costs of acquisition. Non-refundable purchase taxes include also the non-refundable VAT. The cost is lower by discounts and rebates obtained. The weighted average price method is used for lowering the inventories of material. Small tools put in use are immediately transferred among costs. Inventories are not subject to revaluation due to impairment.

### 32.2.13 Cash

Cash comprises cash on hand and sight deposits, deposits redeemable at notice or deposits with maturities of up to three months.

### 32.2.14 Derivatives

The Group does not enter into derivative financial instruments for trading purposes. Derivative financial instruments are used to hedge the Group exposure to risks arising from financing and investing activities. Derivative financial instruments are recognised at fair value. The method of recognition of gains or losses arising from the change in fair value depends on the type of hedging and whether hedge accounting has been applied or not. The Group applies derivatives only for hedge accounting. When hedge accounting has been applied, gains or losses arising from the change in fair value are recognised by recognising the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge, in other comprehensive income. When the forecasted transaction results in the recognition of an asset or a liability, the associated cumulative gains or losses are removed from equity and entered into the initial measurement of the acquisition cost or other carrying amount of the asset or liability. The ineffective portion of the cash flow hedge is immediately recognised in profit or loss.

### 32.2.15 Equity

#### Share capital

The share capital of the controlling company Luka Koper, d.d. is divided into 14,000,000 ordinary, freely transferable, no par value shares.

#### Dividends

Dividends are recognised in the controlling company's financial statements once the decision on the distribution of dividends is adopted by the Shareholders' Meeting.

#### Authorised capital

As at 31 December 2016, the Group had no authorised capital.

### 32.2.16 Provisions

#### Provisions for legal disputes and damages

The Group formed provisions for disputes and damages related to alleged business offences. The amount of provisions and the need for their recognition is determined in consideration of the following criteria:

- whether present obligation (legal or constructive) exists as a result of past events,
- it is probable that an outflow of resources will be required to settle the obligation (legal dispute) – provision is recognised if the probability is high,
- a reliable estimate can be made of the amount of the obligation.

#### Provisions for retirement benefits and jubilee premiums

In accordance with statutory requirements and the collective agreement, the Group is obligated to pay jubilee premiums and termination benefits on retirement. These payments are measured using the method of accounting, which requires that an actuarial liability is assessed on the basis of the expected salary increase from the valuation date until the anticipated retirement of an employee. This means that benefits are accrued in proportion with the work performed. The assessed liability is recognised as the present value of expected future expenditure. Anticipated salary increase and employee turnover are also considered as part of the measurement.

Unrealised actuarial gains or losses of the current year from termination benefits are recognised in other comprehensive income under equity, whereas unrealised actuarial gains or losses based on the actuarial calculation of current employee benefits and interest are recognised in profit or loss. Current employee benefit costs and interest expense associated with jubilee premiums are recognised in profit or loss as actuarial gains or losses.

Calculation of provisions for jubilee premiums and retirement benefits is based on the actuarial calculation as of 31 December 2016 and data of 31 October 2016 (no major deviations), which took into account following assumptions:

- currently applicable amount of termination benefits upon retirement and jubilee premiums;
- mortality rate that is based on mortality tables from 2007 applicable for Slovenia and presented separately for men and women, decreased by 10 percent (active population). In total, the aforesaid shows as at 31 December 2016 a 0.3 percent decline in mortality for the next fiscal year (in terms of number of staff);
- staff fluctuation, which is declining on a straight-line basis from 1.0 percent at 15 years to 0.5 percent at 54 years, and thereupon remains constant at 0.5 percent. In total, the aforesaid indicates as at 31 December 2016 an annual fluctuation of 0.6 percent for the next year;
- for 2017 and 2018 rates of wage's average growth in the Republic of Slovenia taken from the Autumn forecast of economic development for 2016 (UMAR). The average wages in Slovenia are from 2019 onwards expected to increase with the 2 percent inflation and the actual growth by 0.5 percent. It is assumed, the amounts as set in the Decree on the levels of reimbursed work-related expenses and of certain income not to be included in the tax base (Official Journal of RS, no. 140/06 and 76/08) in 2017 and 2018 shall not increase, whereby an increase of these amounts is expected subsequently in accordance with the inflation;
- increase in basic salaries in the amount of the annual inflation, increased by 0.2 percent from 2021 onwards; the growth of the basic gross salaries is taken into account due to promotion i.e. 0.5 percent p.a. bonus for the overall years in services is taken into account at 0.5 percent of the basic salary for each fully employed year of total period of employment. In case of four individual contracts, the bonus for the overall years in service in not accounted. Accordingly, the Group's nominal growth rate of monthly wages would in view of the inflation and the actual growth be 1.4 percent in the next year, 1.5 percent in 2018, whereby in 2019 and 2020 the growth would be 2 percent, and 2.2 percent from 2021 onwards;

- the discount rate for the calculation as at 31 December 2016 is stipulated at 1.8 percent on the basis of the yield of Slovenia's government bonds announced as at 16 November 2016, and by interpolation with respect to the average weighted duration of Group commitments (13.7 years).

### 32.2.17 Non-current deferred income

Non-current accrued income are recognised if it will cover anticipated expenses in the period longer than one year.

The Group forms non-current deferred income for regular maintenance of port infrastructure. These are formed if costs of the public commercial services of regularly maintaining the port infrastructure are formed up to the amount that corresponds the amount of income from port duties. In case of surplus of costs over income arising on port duties, the non-current deferred income is eliminated up to the amount of surplus.

### 32.2.18 Subsidies

All types of subsidies are initially recognised in the statement of financial position as deferred income, when there is assurance that the Group will receive them and meet the related requirements. Subsidies received for covering costs are on an ongoing basis recognised in the income statement in periods, in which the relevant costs arise and which the subsidies are to replace.

### 32.2.19 Concession-related activity

In September 2008, Luka Koper, d.d. (controlling company) and the Government of the Republic of Slovenia have within the Decree on the administration of the freight port of Koper, port operations, and on granting concession for the administration, management, development and regular maintenance of its infrastructure, settled the relations in this port by means of a Concession Agreement in compliance with the Maritime Code, and defined the concession relationship for the period of 35 years from the date of the Agreement's conclusion.

Pursuant to provisions of the Concession Agreement, the concession operator is required to keep its books of account in a way that provides for separate financial monitoring of the activity, which is carried out on the basis of exclusive rights granted.

In its books of account, the controlling company keeps separate records of income from port duties in an individual year and costs of performing concessions activities. Possible income surplus generated through port duties over maintenance costs relating to port infrastructure, is kept by the concession provider as short-term deferred income for costs of maintaining the port infrastructure in the coming years as required by Article 9.3. of the Concession Agreement. The accounting monitoring of the public commercial services is based on policies and principles of cost accounting and criteria of separate bookkeeping that were customised and confirmed by the Ministry of Transport of the

Republic of Slovenia on 15 March 2011 and remained up to the balance sheet date unchanged. Regardless the reorganisation, the method of performing and recording the public commercial services that are earmarked for public transport has in the relevant period not changed.

In accordance with the Concession Agreement concluded with the Government of the Republic of Slovenia, and criteria approved by the latter, the controlling company Luka Koper, d.d. recognises non-current deferred income for ordinary maintenance of the port infrastructure to the amount equal to the surplus of the income from the port dues over the costs. In the event of a surplus of costs over income from port dues, the non-current deferred income is eliminated in the amount of surplus.

The controlling company as concession operator obtained from the Government of the Republic of Slovenia as concession provider the exclusive right for performing the port activity of cargo operation and maritime passenger transport in the area of the port, and the related exclusive right for port management, management of the port infrastructure that is earmarked for public transport, and (within the Article 44 of the Maritime Code) also the exclusive right to perform public commercial services of regular maintenance of the port infrastructure that is intended for public transport.

Furthermore, the controlling company keeps pursuant to Article 7.9.6. of the Concession Agreement also records on investments made in the port infrastructure for individual years. The controlling company is required to indicate investments in each individual year in an appendix to the annual report, which is to be examined and confirmed by a certified auditor.

In accordance with Article 10.1. of the Concession Agreement, the controlling company is obliged to pay the concession tax, which amounts to 3.5% of the annual revenue generated less port taxes collected in the relevant year. The basis for assessing the concession tax is established by means of the audited controlling company's income statement. The amount of the annual concession tax is during the year settled in form of monthly advance payments calculated not later than by 30 July on the basis of audited data for the previous calendar year port dues account for 4 percent of the parent company's operating income and are in terms of their content a constituent part thereof. The amount of port dues is defined by Luka Koper, d.d. in agreement with the government. The remainder of 96 percent of operating income is generated through rendering of services in connection with cargo handling and warehousing, whose fees and prices are formed on the basis of market regularities. The development and overhaul of the port infrastructure is carried out by the parent company in its own capacity and account. Upon the concession's expiry, the concession operator is entitled to the refund of unamortised part of investments. Given the above-mentioned provisions of the concession contract, the Group does not apply IFRIC 12.

### 32.2.20 Financial liabilities

On initial recognition, Group's borrowings are carried at fair value less attributable transaction costs. The difference between historical cost and amortised cost is reported in profit or loss over the loan repayment period, using the effective interest rate method.

### 32.2.21 Operating liabilities

Non-current operating liabilities include collaterals received for rented business premises. Trade liabilities and payables to the state and employees are shown separately. Other operating liabilities include short-term deferred income and short-term accrued expenses.

### 32.2.22 Income tax expense

Income tax is accounted for in compliance with provisions of the Corporate Income Tax Act. The basis for the income tax calculation is the gross profit increased by the amount of non-deductible expenditure and reduced by the amount of statutory tax relief. Such basis is used for accounting the corporate income tax liability. As for 2016 and the comparative 2015, income tax liability was calculated at the rate of 17 percent.

### 32.2.23 Deferred taxes

With a view of reporting the relevant profit or loss for the period, the Group also accounted for deferred tax. Deferred tax includes deferred tax assets and deferred tax liabilities. Deferred tax calculation is based on the liability method under the date of the statement of financial position, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences were divided into taxable and deductible. Taxable temporary differences resulted in an increase of the taxable amounts and deferred tax liabilities, whereas deductible temporary differences resulted in a decrease of taxable amounts and an increase in deferred tax assets.

Deferred tax assets are offset against deferred tax liabilities when an entity has a legal right to offset current assets and liabilities, and deferred tax assets and liabilities relate to the same taxable entity and the same tax authority.

### 32.2.24 Earnings per share

The basic and diluted earnings per share were calculated by dividing the net profit for the period with the weighted average number of ordinary shares.

### 32.2.25 Revenue

#### Operating income

#### Income from services rendered

Group's core activity is transhipment and warehousing of all types of goods, goods-related services and other accompanying services. The respective services are all carried out in Slovenia, for both local as well as foreign customers. Foreign customers come from European markets, which are considered as Group's most significant customers, as well as from Asia and America. Group's customers include the world's largest shipping companies, major international corporations, end-users of our services, and other major and smaller domestic and foreign companies that deem the port of Koper as the provider of the fastest and the most qualitative logistics service.

Operating income is recognised when it can be reasonably expected that it will result in receipts, unless these were already realised when revenue was generated, and their amount can be reliably measured.

Income from services rendered is recognised using the stage of completion method on the date of the statement of financial position. Under this method, income is recognised in the accounting period in which the services are rendered. The amount of each significant category of revenue recognised in the accounting period is disclosed, as well as revenue generated in connection with domestic and foreign customers.

#### Rental income

Rental income comprises primarily income from investment property i.e. income generated from facilities and land that are leased out under operating lease. Rental income is recognised within operating income.

#### Other income

Other operating income comprises revaluation operating income from the sale of property, plant and equipment, subsidies, donations, insurance proceeds and other income. Government grants and other subsidies primarily refer to funds received for activities within the European development projects that aim to increase the port's competitiveness, energy efficiency, environmental safety, and ensuring efficient port processes. Subsidies received for covering costs incurred are recognised strictly as income in the same periods in which the costs are incurred.

Income from utilising retained wage contributions are recognised in compliance with the Vocational Rehabilitation and Employment of Disabled Persons Act in the amount of eligibly used funds.

Other income is recognised when it can be justifiably expected that the related receipts will flow to the Group.

### 32.2.26 Finance income and finance expenses

Finance income comprises interest income from loans, default interest on late payment of services and receivables, dividend income, income from disposal of available-for-sale financial assets, and foreign exchange gains. Interest income is recognised when accrued using the effective interest rate method. Dividend income is recognised in profit or loss when a shareholder's right to payment is established.

Finance expenses comprise interest costs on borrowings, foreign exchange losses and impairment losses on financial assets recognised through profit or loss. Costs of borrowings and approval of these are recognised in the profit or loss over the entire maturity of the borrowings.

### 32.2.27 Costs and expenses

Costs as expenses are recognised in the accounting period in which they are incurred. They are classified according to their nature. Costs are carried and disclosed by types. Expenses are recognised when decrease in economic benefits in the accounting period results in a decrease of assets or increase in liabilities and this can be reliably measured.

### 32.2.28 Impairment of assets

#### Impairment of non-financial assets

If there is any indication that an asset may be impaired, the asset's recoverable amount is assessed in accordance with IAS 36. When the asset's recoverable amount cannot be assessed, the Group determines the recoverable amount of cash generating unit to which the asset belongs. Impairment loss is recognised in the income statement. Impairment losses should be reversed if the estimates used to determine the asset's recoverable amount have changed. Impairment loss is reversed to the extent that the increased carrying amount of the asset does not exceed its carrying amount that would have been determined net of depreciation, had no impairment loss been recognised in respect of the asset. The reversal of the impairment loss is recognised as revenue in profit or loss.

#### Impairment of financial assets

On each reporting date, financial assets are tested for impairment using criteria set out in the accounting manual in order to determine whether there is any objective evidence of financial asset's impairment. If such objective evidence exists, the Group calculates the amount of impairment loss.

When the Group determines that investments carried at amortised cost should be impaired, the amount of the loss is measured as the difference between the investment's carrying amount and the present value of expected future cash flows discounted at the original effective interest rate. The amount of impairment loss is recognised in profit or loss. When the reasons for impairment of an investment cease to exist, the reversal of the impairment of the investment carried at amortised cost is recognised in profit or loss.

When the Group determines that investments in subsidiaries, associates and other companies carried at cost should be impaired, the impairment loss is recognised in profit or loss as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows (or other assessed value) discounted at the current market rate of return for similar financial assets.

### 32.2.29 Statement of other comprehensive income

The statement of other comprehensive income outlines the net profit or loss for the period as well as other comprehensive income inclusive of items that will be reclassified to profit and loss at a future date and those that will never be reclassified to profit or loss in accordance with the provisions and requirements of other IFRSs.

### 32.2.30 Statement of cash flows

The Group's statement of cash flows is presented by applying the indirect method, on the basis of items reported in the statement of financial position as at 31 December 2016 and 31 December 2015, as well as items in the income statement for the financial year then ended, inclusive of any necessary adjustments of the cash flow.

### 32.2.31 Statement of changes in equity

The statement of changes in equity outlines changes in individual equity components during the financial year (total income and expenses, in addition to transactions with stakeholders that act as owners), inclusive of the net profit or loss distribution. The statement of comprehensive income is also included, which increases net profit of the accounting period by total revenue and expenses directly recognised in the equity.

### 32.2.32 Risk management

Group companies monitor and strive to manage risks at all levels of their business. In the assessment of risks, various risk factors are considered. Efficient risk management is ensured by timely identification and management of risks and by relevant guidelines and policies, which are laid down in documents of the overall management system.

The Group's operations are exposed to strategic, operational and financial risks, which largely depend on market laws and thereby require active monitoring. Procedures for risk identification are described in the business report's chapter Risk management. In addition to strategic and operational risks, the Group also encounters financial risks, of which the most significant ones include the risk of fair value changes, interest rate risk, liquidity risk, currency risk and credit risk, as well as the risk of adequate capital composition. How financial risks are identified and managed is disclosed in Note 35 'Financial instruments and financial risk management'.

### 32.2.33 Newly adopted standards and interpretations

The following new standards and interpretations are not yet effective for the annual period ended 31 December 2016 and have not been applied in preparing the financial statements hereunder:

#### IFRS 9 Financial instruments (2014)

Effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively with some exemptions. The restatement of prior periods is not required, and is permitted only if information is available without the use of hindsight. Early application is permitted.

This Standard replaces IAS 39, Financial Instruments: Recognition and Measurement, except that the IAS 39 exception for a fair value hedge of an interest rate exposure of a portfolio of financial assets or financial liabilities continues to apply, and entities have an accounting policy choice between applying the hedge accounting requirements of IFRS 9 or continuing to apply the existing hedge accounting requirements in IAS 39 for all hedge accounting.

Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL) – are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different.

A financial asset is measured at amortized cost if the following two conditions are met:

- the assets is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and,
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

In addition, for a non-trading equity instrument, a Group may elect to irrevocably present subsequent changes in fair value (including foreign exchange gains and losses) in OCI. These are not reclassified to profit or loss under any circumstances.

For debt instruments measured at FVOCI, interest revenue, expected credit losses and foreign exchange gains and losses are recognised in profit or loss in the same manner as for amortised cost assets. Other gains and losses are recognised in OCI and are reclassified to profit or loss on derecognition.

The impairment model in IFRS 9 replaces the 'incurred loss' model in IAS 39 with an expected credit loss' model, which means that a loss event will no longer need to occur before an impairment allowance is recognised.

IFRS 9 includes a new general hedge accounting model, which aligns hedge accounting more closely with risk management. The types of hedging relationships – fair value, cash flow and foreign operation net investment – remain unchanged, but additional judgment will be required.
The standard contains new requirements to achieve, continue and discontinue hedge accounting and allows additional exposures to be designated as hedged items.

Extensive additional disclosures regarding an entity's risk management and hedging activities are required

The Group does not expect the IFRS 9 to have a significant impact on financial statements when initially applied. The classification and measurement of financial instruments will not materially change while taking into account provisions of IFRS 9.

### IFRS 15 Revenue from contracts with customers

Effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted. This pronouncement is not yet endorsed by the EU.

The new Standard provides a framework that replaces existing revenue recognition guidance in IFRS. Entities will adopt a five-step model to determine when to recognise revenue, and at what amount. The new model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised:

- over time, in a manner that depicts the entity's performance; or
- at a point in time, when control of the goods or services is transferred to the customer.

IFRS 15 also establishes the principles that an entity shall apply to provide qualitative and quantitative disclosures which provide useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

Although the initial estimate of the IFRS 15's possible impact on the Group's financial statements is not fully completed, the Management assesses that the standard on the day of its first use shall not have a significant impact on its financial statements. The Group does not expect that the time and measurement of its revenue under IFRS 15 will not change due to its nature of business operations and type of revenue.

### Amendments to IAS 40 Investment property

Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively.

The amendments reinforce the principle for transfers into, or out of, investment property in IAS 40 Investment Property to specify that such a transfer should only be made when there has been a change in use of the property. Based on the amendments a transfer is made when and only when there is an actual change in use – i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer.

The Group does not expect that the amendments will have a material impact on the financial statements because it transfers a property asset to, or from, investment property only when there is an actual change in use of the real property.

### IFRS 16 Leases

Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the entity also applies IFRS 15 – Revenue from contracts with customers. This pronouncement is not yet endorsed by the EU.

IFRS 16 supersedes IAS 17 Leases and related interpretations. The Standard eliminates the current dual accounting model for lessees and instead requires Group to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases.

Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals.

The new Standard introduces a number of limited scope exceptions for lessees which include:

- leases with a lease term of 12 months or less and containing no purchase options, and
- leases where the underlying asset has a low value ('small-ticket' leases)

Accounting of leases by lessors does not significantly change. The lessee defines the lease either as an operating or a finance lease. The lease is classified as a finance lease if all significant risks and benefits relating to the asset's ownership are transferred. Otherwise, it is an operating lease.

It is expected that the amendment, when initially applied, will not have a significant impact on the financial statements.

### Amendments to IFRS 2: Share-based Payment: Classification and Measurement of Share-based Payment Transactions

Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively. Early application is permitted. This pronouncement is not yet endorsed by the EU.

The amendments clarify share-based payment accounting on the following areas:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity settled.

The Group expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements.

### Amendments to I AS 7

Effective for annual periods beginning on or after 1 January 2017, to be applied prospectively. Early application is permitted. This pronouncement is not yet endorsed by the EU.

The amendments require new disclosures that help users to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as the effect of foreign exchange gains or losses, changes arising for obtaining or losing control of subsidiaries, changes in fair value).

The Group expects that the amendments, when initially applied, will not have a material impact on the presentation of its the financial statements.

### IFRIC 22 Foreign Currency Transactions and Advance Consideration

Effective for annual periods beginning on or after 1 January 2018. This pronouncement is not yet endorsed by the EU.

The Interpretation clarifies how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. In such circumstances, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The Group does not expect that the Interpretation, when initially applied, will have material impact on its financial statements as it uses the exchange rate on the transaction date for the initial recognition of the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

### Amendments to IAS 12: Income Tax: Recognition of Deferred Tax Assets for Unrealised Losses

Effective for annual periods beginning on or after 1 January 2017; to be applied prospectively. Early application is permitted. This pronouncement is not yet endorsed by the EU.

The amendments clarify how and when to account for deferred tax assets in certain situations and clarify how future taxable income should be determined for the purposes of assessing the recognition of deferred tax assets.

The Group expects that the amendments, when initially applied, will not have a material impact on the presentation of its financial statements.

### Amendments to IFRS 10 – Consolidated Financial Statements and IAS 28 - Investments in Associates and Joint Ventures: Investments in Sale or contribution of assets between an investor and its associate or joint venture

The effective date has not yet been determined by the IASB, however earlier adoption is permitted.

The Amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that:

- a full gain or loss is recognised when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while
- a partial gain or loss is recognised when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

The Group does not expect that the amendments, when initially applied, will have material impact on the financial statements.

### Fair value

Fair value is used with available-for-sale financial assets and hedging instruments, whereas all other financial statement items are presented at cost or amortised cost.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 - valuation techniques for which the lowest level input is directly or indirectly observable.

Level 3 - valuation techniques for which the lowest level input is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the reporting period.

The fair value measurement hierarchy of the Group assets and liabilities is presented in Note 31.

### Segments

Luka Koper d.d. as the controlling company does not provide individual components of the port activity as individual services but solely in package of overall services of cargo handling within the closed area of Luka Koper; consequently, the Management does not monitor operations by individual components in terms of IFRS 8. The Group account for business segments i.e. separately for the port activity and other activities. The respective port activity comprises all related activities such as transhipment and warehousing of goods, goods-related services, managing the port area, logistics services, services related to the maritime activity, and maintenance of the port area. Other activities comprise hospitality services, the quality control activity, and the rear logistics activity.

| (in EUR) | Port activity 2016 | Port activity 2015 | Other 2016 | Other 2015 | Total 2016 | Total 2015 | Consolidation bookings 2016 | Consolidation bookings 2015 | Total Group 2016 | Total Group 2015 |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue from sales outside the Group | 198,156,553 | 181,286,067 | 2,787,318 | 2,987,405 | 200,943,871 | 184,273,472 | 0 | 0 | 200,943,871 | 184,273,472 |
| Revenue from inter-segment sales | 490,278 | 496,364 | 25,998 | 23,620 | 516,276 | 519,984 | -516,276 | -519,984 | 0 | 0 |
| Amortisation and depreciation expense | 25,864,669 | 26,792,242 | 604,019 | 722,507 | 26,468,688 | 27,514,749 | 0 | 0 | 26,468,688 | 27,514,749 |
| Operating profit or loss | 49,352,847 | 42,815,443 | -27,409 | -394,940 | 49,325,438 | 42,420,503 | 0 | 0 | 49,325,438 | 42,420,503 |
| Finance income | 1,508,661 | 1,439,061 | 507 | 1,027 | 1,509,168 | 1,440,088 | -1,297 | -3,781 | 1,507,871 | 1,436,307 |
| Finance expenses | -1,966,457 | -7,367,248 | -1,807 | -3,355 | -1,968,264 | -7,370,603 | 1,298 | 3,781 | -1,966,966 | -7,366,822 |
| Profit or loss from financing activities | -457,796 | -5,928,187 | -1,300 | -2,328 | -459,096 | -5,930,515 | 1 | 0 | -459,095 | -5,930,515 |
| Profits of associates under equity method | 0 | 0 | 0 | 0 | 0 | 0 | 1,897,614 | 1,328,228 | 1,897,614 | 1,328,228 |
| Income tax and deferred taxes | -6,347,452 | -5,405,350 | -40,524 | 1,857 | -6,387,976 | -5,403,493 | 0 | 0 | -6,387,976 | -5,403,493 |
| Profit or loss for the period | 42,547,599 | 31,481,906 | -69,233 | -395,411 | 42,478,366 | 31,086,495 | 1,897,615 | 1,328,228 | 44,375,981 | 32,414,723 |

| (in EUR) | Port activity 31 Dec 2016 | Port activity 31 Dec 2015 | Other 31 Dec 2016 | Other 31 Dec 2015 | Total 31 Dec 2016 | Total 31 Dec 2015 | Consolidation bookings 31 Dec 2016 | Consolidation bookings 31 Dec 2015 | Total Group 31 Dec 2016 | Total Group 31 Dec 2015 |
|---|---|---|---|---|---|---|---|---|---|---|
| Total assets | 476,511,434 | 454,827,170 | 13,644,594 | 17,249,162 | 490,156,028 | 472,076,332 | -99,525 | -5,084,887 | 490,056,503 | 466,991,445 |
| Whereof shares and interests in associates | 6,737,709 | 6,737,709 | 0 | 0 | 6,737,709 | 6,737,709 | 5,942,632 | 4,962,120 | 12,680,341 | 11,699,829 |
| Liabilities | 157,384,127 | 160,251,816 | 857,303 | 482,936 | 158,241,430 | 160,734,752 | -163,848 | -33,776 | 158,077,582 | 160,700,976 |

# 33 Additional Notes to the Consolidated Income Statement

## Note 1. Revenue

| (in EUR) | 1-12 2016 | 1-12 2015 |
|---|---|---|
| **Revenue generated on sales with domestic customers** | **64,781,952** | **58,821,259** |
| - services | 63,514,032 | 57,591,106 |
| - goods and material | 38,788 | 1,802 |
| - rentals | 1,229,132 | 1,228,351 |
| **Revenue generated on sales with foreign customers** | **134,761,744** | **125,452,213** |
| - services | 134,658,133 | 125,363,293 |
| - rentals | 103,611 | 88,920 |
| **Total** | **199,543,696** | **184,273,472** |

The item of total revenue comprises no individual customer that would exceed 10 percent of total sales.

## Note 2. Capitalised own products and own services

| (in EUR) | 1-12 2016 | 1-12 2015 |
|---|---|---|
| Capitalised own products and own services | 1,400,175 | 8,247 |
| **Total** | **1,400,175** | **8,247** |

The item of capitalised own products and own services include maintenance works on its own infrastructure, which are primarily carried out by its subsidiary Luka Koper INPO, d.o.o.

## Note 3. Other income

| (in EUR) | 1-12 2016 | 1-12 2015 |
|---|---|---|
| **Other operating income** | **2,233,046** | **3,920,038** |
| Reversal of provisions | 2,380 | 1,501,667 |
| Subsidies, grants and similar income | 1,967,739 | 2,019,179 |
| Revaluation operating income | **262,927** | **399,192** |
| Income on sale of property, plant and equipment and investment property | 30,822 | 112,875 |
| Collected written-off receivables and written-off liabilities | 232,105 | 286,317 |
| **Other income** | **912,199** | **986,179** |
| Compensations and damages | 408,916 | 465,624 |
| Subsidies and other income not related to services | 229,011 | 503,630 |
| Other income | 274,272 | 16,925 |
| **Total** | **3,145,245** | **4,906,217** |

The largest amount among other operating income represents subsidies, grants and similar income. The biggest share thereof refers to income on utilising assigned assets arising from retained contributions from the subsidiary Luka Koper Inpo, d.o.o. in the amount of EUR 1,911,464. The assets are used in compliance with the Vocational Rehabilitation and Employment of Disabled Persons Ac for covering 75% of wages for disabled persons and labour costs for staff which assists the disabled persons.

Subsidies and other income not related to services include accrued and accounted income from certified costs that occurred in connection with the European projects.

## Note 4. Cost of material

| (in EUR) | 1-12 2016 | 1-12 2015 |
|---|---|---|
| Cost of material | 1,510 | 1,439 |
| Cost of auxiliary material | 4,090,978 | 3,405,045 |
| Cost of spare parts | 4,606,615 | 4,582,749 |
| Cost of energy | 6,302,021 | 6,523,217 |
| Cost of office stationary | 137,646 | 141,434 |
| Other cost of material | 402,803 | 414,041 |
| **Total** | **15,541,573** | **15,067,925** |

## Note 5. Cost of services

| (in EUR) | 1-12 2016 | 1-12 2015 |
|---|---|---|
| Cost of services rendered in connection with the core activity | 25,186,641 | 21,853,774 |
| Cost of transportation | 234,510 | 233,830 |
| Cost of maintenance | 6,020,847 | 5,435,192 |
| Rentals | 938,197 | 979,298 |
| Reimbursement of labour-related costs | 400,950 | 376,383 |
| Costs of payment processing, bank charges and insurance premiums | 783,400 | 686,585 |
| Cost of intellectual and personal services | 778,612 | 822,363 |
| Advertising, trade fairs and hospitality | 1,163,259 | 1,225,432 |
| Costs of services provided by individuals not performing business activities | 319,408 | 282,498 |
| Cost of other services | | |
| Sewage and disposal services | 184,932 | 131,540 |
| Information support | 3,144,623 | 3,190,061 |
| Concession-related costs | 6,916,138 | 5,925,896 |
| Costs of other services | 4,208,614 | 4,686,631 |
| **Total** | **50,280,131** | **45,829,483** |

As in previous years, cost of services rendered in connection with the core activity account for the largest portion among cost of services. Providers of port services are subcontracted by the controlling company and render basic port activities such as goods-related services (e.g. sorting, sampling, preparing pallets, protection, labelling, weighting, cleaning, reloading ad other services), managing of port mechanisation and similar.

Concession-related expenses increased as a result of higher operating income.

All lease arrangements are revocable and the relevant future liabilities arising thereunder are insignificant.

## Note 6. Employee benefits expense

| (in EUR) | 1-12 2016 | 1-12 2015 |
|---|---|---|
| Wages and salaries | 34,225,557 | 31,229,804 |
| Wage compensations | 5,397,233 | 4,868,779 |
| Costs of additional pension insurance | 1,586,735 | 1,450,401 |
| Employer's contributions on employee benefits | 6,493,979 | 5,943,978 |
| Annual holiday pay, reimbursements and other costs | 4,197,539 | 4,582,711 |
| **Total** | **51,901,043** | **48,075,673** |

In December 2016, all employees employed in Luka Koper, d.d., Luka Koper INPO, d.o.o., Adria Terminali, d.o.o., and TOC, d.o.o., except for the members of the Management Board and staff with individual contracts of employment, received an additional average monthly salary (13th salary) for having reached the planned added value in 2016, while employees in the company Luka Koper Pristan, d.o.o. received a Christmas bonus.

Other benefits awarded to employees include the payment of voluntary pension insurance premium by the employer, which has been funding the pension scheme for the 15th consecutive year.

The annual holiday pay ranged between EUR 1,091 and EUR 1,100 per employee in 2016 (2015: EUR 791).

In 2016, no loans were granted to employees under individual contracts and to members of the Management or Supervisory Board. The Group records no receivables due from members of the Management and Supervisory Board.

### Average number of employees in the Group by education:

| Level of education | Headcount in 2016 | Headcount in 2015 |
|---|---|---|
| VIII/2 | 2 | 2 |
| VIII/1 | 22 | 20 |
| VII | 116 | 114 |
| VI/2 | 153 | 141 |
| VI/1 | 78 | 75 |
| V | 293 | 289 |
| IV | 284 | 269 |
| III | 23 | 21 |
| I–II | 100 | 114 |
| **Total** | **1,071** | **1,045** |

## Note 7. Amortisation and depreciation expense

| (in EUR) | 1-12 2016 | 1-12 2015 |
|---|---|---|
| Depreciation of buildings | 13,000,004 | 12,532,807 |
| Depreciation of equipment and spare parts | 12,564,211 | 14,126,482 |
| Depreciation of small tools | 24,073 | 26,627 |
| Depreciation of investment property | 193,594 | 192,211 |
| Amortisation of intangible assets | 686,806 | 636,622 |
| **Total** | **26,468,688** | **27,514,749** |

## Note 8. Other expenses

| (in EUR) | 1-12 2016 | 1-12 2015 |
|---|---|---|
| Provisions | 905,267 | 0 |
| Impairment costs, write-offs and losses on property, plant and equipment, and investment property | 1,646,276 | 1,907,963 |
| Expenses for allowances for receivables | 351,230 | 111,044 |
| Levies that are not contingent upon employee benefits expense and other types of cost | 6,723,177 | 6,302,973 |
| Donations | 133,011 | 155,760 |
| Environmental levies | 119,928 | 54,080 |
| Awards and scholarship to students inclusive of tax | 11,488 | 15,531 |
| Awards and scholarship to students | 6,002 | 8,260 |
| Other costs and expenses | 675,864 | 1,723,992 |
| **Total** | **10,572,243** | **10,279,603** |

The item of provisions hereunder includes the newly formed provisions for legal disputes in the amount of EUR 905,267, recorded by the parent company. Additionally created provisions are in detail outlined in Note 'Provisions'.

Impairment costs, write-offs and losses on property, plant and equipment, and investment property relate mostly to the controlling company i.e. write-off of assets being acquired (EUR 1,409,142) and impairment of assets being acquired under the Barka II investment (EUR 140,000).

Levies that are not contingent upon employee benefits expense and other type of costs, include primarily the charge for the use of construction land, which amounted in the reporting period to EUR 6,611,043.

## Note 9. Finance income and finance expenses

| (in EUR) | 1-12 2016 | 1-12 2015 |
|---|---|---|
| Finance income from shares and interests | | |
| Finance income from shares and interests in other companies | 1,314,005 | 1,161,407 |
| Finance income from loans | | |
| Finance income from loans to others | 17,992 | 77,715 |
| Finance income from operating receivables | | |
| Finance income from operating receivables due from others | 175,874 | 197,185 |
| **Total finance income** | **1,507,871** | **1,436,307** |
| Finance expenses for investments | -100,000 | -4,320,000 |
| Finance expenses for financial liabilities | | |
| Finance expenses for borrowings from associates | -4,228 | -7,895 |
| Finance expenses for borrowings from banks | -1,742,553 | -3,004,441 |
| Finance expenses for operating liabilities | | |
| Finance expenses for trade payables | -6 | -450 |
| Finance expenses for other operating liabilities | -120,179 | -34,036 |
| **Total finance expenses** | **-1,966,966** | **-7,366,822** |
| **Net financial result** | **-459,095** | **-5,930,515** |

Finance income from shares and interests in other entities refer to dividends paid under securities invested in the company Krka, d.d. and repayment of the share in the company Poteza Adriatic Fund Amsterdam, which started liquidation procedures.

Financial expenses arising on interest amounted in 2016 to EUR 1,742,553 and show a decline over the previous year due to lower effective interest rates and a portion of costs, which were according to the Group's policy capitalised to significant investments in preparation.

## Note 10. Taxes and effective tax rate

| (in EUR) | 1-12 2016 | 1-12 2015 |
|---|---|---|
| **Profit before tax** | **50,444,616** | **37,818,216** |
| **Income tax (17%)** | **8,575,585** | **6,429,097** |
| Non-taxable income and increase in expenditure | -55,799 | -543,436 |
| Non-taxable dividends received | -491,307 | -374,460 |
| Tax incentives | -955,271 | -1,035,543 |
| Expenses not recognised for tax purposes | 444,751 | 320,599 |
| Impairment loss not recognised for tax purposes | 7,500 | 631,996 |
| Other reduction in the tax basis | -25,074 | -43,496 |
| Other increase in the tax basis | 26,301 | 0 |
| Change in tax rate | -1,138,711 | 18,736 |
| **Total tax expense** | **6,387,976** | **5,403,493** |
| | | |
| **Effective tax rate** | **12.66%** | **14.29%** |

During the income tax calculation, all Group companies observed provisions of the Corporate Income Tax Act.

The total tax expense comprises the income tax and deferred taxes recognised in the income statement.

## Note 11. Net earnings per share

In 2016, the Group reported net profit in the amount of EUR 44,375,299 (2015: EUR 32,407,833), whereof EUR 44,375,299 is attributable to the owner of the parent company (2015: EUR 32,407,833) and EUR 682 to owners of non-controlling interests (2015: EUR 6,890). The non-controlling interest belongs to the co-owner of subsidiary TOC, d.o.o.

| (in EUR) | 31 Dec 2016 | 31 Dec 2015 |
|---|---|---|
| Net profit for the period of the owner of the parent company | 44,375,299 | 32,407,833 |
| Total number of shares | 14,000,000 | 14,000,000 |
| Number of ordinary shares | 14,000,000 | 14,000,000 |
| **Basic and diluted earnings per share** | **3.17** | **2.31** |

Net earnings per share were calculated by dividing the net operating profit with the weighted average number of ordinary shares in issue during the year.

Following the conversion of all preference shares, the Group's registered capital consists solely of ordinary shares. Accordingly, the diluted earnings per share equal the basic earnings per share.

# 34 Additional Notes to the Consolidated Statement of Financial Position

## Note 12. Property, plant and equipment

| (in EUR) | 31 Dec 2016 | 31 Dec 2015 |
|---|---|---|
| Land | 18,255,454 | 10,445,956 |
| Buildings | 237,646,358 | 233,620,036 |
| Plant and machinery | 55,330,933 | 59,652,478 |
| Property, plant and equipment being acquired and advances given | 64,779,235 | 37,846,995 |
| **Total** | **376,011,980** | **341,565,465** |

No items of Group's property, plant and equipment were pledged as collateral.

The cost of the property, plant and equipment in use, of which the carrying value as at 31 December 2016 equalled zero, is recorded at EUR 232,770,864 (2015: EUR 216,202,397).

As at 31 December 2016, the outstanding trade payables to suppliers of items of property, plant and equipment amounted to EUR 7,270,478 (2015: EUR 10,083,190).

The item of assets being acquired include advances given for acquiring property, plant and equipment. As at the reporting date, they were recorded at EUR 26,461,875 and refer to the largest projects.

In 2016, total investments amounted to EUR 61.681.564, whereof EUR 16,736,917 refers to advances. Group`s largest investments comprise:

- further construction of the three new reservoirs at the terminal for current cargo,
- purchase of land,
- infrastructure activities for the RMG over the railway,
- deepening the ship canal and the North part of the basin I within the aquarium,
- setting of transport and warehouse areas for the needs of container terminal,
- building for warehousing of and grain cargo handling,
- terminal towing vehicles,
- construction of the new truck bottler for Jet and D2 at the Pier II and
- further construction of the track 21 a, b, c and the bridge over the channel.

The Group regularly verifies whether there is indication of required impairment to be carried out with respect to the assets. An item of asset is subject to impairment in there are signs from internal and external sources of information on whether the asset is still useful, executable, technically obsolete or whether market circumstances essentially altered. If there is such indication, the recoverable value of the asset must be established and if necessary also impaired. In this way the Group checks in the reporting period assets being acquired and not activated for a longer period of time and following was established:

- Barka II – construction project – the Group performed an impairment testing for the assets and thus decided to impair the project to the appraiser's value;
- new entrances to Luka Koper – the Group established that no impairments are required as the entrances to the port and the vicinity are indispensable but the timetable to continue the projects depends on obtaining permits and consents.
- setting of areas at the Pier III – the Group decided to halt the project linked to setting of the area at the Pier III and consequently write-off the assets invested hitherto in the amount of EUR 1,354,291.

The amount of all write-offs of assets being acquired was in 2016 recorded at EUR 1,409,142, whereof the largest relates to the settling the area at Pier III. The set of impairments comprises the impaired assets being acquired in connection with the Barka II project in the amount of EUR 140,000 to the amount established through the valuation of a certified valuer of properties based on the cost method. Write-offs, impairments and eliminated assets are recognised among costs for impairment, write-offs and losses on sale of property, plant and equipment and investment property (Note 8).

## Movements in property, plant and equipment for 2016

| (in EUR) | Land | Buildings | Plant and equipment | Assets being acquired | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| **Balance at 31 Dec 2015** | **10,445,956** | **445,260,555** | **260,348,116** | **37,846,995** | **753,901,622** |
| | | | | | |
| Additions | 0 | 59,767 | 1,380,635 | 60,241,162 | 61,681,564 |
| Transfer from investments in progress | 7,809,498 | 17,041,529 | 6,842,017 | -31,604,400 | 88,644 |
| Disposals | 0 | -600,542 | -554,655 | -4,105 | -1,159,302 |
| Write-offs | 0 | 0 | 0 | -1,409,642 | -1,409,642 |
| Impairment | 0 | 0 | 0 | -140,000 | -140,000 |
| Adjustment with fair value | 0 | 0 | -218 | 0 | -218 |
| Transfer to intangible assets | 0 | 0 | 0 | -37,472 | -37,472 |
| Transfer from intangible assets | 0 | 0 | 56,329 | 0 | 56,329 |
| Transfer to investment properties | 0 | -117 | 0 | -113,303 | -113,420 |
| Transfer from investment properties | 0 | 5,779 | 0 | 0 | 5,779 |
| Reclassifications within property, plant and equipment | 0 | -45,923 | 45,923 | 0 | 0 |
| | | | | | |
| **Balance at 31 Dec 2016** | **18,255,454** | **461,721,048** | **268,118,147** | **64,779,235** | **812,873,884** |
| **Accumulated depreciation** | | | | | |
| **Balance at 31 Dec 2015** | **0** | **211,640,519** | **200,695,638** | **0** | **412,336,157** |
| | | | | | |
| Depreciation | 0 | 13,000,004 | 12,588,284 | 0 | 25,588,288 |
| Disposals | 0 | -520,876 | -542,350 | 0 | -1,063,226 |
| Write-offs | 0 | 0 | -19 | 0 | -19 |
| Transfer to investment property | 0 | -99 | 0 | 0 | -99 |
| Transfer from investment property | 0 | 802 | 0 | 0 | 802 |
| Reclassifications within property, plant and equipment | 0 | -45,660 | 45,661 | 0 | 1 |
| | | | | | |
| **Balance at 31 Dec 2016** | **0** | **224,074,690** | **212,787,214** | **0** | **436,861,904** |
| **Carrying amount** | | | | | |
| **Balance at 31 Dec 2015** | **10,445,956** | **233,620,036** | **59,652,478** | **37,846,995** | **341,565,465** |
| **Balance at 31 Dec 2016** | **18,255,454** | **237,646,358** | **55,330,933** | **64,779,235** | **376,011,980** |

## Movements in property, plant and equipment for 2015

| (in EUR) | Land | Buildings | Plant and equipment | Assets being acquired | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| **Balance at 31 Dec 2014** | **10,018,102** | **425,819,839** | **255,576,392** | **31,471,216** | **722,885,549** |
| | | | | | |
| Additions | 0 | 65,980 | 377,883 | 36,771,472 | 37,215,335 |
| Transfer from investments in progress | 0 | 19,571,353 | 9,034,625 | -28,605,978 | 0 |
| Disposals | 0 | -303,371 | -3,558,551 | 0 | -3,861,922 |
| Write-offs | 0 | 0 | -431,895 | -497,940 | -929,835 |
| Impairment | 0 | -279,581 | 0 | -1,147,080 | -1,426,661 |
| Transfer to intangible assets | 0 | 0 | 0 | -113,499 | -113,499 |
| Transfer to investment property | 0 | 0 | 0 | -31,196 | -31,196 |
| Transfer to assets (disposal groups) held for sale | 0 | 826,300 | 348,939 | 0 | 1,175,239 |
| Transfer from assets (disposal groups) held for sale | 0 | 0 | -1,011,388 | 0 | -1,011,388 |
| Reclassifications within property, plant and equipment | 427,854 | -439,965 | 12,111 | 0 | 0 |
| | | | | | |
| **Balance at 31 Dec 2015** | **10,445,956** | **445,260,555** | **260,348,116** | **37,846,995** | **753,901,622** |
| **Accumulated depreciation** | | | | | |
| **Balance at 31 Dec 2014** | **0** | **199,603,525** | **190,953,802** | **0** | **390,557,327** |
| | | | | | |
| Depreciation | 0 | 12,532,806 | 14,153,112 | 0 | 26,685,918 |
| Disposals | 0 | -275,606 | -3,440,277 | 0 | -3,715,883 |
| Write-offs | 0 | 0 | -330,158 | 0 | -330,158 |
| Impairment | | -223,204 | 0 | 0 | -223,204 |
| Transfer to assets (disposal groups) held for sale | 0 | 0 | -997,506 | 0 | -997,506 |
| Transfer from assets (disposal groups) held for sale | 0 | 10,724 | 348,939 | 0 | 359,663 |
| Reclassifications within property, plant and equipment | 0 | -7,726 | 7,726 | 0 | 0 |
| | | | | | |
| **Balance at 31 Dec 2015** | **0** | **211,640,519** | **200,695,638** | **0** | **412,336,157** |
| **Carrying amount** | | | | | |
| **Balance at 31 Dec 2014** | **10,018,102** | **226,216,314** | **64,622,590** | **31,471,216** | **332,328,222** |
| **Balance at 31 Dec 2015** | **10,445,956** | **233,620,036** | **59,652,478** | **37,846,995** | **341,565,465** |

## Note 13. Investment property

| (in EUR) | 31 Dec 2016 | 31 Dec 2015 |
|---|---|---|
| Investment property - land | 14,991,483 | 14,991,483 |
| Investment property - buildings | 3,584,047 | 3,757,941 |
| **Total** | **18,575,530** | **18,749,424** |

The item of investment property includes land and buildings leased out, and properties that increase the value of the non-current investment.

| (in EUR) | 1-12 2016 | 1-12 2015 |
|---|---|---|
| Rental income on investment property | 585,835 | 599,539 |
| Depreciation of investment property | 193,594 | 192,211 |

Investment properties are not pledged as collateral.

Fair value of investment property amounted as at 31 December 2016 to EUR 18,558,969.

## Movements in investment property in 2016

| (in EUR) | Land | Buildings | Total |
|---|---|---|---|
| **Cost** | | | |
| **Balance at 31 Dec 2015** | **14,991,483** | **5,501,692** | **20,493,175** |
| | | | |
| Transfer from investments in course of construction | 0 | 24,659 | 24,659 |
| Transfer from property, plant and equipment | 0 | -5,779 | -5,779 |
| Transfer to property, plant and equipment | 0 | 117 | 117 |
| | | | |
| **Balance at 31 Dec 2016** | **14,991,483** | **5,520,689** | **20,512,172** |
| **Accumulated depreciation** | | | |
| **Balance at 31 Dec 2015** | **0** | **1,743,751** | **1,743,751** |
| | 0 | | |
| Depreciation | 0 | 193,594 | 193,594 |
| Transfer from property, plant and equipment | 0 | -802 | -802 |
| Transfer to property, plant and equipment | 0 | 99 | 99 |
| | | | |
| **Balance at 31 Dec 2016** | **0** | **1,936,642** | **1,936,642** |
| **Carrying amount** | | | |
| **Balance at 31 Dec 2015** | **14,991,483** | **3,757,941** | **18,749,424** |
| **Balance at 31 Dec 2016** | **14,991,483** | **3,584,047** | **18,575,530** |

### Movements in investment property in 2015

| (in EUR) | Land | Buildings | Total |
|---|---|---|---|
| **Cost** | | | |
| Balance at 31 Dec 2014 | 14,670,199 | 4,930,809 | 19,601,008 |
| | | | |
| Disposals, write-offs | 0 | -2,689 | -2,689 |
| Transfer from property, plant and equipment | 0 | 31,196 | 31,196 |
| Transfer from assets (disposal groups) held for sale | 321,284 | 542,376 | 863,660 |
| | | | |
| **Balance at 31 Dec 2015** | **14,991,483** | **5,501,692** | **20,493,175** |
| **Accumulated depreciation** | | | |
| Balance at 31 Dec 2014 | 0 | 1,432,173 | 1,432,173 |
| | 0 | | |
| Depreciation | 0 | 192,210 | 192,210 |
| Disposals, write-offs | 0 | -1,792 | -1,792 |
| Transfer from assets (disposal groups) held for sale | 0 | 121,160 | 121,160 |
| | | | |
| **Balance at 31 Dec 2015** | **0** | **1,743,751** | **1,743,751** |
| **Carrying amount** | | | |
| **Balance at 31 Dec 2014** | **14,670,199** | **3,498,636** | **18,168,835** |
| **Balance at 31 Dec 2015** | **14,991,483** | **3,757,941** | **18,749,424** |

## Note 14. Intangible assets

| (in EUR) | 31 Dec 2016 | 31 Dec 2015 |
|---|---|---|
| Development costs | 234,447 | 273,522 |
| Non-current property rights (concessions, patents, licences, trademarks and similar rights) | 3,891,723 | 4,458,810 |
| **Total** | **4,126,170** | **4,732,332** |

The cost of intangible assets in use, whose carrying amount as at 31 December 2016 equalled zero, is recorded at EUR 6.834.934 compared to the 2015 balance when it was EUR 8,451,488.

Trade payables relating to intangible assets amounted to EUR 45,506 as at the end of 2016 (2015: EUR 11,543).

Intangible assets were not pledged as collateral in the reporting period.

Group's intangible assets include industrial property rights and other rights, as well as costs of development. Industrial property rights and other rights comprise computer software, information systems and development-related projects. Development costs in the amount of EUR 234,447 relate to the company TOC, d.o.o. in connection with the CAPSorb project (development of efficient ecological absorbents to control spills all types of hydrophilic and hydrophobic hazardous and non-hazardous substances on hard and on water surfaces).

## Movements in intangible assets in 2016

| (in EUR) | Development costs | Industrial property and other rights | Intangible assets being acquired | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| **Balance at 31 Dec 2015** | 390,746 | 14,846,010 | 306,030 | 15,542,786 |
| **Restatement** | | -1,591 | | **-1,591** |
| **Balance at 1 Jan 2015** | 390,746 | 14,844,419 | 306,030 | 15,541,195 |
| | | | | |
| Additions | 0 | 760 | 98,740 | 99,500 |
| Transfers from investments in course of construction | 0 | 191,318 | -191,318 | 0 |
| Disposals, write-offs | 0 | -1,620,422 | 0 | -1,620,422 |
| Transfer from property, plant and equipment | 0 | 37,473 | 0 | 37,473 |
| Transfer to property, plant and equipment | 0 | 0 | -56,329 | |
| | | | | |
| **Balance at 31 Dec 2016** | **390,746** | **13,453,548** | **157,123** | **14,057,746** |
| **Accumulated depreciation** | | | | |
| **Balance at 31 Dec 2015** | 117,224 | 10,693,230 | 0 | 10,810,454 |
| **Restatement** | | -1,591 | | |
| **Balance at 1 Jan 2015** | 117,224 | 10,691,639 | 0 | 10,810,454 |
| | | | | |
| Depreciation | 39,075 | 647,731 | 0 | 686,806 |
| Disposals, write-offs | 0 | -1,620,422 | 0 | -1,620,422 |
| | | | | |
| **Balance at 31 Dec 2016** | **156,299** | **9,718,948** | **0** | **9,876,838** |
| **Carrying amount** | | | | |
| **Balance at 31 Dec 2015** | **273,522** | **4,152,780** | **306,030** | **4,732,332** |
| **Balance at 1 Jan 2015** | **273,522** | **4,152,780** | **306,030** | **4,730,741** |
| **Balance at 31 Dec 2016** | **234,447** | **3,734,600** | **157,123** | **4,126,170** |

## Movements in intangible assets in 2015

| (in EUR) | Development costs | Industrial property and other rights | Intangible assets being acquired | Total |
|---|---|---|---|---|
| Cost | | | | |
| Balance at 31 Dec 2014 | 390,746 | 14,297,766 | 553,357 | 15,241,869 |
| | | | | |
| Additions | 0 | 0 | 187,418 | 187,418 |
| Transfers from investments in course of construction | 0 | 434,745 | -434,745 | 0 |
| Transfer from property, plant and equipment | 0 | 113,499 | 0 | 113,499 |
| | | | | |
| Balance at 31 Dec 2015 | 390,746 | 14,846,010 | 306,030 | 15,542,786 |
| Accumulated depreciation | | | | |
| Balance at 31 Dec 2014 | 78,150 | 10,095,682 | 0 | 10,173,832 |
| | | | | |
| Depreciation | 39,074 | 597,548 | 0 | 636,622 |
| | | | | |
| Balance at 31 Dec 2015 | 117,224 | 10,693,230 | 0 | 10,810,454 |
| Carrying amount | | | | |
| Balance at 31 Dec 2014 | 312,596 | 4,202,084 | 553,357 | 5,068,037 |
| Balance at 31 Dec 2015 | 273,522 | 4,152,780 | 306,030 | 4,732,332 |

## Note 15. Shares and interests in associates

| | | 31 Dec 2016 | 31 Dec 2015 |
|---|---|---|---|
| (in EUR) | Country | Equity interest | Equity interest |
| | | | |
| Associates: | | | |
| Adriafin, d.o.o. | Slovenia | 50.0 | 50.0 |
| Adria Transport, d.o.o. | Slovenia | 50.0 | 50.0 |
| Adria-Tow, d.o.o. | Slovenia | 50.0 | 50.0 |
| Avtoservis, d.o.o. | Slovenia | 49.0 | 49.0 |
| Golf Istra, d.o.o. | Slovenia | 20.0 | 20.0 |

Shares and interests in associates are not pledged as collateral.

### Movements of shares and interests in associates

| (in EUR) | 2016 | 2015 |
|---|---|---|
| Balance at 1 Jan | 11,699,829 | 10,846,601 |
| Increase | | |
| Attributable profits | 1,897,613 | 1,328,228 |
| Decrease | | |
| Dividends paid | -917,101 | -475,000 |
| Balance at 31 Dec | 12,680,341 | 11,699,829 |

Profits in the total amount of EUR 1,897,613 were generated in 2016 in connection with investments in associates and relating to Adria Transport, d.o.o. (EUR 644,680), to Adria-Tow, d.o.o. (EUR 691,718), to Adriafin, d.o.o. (EUR 106,521) and to Avtoservis, d.o.o. (EUR 454,695).

### Significant data on associates in 2016

| (in EUR) | Equity interest (in %) | Assets | Liabilities | Revenue | Profit or loss for the period | Profit or loss attributable to the Group | Payment of previous year's profit |
|---|---|---|---|---|---|---|---|
| Adria Transport, d.o.o. | 50.0 | 14,159,341 | 10,973,820 | 11,626,672 | 1,289,359 | 644,680 | 500,000 |
| Adria Tow, d. o .o. | 50.0 | 14,330,841 | 4,450,308 | 1,289,358 | 1,383,436 | 691,718 | 200,000 |
| Adriafin d.o.o. | 50.0 | 10,460,831 | 106,596 | 81,918 | 213,043 | 106,522 | 0 |
| Avtoservis, d.o.o. | 49.0 | 3,285,518 | 397,137 | 3,547,399 | 927,948 | 454,695 | 217,101 |

### Significant data on associates in 2015

| (in EUR) | Equity interest (in %) | Assets | Liabilities | Revenue | Profit or loss for the period | Profit or loss attributable to the Group | Payment of previous year's profit |
|---|---|---|---|---|---|---|---|
| Adria Transport, d.o.o. | 50.0 | 14,335,662 | 11,411,754 | 9,902,993 | 1,046,962 | 523,481 | 325,000 |
| Adria Tow, d.o.o. | 50.0 | 11,519,826 | 2,620,990 | 5,451,171 | 1,129,486 | 564,721 | 150,000 |
| Adriafin d.o.o. | 50.0 | 10,550,070 | 408,878 | 91,849 | -7,615 | -3,808 | 0 |
| Avtoservis, d.o.o. | 49.0 | 2,782,341 | 324,289 | 2457359 | 497,620 | 243,834 | 0 |

## Note 16. Other non-current investments

| (in EUR) | 31 Dec 2016 | 31 Dec 2015 |
|---|---|---|
| Other investments measured at cost | 3,414,602 | 3,540,629 |
| Other investments measured at fair value through equity | 27,136,597 | 30,949,464 |
| **Total** | **30,551,199** | **34,490,093** |

Other non-current investments comprise primarily investments in securities and equity interests. Investments in securities include investments in shares in Krka, d.d. and Intereuropa, d.d., whose value was EUR 25,267,418 as at the reporting date, and mutual funds, whose value was EUR 1,869,179 as at 31 December 2016.

Other investments measured at cost refer to investments in other companies, where its equity interest is less than 20%, and two companies that are fully (100%) owned by the controlling company and are not consolidated due to insignificance.

### Movements in other non-current investments

| (in EUR) | 2016 | 2015 |
|---|---|---|
| Balance at 1 Jan | 34,490,093 | 38,064,548 |
| | | |
| Increase | | |
| Revaluation to fair value through equity | 0 | 959,078 |
| Decrease | | |
| Payout | -26,028 | -213,533 |
| Impairment | -100,000 | -4,320,000 |
| Revaluation to fair value through equity | -3,812,866 | 0 |
| | | |
| **Balance at 31 Dec** | **30,551,199** | **34,490,093** |

Other non-current investments are not pledged as collateral.

## Note 17. Deferred tax assets and deferred tax liabilities

| | Receivables | | Liabilities | |
|---|---|---|---|---|
| (in EUR) | 31 Dec 2016 | 31 Dec 2015 | 31 Dec 2016 | 31 Dec 2015 |
| Deferred tax assets and liabilities relating to: | | | | |
| impairment of investments in associates | 183,535 | 15,725 | 0 | 0 |
| impairment of other investments and deductible temporary differences arising on securities | 9,355,596 | 8,478,190 | 2,041,247 | 2,441,777 |
| financial instruments | 79,776 | 176,375 | 0 | 0 |
| allowances for trade receivables | 253,315 | 217,713 | 0 | 0 |
| provisions for retirement benefits | 368,654 | 309,086 | 0 | 0 |
| provisions for jubilee premiums | 58,159 | 51,235 | 0 | 0 |
| non-current accrued costs and deferred income for public commercial services | 453,983 | 409,091 | 0 | 0 |
| **Total** | **10,753,018** | **9,657,415** | **2,041,247** | **2,441,777** |
| Off-set with deferred tax liabilities relating to impairment of other investments and deductible temporary differences arising on securities | -2,041,247 | -2,441,777 | -2,041,247 | -2,441,777 |
| **Total** | **8,711,771** | **7,215,638** | **0** | **0** |

As at the balance sheet date, the Group conducted an off-set of its deferred tax liabilities with receivables in the amount of EUR 2,041,247. For the purpose of ensuring data comparability, the Group concurrently performed an off-set in 2015 in the amount of EUR 2,441,777.

Deferred tax assets represent deductible temporary differences arising on securities, non-current investments, interest rate hedging, impairment of receivables, provisions for retirement benefits and jubilee premiums, and deferred income from public commercial services. Deferred taxes increase in 2016 the operating result (EUR 1,150,217), mostly due to the changed tax rate; the relevant increase is recorded at EUR 1,138,708.

## Movements in deferred tax assets and deferred tax liabilities in 2016

| (in EUR) | Receivables | | | | Liabilities | | |
|---|---|---|---|---|---|---|---|
| | Balance at 31 Dec 2015 | Recognised in the income statement | Recognised in the statement of other comprehensive income | Balance at 31 Dec 2016 | Balance at 31 Dec 2015 | Recognised in the statement of other comprehensive income | Balance at 31 Dec 2016 |
| Deferred tax assets and liabilities relating to: | | | | | | | |
| impairment of investments in associates | 15,725 | 1,850 | 0 | 17,575 | 0 | 0 | 0 |
| impairment of other investments and deductible temporary differences arising on securities | 8,459,251 | 1,008,348 | 32,788 | 9,500,387 | 2,432,357 | -400,531 | 2,031,826 |
| financial instruments | 176,375 | 0 | -96,599 | 79,776 | 0 | 0 | 0 |
| allowances for trade receivables | 227,232 | 37,830 | 0 | 265,062 | 0 | 0 | 0 |
| provisions for retirement benefits | 309,086 | 50,372 | 9,196 | 368,654 | 0 | 0 | 0 |
| provisions for jubilee premiums | 51,235 | 6,924 | 0 | 58,159 | 0 | 0 | 0 |
| non-current accrued costs and deferred income from public commercial services | 409,091 | 44,893 | 0 | 453,984 | 0 | 0 | 0 |
| | | | | | | | |
| **Total** | **9,647,995** | **1,150,217** | **-54,615** | **10,743,597** | **2,432,357** | **-400,531** | **2,031,826** |
| Off-set with deferred tax liabilities relating to impairment of other investments and deductible temporary differences arising on securities | -2,432,357 | 0 | 400,531 | -2,031,826 | -2,432,357 | 400,531 | -2,031,826 |
| **Deferred tax assets in the statement of financial position** | **7,215,638** | **1,150,217** | **345,916** | **8,711,771** | **0** | **0** | **0** |

## Movements in deferred tax assets and deferred tax liabilities in 2015

| (in EUR) | Receivables | | | | | Liabilities | | |
|---|---|---|---|---|---|---|---|---|
| | Balance at 31 Dec 2014 | Recognised in the income statement | Recognised in the statement of changes in equity | Recognised in the statement of other comprehensive income | Balance at 31 Dec 2015 | Balance at 31 Dec 2014 | Recognised in the statement of other comprehensive income | Balance at 31 Dec 2015 |
| Deferred tax assets and liabilities relating to: | | | | | | | | |
| impairment of investments in associates | 254,388 | -238,663 | 0 | 0 | 15,725 | 0 | 0 | 0 |
| impairment of other investments and deductible temporary differences arising on securities | 7,989,315 | 341,067 | 17,977 | 129,831 | 8,478,190 | 2,148,904 | 292,874 | 2,441,778 |
| financial instruments | 247,461 | 0 | 0 | -71,086 | 176,375 | 0 | 0 | 0 |
| allowances for trade receivables | 254,935 | -37,223 | 0 | 0 | 217,712 | 0 | 0 | 0 |
| provisions for retirement benefits | 105,000 | 160,591 | 0 | 43,496 | 309,087 | 0 | 0 | 0 |
| provisions for jubilee premiums | 38,513 | 12,722 | 0 | 0 | 51,235 | 0 | 0 | 0 |
| non-current accrued costs and deferred income from public commercial services | 409,092 | 0 | 0 | 0 | 409,092 | 0 | 0 | 0 |
| **Total** | **9,298,704** | **238,494** | **17,977** | **102,241** | **9,657,416** | **2,148,904** | **292,874** | **2,441,778** |
| Off-set with deferred tax liabilities relating to impairment of other investments and deductible temporary differences arising on securities | -2,148,904 | 0 | 0 | -292,874 | -2,441,778 | -2,148,904 | -292,874 | -2,441,778 |
| **Deferred tax assets in the statement of financial position** | **7,149,800** | **238,494** | **17,977** | **-190,633** | **7,215,638** | **0** | **0** | **0** |

## Note 18. Trade and other receivables

| (in EUR) | 31 Dec 2016 | 31 Dec 2015 |
|---|---|---|
| Current trade receivables: | | |
| domestic market | 17,691,462 | 17,787,919 |
| foreign markets | 10,837,721 | 10,484,805 |
| Current operating receivables due from associates | 44,443 | 43,763 |
| **Current trade receivables** | **28,573,626** | **28,316,487** |
| Current receivables due from dividends | 50,000 | 200,000 |
| Advances and collaterals given | 4,405 | 82,500 |
| Current receivables related to finance income | 17,114 | 17,240 |
| Receivables due from the state | 2,689,836 | 1,384,713 |
| Other current receivables | 145,938 | 207,386 |
| **Trade receivables** | **31,480,919** | **30,208,326** |
| Short-term deferred costs and expenses | 660,544 | 603,868 |
| Accrued income | 377,002 | 1,096,625 |
| **Other receivables** | **1,037,546** | **1,700,493** |
| **Total** | **32,518,465** | **31,908,819** |

With most trade receivables, the Group has an option to enforce a legal lien over the stored goods in its possession.

The Group checks its overdue receivables in accord with the accounting manual and regularly formed related allowances should it be established that repayment is not possible. Irrespective of maturity, the parent company formed allowances also for receivables due from customers that announced bankruptcy in 2016.

In 2016, the Group formed allowances for receivables in the amount of EUR 351,230 but simultaneously recorded collected written-off receivables amounting to EUR 229,777, and a final write-off in the amount of EUR 93,351.

At 31 December 2016, no receivables were due from members of the Management Board or the Supervisory Board.

For the purpose of collateralising a bank loan that as at 31 December 2016 amounted to EUR 4,100,000, the Group signed a contract on assigning receivables. As of the reporting date, these receivables amounted to EUR 258,734.

Other receivables include short-term accrued income in the amount of EUR 376,957, which refer to income arising on expenses for European development projects, co-financed by European institutions and short-term deferred costs in the amount of EUR 184,238 arising from cargo handling that is not fully completed.

Short-term deferred income in the amount of EUR 660,589 relate to deferred incoming invoices for insurance, rentals and other costs.

### Maturity of trade receivables and receivables relating to finance income:

| (in EUR) | 31 Dec 2016 | Allowances 2016 | 31 Dec 2015 | Allowances 2015 |
|---|---|---|---|---|
| Outstanding and undue trade receivables | 25,336,761 | -93,553 | 23,247,673 | 0 |
| Past due receivables: | | | | |
| up to 30 days | 2,316,539 | -1,572 | 3,949,482 | 0 |
| 31 to 60 days overdue | 630,352 | -5,274 | 909,348 | 0 |
| 61 to 90 days overdue | 96,716 | -3,456 | 77,834 | 0 |
| 91 to 180 days overdue | 251,024 | -2,176 | 122,904 | 0 |
| more than 180 days overdue | 2,339,198 | -2,273,819 | 2,378,450 | -2,351,964 |
| **Total** | **30,970,590** | **-2,379,850** | **30,685,691** | **-2,351,964** |

### Movements in allowances for receivables

| (in EUR) | 2016 | 2015 |
|---|---|---|
| Balance at 1 January | 2,351,964 | 2,554,087 |
| | | |
| Increase: | | |
| Formation of allowances | 351,014 | 111,044 |
| Decrease: | | |
| Collected receivables written off | -229,777 | -238,710 |
| Final write-off of receivables | -93,351 | -74,457 |
| | | |
| **Balance at 31 December** | **2,379,850** | **2,351,964** |

## Note 19. Cash and cash equivalents

| (in EUR) | 31 Dec 2016 | 31 Dec 2015 |
|---|---|---|
| Cash in hand | 10,477 | 7,606 |
| Bank balances | 2,836,059 | 573,190 |
| Current deposits | 2,980,000 | 12,029,253 |
| **Total** | **5,826,536** | **12,610,049** |

## Note 20. Equity

### Share capital

The share capital in the amount of EUR 58,420,965 consists of 14,000,000 ordinary no-par value shares of the controlling company Luka Koper, d.d. that are freely transferable. Nominal value of one share is EUR 4.17.

The ownerships structure, the movement of the share price and the dividend policy are in detail outlined in the business report of the Luka Koper Group within the section 'The LKPG share'.

### Capital surplus (share premium) and revenue reserves

The Group records legal reserves in the amount of 10% of share capital as required by the Companies Act (ZGD-1). Legal reserves and share premium are not included in the accumulated profit and are not subject to distribution. The Group has no statutory reserves, as they are not envisaged under the Articles of Association. Upon the proposal of the Management Board, the controlling company formed additional, other revenue reserves as at the year-end of 2016 in the amount of EUR 20,290,558 (half of the profit for the period) in compliance with Article 230, Paragraph 3 of the Companies Act.

| (in EUR) | 31 Dec 2016 | 31 Dec 2015 |
|---|---|---|
| Share premium | 89,562,703 | 89,562,703 |
| Legal reserves | 18,765,115 | 18,765,117 |
| Other revenue reserves | 110,270,537 | 89,979,979 |
| **Total** | **218,598,355** | **198,307,799** |

### Reserves arising from valuation at fair value

Reserves arising on valuation at fair value exemplify investments measured at fair value, which refer to valuation of hedging instruments' fair value, and arising on unrealised actuarial gains and losses that amounted to EUR 9,232,304 at the end of 2016. After deducting deferred taxes, they are recorded at EUR 7,374,500.

### Retained earnings

Retained earnings consist of the unappropriated portion of the net profit for the period, which as at 31 December 2016 amounted to EUR 24,084,741 and net profit brought forward that were recorded at EUR 23,329,292.

## Note 21. Provisions

| (in EUR) | 31 Dec 2016 | 31 Dec 2015 |
|---|---|---|
| Provisions for retirement benefits and jubilee premiums | 3,400,931 | 3,215,377 |
| Provisions for legal disputes | 1,380,491 | 475,224 |
| **Total** | **4,781,422** | **3,690,601** |

Larger part of the increase among provisions relates to legal disputes as they were formed in an additional amount for the purpose of labour legislation (EUR 702,077) and economic nature (EUR 203,190). Additionally formed provisions result from Management's assessment regarding the possibility of disputes' favourable outcome based on the current judgements by competent courts.

At the year-end of 2016, the Group discloses provisions for termination benefits and jubilee premiums in the amount of EUR 3,400,931, which were created on the basis of an actuarial calculation using the data as at 31 October 2016 (no material differences over the 31 December 2016 balance).

### Movements of provisions in 2016

| (in EUR) | Termination benefits | Jubilee premiums | Total post-employment benefits | Claims and damages | Total |
|---|---|---|---|---|---|
| Balance at 31 Dec 2015 | 2,577,425 | 592,563 | 3,215,377 | 475,224 | 3,690,601 |
| | | | | | |
| **Movement:** | | | | | |
| Formation | 282,421 | 88,781 | 371,202 | 905,267 | 1,276,469 |
| Use | -106,303 | -79,345 | -185,648 | 0 | -185,648 |
| | | | | | |
| **Balance at 31 Dec 2016** | **2,753,543** | **601,999** | **3,400,931** | **1,380,491** | **4,781,422** |

### Movements of provisions in 2015

| (in EUR) | Termination benefits | Jubilee premiums | Total post-employment benefits | Claims and damages | Total |
|---|---|---|---|---|---|
| Balance at 31 Dec 2014 | 1,245,691 | 462,460 | 1,708,151 | 2,675,441 | 4,383,592 |
| | | | | | |
| **Movement:** | | | | | |
| Formation | 1,458,803 | 212,350 | 1,671,153 | 0 | 1,671,153 |
| Use | -91,877 | -72,050 | -163,927 | -698,550 | -862,477 |
| Reversal | 0 | 0 | 0 | -1,501,667 | -1,501,667 |
| | | | | | |
| **Balance at 31 Dec 2015** | **2,612,617** | **602,760** | **3,215,377** | **475,224** | **3,690,601** |

## Note 22. Deferred income

| (in EUR) | 31 Dec 2016 | 31 Dec 2015 |
|---|---|---|
| Non-current deferred income for regular maintenance | 7,987,214 | 7,823,250 |
| Non-refundable grants received | 4,829,468 | 3,575,640 |
| Non-current deferred income | 1,948,156 | 2,386,470 |
| **Total** | **14,764,838** | **13,785,360** |

Non-current deferred income comprise income on regular maintenance since in compliance with the Concession Agreement, Luka Koper, d.d., has the right and obligation to collect port dues, which is income intended to cover the costs of performing commercial services. In connection with any annual surplus of revenue over costs, the Group forms deferred income for covering costs for public commercial services relating to regular maintenance of the port infrastructure in the coming years and vice versa, and utilises deferred income if the public commercial services of regular port infrastructure maintenance exceed the amount of revenue.

The largest amount among the item of non-refundable grants received relates to EU funds (EUR 4,347,505) and the purchase of plant and equipment that are utilised in accord with their useful life. The remainder refers to the non-current deferred income earmarked for covering costs arising in connection with the disabled staff (pursuant to the Vocational Rehabilitation and Employment of Disabled Persons Act).

Group's other non-current deferred income comprises non-current deferred income earmarked for covering costs of depreciating fixed assets earmarked for making work for disabled persons easier. The relevant assets were acquired from assigned contributions in compliance with the Vocational Rehabilitation and Employment of Disabled Persons Act.

### Movement of deferred income in 2016

| (in EUR) | Termination benefits | Jubilee premiums | Total post-employment benefits | Claims and damages | Total |
|---|---|---|---|---|---|
| Balance at 31 Dec 2015 | 2,577,425 | 592,563 | 3,215,377 | 475,224 | 3,690,601 |
| | | | | | |
| Movement: | | | | | |
| Formation | 282,478 | 88,781 | 371,202 | 905,267 | 1,276,469 |
| Use | -106,303 | -79,345 | -185,648 | 0 | -185,648 |
| | | | | | |
| **Balance at 31 Dec 2016** | **2,753,543** | **601,999** | **3,400,931** | **1,380,491** | **4,781,422** |

### Movement of deferred income in 2015

| (in EUR) | Non-current deferred income for regular maintenance | Non-refundable grants received | Other non-current deferred income | Total |
|---|---|---|---|---|
| Balance at 31 Dec 2014 | 6,279,210 | 1,708,014 | 2,872,279 | 10,859,503 |
| | | | | |
| **Movement:** | | | | |
| Formation | 1,544,040 | 3,493,007 | 0 | 5,037,047 |
| Transfer to other liabilities | 0 | -150,696 | 0 | -150,696 |
| Use | 0 | -1,462,083 | -485,809 | -1,947,892 |
| Reversal | 0 | -12,602 | 0 | -12602 |
| | | | | |
| **Balance at 31 Dec 2015** | **7,823,250** | **3,575,640** | **2,386,470** | **13,785,360** |

## Note 23. Non-current loans and borrowings

| (in EUR) | 31 Dec 2016 | 31 Dec 2015 |
|---|---|---|
| Non-current borrowings from domestic banks | 66,383,117 | 66,544,844 |
| Non-current borrowings from foreign banks | 31,517,622 | 33,809,978 |
| **Total** | **97,900,739** | **100,354,822** |

As at 31 December 2016, the Group recorded non-current borrowings from banks in the amount of EUR 97,900,739 or 2.4 percent and EUR 2,454,083 less than in the previous year. In 2016, the Group raised a new non-current borrowing in the amount of EUR 28 million, whereof solely EUR 9,300,000 were drawn as at 31 December 2016. All bank borrowings are subject to the variable interest rate. The largest borrowing is hedged against interest rate risk by means of an interest rate swap. As at 31 December 2016, the total amount of the hedged borrowing is recorded at EUR 33,852,459. Further details on the relevant interest rate hedging are provided in Note 31 Financial instruments and financial risk management, in the section 'Management of interest rate risk'.

All non-current loans are repaid according to a predetermined schedule. For some of the loans the Group was granted a moratorium on the payment of the principal. All liabilities from non-current borrowings from banks are collateralised with blank bills of exchange and financial covenants, whereby one borrowing by assignment of receivables. The Group complies with all financial covenants under the loan agreements.
The item of borrowings comprises also costs of loan approval, which reduce the balance of borrowings received. In this way, the Group ensures that the borrowings are managed by observing the effective interest rate principal, hence any expenses related to an individual borrowing are upon accrual deferred among non-current

liabilities and thereupon reversed on a monthly basis until the date of maturity. Accordingly, deferred costs referring to non-current liabilities for loans received amounted to EUR 141,935 as at 31 December 2016 (2015: EUR 149,583) and they reduce the actual balance of loan principals.

## Movement of non-current borrowings in 2016

| (in EUR) | Lender | |
|---|---|---|
| | Banks | Total |
| Balance at 31 Dec 2015 | 100,354,822 | 100,354,822 |
| | | |
| New borrowings | 9,300,000 | 9,300,000 |
| Deferred costs of approval | 7,648 | 7,648 |
| Transfer to current borrowings – portion that matures within 1 year | -11,761,731 | -11,761,731 |
| | | |
| **Balance at 31 Dec 2016** | **97,900,739** | **97,900,739** |

## Movement of non-current borrowings in 2015

| (in EUR) | Lender | | |
|---|---|---|---|
| | Associates | Banks | Total |
| Balance at 31 Dec 2014 | 500,000 | 109,821,422 | 110,321,422 |
| | | | |
| Transfer from current borrowings | 0 | 2,000,000 | 2,000,000 |
| Repayments | 0 | -1,992,065 | -1,992,065 |
| Deferred costs of approval | 0 | 48,989 | 48,989 |
| Transfer to current borrowings – portion that matures in 2016 | -500,000 | -9,523,524 | -10,023,524 |
| | | | |
| **Balance at 31 Dec 2015** | **0** | **100,354,822** | **100,354,822** |

## Loan principals (non-current and current borrowings) in 2016

| (in EUR) | Currency of loan | Interest rate | Date of maturity | Approved principal amount | Principal at 31 Dec 2016 |
|---|---|---|---|---|---|
| | | | | | |
| Loans B | EUR | Euribor3m + from 0.650 to 2.500 | from 30 Sep 2018 to 21 Jul 2031 | 123,000,000 | 67,518,691 |
| Loans C | EUR | Euribor6m + from 1.550 to 2.000 | from 14 Apr 2025 to 31 Dec 2025 | 50,000,000 | 42,285,714 |
| | | | | | |
| **Total** | | | | **173,000,000** | **109.804.405** |
| | | | | | |
| - whereof current portion | | | | | 11.761.732 |

### Loan principals (non-current and current borrowings) in 2015

| (in EUR) | Currency of loan | Interest rate | Date of maturity | Approved principal amount | Principal at 31 Dec 2015 |
|---|---|---|---|---|---|
| Loans A | EUR | 1,579 | 31 Dec 2016 | 1,500,000 | 500,000 |
| Loans B | EUR | Euribor3m + from 0.706 to 2.500 | from 30 Sep 2018 to 21 Jul 2031 | 95,000,000 | 62,885,072 |
| Loans C | EUR | Euribor6m + from 1.550 to 2.000 | from 14 Apr 2025 to 31 Dec 2025 | 50,000,000 | 47,142,857 |
| **Total** | | | | **146,500,000** | **110.527.929** |
| - whereof current portion | | | | | 10.023.524 |

### Balance of non-current and current borrowings from banks at par value and by their maturity

| (in EUR) | Principal amount at 31 Dec 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | Period 2022–2031 |
|---|---|---|---|---|---|---|---|
| Principal amount of bank borrowings by maturity | 109,804,406 | 11,761,732 | 16,060,399 | 16,004,399 | 17,898,602 | 7,702,225 | 40,377,049 |
| Expected interest | | 1,378,841 | 1,224,865 | 952,547 | 675,464 | 484,349 | 1,118,250 |
| **Total** | **109,804,406** | **13,140,573** | **17,285,264** | **16,956,946** | **18,574,066** | **8,186,574** | **41,495,299** |

| (in EUR) | Principal amount at 31 Dec 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | Period 2021–2031 |
|---|---|---|---|---|---|---|---|
| Principal amount of bank borrowings by maturity | 110,027,930 | 9,523,524 | 11,761,732 | 14,310,399 | 12,504,399 | 14,398,602 | 47,529,274 |
| Expected interest | | 1,787,257 | 1,473,925 | 1,233,259 | 972,803 | 704,356 | 1,816,240 |
| **Total** | **110,027,930** | **11,310,781** | **13,235,657** | **15,543,658** | **13,477,202** | **15,102,958** | **49,345,514** |

## Note 24. Other non-current financial liabilities

As at the reporting date, other non-current financial liabilities amounted to EUR 419,873 (2015: EUR 639,954) and refer fair value of instrument (i.e. interest rate swap), which the parent company entered into in connection with the largest borrowing. Further details on interest rate hedging are outlined in Note 31 Financial instruments and financial risk management, in the section 'Management of interest rate risk'.

## Note 25. Non-current operating liabilities

| (in EUR) | 31 Dec 2016 | 31 Dec 2015 |
|---|---|---|
| Non-current advances and collaterals received | 772,086 | 263,401 |
| **Total** | **772,086** | **263,401** |

Non-current operating liabilities comprise non-current collaterals received for leased premises and payments relating to repairs under the warranty periods, and non-current collaterals for the working of the tax warehouse at the current cargo terminal.

## Note 26. Loans and borrowings

| (in EUR) | 31 Dec 2016 | 31 Dec 2015 |
|---|---|---|
| Current financial liabilities to associates | 0 | 500,000 |
| Current borrowings from domestic banks | 9,466,650 | 8,375,983 |
| Current borrowings from foreign banks | 2,295,082 | 1,147,541 |
| **Total** | **11,761,732** | **10,023,524** |

Current borrowings from banks refer as at 31 December 2016 to the portion of non-current principal amounts, which mature in 2017 according to amortisation schedules.

### Movement of current borrowings in 2016

| (in EUR) | Associates | Banks | Total |
|---|---|---|---|
| Balance at 31 Dec 2015 | 500,000 | 9,523,524 | 10,023,524 |
| | | | |
| Repayments | -500,000 | -9,523,524 | -10,023,524 |
| Transfer from non-current borrowings – portion that matures within one year | 0 | 11,761,732 | 11,761,732 |
| | | | |
| **Balance at 31 Dec 2016** | **0** | **11,761,732** | **11,761,732** |

### Movement of current borrowings in 2015

| (in EUR) | Associates | Banks | Total |
|---|---|---|---|
| Balance at 31 Dec 2014 | 0 | 15,927,780 | 15,927,780 |
| | | | |
| Repayments | 0 | -13,927,780 | -13,927,780 |
| Write-up of interest | 0 | 0 | 0 |
| Transfer from non-current borrowings – portion that matures within one year | 500,000 | 9,523,524 | 10,023,524 |
| Transfer to non-current borrowings | 0 | -2,000,000 | -2,000,000 |
| | | | |
| **Balance at 31 Dec 2015** | **500,000** | **9,523,524** | **10,023,524** |

## Note 27. Other current financial liabilities

| (in EUR) | 31 Dec 2016 | 31 Dec 2015 |
|---|---|---|
| Other current financial liabilities | 250,614 | 848,234 |
| **Total** | **250,614** | **848,234** |

Other current financial liabilities relate to payout of dividends in the amount of EUR 103,547, interest payables in the amount of EUR 59,084, and the payment of the interest rate swap entered into for the purpose of hedging against interest rate risk (EUR 87,983).

In 2016, total interest expenses amounted by applying the effective interest method to EUR 2.418.068 and EUR 3.012.336 in 2015.

## Note 28. Trade and other payables

| (in EUR) | 31 Dec 2016 | 31 Dec 2015 |
|---|---|---|
| Current liabilities to: | | |
| domestic suppliers | 14,411,457 | 13,164,430 |
| foreign suppliers | 349,162 | 2,740,831 |
| Current liabilities to associates | 145,110 | 99,564 |
| **Current trade payables** | **14,905,729** | **16,004,825** |
| Current liabilities from advances | 68,413 | 78,381 |
| Current liabilities to employees | 3,623,899 | 3,422,925 |
| Current liabilities to state and other institutions | 965,084 | 948,764 |
| Current liabilities to fund providers | | |
| **Current operating liabilities** | **19,563,125** | **20,454,895** |
| Accrued costs and expenses | 5,794,981 | 5,176,915 |
| Deferred income | 0 | 6,275 |
| Other operating liabilities | 106,559 | 91,653 |
| **Other operating liabilities** | **5,901,540** | **5,274,843** |
| **Total** | **25,464,665** | **25,729,738** |

Trade and other payables declined over the previous period by 5.7 percent or EUR 891,770. The largest decline is recorded with trade payables to foreign suppliers, which is attributable to lower balance of trade payables for investments

Accrued costs relate to costs for the use of the construction land, accrued costs of the concession, costs for the collective job performance, accrued interest for loans and borrowings, accrued costs for remunerations and bonuses paid under individual contracts, and accrued costs for unused vacation days.

## Note 29. Contingent liabilities

| (in EUR) | 31 Dec 2016 | 31 Dec 2015 |
|---|---|---|
| Guarantees given | 1,720,309 | 2,106,270 |
| Securities given | 7,235,468 | 6,902,284 |
| Contingent liabilities under legal disputes | 93,809 | 3,012,100 |
| Approved borrowing | 54,702,317 | 36,003,073 |
| **Total contingent liabilities** | **63,751,903** | **48,023,727** |

Guarantees given refer to customs operations and as at the reporting date amounted (EUR 1,569,000) and to performance guarantees (EUR 151,309).

Securities provided refer:

- in the amount of EUR 4,514,973 to the company Adria Transport, d.o.o. in connection with a lease of locomotives,
- in the amount of EUR 938,479 to the company Adria-Tow, d.o.o. for a borrowing received, and
- in the amount of EUR 250,000 to the company Adria Terminali, d.o.o., for liabilities arising under customs duties.

Companies that received collaterals and guarantees from the controlling company regularly pay their liabilities in this connection and as at 31 December 2015 disclose no outstanding instalments.

Group's Contingent liabilities under legal disputes include as at 31 December 2016 two lawsuits. With respect to the reports submitted by the lawyers, no risks exist based on which the contingent liabilities hereunder should be disclosed among provisions for legal disputes.
The Group concluded the fiscal year 2016 with EUR 2,247,540 of contingent liabilities arising on legal disputes, as no payment of claims was made; both disputes were terminated in favour of the controlling company. Contingent liabilities in the amount of EUR 692,701 were transferred ti provisions for legal disputes.

The item of approved borrowing refers to the borrowing from the European Investment Bank (project of extending the first pier), which was approved at end of December 2014. As at 31 December 2016, terms for drawing the first tranche of the borrowing were not met since the parent company had not yet received the building permit. Further, the Group has not drawn the entire principal amount of the borrowing approved in 2016; this part is accordingly disclosed among off balance sheet items.

The Group studied the received complaints and compensation claims linked to the spontaneous termination of work in the port between 1 July 2016 and 5 July 2016 and refused them fully informed. Upon the relevant refusal, the Group received no answers or further claims. Given the aforesaid, the Group assessed that no contingent liabilities or related provisions are required to be formed.

## Note 30. Related party transactions

Remuneration of members of the Management and Supervisory Board of the controlling company are outlined in Note 29 of the parent company's accounting report. Remuneration of groups of persons in the controlling company and subsidiaries are presented in tables below.

## Remuneration of groups of persons in 2016

| (in EUR) | Gross wages (fixed and variable part) | Annual holiday pay and jubilee premiums | Other benefits and receipts | Total |
|---|---|---|---|---|
| Members of the Management Board | 725,595 | 4,400 | 23,469 | 753,464 |
| Members of the Supervisory Board (nine members) | 246,632 | 0 | 1,818 | 248,451 |
| Employees with individual employment contracts | 2,487,070 | 27,512 | 42,474 | 2,557,056 |
| Managing Directors of subsidiaries | 337,855 | 4,392 | 3,313 | 345,560 |
| **Total** | **3,797,152** | **36,304** | **71,074** | **3,904,531** |

## Related party transactions

| Income statement items | Luka Koper Group | |
|---|---|---|
| (in EUR) | 2016 | 2015 |
| Revenue from sales to associates | 839,422 | 698,414 |
| Cost of material charged to associates | 130,026 | 90,837 |
| Cost of services charged to associates | 1,092,421 | 980,073 |
| Other operating expenses charged to associates | 0 | 22,889 |
| Finance expenses from financial liabilities to associates | 4,228 | 7,895 |
| Profits or losses of associates | 1,897,614 | 1,328,250 |

| Items of the statement of financial position | Luka Koper Group | |
|---|---|---|
| (in EUR) | 31 Dec 2016 | 31 Dec 2015 |
| Non-current investments except loans to associates | 12,680,341 | 11,699,851 |
| Current operating receivables due from associates | 94,442 | 243,763 |
| Current financial liabilities to associates | 0 | 500,000 |
| Current operating liabilities to associates | 145,109 | 99,564 |

### Transactions with the Government of the Republic of Slovenia

Transactions between the Luka Koper Group and the Government of the Republic of Slovenia in 2016 included following:

| (in EUR) | Payments in 2016 | Costs/expenses in 2016 | Payments in 2015 | Costs/expenses in 2015 |
|---|---|---|---|---|
| Concessions | 6,677,578 | 6,397,118 | 5,574,406 | 5,922,700 |
| Dividends | 8,068,200 | 0 | 6,711,600 | 0 |
| Corporate income tax (taxes and advance payments) | 5,804,534 | 7,538,193 | 5,089,851 | 5,641,987 |
| Other taxes and contributions | 5,782,913 | 5,825,429 | 5,683,312 | 5,294,834 |
| **Total** | **26,333,225** | **19,760,740** | **23,059,169** | **16,859,521** |

No other transactions were recorded with the Government of the Republic of Slovenia.

Dividends were paid out to two other companies, where the Government of the Republic of Slovenia holds a controlling interest i.e. to the company SDH, d.d. in the amount of EUR 1,760,378 and the company Kapitalska družba, d.d. in the amount of EUR 787,134.

The Group records transactions also with companies, where the Government of the Republic of Slovenia has (direct or indirect) controlling influence more than 20%.

### Transactions with companies where Government of the Republic of Slovenia has, directly or indirectly, controlling influence

In 2016, transactions conducted between the Luka Koper Group and companies where the Government of the Republic of Slovenia has a direct or indirect influence amounted to EUR 28,791,779 and include sales to these companies (EUR 12,293,671) and purchases (EUR 16,498,108). Most of sales referred to services in connection with the port activity, with the largest purchase relating to acquiring land, followed by purchases of energy, costs of railway transport and costs of insurance and payment services. As at 31 December 2016, the Group recorded receivables to these companies in the amount of EUR 2,002,773 and liabilities at EUR 27,609,425. The larger part of liabilities includes the loan by SID - Slovenska izvozna in razvojna banka, d.d., which was raised under market terms.

## Note 31. Financial instruments and financial risk management

The most significant financial risks to which the Group is exposed to, include:

1. risk of change in fair value,
2. interest rate risk,
3. liquidity risk,
4. currency risk,
5. credit risk, and
6. risk of adequate capital structure.

Group's management of financial risks has been organised within the controlling company's finance department. The specifics of the existing economic environment make forecasting future financial categories even more demanding and introduce into the plans a higher degree of unpredictability and, consequently, higher level of risk. The Group has consequently tightened the control over individual financial categories.

### 1. Risk management relating to change in fair value

At the year-end of 2016, the Group has invested 5.5% (2015: 6.6%) of its assets in investments measured at fair value, whereof a good 97 percent was attributable to the controlling company. The fair value risk associated with these investments is demonstrated through changes in stock market prices that affect the value of these assets and, consequently the potential capital gain on their disposal. This type of risk was identified by the Group in association with investments in market securities of successful Slovenian companies. As at 31 December 2016, the value of non-current available-for-sale investments at fair value through equity amounted to EUR 27,136,597. This value comprised shares of Slovenian companies and units of mutual fund assets.

Sensitivity analysis of investments at fair value:

#### Risk of change in fair value of securities as at 31 December 2016

| Change of index (in %) | Impact on equity |
|---|---|
| -10% | -2,713,659 |
| 10% | 2,713,659 |

#### Risk of change in fair value of securities as at 31 December 2015

| Change of index (in %) | Impact on equity |
|---|---|
| -10% | -3,094,946 |
| 10% | 3,094,946 |

The sensitivity analysis of investments at fair value was based on the assumption of a 10 percent increase in the value of the index and accordingly such growth would result in an increase in the fair value of the market securities portfolio by EUR 2,713,659. A 10 percent decrease in the comparable class would have the opposite effect, reducing the fair value of these investments by that same amount.

If this case, the amount of the difference in fair value would be recognised as either an increase or decrease in other comprehensive income within equity.

## Fair value hierarchy in 2016

| | Valuation at fair value | | | |
|---|---|---|---|---|
| **(in EUR)** | **Carrying amount at 31 Dec 2016** | **Direct stock market quotation (Level 1)** | **Value defined on the basis of comparable market inputs (Level 2)** | **No observable market inputs (Level 3)** |
| **Assets measured at fair value** | | | | |
| Other non-current investments | 27,136,597 | 27,136,597 | 0 | 0 |
| **Liabilities measured at fair value** | | | | |
| Interest rate hedging for borrowings | 419,873 | 0 | 419,873 | 0 |

## Fair value hierarchy in 2015

| | Valuation at fair value | | | |
|---|---|---|---|---|
| **(in EUR)** | **Carrying amount at 31 Dec 2015** | **Direct stock market quotation (Level 1)** | **Value defined on the basis of comparable market inputs (Level 2)** | **No observable market inputs (Level 3)** |
| **Assets measured at fair value** | | | | |
| Other non-current investments | 30,949,464 | 30,949,464 | 0 | 0 |
| **Liabilities measured at fair value** | | | | |
| Interest rate hedging for borrowings | 1,037,501 | 0 | 1,037,501 | 0 |

Shares and interests measured at fair value were valued at publicly applicable exchange rates of the Ljubljana Stock Exchange and the list of quotations of mutual funds.

Fair value of the interest rate swap was calculated by the bank.

## 2. Management of interest rate risk

With respect to its liabilities structure, the Group faces also interest rate risk as an unexpected growth in variable interest rates can have an adverse effect on the planned results. In 2016, the Group has succeeded in reducing the share of financial liabilities within its total assets by 1.5 percentage point over the previous year; as at the reporting date, these liabilities were recorded at EUR 110,332,958. Due to lower volume of borrowing, the lower Euribor variable interest rates resulted also in lower financial expenses for financial liabilities.

The share of financial liabilities in the overall structure of liabilities decreased from 24% in 2015 to good 22% in 2016. The effect of possible changes in variable interest rates on the future operating result is presented in the table below.

In previous years, the controlling company entered into an interest rate hedge for two major non-current borrowings, whereof the first 5-year interest rate hedging instrument matured in 2016. Accordingly, solely one borrowing remained hedged against interest rate risk in the amount of EUR 33,852,459, with its final maturity in 2031. Possible change in variable interest rates could have an impact on 69 percent (2015: 43 percent) of Group's total borrowings, as the residual 31 percent were hedged against possible change in variable interest rates.

### Overview of exposure

| (in EUR) | 31 Dec 2016 | Exposure in 2016 | 31 Dec 2015 | Exposure in 2015 |
|---|---|---|---|---|
| Borrowings received at variable interest rate (without interest rate hedge) | 75,951,946 | 69.2% | 47,885,073 | 43.3% |
| Borrowings received at variable interest rate (with interest rate hedge) | 33,852,459 | 30.8% | 62,142,856 | 56.2% |
| Borrowings received at nominal interest rate | 0 | 0.0% | 500,000 | 0.5% |
| **Total** | **109,804,405** | **100.0%** | **110,527,929** | **100.0%** |

The interest rate hedging instrument is during the hedging period fully compliant with the borrowing that is subject of the relevant hedge. The Group recognised possible changes to instrument's market values in the items of equity. The derivative interest rate swap is carried in the books of account under the principle of hedge accounting. As at 31 December 2016, the fair value of the derivative interest rate swap is recognised as the non-current liability in the amount of EUR 419,873.

Sensitivity analysis of borrowings from banks in view of the variable interest rate fluctuations:

| (in EUR) | Non-hedged bank borrowings under the variable interest rate at 31 Dec 2016 | Increase by 15 bp | Increase by 25 bp | Increase by 50 bp |
|---|---|---|---|---|
| 3M EURIBOR | 33,666,232 | 21,304 | 35,507 | 106,243 |
| 6M EURIBOR | 42,285,714 | | 12,263 | 157,757 |
| **Total effect on interest expenses** | **75,951,946** | **21,304** | **47,770** | **264,000** |

| (in EUR) | Non-hedged bank borrowings under the variable interest rate at 31 Dec 2015 | Increase by 15 bp | Increase by 25 bp | Increase by 50 bp |
|---|---|---|---|---|
| 3M EURIBOR | 47,885,073 | 19,252 | 82,203 | 201,916 |
| **Total effect on interest expenses** | **47,885,073** | **19,252** | **82,203** | **201,916** |

The analysis of financial liabilities' sensitivity to changes in variable interest rates was based on the assumption of potential growth in interest rates of 15, 25 and 50 base points. Given the assumption that variable interest rates will grow by 15 base points, Group's interest expenses would in view of unchanged borrowing grow by EUR 21,304. If the variable interest rates are to grow by 25 or 50 base points, the interest expenses would increase by EUR 47,770 or by EUR 264,000 respectively. At the year-end of 2016, Group's borrowings subject to the movement of the 3M or 6M Euribor were not hedged against interest rate risk. One borrowing in the amount of EUR 33,852,459 was hedged with interest rate swap, hence it is not included in the loan sensitivity overview for 2016 above and is subject to the variable interest rate.

### 3. Management of liquidity risk

Liquidity risk is the risk that the Group will fail to settle its liabilities at maturity. The Group manages liquidity risk by regular planning of cash flows required to settle liabilities with diverse maturity. Additional measures for preventing delays in receivable collection include regular monitoring of payments and immediate response to any delays and charging penalty interest in accordance with the uniform policy of receivable management.

| (in EUR) | Up to 3 months | 3 to 12 months | 1 to 2 years | 3 to 5 years | More than 5 years | Total |
|---|---|---|---|---|---|---|
| **31 Dec 2016** | | | | | | |
| Loans and borrowings* | 1,153,481 | 10,608,251 | 16,060,399 | 41,605,225 | 40,377,049 | 109,804,405 |
| Accrued interest maturing in the next calendar year | 59,084 | 0 | 0 | 0 | 0 | 59,084 |
| Expected interest on all borrowings | 259,331 | 1,119,510 | 1,224,865 | 2,112,360 | 1,118,250 | 5,834,316 |
| Other financial liabilities | 250,614 | 0 | 419,873 | 0 | 0 | 670,487 |
| Payables to suppliers | 14,905,729 | 0 | 0 | 0 | 0 | 14,905,729 |
| Other operating liabilities | 4,657,396 | 0 | 0 | 0 | 0 | 4,657,396 |
| **Total** | **21,285,635** | **11,727,761** | **17,705,137** | **43,717,585** | **41,495,299** | **135,931,417** |
| **31 Dec 2015** | | | | | | |
| Loans and borrowings* | 579,710 | 9,443,814 | 11,761,732 | 41,213,399 | 47,529,274 | 110,527,929 |
| Accrued interest maturing in the next calendar year | 34,108 | 0 | 0 | 0 | 0 | 34,108 |
| Expected interest on all borrowings | 307,821 | 1,487,331 | 1,473,926 | 2,910,417 | 1,816,240 | 7,995,735 |
| Other financial liabilities | 450,688 | 397,546 | 0 | 639,954 | 0 | 1,488,188 |
| Payables to suppliers | 16,004,825 | 0 | 0 | | 0 | 16,004,825 |
| Other operating liabilities | 4,450,070 | 0 | 0 | 0 | 0 | 4,450,070 |
| **Total** | **21,827,222** | **11,328,691** | **13,235,658** | **44,763,770** | **49,345,514** | **140,500,855** |

*The item includes also borrowings from associates

## 4. Management of currency risk

The risk of changes in foreign exchange rates arises from trade receivables denominated in US dollars (USD). The average monthly balance of outstanding trade receivables amounted to USD 111 thousand at the end of 2016. As at 31 December 2016, outstanding receivables denominated in US dollars amounted to 0.70 percent (2015: 0.75 percent) of total outstanding trade receivables. According to the Group's estimates, the share of receivables denominated in US dollars is insignificant and for this reason, it was decided not to hedge this risk item.

## 5. Credit risk management

Management of the risk of default on the side of the counterparty or the credit risk has gained in importance in recent years. Customer defaults are being passed on to economic entities, much like a chain reaction, which significantly reduces the assessed probability of timely inflows and increases additional costs of financing the operation. Accordingly, the Group accelerated collection-related activities in the past five years and more consistently monitored trade receivables past due. In case of customers, where the Group detected late payments and inconsistency in observing adopted business agreements, an advance payment system was set up for all ordered services with the aim to avoid late-payment culture. The latter area is positively impacted by the specific structure of Group's customers, which are predominantly major companies, freight forwarders and forwarding agents that have been Group's business partners for a number of years.

Certain receivables were secured with collaterals, which are returned to the customers once all obligations have been settled. Investments included loans, which are secured with blank bills of exchange and other movable and immovable property. Assets exposed to credit risk:

| (in EUR) | Note | 31 Dec 2016 | 31 Dec 2015 |
|---|---|---|---|
| Deposits and loans given | 16 | 31,005 | 400,419 |
| Non-current operating receivables | 17 | 41,772 | 37,931 |
| Current deposits | 21 | 97,366 | 296,582 |
| Current loans given | 21 | 8,123 | 15,305 |
| Trade receivables | 22 | 28,573,626 | 28,316,487 |
| Other receivables | 22 | 2,907,293 | 1,891,839 |
| Cash and cash equivalents | 23 | 5,826,536 | 12,610,049 |
| Guarantees and collaterals granted | 33 | 8,955,777 | 9,008,554 |
| **Total** | | **46,441,498** | **52,577,166** |

## 6. Risk management relating to adequate capital structure

Equity is the most expensive source of financing, hence it is vital for the Group to successfully identify the optimal capital structure as equity is in its form the most expensive source of financing. Group's financial liabilities amounted at the end of 2016 to EUR 110,332,958, which is EUR 1,533,576 less than in the previous year. In addition, the share of financial assets in the equity and liabilities structure declined by 1.6 percentage point.

| (in EUR) | 31 Dec 2016 | | 31 Dec 2015 | |
|---|---|---|---|---|
| | in EUR | share (%) | in EUR | share (%) |
| Equity | 331,978,920 | 67.5% | 306,290,468 | 65.6% |
| Non-current liabilities | 120,680,206 | 24.5% | 121,175,916 | 25.9% |
| Current liabilities | 39,373,219 | 8.0% | 39,525,060 | 8.5% |
| **Equity and liabilities** | **492,032,345** | **100.0%** | **466,991,444** | **100.0%** |

Group's non-current strategic goal is to maintain the debtor's share within the liabilities side below 40%. The decline in Group's financial liabilities was reflected in the equity's share within its total equity and liabilities structure, which in 2016 grew by poor 2 percentage points and as at the reporting date amounted to 67.5 percent.

## Note 32. Transactions with the audit firm

The contractual value of audit services render for the Group by the company KPMG Slovenija, d.o.o. for the fiscal year 2016 is recorded at EUR 37,500 (exclusive of VAT). The contractual value of providing assurance on financial statements for the commercial public service for the financial year 2016, which was for the Group carried out by KPMG Slovenija, d.o.o., amounted to EUR 2,000 (exclusive of VAT).

# 35 Events after the Reporting Date

Upon concluding the financial year, the Group recorded no significant events or transactions that would have an impact on its financial statements.

# 36 Independent Auditor's Report

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## Independent Auditor's Report

### To the owners of Luka Koper d.d.

#### *Opinion*

We have audited the consolidated financial statements of the Luka Koper d.d. and its subsidiaries (»the Group«), which comprise the consolidated statement of financial position as of 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of cash flows, and the consolidated statement of changes in equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union ("IFRS as adopted by the EU").

#### *Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibility for the Audit of consolidated Financial Statements* section of our report. We are independent of the Group in accordance with both the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the consolidated financial statements in Slovenia and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

#### *Key Audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**Revenue recognition**

*Revenue for the year ended 31 December 2016 amounted to EUR 199,543,696 (2015: EUR 184,273,472).*

*We refer to the consolidated financial statements Note 31.1 Basis for preparation of financial statements (revenue recognition judgments), Note 32.2.25 Revenue (accounting policy) and to Note 33 Additional notes to statement of consolidated profit and loss Note 1 Net revenue from sales (notes).*

| Key audit matter | Our response |
|---|---|
| The Group's core activities include transshipment of goods and rendering other accompanying and supporting services.<br><br>Revenue from these core services is generally recognized by reference to their stage of completion on the reporting date, calculated based on proportion of the service rendered.<br><br>Transshipment and other accompanying and supporting services are frequently contracted by the Group within a single customer arrangement.<br><br>While a contract may identify separate activities, reflecting its economic substance may require for them to be accounted for as an integrated package and one performance obligation. Conversely, for those arrangements which comprise components with stand-alone value to the customer and reliably measurable fair value, the transaction consideration may need to be allocated to separately identifiable components with different patterns of revenue recognition.<br><br>Accounting for such bundled arrangements requires significant management judgment in determining the appropriate measurement and timing of revenue, hence we considered this area to be a key audit matter. | Our audit procedures included, among others:<br>• Testing of the design, implementation and operating effectiveness of controls over the revenue cycle. This included using our own IT specialists in evaluating the controls in the IT systems that support the recording of revenue;<br>• Assessing the Group's policy for recognizing revenue, including considering whether the policy is in accordance with relevant financial reporting standards;<br>• Based on our inspection of a sample of contracts with key customers:<br>– challenging the Group's identification of identifiable components within the revenue contracts;<br>– critically assessing the Group's selection of revenue recognition patterns for identified revenue components by reference to the Group's accounting policies;<br>• Critically evaluating the Group's identification of the stage of completion of the services by inspecting of contracts and supporting documents, such as ship document, for all the ships berthed in the Luka Koper harbor in the end of December 2016;<br>• Inspecting manual journal entries posted to revenue accounts focusing on unusual and irregular items, or entries modified subsequent to the balance sheet date. |

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**Impairment of assets under construction**

*The carrying amount of assets under construction as at 31 December 2016: EUR 64,779,235 (2015: EUR 37,846,995), impairment loss recognized in 2016 in respect of assets under construction: EUR 140,000.*

*We refer to the consolidated financial statements Note 31.1 Basis for preparation of financial statements (impairment testing for Property, Plant and equipment), Note 32.2.5 Property, Plant and Equipment, 32.2.28 Impairment of assets (accounting policy), Note 33 Additional notes to statement of consolidated profit and loss, Note 8 Other expenses and Note 34 Additional notes to the consolidated statement of financial position, Note 12 Property, Plant and equipment (notes)..*

| Key audit matter | Our response |
|---|---|
| As at 31 December 2016, the Group had significant assets under construction, mainly in respect of the port entrance s and an office building (Barka II) projects.<br><br>The project of building port entrances was mothballed several years ago, with their resumption depending on resolution of the current uncertainty regarding the ownership of the land needed for the purpose of the entrances as well as local and state government's plans and related approvals. These uncertainties may affect the projects' timing of completion.<br><br>Barka II project was mothballed several years ago, with its resumption depending on the analysis of the management regarding the local needs for additional office space. In case of change of the size of the building, local government's plans and related approvals will need to be taken into consideration. These uncertainties may affect the projects' size as well as timing of completion.<br><br>The Group concluded that the above mentioned factors represented an indication that certain assets under construction may be impaired and performed impairment tests as required by relevant financial reporting standards.<br><br>Determining the recoverable amounts of assets requires a number of significant judgments and estimates, in particular in relation to ability of the Group to complete these projects. | Our audit procedures included, among others:<br>• Assessing and testing the Group's internal controls designed to identify impairment indicators;<br>• Evaluating the appropriateness of the Group's judgments regarding identification of assets under construction which may be impaired;<br>• Inspecting the minutes of the management and supervisory board of Luka Koper d.d. to identify any decisions with regards to the status of port entrance and Barka II projects;<br>• Analyzing publically available local and state spatial development plans for the area of Luka Koper to critically assess the possibility to complete investment in port entrances.<br>• Critically assessing the Group's assumptions and estimates used to determine the recoverable amounts of assets under construction and any impairment losses recognized, if any, using external valuation expert engaged by us. Our procedures included, among others:<br>- assessing the valuation technique used for valuation of Barka II,<br>- assessing the competence and independence of the external experts used by the Group,<br>- assessing the reasonableness of key assumptions used by the Group, such as discount rates. |

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*Other Information*

Management is responsible for other information. The other information comprises the Introduction, Business Report and Sustainability report included in the Annual report, but does not include the separate financial statements and our auditor's report thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Business Report, we have considered whether the Business Report includes the disclosures required by the Company's Act (hereafter referred to as "the applicable legal requirements").

Based solely on the work required to be undertaken in the course of the audit of the consolidated financial statements and the procedures above, in our opinion:

- the information given in the Business Report for the financial year for which the consolidated financial statements are prepared, is consistent with the consolidated financial statements; and
- the Business Report has been prepared in accordance with the applicable legal requirements.

In addition, in light of the knowledge and understanding of the Group and its environment in which it operates, obtained in the course of our audit, we are required to report if we have identified material misstatements in the Business Report and other information. We have nothing to report in this respect.

*Responsibility of Management and Those Charged with Governance for the Consolidated Financial Statements*

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

*Auditor's Responsibility for the Audit of Consolidated Financial Statements*

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

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

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

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- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

On behalf of the auditing company

**KPMG SLOVENIJA,**
**podjetje za revidiranje, d.o.o.**

| | |
|---|---|
| Tomaž Mahnič, FCCA | Katarina Sitar Šuštar, MBA |
| *Certified auditor* | *Certified auditor* |
| | *Partner* |

Ljubljana, 17 March 2017

KPMG Slovenija, d.o.o.
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[i] The Independent Auditor's Report hereof is a translation of the original Independent Auditor's Report in Slovene, issued on the financial statements and the notes thereto in Slovene and is not to be signed. This translation is provided for reference purposes only.

# 37 Statement of Management's Responsibility

The Management Board of Luka Koper, d.d., is responsible for the preparation of the Annual Report hereof, including the financial statements and notes thereto, that give a true and fair view of the financial position of the Luka Koper Group and Luka Koper, d.d., as of 31 December 2016 and of their financial performance for the year then ended.

The Management Board confirms that accounting policies were consistently applied and that the accounting judgments were made under the principle of prudence and due diligence of a good manager.

The Management Board further confirms that the financial statements of the Group and the Company have been compiled under the assumption of a going concern of the parent and its subsidiaries and in accordance with the applicable legislation and International Financial Reporting Standards as adopted by the EU.

The Tax Authorities may, at any time within a period of 5 years after the end of the year for which tax assessment was due, carry out the audit of the Group operations, which may lead to assessment of additional tax liabilities, default interest, and penalties with regards to corporate income tax or other taxes and duties. The Management Board is not aware of any circumstances that may result in a significant tax liability.

The Management Board is responsible for adopting measures to secure the assets of the Luka Koper Group and Luka Koper, d.d. and to prevent and detect fraud and other irregularities and/or illegal acts.

Members of the Management Board:

Dragomir Matić
President of the Management Board

Andraž Novak
Member of the Management Board

Irena Vincek
Member of the Management Board

Stojan Čepar
Member of the Management Board and Workers Director

Koper, 14 March 2017