LUKA KOPER
Port of Koper

2017

ANNUAL REPORT

THE LUKA KOPER GROUP

AND LUKA KOPER, D. D.

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INTRODUCTION

1 Business performance highlights of the Luka Koper Group in 2017

IN 2017, THE PORT OF KOPER CELEBRATED 60 YEARS IN BUSINESS

In 2017, total throughput in the Port of Koper was 23 million tons of cargo, up 6% year-on-year. By month, the highest throughput was reached in May 2017, with 2.3 million tons of cargo.

23 MILLION TONS
TOTAL PORT THROUGHPUT 2017/2016 **+6%**

In 2017, container throughput totalled 912 thousand TEU, up 8% from 2016. In July 2017, container throughput rose to its highest monthly level in the history of the port with 80.8 thousand TEU.

The throughput of general cargoes reached 987 thousand tons in 2017, up 3% year-on-year.

912 THOUSAND TEU
CONTAINERS 2017/2016 **+8%**

987 THOUSAND TONS
GENERAL CARGOES 2017/2016 **+3%**

The throughput of cars totalled 741 thousand cars in 2017, down 1% from 2016.

741 THOUSAND CARS

CARS 2017/2016 **-1%**

In 2017, net sales reached a record high at EUR 211 million, an increase of 6% over 2016.

EUR 211 MILLION

NET SALES 2017/2016 **+6%**

Earnings before interest and taxes (EBIT) in 2017 amounted to EUR 37 million, a 26% decrease year-on-year.

EUR 37 MILLION

EARNINGS BEFORE INTEREST AND TAXES (EBIT) 2017/2016 **-26%**

Net profit or loss was recorded at EUR 35 million in 2017, down 21% from 2016.

EUR 35 MILLION

NET PROFIT OR LOSS 2017/2016 **-21%**

The combined value of investments made by the Luka Koper Group in 2017 was EUR 37.3 million. Major investments included:

- **Purchases for the container terminal included 8 new terminal tugs, 2 manipulators for empty containers, 3 rail mounted gantry cranes (RMG), 2 ship-to-shore cranes (STS), and 7 electrified rubber tired gantry cranes (E-RTG).**
- **Purchases for the general cargo terminal included 12 new forklifts (17t, 8t and electric forklifts).**
- **Purchases for the dry bulk terminal included a Volvo loader and a bagging facility for packing fertilisers into Big Bags**
- **Storage area for empty DEPO containers was ensured for the needs of the container terminal. This investment included reconstruction of the existing facility into a container**

repair station, construction of a gallery with power supply for refrigerated containers, destruction of an existing electrical substation and construction of a new one, construction of the new 18C railway track of 300 m length.

- A new mooring buoy and a new access gangway for port staff handling mooring were installed in Basin III, decrepit fenders were replaced at an existing ramp to increase the safety for RORO ship landings on the multi-purpose terminal.
- Phase 1 and 2 of moving storage units was completed, which included the move of light towers and the purpose of which was to improve the traffic between the units and to ensure wider transport routes between the units.
- A multi-purpose storehouse was constructed, its surroundings rearranged and a new weighing device was set up.
- The north wall of a silo chamber was renovated due to deterioration.
- An additional washing line for car wash was installed at the Avtoservis servicing facility.
- A macadam area in Sežana extending over 5,000 square metres was asphalted.
- Several minor investments were made.

In 2017, the Luka Koper Group hired 76 new employees. The total number of employees increased by 37, or 3% from 2016, to 1,108 employees in 2017.

1,108

NUMBER OF EMPLOYEES 2017/2016 **+ 3%**

The return on equity (ROE) was at 10.3% in 2017, down 26% or 3.7 percentage points from 2016.

10.3%

RETURN ON EQUITY (ROE) 2017/2016 **-26%**

In January 2017, Luka Koper released a revised Management Policy of the public limited company.

In February 2017, Adria-Tow, d. o. o. received a new Mercur tugboat, made in Spain.

In March 2017, 2017 Luka Koper, d. d. took over the half-year presidency in the North Adriatic

Ports Association (NAPA).

On 23 May, the Company celebrated 60 years since the establishment of Pristanišče Koper, the predecessor of today's Luka Koper, d. d.

In May 2017, Luka Koper obtained the ISO 9001:2015 certification for quality management systems with the Slovenian Institute of Quality and Metrology (SIQ).

In October 2017, Luka Koper was successful with its tender for an international contract awarded by Daimler, after being selected by this German corporation as one of the main export ports for its vehicles for the first time in 2015.

1.1 Achievements in 2017

23.4
million tons of maritime throughput

911,528 TEU
of loaded and unloaded containers

741,253
of loaded and unloaded cars

987,290 tons
tons of loaded and unloaded general cargoes

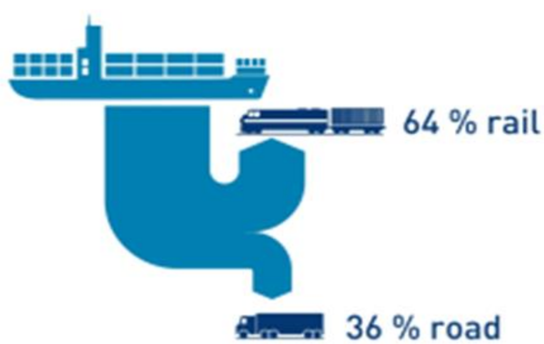
23,812
trains arrived in and departed from the port

307,058
of loaded and unloaded wagons

305,262
trucks entered the port

1995
moored ships

Modal split - high percentage of rail transport



1.2 Financial ratios

(in EUR)	Luka Koper, d. d.			Luka Koper Group		
Income statement	**2017**	**2016**	**IND 2017/ 2016**	**2017**	**2016**	**IND 2017/ 2016**
Net sales	206,835,533	190,407,498	109	211,438,377	199,543,696	106
Earnings before interest and taxes (EBIT)	35,032,311	45,536,427	77	36,639,872	49,325,438	74
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	62,570,820	71,043,459	88	65,087,648	75,794,126	86
Profit or loss from financing activity	1,385,636	963,457	144	-377,307	-459,095	82
Profit or loss before tax	36,417,947	46,499,884	78	37,952,498	50,763,957	75
Net profit or loss	33,143,408	40,581,116	82	34,982,789	44,375,981	79
Added value[1]	115,524,196	118,409,242	98	124,516,296	129,692,675	96

Statement of financial position	31 Dec 2017	31 Dec 2016	IND 2017/ 2016	31 Dec 2017	31 Dec 2016	IND 2017/ 2016
Assets	518,952,908	472,932,135	110	536,478,688	489,991,097	109
Non-current assets	447,568,391	440,055,662	102	459,505,654	450,729,768	102
Current assets	71,384,517	32,876,473	217	76,973,034	39,261,329	196
Equity	320,652,651	304,425,949	105	350,437,387	331,978,921	106
Non-current liabilities with provisions and long-term accruals and deferred revenue	156,033,161	131,614,419	119	142,700,743	118,638,958	120
Short-term liabilities	42,267,096	36,891,767	115	43,340,558	39,373,218	110
Financial liabilities	133,114,842	126,332,908	105	117,114,842	110,332,958	106

Investments	2017	2016	IND 2017/ 2016	2017	2016	IND 2017/ 2016
Investments in property, plant and equipment, investment property and intangible assets	36,661,385	60,313,916	61	37,342,062	61,781,064	60

[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 %)	2017	2016	IND 2017/ 2016	2017	2016	IND 2017/ 2016
Return on sales (ROS)[2]	16.9%	23.9%	71	17.3%	24.7%	70
Return on equity(ROE)	10.6%	13.8%	77	10.3%	13.9%	74
Return on assets (ROA)	6.7%	8.8%	76	6.8%	9.3%	73
EBITDA margin[3]	30.3%	37.3%	81	30.8%	38.0%	81
EBITDA margin from market activity[4]	30.8%	38.9%	79	31.3%	39.6%	79
Financial liabilities/equity	41.5%	41.5%	100	33.4%	33.2%	101
Net financial debt /EBITDA[5]	1.7	1.8	95	1.3	1.4	94
Dividend payout ratio	33.6%	27.0%	124	33.6%	27.0%	124

Port throughput (in tons)	2017	2016	IND 2017/ 2016	2017	2016	IND 2017/ 2016
Port throughput	23,366,959	22,010,657	106	23,366,959	22,010,657	106

Number of employees	2017	2016	IND 2017/ 2016	2017	2016	IND 2017/ 2016
Number of employees	926	886	105	1,108	1,071	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]EBITDA margin from market activity = earnings before interest, taxes, depreciation and amortisation (EBITDA) / net sales from market activity
[5] Net financial debt /EBITDA = (financial liabilities – cash and cash equivalents)/EBITDA

2 Vision, mission, values

VISION

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

MISSION

To be a reliable port system developing and promoting global logistics solutions that can reach the heart of Europe, while meeting the needs of the economy and the most demanding customers.

VALUES

Cooperation
Respect
Responsibility
Creativity
Loyalty

3 Presentation of the Luka Koper Group

History of Luka Koper, d. d.

The Port of Koper, the Slovenian 'window to the world' dates back to the period after World War II, its beginnings a result of a process to find new economic projects to develop the then impoverished coastal area of the Slovenian Istria. The idea to build a commercial port did not meet with support from the then federal Yugoslav authorities. It is only thanks to the courage and persistence of the fathers and architects of the idea that Slovenia now boasts its own port of international importance, which places the country at the crossroads of vital global trade flows.

The first berth on the 135-metre operational waterfront in the Port of Koper was constructed by the Water Management Service of Koper. The initiators of this economic venture decided to start the process in spite of the strong opposition from part of the republic and federal authorities and political bodies to building on the Slovenian coast a full-scale, modern port tailored to domestic as well as European economic needs. Its construction began with the excuse that the Water Management Service of Koper had embarked on the melioration of an extensive section of the Koper bay using own resources and loans.

Petrinja, The construction of Luka Koper and the Koper-Prešnica railway, 1999, p. 5

The company Pristanišče Koper (Port of Koper) was founded on 23 May 1957. Five years later, the company was renamed Luka Koper. In 1958, construction of the first 135-metre operational quay was completed and in December 1958 the first ocean liner Gorica arrived in the port.

Ladja Gorica

The first quay was followed by new berths, accompanied by the development of the infrastructure and warehouses in the hinterland. Transport grew rapidly year after year, the Company outgrowing its local and republic borders, increasing the share of services provided for partners from transit markets. At the time, the coast was not connected with the railway and the roads could hardly accommodate the increasing throughput. In order to accelerate the construction of the rail link as the project lacked the support from the then authorities, Luka Koper acted as the investor in the construction of a 31.4 km track from Prešnica to Koper. Construction started in 1964 and was completed three years later.

The rail link opened up new development opportunities for the Port of Koper: transport increased, exceeding a million tons in 1968. A period of considerable investments followed, and Pier I was constructed together with a container terminal. This was followed by Pier II, new warehouses, and purchases of new equipment and modern technology. In 1989, over five million tons of cargo were loaded onto and unloaded from the ships. A period of political and economic changes followed, with Slovenia gaining independence. Gradually, the transport from the ex-Yugoslav republics was replaced by transport from the 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 took a 51% stake in the Company, with participating preference shares with a limited voting right accounting for 49% and ordinary shares for the remaining 2%. In the same year the LKPG shares were listed on the Ljubljana Stock Exchange. On its 40th anniversary the Company obtained the quality management system certificate ISO 9001, and the environmental certificate ISO 14001 three years later.

In 2000, Luka Koper, d. d. signed a lease with the Republic of Slovenia on all relevant state land and infrastructure. In 2001, the Slovenian Parliament adopted the Maritime Code stipulating that the concession for the management of the Port of Koper should be awarded to a legal entity of public law performing port activity in the port on the date of the entry into force of the Code.

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 the relation between the concession parties should be regulated by a special contract, but the concession was never awarded to Luka Koper, d. d. under this Regulation.

In 2004, when Slovenia became an EU Member State, the Port of Koper became an official logistics entry point for goods on their way to the European Union. In 2005, freight transport was supplemented by passenger transport as a new activity, and in the following years a new dock was added accordingly. In 2007, in a company's General Meeting, the shareholders transformed the state's 49% of participating preference shares with a limited voting right into ordinary shares.

In 2008, the state of Slovenia granted Luka Koper, d. d. a 35-year concession for the performance of port activity, management, development and regular maintenance of port infrastructure in the area of the Koper cargo port, based on the Concession Agreement concluded in accordance 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, Slovenia outlined the spatial development of the port in the National Spatial Plan for comprehensive spatial development of the port for international transport. After successfully dealing with the consequences of the global economic crisis, Luka Koper, d. d. saw transport soaring again after 2010. In 2013, the European Union recognised the strategic importance of the transport route via Koper by including the Port of Koper in its Mediterranean and Baltic-Adriatic corridors.

Port throughput through history

The key milestones in the development of the Port

1957	The company Pristanišče Koper (Port of Koper) is founded.
1958	The first ocean liner Gorica arrives at the newly built berth.
1962	The company is renamed Luka Koper.
1963	The port obtains the status of a duty-free zone.
1967	With a newly built rail link, Luka Koper connects to the European railway network.
1974	The first regular container route with the Mediterranean is launched.
1979	A container terminal is constructed.

1984	A bulk cargo terminal is constructed.
1996	The ownership transformation process is completed and the Company is entered into the court register as a public limited company (the state taking a 51% stake in the Company, with participating preference shares with a limited voting right accounting for 49% and ordinary shares for the remaining 2%).
1996	The shares of Luka Koper (LKPG) are listed on the Ljubljana Stock Exchange.
1996	The new vehicle terminal becomes operational.
1997	Luka Koper is awarded the ISO 9002 certificate.
1999	Luka Koper is awarded the ISO 14001 environmental certificate.
2000	Luka Koper signs a lease with the state for the operational quay and land owned by the Republic of Slovenia in the port of Koper.
2001	The Slovenian Parliament adopts the Maritime Code.
2002	The Government of the Republic of Slovenia adopts a regulation stipulating that the concession for the administration, management, development and regular maintenance of the port infrastructure in the cargo port of Koper be awarded to the company Luka Koper, d. d., yet the concession is never granted under this regulation.
2004	The EU grants Luka Koper the status of a Border Inspection Point (BIP).
2005	The first passenger ship berths in the port.
2007	In a General Meeting, the shareholders of Luka Koper, d. d. transform the state's 49% of participating preference shares with a limited voting right into ordinary shares.
2008	The state of Slovenia grants Luka Koper, d. d. a 35-year concession for the performance of port activity in the Port of Koper in accordance 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).
2010	The European system of environmental management (EMAS) is established.
2011	The State Spatial Plan is adopted for the comprehensive spatial development of the port for international transport in Koper.
2013	The EU includes Luka Koper in its Mediterranean and Baltic-Adriatic corridors.
2016	The Port sets new records, with total annual throughput rising to 22 million tons of goods, throughput of containers to 844,000 TEU, throughput of cars to 749,000, and throughput of general cargoes to 955,100 tons.
2017	The Port of Koper celebrates 60 years in business. New historic milestones are reached with unprecedented total annual throughput at 23 million tons of goods, and record throughput of containers at 912,000 TEU, and general cargoes at 987,000 tons.

Throughout this time, Luka Koper, d. d. constructed and invested in the port infrastructure, piers, warehouses and equipment.

3.1 Company profile of Luka Koper, d. d. as at 26 April 2018

Company name	LUKA KOPER, pristaniški in logistični sistem, delniška družba
Trade name	Luka Koper, d. d.
Registered office	Koper
Business address	Koper, Vojkovo nabrežje 38, 6000 Koper-Capodistria
Legal form of organisation	Public limited company
	Telephone: 00 386 (0)5 66 56 100
	Fax: 00 386 (0)5 63 95 020
	E-mail: portkoper@luka-kp.si
	Website: www.luka-kp.si
	Sustainable development website: http://www.zivetispristaniscem.si
Entry in the court register of	District Court of Koper under the entry number 066/10032200
Company registration number:	5144353000
ID for VAT:	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	Dimitrij Zadel
Member of the Management Board	Metod Podkrižnik
Member of the Management Board	Irma Gubanec, MSc
Member of the Management Board - Workers Director	Vojko Rotar
Chairperson of the Supervisory Board	Uroš Ilić
Core activity of the Company	Seaport and logistics system service provider
Activities performed by the Luka Koper Group	Various service activities

3.2 Organisation of the Luka Koper Group

The Luka Koper Group includes related parties that contribute to the comprehensive range of services provided by the port.

The Luka Koper Group as at 31 December 2017

- 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%

Further details regarding changes in the subsidiaries and associated companies are available in the chapter Composition of the Luka Koper Group.

3.3 Activities of the Luka Koper Group

Luka Koper, the only Slovenian multipurpose port is located in the Coastal - Karst region, one of the smallest yet one of the most economically developed regions in Slovenia. With its operations, the port affects the development of the region, the Slovenian economy and logistics in this part of Europe. It comprises the section of the coastline and the sea where port activity associated with freight and passenger transport is carried out.

The core activity of the port comprises the throughput and warehousing of a variety of goods, supplemented by a range of services on goods and other services providing customers with comprehensive logistic support. Luka Koper, d. d. has an ambitious objective to meet the needs of its customers, company owners as well as company employees. By implementing the development policy of the port, Luka Koper is reinforcing its competitive advantage. The port is an entry point to the European Union and has the status of a type I free zone. Luka Koper, d. d. also has the 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. Security in the port is provided 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.

Concession Agreement

In 2008, Luka Koper, d. d. concluded with the State the Concession Agreement for the performance of port activity, management, development and regular maintenance of the port infrastructure in the area of the Koper cargo port. The Concession Agreement was concluded for a period of 35 years, as stipulated by the Maritime Code. The agreed concession fee amounts to 3.5% of the sales revenue of the Company, excluding the revenue from port fees. The concession fee also includes 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, which then allocates half of the amount to the two local communities, the Municipality of Koper and since 1 January 2015 also to the Municipality of Ankaran.

Public utility service of regular maintenance of the port infrastructure intended for public transport

In line with the Concession Agreement for the performance of port activity, management, development and regular maintenance of the port infrastructure in the area of the Koper cargo port, Luka Koper, d. d. performs the public utility service of regular maintenance of the port infrastructure intended for public transport, including:

- Current repairs and maintenance,
- Large-scale maintenance,
- Regular maintenance of the aquatorium.

For purposes of reports within the public utility service of regular maintenance of the port infrastructure intended for public transport, the Company, based on provisions of the Transparency of Financial Relations and Maintenance of Separate Accounts for Different Activities Act has taken into account the principles of cost accounting and criteria of separate bookkeeping. In 2017, the Company reviewed the criteria and proposed a change thereof. The change of criteria was adopted by the supervisory body of Luka Koper, d. d. in

March 2018. Relevance of criteria and regularity of use were verified by the approved auditor BDO Revizija, d. o. o., by issuing a written opinion on 12 April 2018.

Public utility service of collecting waste from vessels in the Koper port area

The public utility service of collecting waste from vessels in the Koper port area is being performed in line with the Decree 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), and the Decree on port reception facilities for ship-generated waste and cargo residues (Official Gazette of the Republic of Slovenia, No. 78/2008. These services comprise regular reception of ship-generated waste and cargo residues, installation of port facilities for reception of ship-generated waste and cargo residues in accordance with regulations governing port reception facilities, receipt of messages about intended delivery of ship-generated waste and cargo residues, separate collection, sorting and storage of accepted waste and cargo residues by using port reception facilities, delivery for processing with a view of re-use, recycling or disposal of processing residues in accordance with environmental protection regulations governing waste management, and informing the public and users about the manner of delivering waste and cargo residues. For purposes of reports within the public utility service of collecting waste from vessels, the Company, based on provisions of the Transparency of Financial Relations and Maintenance of Separate Accounts for Different Activities Act has taken into account the principles of cost accounting and criteria of separate bookkeeping. In 2017, the Company reviewed the criteria and proposed a change thereof. The change of criteria was adopted by the supervisory body of Luka Koper, d. d. in March 2018. Relevance of criteria and regularity of use were verified by the approved auditor BDO Revizija, d. o. o., by issuing a written opinion on 12 April 2018.

Until 31 December 2016, the Company was performing the public utility service of collecting waste from vessels through its subsidiary Luka Koper INPO, d. o. o., which acted as its performance assistant, performing the service being authorised by the parent company as operator of the Port of Koper. After the concession Agreement was concluded between the Republic of Slovenia and Luka Koper, d. d. in 2008, Luka Koper INPO, d. o. o. was performing services on the basis of a new contract. Luka Koper INPO, d. o. o. is fully controlled by Luka Koper, d. d. and the companies are considered to form a single economic unit based on the settled case law of the European Court of Justice. As at 1 January 2017, the companies signed an annex to the agreement stipulating, among others, that as at 1 January 2017, Luka Koper INPO, d. o. o. as the performance assistant shall perform the public utility service of collecting waste from vessels in the Koper port area in the name and for the account of Luka Koper, d. d.

Port and logistic activities

The core port activity of throughput and warehousing is carried out at twelve specialised port terminals. 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,
Bulk cargo terminal,
Dry bulk terminal,
Alumina terminal,
Silo terminal,
Passenger terminal.

Each terminal has its own characteristics depending on its 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 50.7 hectares of warehouses and 109 hectares of open-air storage areas. We provide 28 berths located along 3,282 metres of quayside in 179 hectares of the sea. In terms of logistic activities, our services include:

- Management of the port area,
- Services provided by the collection and distribution centre for all types of cargo,
- Services on goods (sorting, palletising, sampling, protection, labelling, weighing, cleaning and other services), which are regularly improved in line with the development of the transport industry and the needs of our clients,
- Integrated logistics 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 respond to the customers' needs. Luka Koper INPO, d. o. o. performs services relating to port infrastructure maintenance, vehicle weighing and truck terminal management services, maritime services relating to berthing and sea protection, outdoor cleaning and landscaping services, services relating to collection, processing and management of waste, and other support services for the needs of the parent company and other users. 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.

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. specialises in providing support services relating to maintenance and public utility services. In its operations, the company remains true to its original mission, which in addition to successful commercial operation is the employment and training of disabled persons. Therefore, the company mostly introduces and develops business programmes that are both commercially attractive and manageable for disabled persons considering their working abilities. The Company has obtained the ISO 9001 certificate, guaranteeing the highest quality of its services, and the ISO 14001 certificate to prove its responsibility to the environment.

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 'disability 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 disability company.

Hospitality

Luka Koper Pristan, d. o. o. offers hotel industry, accommodation, catering and congress services, and organises a variety of events in the Garni Hotel Pristan. The Company also manages an accommodation facility in Prisoje.

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 provision 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, which has been renewed on a regular basis and upgraded by new accredited test methods. The certificate of golden credit rating excellence awarded to the company in the years 2015 and 2016 is an evidence and indicator of successful performance of the company.

Hinterland logistic activity

Sežana

Luka Koper, d. d. owns the following in Sežana:

- Property in the area of the operational terminal managed by Adria Terminali, d. o. o. (wholly-owned by Luka Koper, d. d.),
- Property in the immediate vicinity of the operational terminal, which is not used.

Adria Terminali, d. o. o. manages the hinterland logistics terminal in Sežana. Its operation focuses on the throughput and warehousing of various kinds of goods, particularly general cargoes with iron products and wood pellets as well as collective and conventional throughput in container transport. Well-connected to the railway and road infrastructure, the terminal comprises nearly 50,000 m2 of storage facilities and boasts state-of-the-art machinery for handling goods. As a land terminal manager, the company endeavours to attract goods flows in the inland transport from Central and East European markets.

Prekmurje

In 2008, the company Logis Nova, d. o. o. was established for the purpose of the acquisition of land in the area of the originally planned logistics 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 for purchasing agricultural land were carried out and the ownership consolidation implemented. Since then, Luka Koper, d. d. has been the 100% owner of the company. The Company has 64.9ha of land, of which all the agricultural land has been cultivated since the project for a logistics centre came to a standstill.

In late October 2016, a contract was concluded on the basis of a tender, under which the entire complex, with the exception of 1 ha of land in co-ownership, was awarded to the best bidder as at 1 January 2017 for a long-term lease until the end of 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 2017

The global economy continued to grow throughout 2017[6]. Economic activity is estimated to have increased beyond the original forecasts, by 3.7%. Growth was particularly strong in Europe and Asia. Global economic growth is expected to continue also thanks to the envisaged impact of the recently approved U.S. tax reform.

[6] Source: https://www.imf.org/en/Publications/WEO/Issues/2018/01/11/world-economic-outlook-update-january-2018

The Institute of Macroeconomic Analysis and Development of the Republic of Slovenia (UMAR)[7] had forecasted 4.4% economic growth for Slovenia in 2017. The key drivers of growth in 2017 included high export growth rate, and the impact of the government investment trends. As still the main driver of GDP growth, export is said to have grown by 8.8% in 2017. After a 3.6% decline in 2016, gross investment was expected to increase by 9%.

2017 was an outstanding year of records in global financial markets, with synchronous global economic growth and highest risk-adapted returns in the history of stock markets. The MSCI AC World Index, which includes a diverse portfolio of equities from countries worldwide, saw growth in all 12 months of the year for the first time in its history, concluding its record year with a 24.7% return in USD, or 9.3% total return in EUR.

4.3 Comparative analysis with the competition

GROWTH IN CONTAINER THROUGHPUT

For the largest container shipping companies, 2017 was the first profitable year after 2010. Estimated at between 2.8 and 3.2%, global GDP growth contributed to a rise in international trade and, as a result, a rise in container transport globally. In 2017, global container transport exceeded 200 million TEU.

The stable economic growth seen in the EU throughout 2017 (+2.4%), is expected to continue into 2018. The average growth on all 'West – East' trade routes connecting Asia, North America and Europe was 5%, while 'North – South' trade routes saw an average growth rate of 3.4%.

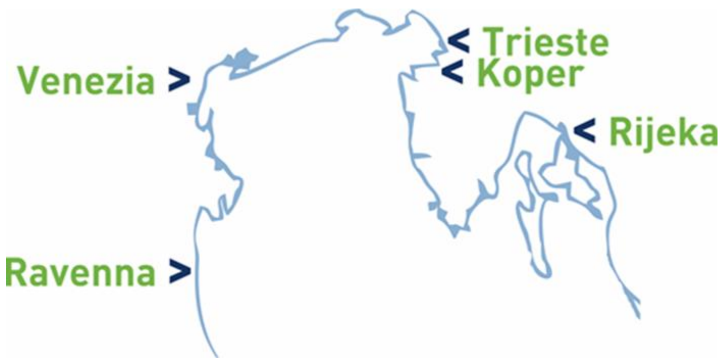
In terms of container transport and container shipping companies, the year 2017 was marked by mergers, takeovers, and consolidation. As this is the only way shipping companies can remain competitive at global level, the trend is expected to continue into 2018 and the coming years. Forecasts suggest that 5 to 6 large container shipping companies will integrate in only 3 alliances instead of 5 as in the recent years (2M, Ocean Alliance, The Alliance). As a result, ship capacities will increase on the key trade routes.

In 2017, ship freight rates stabilised on all trade routes, allowing for stable performance and growth of shipping companies. In the first six months of 2017, the price of oil was a major factor. When the price started to pick up again in the second half of 2017, this affected the financial results of all shipping companies.[8]

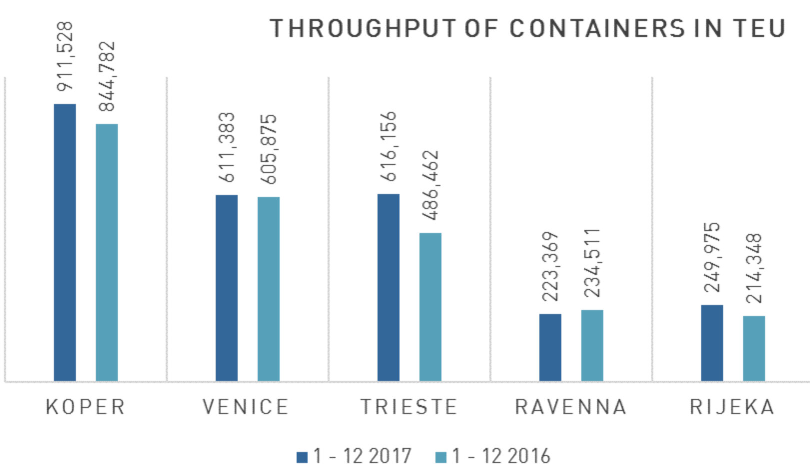
[7] Source: Autumn Forecast of Economic Trends 2017. September 2017. Ljubljana. Institute of Macroeconomic Analysis and Development of Slovenia

[8] https://worldmaritimenews.com/

Throughput of containers in North Adriatic ports, in TEU per port[9]



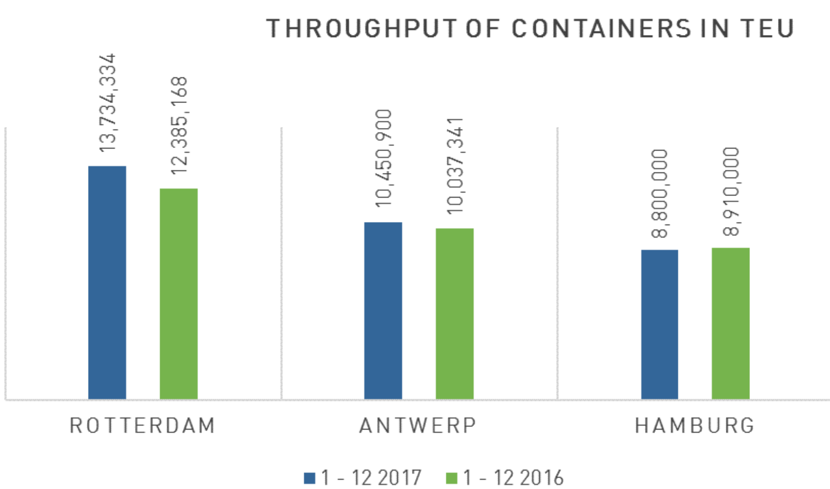
NORTH ADRIATIC PORTS	1 – 12 2017	1 – 12 2016	Index 2017/2016
KOPER	911,528	844,782	108
VENICE (Vecon + Terminal Intermodale Venezia)	611,383	605,875	101
TRIESTE (TMT + other port operators)	616,156	486,462	127
RAVENNA	223,369	234,511	95
RIJEKA (AGCT + other port operators)	249,975	214,348	117



[9] Source: Websites of the ports in question, and NAPA

Throughput of containers in the three most important North European ports, in TEU per port[10]

NORTH EUROPEAN PORTS	1 – 12 2017	1 – 12 2016	Index 2017/2016
ROTTERDAM	13,734,334	12,385,168	111
ANTWERP	10,450,900	10,037,341	104
HAMBURG	8,800,000	8,910,000	99



[10] Source: Websites of the ports in question, and NAPA

GROWTH IN CAR THROUGHPUT

According to the Economic and Market Report, EU Automotive Industry, Quarter 3 2017, released in December 2017 by ACEA[11] – European Automobile Manufacturers Association, new passenger car sales across the EU increased by 3.4% in 2017. The throughput of cars in the Port of Koper was largely affected by the rise in car sales in Spain (6.7%), Austria (7.2%), Greece (11.7%), Hungary (20.4%), and Germany (2.7%). Meanwhile, political instability was the main reason behind the decline in sales in Eastern and Southern Mediterranean countries (e.g. Turkey -2.7%).

Globally, sales were up 3.1% in the first nine months of 2017. Looking at results per country, sales grew by 4.3% in China, 9.1% in Japan, 0.1% in South Korea, 8.3% in India, and 4.1% in other countries across Asia.

From January to September 2017, the production of passenger cars in the EU remained at a level similar to that seen in 2016, declining by 0.7%. In Western European countries, car production increased by 3.2% in France, 2.4% in the UK, and 4.2% in Italy, and declined by 4.9% in Spain and 3.3% in Germany.

Fewer cars were produced also in Central European countries: in Romania, production was down 9%, in Hungary 9.7%, and in Poland 14.4%. Meanwhile, more cars were produced in the Czech Republic (4.1%) and Slovakia (3.5%).

From January to September 2017, the EU exported 4 million and imported 2.2 million passenger cars. This means a 9.5% rise in import and a 4.7% rise in export.

Due to late publication of the 2017 results on car throughput in other European ports by the magazine Automotive Logistics[12] on its website http://automotivelogistics.media/ no comparison with the competition has yet been made.

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[11] http://www.acea.be/

[12] http://automotivelogistics.media/

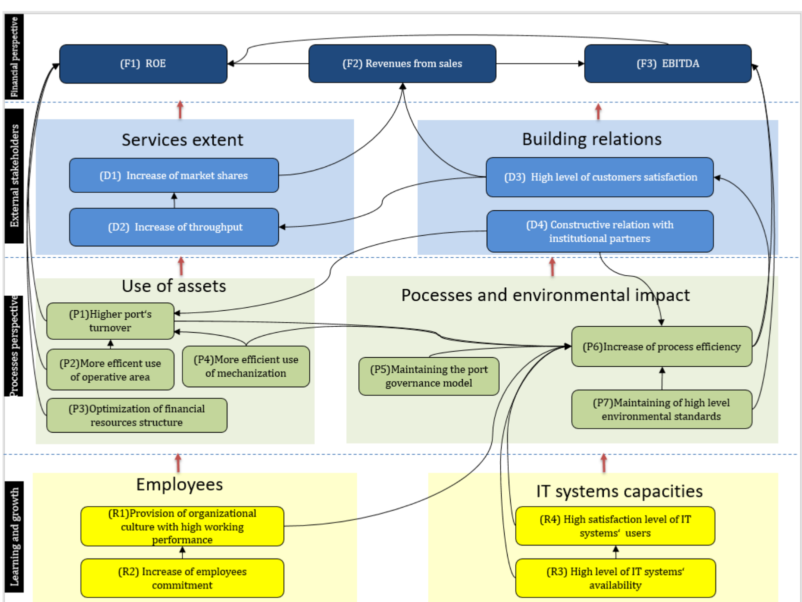
4.4 Implementation of plans, strategic objectives and outlooks in 2017

The latest Business development strategy and the revised strategic documents of the Company to 2020 with an outlook to 2030 were adopted in 2015. The 2017 annual plan was made in line with the adopted strategic concepts to make sure that activities aimed at delivering on these objectives continue. 2017 marked the start of consistent monitoring of, and quarterly reporting on the implementation of the Action Plan additionally adopted in 2016 to ensure the implementation of the activities required to achieve the strategic objectives. Adopted in order to manage the implementation of the strategy, the Action Plan comprises 4 strategic programmes:

- Increasing the throughput of containers,
- Increasing the throughput of cars,
- Increasing additional services of loading and unloading containers,
- Increasing the flow capacity of the port.

Considering the complexity and interconnection of all the factors that impact the accomplishment of the strategic objectives, such as a variety of business functions and aspects, these management activities are useful. The coordination of the strategic programmes focuses on comprehensive management of each project in terms of marketing, provision of capacity, process efficiency, adequacy of human resources, and other aspects that impact the efforts to meet the strategic objectives.

In 2017, in order to start preparations for a revision of its strategy, the Company additionally outlined its objectives in a structured matrix and made a strategy map that supports the process of reaching the strategic objectives of the Company.



In terms of quantitative implementation of the strategy, the Company saw its business results soar to new record highs in 2017. Total port throughput as well as container throughput grew at rates higher than those envisaged by the strategic documents, resulting in a considerable rise in the activity of loading and unloading containers. In car throughput, with a growing trend and new demand, transport is stable. This means that port capacities are filling up faster than expected.

It should also be noted that further implementation of the strategy will face some vital challenges relating to the timely provision of adequate and sufficient capacities that are crucial for a further increase in transport. Delays in permitting processes, the complexity of administrative procedures, and unexpected complications are deferring the implementation of key investment projects. This mostly concerns:

- Extension of Pier I in compliance with the National Spatial Plan,
- Acquisition of new land for car storage in compliance with the National Spatial Plan,
- Resolution of all status issues concerning access.

Other important challenges on the way to achieving the strategic objectives, which were detected in 2017 and will be addressed more thoroughly in 2018, also include:

- Model of port service providers,
- Fee on throughput as a way to finance the project for the second track of the Koper – Divača railway line, which is an additional cost for the Company,
- Delay of the start of construction of the second track, which was originally expected to be operational in end-2025.

All the strategic documents of the Company will be revised in 2018.

4.5 Implementation of business objectives in 2017

The key financial ratios of Luka Koper, d. d. and the Luka Koper Group in 2017 compared to the plan for 2017

	Luka Koper, d. d.			Luka Koper Group		
Income statement	2017	PLAN 2017	IND 2017/ PLAN 2017	2017	PLAN 2017	IND 2017/ PLAN 2017
Net sales	206,835,533	209,570,765	99	211,438,377	215,383,022	98
Earnings before interest and taxes (EBIT)	35,032,311	53,348,775	66	36,639,872	54,652,350	67
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	62,570,820	80,391,487	78	65,087,648	82,590,452	79
Profit or loss from financing activity	1,385,636	572,440	242	-377,307	-816,253	46
Profit or loss before tax	36,417,947	53,921,215	68	37,952,498	55,043,884	69
Net profit or loss	33,143,408	46,521,694	71	34,982,789	47,463,951	74
Added value[13]	115,524,196	129,151,100	89	124,516,296	137,714,935	90

Statement of financial position	31 Dec 2017	PLAN 31 Dec 2017	IND 2017/ PLAN 2017	31 Dec 2017	PLAN 31 DEC 2017	IND 2017/ PLAN 2017
Assets	518,952,908	511,606,743	101	536,478,688	523,094,478	103
Non-current assets	447,568,391	469,829,563	95	459,505,654	480,097,504	96
Current assets	71,384,517	41,777,180	171	76,973,034	42,996,973	179
Equity	320,652,651	338,776,121	95	350,437,387	367,038,642	95
Non-current liabilities with provisions and long-term accruals and deferred revenue	156,033,161	129,868,277	120	142,700,743	112,745,028	127
Short-term liabilities	42,267,096	42,962,345	98	43,340,558	43,310,808	100
Financial liabilities	133,114,842	137,377,452	97	117,114,842	117,347,122	100

[13] 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		
Investments	2017	PLAN 2017	IND 2017/ PLAN 2017	2017	PLAN 2017	IND 2017/ PLAN 2017
Investments in property, plant and equipment, investment property and intangible assets	36,661,385	57,288,481	64	37,342,062	58,096,302	64

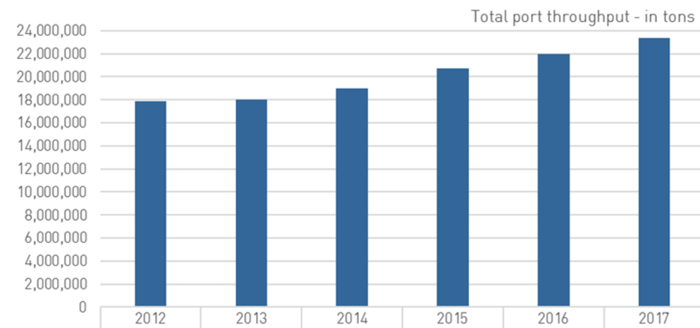
Ratios (in %)	2017	PLAN 2017	IND 2017/ PLAN 2017	2017	PLAN 2017	IND 2017/ PLAN 2017
Return on sales (ROS)[14]	16.9%	25.5%	67	17.3%	25.4%	68
Return on equity(ROE)	10.6%	14.4%	73	10.3%	13.6%	76
Return on assets (ROA)	6.7%	9.5%	71	6.8%	9.4%	73
EBITDA margin[15]	30.3%	38.4%	79	30.8%	38.3%	80
EBITDA margin from market activity[16]	30.8%	41.3%	75	31.3%	41.2%	76
Financial liabilities/equity	41.5%	40.6%	102	33.4%	32.0%	105
Net financial debt /EBITDA[17]	1.7	1.7	99	1.3	1.4	93
Dividend payout ratio	33.6%	22.5%	149	33.6%	22.5%	149

Port throughput (in tons)	2017	PLAN 2017	IND 2017/ PLAN 2017	2017	PLAN 2017	IND 2017/ PLAN 2017
Port throughput	23,366,959	22,767,168	103	23,366,959	22,767,168	103

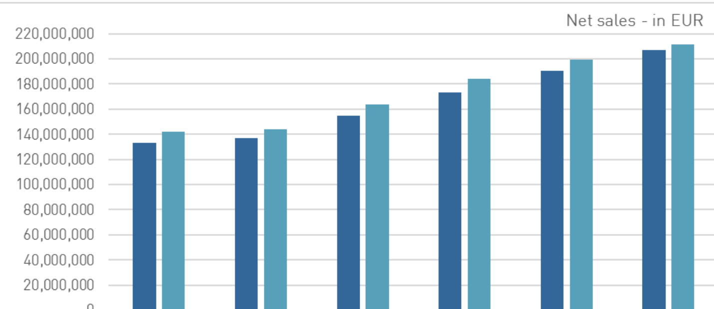
Number of employees	2017	PLAN 2017	IND 2017/ PLAN 2017	2017	PLAN 2017	IND 2017/ PLAN 2017
Number of employees	926	931	99	1,108	1,120	99

[14] Return on sales (ROS) = earnings before interest and taxes (EBIT) / net sales
[15] EBITDA margin = earnings before interest, taxes, depreciation and amortisation (EBITDA) / net sales
[16] EBITDA margin from market activity = earnings before interest, taxes, depreciation and amortisation (EBITDA) / net sales from market activity
[17] Net financial debt /EBITDA = (financial liabilities – cash and cash equivalents)/EBITDA

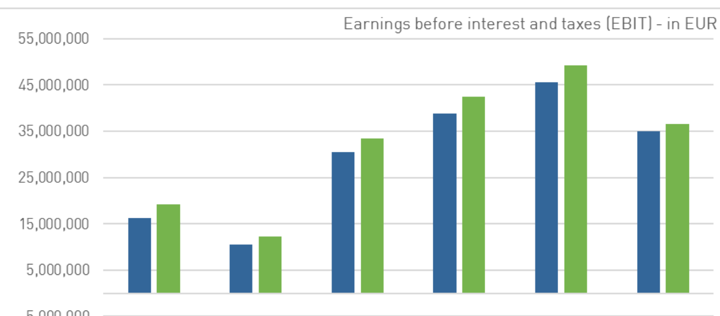
4.6 5-year trends



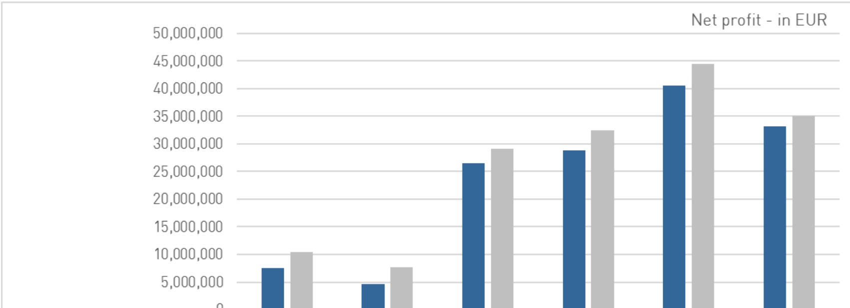
	2012	2013	2014	2015	2016	2017
Luka Koper, d. d.	17,880,698	17,999,662	18,965,351	20,711,872	22,010,657	23,366,959



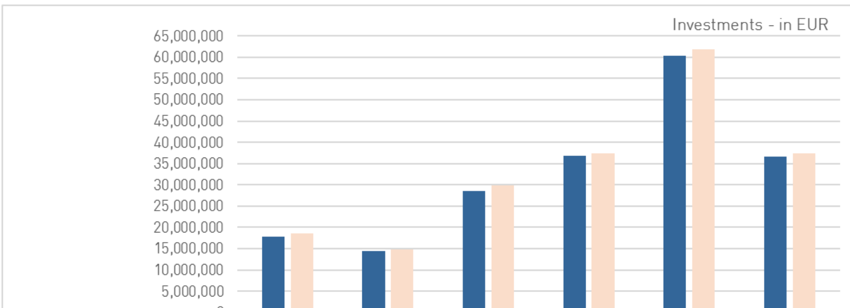
	2012	2013	2014	2015	2016	2017
Luka Koper, d. d.	133,329,178	136,808,792	154,464,507	173,277,749	190,407,498	206,835,533
Luka Koper Group	141,732,087	144,235,477	163,595,376	184,273,472	199,543,696	211,438,377



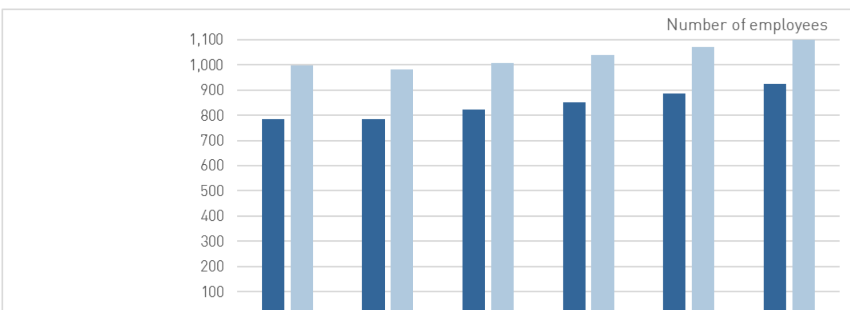
	2012	2013	2014	2015	2016	2017
Luka Koper, d. d.	16,249,361	10,560,216	30,474,904	38,826,283	45,536,427	35,032,311
Luka Koper Group	19,184,237	12,201,713	33,381,026	42,420,503	49,325,438	36,639,872



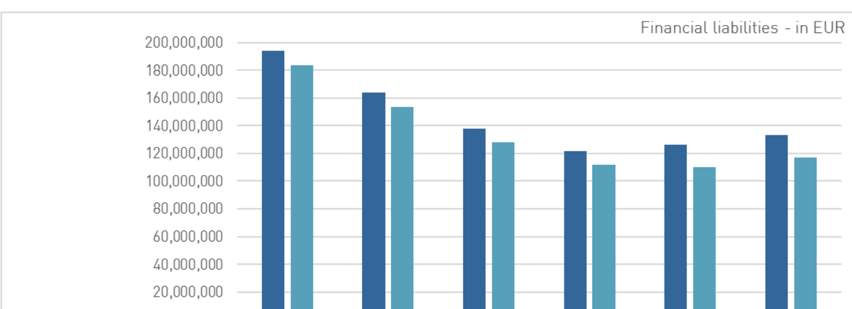
	2012	2013	2014	2015	2016	2017
Luka Koper, d. d.	7,527,590	4,612,246	26,448,414	28,845,074	40,581,116	33,143,408
Luka Koper Group	10,498,559	7,749,500	29,098,342	32,414,723	44,375,981	34,982,789



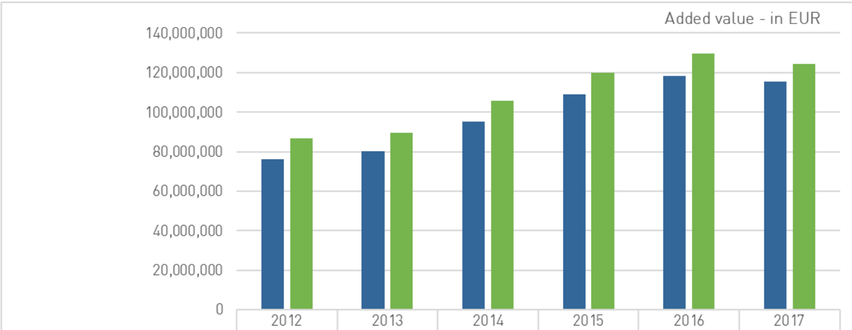
	2012	2013	2014	2015	2016	2017
Luka Koper, d. d.	17,768,219	14,522,369	28,485,811	36,871,798	60,313,916	36,661,385
Luka Koper Group	18,639,095	14,825,864	29,958,975	37,402,753	61,781,064	37,342,062



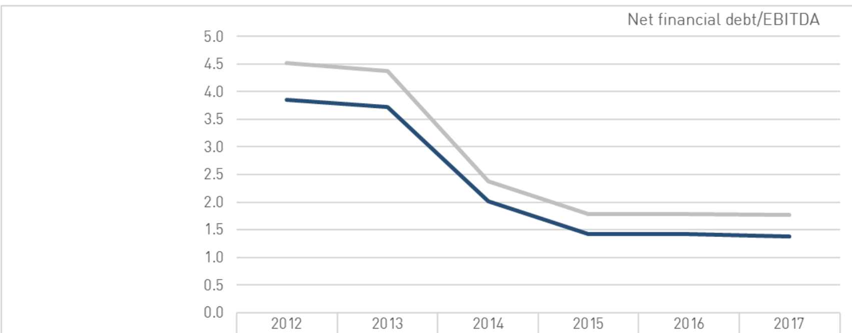
	2012	2013	2014	2015	2016	2017
Luka Koper, d. d.	785	784	824	852	886	926
Luka Koper Group	999	982	1,009	1,040	1,071	1,108



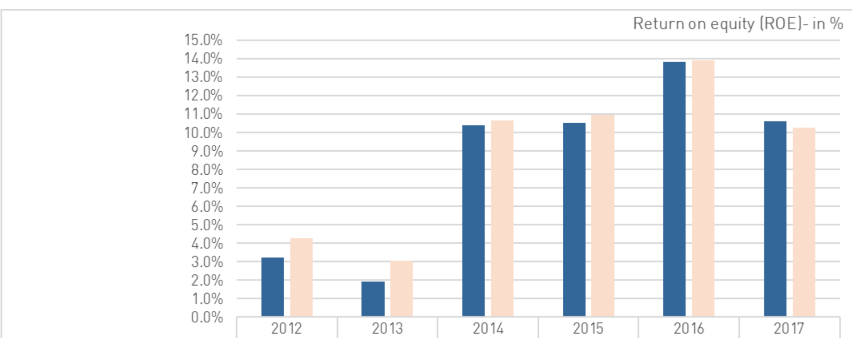
	2012	2013	2014	2015	2016	2017
Luka Koper, d. d.	193,872,630	163,889,772	138,202,764	121,896,954	126,332,908	133,114,842
Luka Koper Group	183,799,962	153,750,652	128,146,556	111,866,534	110,332,958	117,114,842



	2012	2013	2014	2015	2016	2017
Luka Koper, d. d.	76,242,198	80,085,543	95,235,916	108,912,973	118,409,242	115,524,196
Luka Koper Group	86,787,095	89,637,816	105,591,082	120,029,932	129,692,675	124,516,296



	2012	2013	2014	2015	2016	2017
Luka Koper, d. d.	4.5	4.4	2.4	1.8	1.8	1.8
Luka Koper Group	3.9	3.7	2.0	1.4	1.4	1.4



	2012	2013	2014	2015	2016	2017
Luka Koper, d. d.	3.2%	1.9%	10.4%	10.5%	13.8%	10.6%
Luka Koper Group	4.3%	3.0%	10.7%	10.9%	13.9%	10.3%

4.7 Macroeconomic environment

Trends like globalisation, demographic shifts, technological development and climate change will shape the future of the global transport sector in the coming decades, with implications including higher investment, higher energy costs, and shrinking of the workforce, according to a study conducted by the European Transport Workers' Federation (EFT).

Industry will shift to airports and harbours as hubs integrated into main transport corridors. The organisation of goods transport around such hubs will have a key function, making growing logistics companies increasingly important and influential. Infrastructure capacities will need to be expanded. Further integration of the supply chain will be vital:

- Connections with the hinterland are turning into ports' main advantages.
- Ports are acquiring a different role, becoming increasingly active players in the supply chain.
- Shipping companies, logistics service providers, and terminal operators are going global: by increasing their market power, they are building a stronger negotiating position.

The vital trends to shape the future of ports and maritime transport worldwide include:

- Globalisation, population growth, and natural resource scarcity,
- Energy transition and bioeconomy,
- Digitisation of logistics,
- 3D printing, i.e. additive manufacturing,
- Security,
- Skilled, high-quality workforce,
- Further integration of the supply chain,
- Increase in transport,
- Sustainable development.

4.8 Forecasts of the economic environment in 2018

In its forecasts, the International Monetary Fund (IMF)[18] projects global economic growth of 3.9% for 2018 and 2019.

In many economies of the Eurozone, especially Germany, Italy and the Netherlands, growth rates reflect the stronger momentum in domestic demand as well as higher external demand. The relatively high growth forecast for the Netherlands (2.6%) is largely a result of the substantial throughput of goods for the EU via Rotterdam, the leading European port. The growth forecasts for 2018 have also been revised for other advanced economies, reflecting in particular stronger growth in advanced Asian economies, for instance in Japan, where growth is estimated at 1.2%.

The aggregate growth forecast for the emerging markets and developing economies for 2018 remains unchanged (4.9%), with marked differenced across regions. Emerging and developing Asia is expected to grow at around 6.5% in 2018, broadly the same pace as in 2017. Asia continues to account for more than half of world growth. Growth is expected to moderate gradually in China, pick up in India, and remain broadly stable in the ASEAN-5 region. In the emerging markets of Europe, where growth in 2017 exceeded 5%, forecasts for 2018 have been revised up, mainly thanks to higher growth forecasts for Poland and especially Turkey. Growth in the Middle East and North Africa is also expected to pick up in 2018, to around 3.6%.

The Institute of Macroeconomic Analysis and Development of the Republic of Slovenia (UMAR)[19] forecasts economic growth of 3.9% for Slovenia in 2018. In the coming years, growth will see increasing impacts of demographic trends as they lead to lower employment growth, lower disposable income, and lower private consumption.

Export will remain the key driver of GDP growth in Slovenia, with 2018 and 2019 export growth projected at 7.5% and 6.1%, respectively. Although export growth will be slightly outweighed by the growth in imports, external trade will have a positive impact on growth.

The pickup in export growth reflects the higher external demand as economic activity has firmed up in most of the main trade partners. At the same time, export efficiency has increased considerably after growing steadily since 2011. Export growth is expected to remain high in the coming year. Gross investment will also increase: after a 3.6% decline in 2016, growth of 8% and 7% is projected for 2018 and 2019, respectively.

[18] Source: World Economic outlook: Brighter Prospect, Optimistic Markets, Challenges Ahead. January 2018. International Monetray Fund.

[19] Source: Autumn Forecast of Economic Trends 2017. September 2017. Ljubljana. Institute of Macroeconomic Analysis and Development of Slovenia.

Forecasts of economic growth in the key hinterland trade partners[20] [21]

Area/country	Forecast 2017	Forecast 2018
EU	2.0	1.9
Eurozone	1.9	1.8
Germany	1.8	1.8
Italy	1.1	1.0
Austria	2.0	1.7
Hungary	3.7	3.4
Slovakia	3.1	3.5
Czech Republic	3.2	2.7
Poland	3.6	3.3
Serbia	2.6	3.0

[20] Source: Source: Autumn Forecast of Economic Trends 2017. September 2017. Ljubljana. Institute of Macroeconomic Analysis and Development of Slovenia.
[21] Source: EIU; Factiva, September 2017. Izvozno okno: https://www.izvoznookno.si/Dokumenti/Podatki_o_drzavah/

4.9 Business objectives for 2018

Key operating ratios of Luka Koper, d. d. and the Luka Koper Group in 2018

(in EUR)	Luka Koper, d. d.			Luka Koper Group		
Income statement	**2017**	**PLAN 2018**	**IND PLAN 2018/2017**	**2017**	**PLAN 2018**	**IND PLAN 2018/2017**
Net sales	206,835,533	228,026,929	110	211,438,377	231,788,400	110
Earnings before interest and taxes (EBIT)	35,032,311	55,429,502	158	36,639,872	56,635,127	155
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	62,570,820	83,547,975	134	65,087,648	85,515,760	131
Profit or loss from financing activity	1,385,636	1,029,491	74	-377,307	-17,244	5
Profit or loss before tax	36,417,947	56,458,993	155	37,952,498	58,065,037	153
Net profit or loss	33,143,408	47,724,065	144	34,982,789	49,125,460	140
Added value[22]	115,524,196	138,279,339	120	124,516,296	145,977,102	117
Statement of financial position	**31 Dec 2017**	**PLAN 31 Dec 2018**	**IND PLAN 2018/2017**	**31 Dec 2017**	**PLAN 31 Dec 2018**	**IND PLAN 2018/2017**
Assets	518,952,908	534,847,358	103	536,478,688	552,871,422	103
Non-current assets	447,568,391	469,852,225	105	459,505,654	480,994,107	105
Current assets	71,384,517	64,995,133	91	76,973,034	71,877,314	93
Equity	320,652,651	365,559,273	114	350,437,387	396,745,405	113
Non-current liabilities with provisions and long-term accruals and deferred revenue	156,033,161	120,512,208	77	142,700,743	106,846,229	75
Short-term liabilities	42,267,096	48,775,877	115	43,340,558	49,279,788	114
Financial liabilities	133,114,842	117,054,443	88	117,114,842	101,054,549	86
Investments	**2017**	**PLAN 2018**	**IND PLAN 2018/2017**	**2017**	**PLAN 2018**	**IND PLAN 2018/2017**
Investments in property, plant and equipment, investment property and intangible assets	36,661,385	51,927,681	142	37,342,062	52,313,081	140

[22] 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 %)	2017	PLAN 2018	IND PLAN 2018/2017	2017	PLAN 2018	IND PLAN 2018/2017
Return on sales (ROS)[23]	16.9%	24.3%	144	17.3%	24.4%	141
Return on equity(ROE)	10.6%	13.7%	129	10.3%	12.9%	126
Return on assets (ROA)	6.7%	9.2%	138	6.8%	9.0%	133
EBITDA margin[24]	30.3%	36.6%	121	30.8%	36.9%	120
EBITDA margin from market activity[25]	30.8%	38.9%	126	31.3%	39.1%	125
Financial liabilities/equity	41.5%	32.0%	77	33.4%	25.5%	76
Net financial debt /EBITDA[26]	1.7	1.2	73	1.3	0.9	72
Dividend payout ratio	33.6%	26.0%	77	33.6%	26.0%	77

Port throughput (in tons)	2017	PLAN 2018	IND PLAN 2018/2017	2017	PLAN 2018	IND PLAN 2018/2017
Port throughput	23,366,959	23,323,060	100	23,366,959	23,323,060	100

Number of employees	2017	PLAN 2018	IND PLAN 2018/2017	2017	PLAN 2018	IND PLAN 2018/2017
Number of employees	926	1,129	122	1,108	1,287	116

Business plan for 2018

The Luka Koper Group is heading into 2018 ambitiously, exceeding the objectives set in the adopted strategic business plan from 2015, especially in terms of the throughput of containers, net sales, and ROE, while falling short of the plan in terms of the timely provision of additional capacities with key new investments, where significant improvement will have to be made in 2018. In 2018, financial results will depend on further two vital factors, now still under assessment: the future of the Act regulating the construction, operation and management of the second track of the Divača-Koper railway line, now still under judicial review by the Supreme Court, and changed business model relating to port service

[23] Return on sales (ROS) = earnings before interest and taxes (EBIT) / net sales
[24] EBITDA margin = earnings before interest, taxes, depreciation and amortisation (EBITDA) / net sales
[25] EBITDA margin from market activity = earnings before interest, taxes, depreciation and amortisation (EBITDA) / net sales from market activity
[26] Net financial debt /EBITDA = (financial liabilities – cash and cash equivalents)/EBITDA

providers. Luka Koper, d. d. has considered in its Business plan for 2018 the costs of a throughput fee as of July 2018. Meanwhile, effects of the forthcoming action plan for addressing the issue of port service providers has not been included. Devised by the Management Board, a proposal for a port service provider strategy was discussed at the ordinary meeting of the Supervisory Board on 26 March 2018.

The Strategy will also be verified by adopting external expert opinions, particularly as regards its legality, economy, autonomy and business performance, and supplemented by a benchmark analysis as well as objectives and key indicators. At the same time, the Management Board will develop an action plan of strategy implementation and launch vital preparation activities.

The plan for total port throughput in 2018 is 23 million tons, broadly the same level as in 2017. The highest growth rates are envisaged in the strategic cargo groups of containers (8%) and cars (4%), while the total port throughput in 2018 will largely be affected by a decline in the throughput of dry bulk and bulk cargoes as a result of scheduled extraordinary works comprising extensive maintenance and the overhaul of a furnace of one of the customers in the hinterland.

In line with the Company strategy, investment in 2018 will focus on increasing the capacities of the container terminal in the southern part of Pier I, constructing a new Ro-Ro berth in Basin III, acquiring additional storage areas for the car and Ro-Ro terminal, and constructing a new port entrance. As the implementation of most of the key projects still depends on permitting procedures and public procurement processes, it will be vital in 2018 to continue and strengthen the constructive dialogue with all institutional stakeholders in order to start the construction works in accordance with the revised timelines. The planned value of investment in property, plant and equipment, investment property and intangible assets of Luka Koper, d. d. and the Luka Koper Group in 2018 is EUR 51.9 million and EUR 52.3 million, respectively.

Business performance highlights of Luka Koper, d. d. and the Luka Koper Group in 2018

- In 2018, net sales of Luka Koper, d. d. will total EUR 228 million, of which net sales from market activity will amount to EUR 215 million, while the revenue from the performance of public utility services will amount to EUR 13 million. Net sales of the Luka Koper Group will total EUR 232 million in 2018, with net sales from market activity amounting to EUR 219 million and those relating to the performance of public utility services to EUR 13 million. The revenue from the performance of public utility services relating to the regular maintenance of the port infrastructure is expected to increase in 2018 as the plan envisages the implementation of a major portion of the large-scale maintenance originally planned for 2017 after the maintenance plan for 2017 did not receive the approval of the Ministry of Infrastructure.

- In the 2018 plan, earnings before interest and taxes (EBIT) are projected at EUR 55 million for Luka Koper, d. d. and EUR 57 million for the Luka Koper Group.

- The Business plan places the 2018 earnings before interest, taxes, depreciation and amortisation (EBITDA) of Luka Koper, d. d. and the Luka Koper Group at EUR 84 million and EUR 86 million, respectively The EBITDA margin from market activity of Luka Koper, d. d. and the Luka Koper Group in 2018 is expected to reach 38.9% and 39.1%, respectively.

- In 2018, Luka Koper, d. d. is planned to make a net profit or loss of EUR 48 million. Meanwhile, the net profit or loss of Luka Koper Group in 2018 is expected to amount to EUR 49 million.

- Both Luka Koper, d. d. and the Luka Koper Group will additionally reduce their financial liabilities in 2018. At the end of the year, the financial liabilities of Luka Koper, d. d. are expected to total EUR 177 million, and those of the Luka Koper Group to EUR 101 million.

- The 2018 plan envisages a 13.7% return on equity (ROE) for Luka Koper, d. d. and a 12.9% ROE for the Luka Koper Group.

5 Letter of the President of the Management Board

Dear Ladies and Gentlemen,

In 2017 Luka Koper, d. d. celebrated an important anniversary marking 60 years since the establishment of the predecessor of today's public limited company. Despite its long history, the Port of Koper is the youngest of all ports in the Northern Adriatic region, yet a very dynamic one and a leader in the strategic cargo groups where competition is particularly fierce. Luka Koper's container terminal has been number one in the region ever since it took this spot in 2010. With an 8% growth in throughput in 2017, resulting in 911,528 TEU, the terminal rose above container throughput in neighbouring ports. In terms of car throughput, Koper stands out even more among other ports in the Adriatic: with 741,253 cars, it is, in fact, one of the leading car terminals in the Mediterranean. Containers and cars make the two strategic cargo groups that will receive the largest share of investment within the 5-year business strategy of the Company and the Luka Koper group. In terms of investment in the container terminal, important events in 2017 included the purchases of two new super post-panamax container cranes, to allow for throughput from and to some of the biggest container ships that sail the world's seas today, when all other conditions have been met. Additional tracks in the terminal and the acquisition of rail mounted gantry cranes and new rubber tired gantry cranes – all last year's additions – are equally vital to quicker processing of containers. In 2017, a large part of the EUR 37.3 million of total investment of the Group was invested in the container terminal. In all, investment fell short of the annual plan, especially due to lengthy permitting processes. In addition to the container terminal, the new multi-purpose warehouse should be mentioned as it was the first enclosed storage facility built in the last decade.

These sixty years were a winding path for the Company, one full of challenges. The vision, persistence and devotion of its employees, and trust and support of its business partners have been the key elements of success as well as the key drivers in meeting our strategic objective to become the leading port operator and global logistics solutions provider for the countries of Central and Eastern Europe. Today, Luka Koper, d. d. is one of the most successful businesses in its sector, its return on equity reaching 10.6% in 2017 (10.3% at Group level). The growth in throughput, which totalled 23.4 million tons in 2017, was reflected in higher revenue and better business results of the Company in general. Net sales amounted to nearly EUR 207 million, an increase of 9% over 2016 (6% at Group level). Cash flows (EBITDA) dropped by 12%, to EUR 62.6 million (14% at Group level). Net profit totalled EUR 33.1 million in 2017, down 18% year-on-year (21% at Group level).

In addition to the diamond jubilee, the Company celebrated the anniversary of another significant milestone in 2017: 50 years since the arrival of the first train. Back in 1967, connecting the port with the Slovenian and European railway networks marked a fundamental shift in development, one which paved the way for throughput growth to pick up and for Luka Koper to become firmly established in the Central European context. Without this investment, it would be impossible today to speak of Koper as the number one port for Austria's overseas trade with the world, or of Luka Koper accounting for the largest market share in Hungary and Slovakia in terms of containers. This is the reason why Luka Koper welcomes the Slovenian government's plan to construct an additional railway track between Koper and Divača; without it, the Company will not be able to meet its strategic objectives to 2030.

The fact that the results mentioned above have been achieved on the same land area as those ten years ago makes them all the more impressive. Future development of the port, alongside the construction of the second railway track, will depend also on the ability to acquire new areas for port activity, in accordance with the National Spatial Plan, starting with the extension of the container quay on Pier I. In addition to the above, the capacity and flexibility of railway transport is key to maintaining the port's competitive advantage, considering that neighbouring ports have similar plans. In one of them, works to extend the container quay to enable the berthing of two mother ships at a time are scheduled to begin in the autumn of 2018. The first port to enable higher berthing and transport flexibility for shipping companies (which are starting to integrate and contract increasingly large container ships) will be the first one to reap the reward, in terms of throughput, TEU, tons and revenue.

In 2018, the concession area of the port will extend to include the area for a new entrance for trucks at Sermin, which will be ready by the end of the year. Future plans also include access to additional areas in the hinterland of the port, mainly for the purpose of storing cars, and construction of additional berths for Ro-Ro ships in Basin III. The latter will ease the load on berths in Basin I and improve safety on the berths in Basin III, where last year extreme weather caused the collapse of a gantry crane in the bulk cargo terminal.

In addition to challenges arising on the Slovenian and international markets, the year 2018 will also be marked by the elimination of weaknesses discovered with regard to certain services, and by solving the long-term so-called 'port service provider issue'.

In 2017, the parent company celebrated another anniversary, which, even though it received less publicity, has considerable significance for the quality of the services provided by the Company for its business partners. In 1997, Luka Koper earned its first certification for quality management systems. Today, with eight certifications, its quality management system has become an integral part of the Company's business culture, affecting how well the Company is organised, how it manages its processes and resources, in what way it implements its strategy and plans, how it treats its employees, etc. Today, management systems are a necessity entities are faced with due to current challenges, and particularly due to customers and other stakeholders within the overall context of the organization.

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

6 Report of the Supervisory Board for 2017

Composition of the Supervisory Board

Until 30 June 2017 the Supervisory Board operated in the following composition: Alenka Žnidaršič Kranjc (chairperson), PhD, Elen Twrdy, PhD, Capt. Rado Antolovič, MBA, Žiga Škerjanec, Andrej Šercer, MSc, Sabina Mozetič, Mladen Jovičić, Rok Parovel and Marko Grabljevec. On 30 June 2017, the General Shareholders' Meeting, appointed for the four year mandate, which commenced on 1 July 2017, a new Supervisory Board Members, and thus, later in 2017, the Supervisory Board operated in the following composition Capt. Rado Antolovič, MBA, Uroš Ilić, MSc, Milan Jelenc, MSc, Andraž Lipolt, MSc, Barbara Nose, Sabina Mozetič, Mladen Jovičić, Rok Parovel and Marko Grabljevec. In 2017, the Supervisory Board members were in sinergy with expertise and competences, the composition of the Supervisory Board was diversified with respect to the education, professional experience, gender and age.

Operation of the Supervisory Board

First half of 2017

In 2017, the Supervisory Board in the scope of its competences was engaged in the performance of various tasks, and in the first half of 2017, under the chairmanship of Alenka Žnidaršič Kranjc, PhD, it held three regular meetings and one session by correspondence. It discussed the Annual report of Luka Koper Group and Luka Koper, d. d., criteria for the rewarding of the Management Board, conducted the self-assessment, was acquainted with the company's performance for 2010–2017, with competitive position of the company, corporate integrity in the company, the Rules on the operating of the Audit Committee and discussed the Rules on professional secrecy of the company, discussed the Annual Report of the internal audit for 2016 and the risk management system and was informed about issues concerning the impact of the Act regulating the construction, operation and the management of the second track Divača–Koper railway line. The employees' representative Mladen Jovičič was appointed in the Supervisory Board for the third time for the four years term from 8 April 2017 onwards. In 28th General Shareholders' Meeting, the Supervisory Board proposed for election for auditing of financial statements of Luka Koper, d. d., and Luka Koper Group for business years 2017, 2018 and 2019 proposed the external auditor KPMG Slovenija, podjetje za revidiranje, d. o. o. 46 resolutions, were unanimously adopted in 2017 by the Supervisory Board in a former composition.

Second half of 2017

On 14 July 2017, a new Supervisory Board held a constituent meeting. Capt. Rado Antolovič, MBA, was elected chairman, Uroš Ilić, MSc, deputy chairman. Later in 2017, the Supervisory Board besides the constituent meeting held eight ordinary and one session by correspondence (two convocations of correspondence sessions were not successful). As a key previously unrecognised company's risk the Supervisory Board recognised a risk of cooperation with the providers of port services. After a detailed insight into the company's operation, it recognised that the auditor appointed on 28th Genertal Shareholders' Meeting in 2017, conducted fort the company also non-audit services, concerning the issues concerning providers of port services, which was meanwhile the subject of a special audit, did not conclude a contract with the appointed external auditor. Since the Supervisory Board recognised the existence of a reasonable ground for the doubt upon the autonomy of the external auditor, appointed in the 28th General Shareholders' Meeting, a special auditor in the Special Audit report highlighted numerous risks right in respect of the company's contracting of port services. Therefore, at the end of 2017, the Supervisory Board in a new composition convened 29th General Shareholders' Meeting of Luka Koper d. d., in which the shareholders besides the discussed conclusions of a special auditor PwC d.o.o. and the appointment of a new external auditor of financial statements, the company BDO Revizija d.o.o., voted non confidence in the of the president of the management board and two members of the management board. On 29 December 2017 at the last, 8th session in 2017, the Supervisory board, recalled the president of the management board Dragomir Matić, member of the management board Andraž Novaka and member of the management board Irena Vincek and appointed a new president of the management board Dimitrij Zadel, member of the management board Metod Podkrižnik and member of the management board Irma Gubanec. Besides the rejection of the company's business plan for 2018 and company's strategy on the cooperation with providers of port services, the Supervisory Board recognised previously unrecognised risks of the port's security, which regretfully in the course of the year showed as justified, since on 29 July 2017, a fatal accident at work occurred. Since one of the parties involved in the aforesaid accident was a member of the supervisory board – employee's representative, the Supervisory Board due to conflicts of interests discussed this issue in his absence. Recognition, disclosure, management and remedies of conflicts of interests the Supervisory Board consistently and proactively implemented also in other cases, whereby the individual members in compliance with the principle of proportionality , excluded from voting, from decision-making or renounced the receipt of the material. In this regard, the Supervisory Board always established and implemented what was in the best interests of the company.

In the monitoring of the performance of Luka Koper, d. d. and Luka Koper Group, the Supervisory Board paid a lot of attention to the risk management, monitoring of the company's performance and company's investments, long-term development and long-term development and competitive position of the company, renewal of work processes from the point of view of safety and relationship with the key stakeholders.

Besides the above mentioned activities, the Supervisory Board discussed the following relevant topics:

- In the July meeting, on 28 July 2017, the cooperation of the company with SDH and pending legal cases;

- In the August meeting, on 30 August 2017, it appointed a new external member of the Audit Committee, Matejo Kupšek, discussed the cooperation of the company with contentious suppliers and checked the compliance of the employment contracts of the Management Board in accordance with the applicable legislation;
- In the September meeting, on 22 September 2017 discussed the implementation of company's investment plan, Strategy of performance of the core port's activity for 2018–2020 and was acquainted with procedure related to the purchase of property,
- In the October meeting, on 13 October 2017 adopted the Guidelines for the selection and insurance of autonomy of the auditor of the financial statements of the Luka Koper Group and Luka Koper, d. d., discussed the draft of the report of a special auditor, Report on safety and helth at work, report on risk management and management of subsidiary and associated companies, digitization of the performance and activities of the management board in relation to the Act regulating the construction, operation and the management of the second track Divača–Koper railway line;
- In the November meeting, it convened the 29th Company's General Shareholders Meeting. On the basis of the findings from the special audit report, that by contracting the port services, the company was exposed to relevant risks, and charged the Management Board to prepare an action plan;
- In the December meeting, on 15 December 2017, the Supervisory Board started the nomination procedure for the appointment of new members of the management board, in the last session in 2017, on 29 December 2017, besides the aforesaid change in the management board, appointed Uroš Ilić, MSc, as chairman of the Supervisory Board and Andraž Lipolt, MSc., deputy chairman.

From 266 resolutions, adopted by a new Supervisory Board in a new composition in the second half of the year, 94 percent were adopted unanimously.

Work of the Supervisory Board committees

In the first half of 2017, in the framework of the Supervisory Board operated the HR Committee , Audit Committee and the Committee for infrastructure and operations. By constituting a new Supervisory Board on14 July 2017, the Supervisory Board instead of the Committee for infrastructure and operations established two Committees – Committee for investments and Committee for organisation and processes, which made possible the conduct of the due diligence by new members of the Supervisory Board.

HR Committee
First half of 2017

In the first half of 2017, the HR Committee operated in the following composition: Capt. Rado Antolovič, MBA (chairman), Andrej Šercer (member), MSc, Sabina Mozetič (member) and Rok Parovel (member). The HR Committee held two meetings, in which it discussed the criteria for determining the variable part of the salary for the Management Board Members and implemented the self-assessment.

Second half of 2017

By the constitution of a new Supervisory Board, also a new HR Committee was constituted and in the constituting meeting held on 28 July 2017 it was informed about the work of the HR Committee from previous years and revised previously unrealised resolutions. HR Committee in a new composition is chaired by Uroš Ilić, MSc, HR Committee members in 2017 were also Milan Jelenc, MSc, Andraž Lipolt, MSc and Rok Parovel. The Committee held five regular and two sessions by correspondence and discussed the employment contracts of the Management Board members and their compliance with the legislation, training and rewarding of the Management Board members and implemented the nomination procedure for new Management Board members.

Audit Committee

First half of 2017

In the first half of 2017, the Audit Committee of the Supervisory Board operated in the following composition Žiga Škerjanc (chairman), Alenka Žnidaršič Kranjc, PHd (member), Mladen Jovičić (member) and Polona Pergar Guzaj (external member). The committee in this composition met in 3 ordinary and one session by correspondence. In the first half of 2017, the Audit Committee among others:

- Adopted the Plan of the Audit Committee for 2017, discussed the audited Annual Report of Luka Koper Group and Luka Koper, d. d., for 2016, monitored and discussed the financial reporting procedures, discussed the reports on risk management and the operation of internal controls, reports on public information and corporate integrity reports and discussed the Rules on the Audit Committee, which was submitted for adoption to the Supervisory Board. The Audit Committee also proposed a candidate for the conduct of the statutory audit of the performance of Luka Koper, d.d. its subsidiaries and Luka Koper Group for business years 2017, 2018 and 2019 and self-assessed its operation.

Second half of 2017

From 14 July 2017 onwards, the Audit Committee operated in a new composition: Barbara Nose (chairperson, specialist auditor), Uroš Ilić, MSc. (member), Milan Jelenc, MSc (member) and Mladen Jovičić (member), from 30 August onwards, also the external member Mateja Kupšek. The Audit Committee in a new composition held 7 ordinary meetings and 2 sessions by correspondence. The Audit Committee in a new composition from the date of taking up the office:

- proposed the replacement of the candidate for the carrying-out of the statutory audit of Luka Koper d.d. and its subsidiaries and Luka Koper Group for business years 2017, 2018 and 2019, with a view of ensuring the autonomy of the auditor and respect of new Guidelines for the selection and insurance of the autonomy of the auditor, which do not allow the auditor of Luka Koper, d.d. and Luka Koper Group the performance of the non-audit services;
- implemented the procedure for the selection of the candidate for the auditor of financial statements based on the submission of tenders and in compliance with the EU Directive No. 537 on special requests in relation to the statutory audit of public-interest entities;
- discussed a new contract with an authorised auditor for business years 2017, 2018 and 2019 and monitored the procedure of external auditing of financial statements with emphasis on the cooperation in the determination of the scope of the audit;
- discussed the report of a special auditor concerning the contracting of the port services;
- discussed interim reports on performance of Luka Koper, d. d. and Luka Koper Group of the Management Board, suppliers, sponsorships and donations and risk management, pending legal cases, corporate integrity, public information, tax and IT risks, introduction of new IFRS and non-financial reporting and criteria for allocating costs, revenue, assets and their resources on GJS, etc;
- discussed the reports of the internal auditor on performed regular and extraordinary internal audits and reports on the implementation of internal audit recommendations;
- performed other tasks in accordance with its respective powers and authorisations of the Supervisory Board.

The Audit Committee regularly reported about its operations to the Supervisory Board, made recommendations and upgraded the discussed reports by requests upon more quality and efficient reporting and risk management, with emphasis on the insurance of compliance, cost effectiveness and management of potential conflict of interests.

Committee for infrastructure and operations

In the first half of 2017, also the Committee for infrastructure and operations operated , who met on three ordinary meetings. The Committee operated in the following composition: Elen Twrdy (chairperson), Capt. Rado Antolovič, MBA (member), Andrej Šercer, MSc (member), Marko Grabljevec (member). In this meeting, it discussed and it was informed about the implementation of the investment plan in 2016 and in the first half of 2017 and the report on the status of the projects, monitoring of short-term actions for the increase in productivity for January–December 2016, sale of property as well as eligibility and the progress of various investments.

Committee for investments

By constituting a new Supervisory board on 28 July 2017, also a new Committee for investments was constituted. The Committee held the constituting meeting and four meetings and it operated in the following composition: Andraž Lipolt, MSc (president), Milan Jelenc MSc (member), Sabina Mozetič (member), Marko Grabljevec (member). The Committee discussed and it was informed about the implementation of the investment plan and reasons for discrepancy, investments plan draft for 2018 and proposed the improvement of the investment plan in compliance with internal rules on the management and implementation of investments, management of public procurement procedures. The Committee was informed about the assets and way of spending assets of the public utility service, role of internal audit in the company in the implementation of investments, feasibility studies and sale of property.

Committee for organisation and processes

By constituting a new Supervisory Board on 28 July 2017, also a new Committee for organisation and processes in the following composition Capt. Rado Antolovič, MBA (chairman), Andraž Lipolt, MSc (member), Barbara Nose (member), Rok Parovel (member) and Mladen Jovičič (member). The Committee held a constituent meeting and three ordinary meetings and discussed strategy of port activity, issues concerning providers of port services, monitored the impacts of short-term actions on the increase in productivity and recommended the implementation of actions for the reduction of the risk on dependence on providers of port services, by risk management, ethics and legality.

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

In 2017, the average presence in the Supervisory Board meetings and Committees meetings was 90 percent. The absences are shown in the table below.

Meeting No	Date of meeting	Absent members
Supervisory Board meetings		
26th ordinary meeting	24 February 2017	Mladen Jovičić
27th ordinary meeting	31 March 2017	/
28th ordinary meeting	12 May 2017	/
18th session by correspondence	17 May 2017	/

Constituent meeting	14 July 2017	Marko Grabljevec
1st ordinary meeting	28 July 2017	Sabina Mozetič
2nd ordinary meeting	30 August 2017	Sabina Mozetič
3rd ordinary meeting	22 September 2017	Sabina Mozetič
4th ordinary meeting	13 October 2017	/
1st session by correspondence	25 October 2017	/
5th ordinary meeting	13 November 2017	Capt. Rado Antolovič, Milan Jelenc, MSc Sabina Mozetič
6th ordinary meeting	24 November 2017	Sabina Mozetič, Marko Grabljevec
7th ordinary meeting	15 December 2017	Capt. Rado Antolovič ,Marko Grabljevec
8th ordinary meeting	29 December 2017	/
Meetings of the HR Committee		
17th ordinary meeting	24 February 2017	/
18th ordinary meeting	12 May 2017	/
Konstitutivna seja	28 July 2017	/
1st ordinary meeting	30 August 2017	/
1st session by correspondence	16 August 2017	/
2nd ordinary meeting	21 September 2017	Andraž Lipolt, MSc
2nd session by correspondence	2 November 2017	/
3rd ordinary meeting	15 December 2017	/
4th ordinary meeting	20 December 2017	/
5th ordinary meeting	29 December 2017	/
Meetings of the Committee for infrastructure and operations		
22nd ordinary meeting	24 February 2017	/
23rd ordinary meeting	31 March 2017	/
24th ordinary meeting	12 May 2017	/
Meetings of the Committee for Investment		
Constituent meeting	28 July 2017	Sabina Mozetič
1st ordinary meeting	29 August 2017	Sabina Mozetič
2nd regular meeting	21 September 2017	Sabina Mozetič, Milan Jelenc, MSc
3rd ordinary meeting	11 October 2017	/
4th ordinary meeting	8 December 2017	/
Meetings of the Committee for organisation and processes		
Constituent meeting	28 July 2017	

1st ordinary meeting	30 August 2017	
2nd ordinary meeting	22 September 2017	/
3rd ordinary meeting	24 November 2017	mag. Andraž Lipolt, Barbara Nose
Meetings of the Audit Committee		
23rd ordinary meeting	24 February 2017	Mladen Jovičić, Polona Pergar Guzaj
24th ordinary meeting	31 March 2017	Alenka Žnidaršič Kranjc, PHd
25th ordinary meeting	12 May 2017	Polona Pergar Guzaj
3rd session by correspondence	26 May 2017	/
Constituent meeting	28 July 2017	Polona Pergar Guzaj
1st ordinary meeting	28 August 2017	/
1st session by correspondence	1 September 2017	/
2nd ordinary meeting	22 September 2017	/
2nd session by correspondence	29 September 2017	/
3rd ordinary meeting	12 October 2017	/
4th ordinary meeting	24 October 2017	/
5th ordinary meeting	24 November 2017	/
6th ordinary meeting	13 December 2017	Mladen Jovičić, Milan Jelenc, MSc
7th ordinary meeting	29 December 2017	Mladen Jovičić

Assessment of the work of the Supervisory Board

The Supervisory Board did not carry out the self- assessment for 2017 according to the self-assessment questionnaire of the Audit Committee, as proposed by the Slovenian Directors' Association (SDA), adopted an action plan for the improvement of the quality of its work.

Costs of operation of the Supervisory Board

Based on provisions of Article 25 of the Articles of Association of Luka Koper, d. d., the General Shareholders Meeting, on 28 December 2017 until revoke adopted a decision on the determination of the rewarding for the performance of duties and attendance fee of the Supervisory Board members and members of the Supervisory Board Committees, and thereby it eliminated the non-compliance with the Corporate Governance Code for listed companies, recognised by the Supervisory Board in a new composition. In 2017, a legal basis for the payments was the resolution of the General Shareholder's Meeting of 21 August 2015.

In the 4th meeting held on 13 October 2017, the Supervisory Board determined the rewarding of the external members of the Audit Committee of the Supervisory Board, who for the performance of work in the Audit Committee, receives the same pays as the Member of the Supervisory Board member for its performance of work in the Committee.

The external member of the Audit Committee is in the same way as the Members of the Supervisory Board entitled to the refund of travel expenses and other expenses related to the arrival and the participation in the meetings.

Payments to individual Members of the Supervisory Board and Members of Committees and other costs are presented in detail in the Accounting Report of Luka Koper, d. d., in Note No. 31 Transactions with related parties.

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 Luka Koper Group for the year 2017 in its 11th ordinary meeting and the proposal of the Management Board for the appropriation of the accumulated profit.

By verifying the Annual report and financial statements with notes, the proposal of the Management Board for the appropriation of the accumulated profit and the review of a certified auditor, the Supervisory Board adopted the audited Annual Report of Luka Koper, d. d., and Luka Koper Group for the year 2017.

By adopting the Annual Report, the Supervisory Board also expressed a view on the corporate governance and in compliance with the reference code, which is included in the Annual Report of Luka Koper, d. d., and Luka Koper Group for 2017, and established that it reflects the actual corporate governance of Luka Koper, d. d. and Luka Koper Group in 2017.

Uroš Ilić, MSc
Chairperson of the Supervisory Board of Luka Koper, d. d.

MANAGEMENT REPORT

7 Corporate Governance Statement

In line with the provision of Article 70 (5) of the Companies Act, Luka Koper, d. d. issues the following Corporate Governance Statement relating to the period from 1 January 2017 to 31 December 2017.

CODES AND MANAGEMENT PRACTICE

In the period from 1 January to 31 December 2017, the Company observed The Corporate Governance Code for public limited companies of 27 October 2016, which was drawn and adopted jointly by the Ljubljana Stock Exchange (Ljubljanska borza, d. d.), Ljubljana, and the Slovenian Directors' Association, and put into force on 1 January 2017. The code is available on the Ljubljana Stock Exchange website http://www.ljse.si/cgi-bin/jve.cgi?doc=8377.

The Corporate Governance Code for Companies with Capital Assets of the State (first the version adopted in March 2016, then the updated version adopted in May 2017) which is available on the Slovenian Sovereign Holding website https://www.sdh.si/en-gb/asset-management/key-ssh-asset-management-documents,and Recommendations and expectations of the Slovenian Sovereign Holding (first the version adopted in February 2016, then the updated version adopted in May 2017)), also available on the Slovenian Sovereign Holding website https://www.sdh.si/en-gb/asset-management/key-ssh-asset-management-documents also applied to the Company. The Company adopted no corporate governance of its own. The governance is carried out in compliance with the provisions of the Companies Act, and the codes and recommendations mentioned above.

On 20 April 2010, the Management Board adopted the Corporate Governance Policy that the Supervisory Board approved on 13 May 2010. In 2016, the Company prepared a new corporate governance policy that the Management Board adopted on 6 December 2016 and the Supervisory Board approved on 16 December 2016, and is available on the Company's website https://luka-kp.si/eng/corporate-documents. A revision of the Corporate Governance Policy is planned for 2018.

In its corporate governance, the Company voluntarily decided to apply the Slovenian corporate integrity guidelines that are available on the website http://www.korporativna-integriteta.si/Smernice/Smernice(SSKI).aspx, based on which it adopted its own Corporate Integrity Strategy of the Luka Koper group companies and the Code of Ethics of the Luka

Koper Group that are available on the Company's website https://luka-kp.si/eng/corporate-documents. The Company has also adopted the Rules of Procedure of the corporate integrity officer and the committee addressing reported violations of corporate integrity of the Luka Koper Group.

1. Governance of Luka Koper, d. d.

In governance, the Company observes the provisions of applicable codes; major derogations are stated and/or explained 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 Company's Supervisory Board did not prepare a special remuneration policy proposal for the Management Board and submit it to the General Meeting of Shareholders for adoption (derogation from the Corporate Governance Code of Public Limited Companies, Items 8.7 and 12.10).

- Remuneration of chairpersons of Supervisory Board committees had not been harmonized with the Corporate Governance Code for Companies with Capital Assets of the State from May 2017 until 29 December 2017, as they were receiving a supplement for carrying out their function amounting to 50% of the basic payment for carrying out the function of a Member of the Supervisory Board instead of 37.5% of the basic payment for carrying out the function of a Member of the Supervisory Board (derogation from the Corporate Governance Code for Companies with Capital Assets of the State, Item 6.9.1).

- The Corporate Governance Code of Public Limited Companies revised in October 2016, introduced for the first time in 2017 the requirement for adequacy of management declarations to be assessed externally at least once every three years, which has not yet been ensured within the Company. However, it will be provided in the future at the level of the Luka Koper Group (derogation from the Corporate Governance Code of Public Limited Companies, Item 5.7).

- The company has an established a system of internal controls, which, however, does not yet allow comprehensive risk management. Therefore, the system is being constantly improved with the aim of ensuring the efficiency of the system of internal controls and high quality of risk management (derogation from the Corporate

Governance Code for Companies with Capital Assets of the State, Item 9.2, and from the Corporate Governance Code of Public Limited Companies, Item 26).

- The Corporate Governance Policy has not been revised since December 2016, however, a revision is planned for 2018 (derogation from the Corporate Governance Code for Companies with Capital Assets of the State, Item 3.2, and from the Corporate Governance Code of Public Limited Companies, Item 2).

- The diversity policy as envisaged in the Corporate Governance Code for Companies with Capital Assets of the State (in fonce since May 2017) has not been established by the end of 2017. It is expected to be adopted in 2018 (derogation from the Corporate Governance Code for Companies with Capital Assets of the State, Item 3.6, and from the Corporate Governance Code of Public Limited Companies, Item 4). A detailed description of the Diversity policy is given in the Sustainability Report, section **7.6 Diversity Policy.**

- No formal succession plan has been devised in the Company with regard to the company management, however, it is expected to be developed in the future (derogation from the Corporate Governance Code for Companies with Capital Assets of the State, Item 6.1, and from the Corporate Governance Code of Public Limited Companies, Item 20.1).

- Members of the Supervisory Board elected as employee representatives as required by law, communicate with the Workers' Council on matters relating to the operations of the company (partial derogation from the Corporate Governance Code of Public Limited Companies, Item 7).

- The Supervisory Board has not conducted self-assessment for 2017. Self-assessment based on the self-assessment questionnaire of the Audit Committee as proposed by the Slovenian Directors' Association was only carried out for 2017 by the Audit Committee of the Supervisory Board, which also adopted the action plan of improving the quality of its operations (derogation from the Corporate Governance Code for Companies with Capital Assets of the State, Item 6.12, and from the Corporate Governance Code of Public Limited Companies, Item 14).

- The benefit for liability insurance of company bodies and managers is charged to the Supervisory Board members and is considered the only benefit (derogation from the

Corporate Governance Code for Companies with Capital Assets of the State. Item 6.9.3).

- The Chairperson of the Supervisory Board is also the Chairperson of the Personnel Committee for two days (partial derogation from the Corporate Governance Code for Companies with Capital Assets of the State. point 6.15.1).

- 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).

- The function of corporate integrity officer established in 2016 has not yet been provided the required organisational autonomy. The Company intends to arrange for the said function to operate autonomously and independently in 2018 (derogation from the Corporate Governance Code for Companies with Capital Assets of the State, Item 10.2)

- Due to a change of management, the 2018 operational plan was not adopted by the end of 2017. The Company submits data to SDH to be published in accordance with the principle of equal treatment of shareholders (derogation from the Recommendations and expectations of the Slovenian Sovereign Holding. Items 1.1 and 1.6)

- The Company devises quarterly, half-yearly and annual periodic reports on its operations, which have to be approved by the Supervisory Board. Each periodic report is then published on the SEO-net, and when publicly available (the principle of equal treatment of shareholders), the report is submitted to SDH using the required form, whereby only publicly available data is submitted (derogation from the Recommendations and expectations of the Slovenian Sovereign Holding, Items 2.1 and 2.5, pursuant to the agreement between Company Luka Koper, d. d. and SDH).

- As a rule, the Company does not conclude any lump-sum agreements. The only exceptions are examples 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 good operating results, Luka Koper, d. d. paid out the 13th salary in 2017 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 4.3.2.).

- The Company's collective agreement has not been made public as its publication has not been agreed to by both parties (derogation from the Recommendations and expectations of the Slovenian Sovereign Holding, Item 4.5).

- Having first used the EFQM excellence model of the European Foundation for Quality Management in 1998, the Company was upgrading the model application and regularly implementing self-assessment processes every two years until 2009. After not applying the excellence model for a long period of time, when changes occurred in the Company and to the model, the Company has now assessed to have made considerable development steps in the meantime, and can now make an overall assessment of its level of excellence. The "Self-assessment based on the excellence model" project was thus devised in November 2017, comprising the following objectives: To perform self-assessment, to devise a self-assessment report stating opportunities for improvement, and to form a proposal of measures to improve essential matters, which will be completed in 2018 (derogation from the Recommendations and expectations of the Slovenian Sovereign Holding, Item 5.1).

2. Governance of subsidiaries

The Corporate Governance Code for Companies with Capital Assets of the State (adopted in March 2017) and Recommendations and expectations of the Slovenian Sovereign Holding (adopted in May 2017) also apply to subsidiaries in the Luka Koper Group where Luka Koper, d. d. is a controlling company. In compliance with the above, Luka Koper, d. d. gives a report on observance of the provisions of the Code and Recommendations mentioned 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 governance, subsidiaries follow the provisions of the Code and the Recommendations; major derogations are stated and explained below.

- 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, whereas the subsidiary Luka Koper Pristan, d. o. o., based on the Rules on salaries and the conditions met, paid out the Christmas bonus in 2017 (derogation from the Recommendations and expectations of the Slovenian Sovereign Holding, Item 4.3.2.).

- The collective agreements of Luka Koper INPO, d. o. o. and Adria Terminali, d. o. o. have not been made public as their publication has not been agreed to by both parties (derogation from the Recommendations and expectations of the Slovenian Sovereign Holding, Item 4.5).

- The subsidiaries did not conduct 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).

3. Corporate integrity

Corporate integrity is reported in detail in the Sustainability Report, section **7 Corporate integrity, human rights and operations compliance.**

4. Risk control system

Risks are reported in detail in the Sustainability Report, **3.11 Risk control system in the Luka Koper Group.**

INTERNAL CONTROLS AND RISK CONTROL RELATED TO FINANCIAL REPORTING

The Luka Koper Group controls risks related to financial reporting, implementation of guidelines and internal control procedures adopted. The purpose of internal controls is to ensure 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. Risks related to consolidated financial statements of the Group have also been controlled through a centralised accounting function in a uniform IT system in the controlling company that includes all the subsidiaries and the majority of associated companies.

Having been designed in accordance with the principle of reality and division of responsibility, the accounting controls focus 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 also related to controls in the field of IT that ensure limitations and supervision over the access to the network, data and applications as well as accuracy and completeness of data acquisition and processing.

DATA PURSUANT TO ARTICLE 70 (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 2017 and all the required explanations in line with the provision of Article 70 (6) of the Companies Act:

Structure of the Company's share capital

The Company shares are ordinary no-par value shares that grant to their holders the right to participate in the Company management, the right to profit sharing - dividend payments, and the right to a proportionate amount of remaining assets after winding up 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 transferable and listed on the Ljubljana Stock Exchange, first listing. Detailed data about the share and ownership structure is presented in Section The LKPG share.

Share transfer limitations

All company shares are freely transferable.

Qualified shares pursuant to the Takeovers Act

Pursuant to Article 77 (1) of the Takeovers Act, achievement of the qualified share on 31 December 2017 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.

The Company's rules on appointments or replacements of members of management and supervisory bodies

The Management Board of the Company has a President and up to three members, of which one is the Workers Director. The President of the Management Board and other Management Board members are appointed and dismissed by the Supervisory Board. The Workers Director as a member of the Management Board 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 Workers 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 member of the Management Board.

The Supervisory Board can dismiss the President of the Management Board, members of the Management Board and the Workers Director early for the reasons set out in the law. The quorum of the Supervisory Board when appointing or dismissing the President of the Management Board, a member of the Management Board or the Workers Director requires the presence of at least half of the members of the Supervisory Board and at least half of the present Supervisory Board members have to be representatives of the capital, of which the Chairperson of the Supervisory Board and deputy Chairperson of the Supervisory Board are to be present as well.

The President and members of the Management Board shall have at least university education, a thorough knowledge of one world language, and at least five years of work experience in decision-making positions in large companies in accordance with the criteria as defined by law governing companies. More detailed conditions and criteria for the president and members of the Management Board are determined by the Supervisory Board. The terms of appointment of the Workers Director are jointly determined by the Supervisory Board and the Workers' Council.

The Supervisory Board has a Personnel 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 whether the candidates suggested meet the legal and statutory criteria for the members of the Management Board.

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

The Management and the Supervisory Boards have not formulated the diversity policy with respect to representation in management and control bodies of the Company as defined by the new Companies Act and the new Slovenian Corporate Governance Code of public limited companies adopted on 27 October 2016, which entered into force on 1 January 2017. Notwithstanding the above, the Company has pursued the objective of diversity with respect to representation in management and control bodies. This is also reflected in the fact that in recent years, gender diversity has significantly improved in management and control bodies and intergenerational diversity and educational diversity have also been observed. A diversity policy is expected to be adopted in 2018.

The Company's 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 members of the Management Board, in particular with regard to own shares

Powers of members of the Management Board are defined 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 a change in the Company's control as a result of a 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 who 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 have been laid down by the Companies Act, the Articles of Association of the Company, and the Rules of Procedure on the Work of the Supervisory Board, Management Board and the General Meeting of Shareholders. Specific provisions on the operation of the Management Board are also stated 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, deciding 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 the Section The LKPG share.

Convening the General Meeting of Shareholders

The Management Board shall convene the General Meeting of Shareholders once a year as a general rule, or several times, if necessary. The convening of the General Meeting of Shareholders is published at least one month earlier on the AJPES website, in 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 entire 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 prior to 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.

Luka Koper, d. d. has issued no securities that would grant their holders any special control rights.

Decisions of the General Meeting of Shareholders

In 2017, the shareholders met at two meetings:

- 28th General Meeting of Shareholders that took place on 30 June 2017, and
- 29th General Meeting of Shareholders that took place on 28 December 2017.

At the 28th General Meeting of 30 June 2017, the shareholders:

- Were informed about the adopted Annual Report of Luka Koper, d. d. and the Luka Koper Group for 2016, the 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 2016,
- Decided on the proposal for the appropriation of the accumulated profit for 2016 in the amount of EUR 20,321,602.99, where it was defined that:
    - a portion of accumulated profit in the amount of EUR 19,600,000.00 is to be used for dividend payout in the gross value of EUR 1.40 per ordinary share,
    - the residual amount of accumulated profit in the amount of EUR 721,602.99 to remain unappropriated,
- Did not grant discharge to the Management Board for 2016,
- Granted discharge to the Supervisory Board for 2016 with the exception of Alenka Žnidaršič Kranjc, PhD, and Mladen Jovičić.
- Appointed the audit firm KPMG Slovenija, podjetje za revidiranje, d. o. o. as the auditor for the financial years 2017, 2018 and 2019.

- Recalled the following members of the Supervisory Board from their position as of 30 June 2017: Alenka Žnidaršič Kranjc, PhD, Elen Twrdy, PhD, Andrej Šercer, MSc, Žiga Škerjanc, Rado Antolovič,
- Appointed the following as members of the Company's Supervisory Board for a term of four years beginning on 1 July 2017: Rado Antolovič, Andraž Lipolt, MSc, Uroš Ilić, MSc, Milan Jelenc, Barbara Nose.
- Appointed the audit firm PriceWaterhouseCoopers, podjetje za revizijo in druge finančno računovodske storitve, d. o. o., Ljubljana as a special auditor to review the management of operations concluded by the Company with port service providers in the period of the last three years from the date of adoption of this Decision.

At the 29th General Meeting of 28 December 2017, the shareholders:

- Adopted the decision on the amount of payment for the performance of the function and attendance fees to be paid to members of the Supervisory Board and of Committees of the Supervisory Board, thereby revoking the Decision No 6 of the 26th General Assembly of 21 August 2015.
- Were informed of the findings from the special audit report regarding the management of individual transactions of the Company with port service providers,
- Passed a vote of no confidence against Dragomir Matić, President of the Management Board, and Irena Vincek and Andraž Novak, members of the Management Board.
- The resolution No. 5 on the appointment of the auditing company KPMG Slovenija, podjetje za revidiranje, d.o.o. as auditor of the Company's and Luka Koper Group's financial statements for the financial years 2017, 2018 and 2019, as adopted at the Company's 28th General Meeting of Shareholders held on 30 June 2017, shall be annulled and the company BDO Revizija d.o.o., družba za revidiranje shall be appointed as auditor of the Company's and Luka Koper Group's financial statements for the financial years 2017, 2018 and 2019.

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 from among employees are elected by the Workers' Council of the Company. The term of office of members of the Supervisory Board shall be four years.

Composition of the Supervisory Board of Luka Koper, d. d. as at 31 December 2017:

Representatives of shareholders:

Uroš Ilić, MSc, Chairperson of the Supervisory Board from 29 Dec 2017 onwards (until 29 Dec 2017: Deputy Chairperson of the Supervisory Board)
Beginning of a 4-year term of office: 1 July 2017 (28th General Meeting of Shareholders)
Employed: ODI o.p., d. o. o. - Managing partner
Membership in other management or supervisory bodies: /

Mag. Andraž Lipolt, Deputy Chairperson of the Supervisory Board
Beginning of a 4-year term of office: 1 July 2017 (28th General Meeting of Shareholders)
Employed: Petrol, d. d., Director of technical support
Membership in other management or supervisory bodies: /

Capt. Rado Antolovič MBA, member of the Supervisory Board (Chairperson of the Supervisory Board until 29 Dec 2017)
Beginning of a 4-year term of office: 1 July 2017 (28th General Meeting of Shareholders)
Employed: Managing Director of P&O Maritime (DP World)
Membership in other management or supervisory bodies: Maritime Services Division, DP World, managing director; P&O Maritime, CEO; P&O Ports, CEO

Milan Jelenc, MSc, member of the Supervisory Board
Beginning of a 4-year term of office: 1 July 2017 (28th General Meeting of Shareholders)
Employed: Adviser to Managing director of the Slovenian Railways
Membership in other management or supervisory bodies: Adriakombi, d. o. o. - Chairperson of the Supervisory Board; CKTZ, d. d. - member of the Supervisory Board

Barbara Nose, member of the Supervisory Board
Beginning of a 4-year term of office: 1 July 2017 (28th General Meeting of Shareholders)
Employed: Constantia plus, d. o. o., Managing Director / certified auditor
Membership in other management or supervisory bodies: /

Sabina Mozetič, member of the Supervisory Board

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

Employed: Municipality of Koper, Director of municipal administration

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 Koper Health Centre

Representatives of the employees:

Mladen Jovičić, member of the Supervisory Board

Beginning of a 4-year term of office: 8 July 2017 (28th General Meeting – informing of shareholders)

Marko Grabljevec, member of the Supervisory Board

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

Rok Parovel, member of the Supervisory Board

Beginning of a 4-year term of office: 12 September 2016 (28th General Meeting – informing of shareholders)

External member of the Audit Committee of the Supervisory Board

Mateja Kupšek, External Member of the Audit Committee of the Supervisory Board

Appointed for the period from 30 August 2017 until revoked.

Supervisory Board's work

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, Corporate Governance Code for Companies with Capital Assets of the State, Recommendations and expectation of the Slovenian Sovereign Holding and Recommendations of the Slovenian Directors' Association.

In 2017, 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 2017.

Each member of the Supervisory Board, taking into account the provisions 8 and 17.2 of the Corporate Governance Code of public limited companies, signed a declaration at the beginning of 2017 stating that in the year 2017 there was no conflict of interest that would imply that an individual member

- Was an executive director or member of the management board of a company or an associated company or had occupied such a position for the previous five years,
- Worked for a company or an associated company and had occupied such a position for the previous three years,
- Received significant additional remuneration from the Company or an associated company apart from a fee received as a member of the Supervisory Board,
- Was the majority shareholder and represented the majority shareholder/majority shareholders,
- Had important business contacts with a company or an associated company in the last year, either directly as a partner, shareholder, managing director or manager in a body,
- Is or has been within the last three years, a partner or employee of the present or former external auditor of the Company or an associated company;
- Was executive director or member of the management board of another company, of which the executive director or member of the management board was a 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 or bodies,
- Was a member of the Supervisory board for more than three terms of office (or over 12 years),
- Was a close family member of a member of the management board or of persons occupying positions referred to in items above,
- Was a members of the wider management board of an associated company,
- Participated in drawing up the proposed content of the Company's annual report.

Statements are also available at https://luka-kp.si/slo/pomembni-dokumenti-208.

Committees of the Supervisory Board

Since 10 January 2018, the Supervisory Board has had three committees:

- Personnel Committee,
- Audit Committee
- Operating Committee.

The committees carry out professional tasks in aid to the Supervisory Board.

The Personnel Committee is composed of Uroš Ilić, MSc (Chairperson), Barbara Nose (member), Milan Jelenc, MSc (member), and Rok Parovel (member).

The Audit Committee is composed of Barbara Nose (Chairperson), Uroš Ilić, MSc (member) and Marko Grabljevec (member). As of 30 August 2017, Polona Pergar Guzaj (external member) was removed from office and Mateja Kupšek was appointed the external member.

The Operating Committee is composed of Andraž Lipolt (Chairperson), Capt. Rado Antolovič (member), Milan Jelenc, MSc (member), Sabina Mozetič (member), Mladen Jovičić (member) and Rok Parovel (member).

Remuneration of the Supervisory Board

Members of the Supervisory Board and of Committees of the Supervisory Board are entitled to attendance fees and payments for performing the functions. The amount of attendance fees and payments shall be determined by the General Meeting of Shareholders. Members of the Supervisory Board and of Committees of the Supervisory Board are also entitled to a refund of travel expenses and other arrival- and attendance-related expenses. Remuneration of the Supervisory Board and the amounts are detailed in the Accounting Report of Luka Koper, d. d. in Note No 31 Related party transactions and in the section Report of the Supervisory Board for 2017, and their ownership of shares is discussed under section The LKPG Share.

THE MANAGEMENT BOARD OF THE COMPANY

The work of the Management Board is governed by statutory regulations, the Articles of Association and the Rules of Procedure on the work of the Management Board, the Management Code for publicly traded companies, Corporate Governance Code for Companies with Capital Assets of the State, and Recommendations and expectation of the Slovenian Sovereign Holding. Pursuant to the Companies Act and 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 28 December 2017:

- Dragomir Matić (President of the Management Board), appointed on 23 May 2014 for a period of five years, assumed office on 10 June 2014,

- Andraž Novak, member of the Management Board, beginning of a 5-year term of office: 10 June 2014,
- Irena Vincek, member of the Management Board, beginning of a 5-year term of office: 21 August 2015,
- Stojan Čepar, Workers Director, beginning of a 5-year term of office: 30 November 2015.

At its regular session on 29 December 2017, the Supervisory Board removed Dragomir Matić from his position of President of the Management Board, and Irena Vincek and Andraž Novak from their positions of members of the Management Board. To fill these positions, it appointed for a term of five years Dimitrij Zadel as President of the Management Board, Irma Gubanec as member of the Management Board in charge of Finance and Accounting and Metod Podkrižnik as member of the Management Board.

As at 31 December 2017, the Management Board of Luka Koper, d. d. consisted of:

- Dimitrij Zadel, President of the Management Board, beginning of a 5-year term of office: 29 December 2017,
- Metod Podkrižnik, member of the Management Board, beginning of a 5-year term of office: 29 December 2017,
- Irma Gubanec, MSc, member of the Management Board, beginning of a 5-year term of office: 29 December 2017,
- Stojan Čepar, Workers Director, beginning of a 5-year term of office: 30 November 2015.

At its regular session on 16 February 2018, the Supervisory Board concluded a consensual termination of the contract on management operations with Stojan Čepar, whose term of office as member of the Management Board - Workers Director thus expired on the same day. Based on a proposal of the Workers' Council, the Supervisory Board appointed Vojko Rotar to fill this position.

As at 16 February 2018, the Management Board of Luka Koper, d. d. consisted of:

- Dimitrij Zadel, President of the Management Board, beginning of a 5-year term of office: 29 December 2017,
- Metod Podkrižnik, member of the Management Board, beginning of a 5-year term of office: 29 December 2017,
- Irma Gubanec, MSc, member of the Management Board, beginning of a 5-year term of office: 29 December 2017,
- Vojko Rotar, Workers Director, beginning of a 5-year term of office: 16 February 2018.

Composition of the Management Board of Luka Koper, d. d. as at 26 April 2018:

- Dimitrij Zadel
  President of the Management Board:

Dimitrij Zadel, born 29 September 1967, graduated in mechanical engineering and subsequently expanded his expertise in business abroad. He began his career in the product development department of Lama, a producer of furniture fittings. Between 1994 and 2003, he occupied key positions in the company Trgoavto d. o. o. As a commercial vehicle sales manager, he was responsible for the IVECO sales and service centre. Between 2001 and 2003, after being promoted to director general, he was in charge of the company's restructuring and modernisation, aimed at increasing the company's sales volumes and achieving its business optimisation. In 2003, he sought new career challenges in the OMV Group. He was director of OMV Slovenija, d. o. o. and, in line with the Group's strategy, also in charge of restructuring and reorganisation of OMV subsidiaries in Croatia, Bosnia-Herzegovina and Italy, in preparation for their planned disposal. Between 2013 and 2017, while performing the function of director and retail manager of OMV companies in the Czech Republic and Slovakia, he introduced important measures aimed at improving the companies' performance. Following the decision of the company's Supervisory Board, he commenced his five-year term of office as president of the Management Board of Luka Koper, d. d. on 29 December 2017.

- Metod Podkrižnik
  Member of the Management Board

Metod Podkrižnik, born 23 March 1971, graduated in mechanical engineering and obtained a Master's Degree in economics. He began his career in Gorenje, d. d. where he was in charge of the interior furnishings production line. Between 1999 and 2006, he was employed with the Agency of the Republic of Slovenia for Commodity Reserves, where he was responsible for a project aimed at establishing 90-day oil-product reserves in Slovenia and for their efficient maintenance. Between 2006 and 2008 he worked as deputy general manager at Holding Slovenske elektrarne (the state-owned power-generation company), where he managed the development department and performed other executive functions aimed at improving the holding's performance, including risk management. Between 2008 and 2015, he continued his business career at the OMV Group, where he was in charge of product supplies, sales, customer support, logistics and other key business functions in the Group's subsidiaries in Slovenia, Bosnia-Herzegovina, Croatia, Hungary, the Czech Republic and Slovakia. During his employment with OMV, he was appointed procurator in several of the group's subsidiaries and performed the function of director general at OMV Slovakia for two and a half years. In 2016, he joined the logistics company Fersped, d. o. o. as company director. Following the decision of the company's Supervisory Board, he commenced his five-year term of office in Luka Koper, d. d. on 29 December 2017.

- **Irma Gubanec, MSc**
  Member of the Management Board

Irma Gubanec, MSC, born 9 July 1968, completed her master's studies in business policy and organisation at the Faculty of Economics, University of Ljubljana. She began her career as independent finance consultant at the Development Fund of the Republic of Slovenia, where she was subsequently promoted to director of the Finance Department. Between 1999 and 2000, she worked at the Ministry of Economic Affairs as state secretary responsible for assets and finance. She subsequently sought new career challenges in the company P&S Svetovanje in analize as independent finance consultant in charge of company valuations and company mergers and acquisitions. Between 2001 and 2010, she held the position of deputy director general responsible for business economics at the national public broadcasting company RTV Slovenia, where she was responsible for finance, accounting, controlling and RTV subscription calculation. In 2010, she joined the media company Delo, d. o. o., where she occupied several key positions. Between 2013 and 2017, she held the position of president of the management board and director general responsible for meeting the company’s strategic targets, including the company’s financial, personnel and business restructuring. Following the decision of the company's Supervisory Board, she commenced her five-year term of office in Luka Koper, d. d. on 29 December 2017.

- **Vojko Rotar,**
  Workers Director

Vojko Rotar, born 17 June 1976, graduated in economics. He began his career in 1995 in Avico, a freight forwarding company from Ljubljana, and continued to work in logistics, later also international trade until 2003. He gained a wealth of experience with respect to the port as a transit point where international trade flows are being transferred. His insight into the general economic environment and the subjects operating within it paved him the way to various positions in the field of media and communications, where he worked as editor, journalist, correspondent, photo-reporter and web reporter for several Slovenian media. In the last four years, he was in charge of public relations and marketing in the Marjetica Koper public corporation, while also nearing a number of areas related to the promotion of good environmental practices and cooperation with the local community. He commenced his five-year term of office in Luka Koper, d. d. as member of the Management Board - Workers Director on 16 February 2018, following the decision of the Company's Supervisory Board,

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

Management Board's work

The Management Board autonomously directs the operations of the Company in its best interests, and assumes 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 Members of the Management Board, who are in charge of the following areas:

Tasks of the President of the Management Board:

- Secretariat of the Management Board (Adviser to the Board, Secretary of Bodies, Office of the Management Board),
- Human resources,
- Legal affairs,
- Public relations,
- Port security,
- Investments,
- Purchasing and maintenance,
- Strategic development,
- Marketing.

Tasks of the Member of the Management Board:

- PC General Cargo Terminal,
- PC Container Terminal,
- PC Car & Ro-Ro terminal,
- PC Dry Bulk and Liquid Bulk Terminal,
- PC Cruise Terminal,
- Operations Department.

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

- Finance and Accounting,
- Controlling,
- Management and development of business processes,
- Entities in which Luka Koper, d. d. has a capital share or corporate rights.

Tasks of the Member of the Management Board - Workers Director:

- Representation of interests of the employees relating to personnel and social issues,
- Health protection and ecology,
- Monitoring of observance and implementation of written agreements and cooperation in concluding agreements between employees and employers (participating agreement and other agreements).

All members of the Management Board

- Internal Auditing,
- Corporate integrity and operations compliance officer,
- Cooperation with the Secretary of the Supervisory Board.

Remuneration of the Management Board

Remuneration paid to members of the Management Board consists of the fixed and variable component. They are determined in fixed-term management operation employment contracts for members of the Management Board, in annexes to employment contracts and in decisions of the Supervisory Board. Employment contracts and annexes concluded between individual members of the Management Board and the Supervisory Board; also specify refunds and benefits. When concluding contracts and annexes for members of the Management Board, the Supervisory Board is represented by its Chairperson. Remuneration of the Management Board is presented in the Accounting Report of Luka Koper, d. d. in Note No. 31 Related party transactions, and ownership of shares is presented in the section The LKPG Share.

MANAGEMENT AND GOVERNANCE OF 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 share of less 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 wider social and sustainable motives. They are managed in accordance with the principle of investment trust.

- Portfolio investments are investments in shares of the companies which are listed on the stock exchange, investment funds, deposits and other money market 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 principle of 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 when acting as 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.

Objectives in the field of investment management were set in the strategic business plan of the Company and the Group for the period 2016-2020 by upgrading the corporate governance system, particularly in cases of strategic investments. Business control will be established by organising regular periodic meetings of management boards of the companies with the Management Board of the controlling company.

Management and governance of subsidiaries in the Luka Koper Group as at 31 December 2017

Company	Managing Director	Share of the controlling company in ownership (in %)
Luka Koper INPO, d. o. o.	Boris Kranjac	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.	Larisa Kocjančič	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 subsidiaries. It is an independent organisational unit subordinated in function to the Supervisory Board, and in organisation to the Management Board of the Company. It operates independently and in accordance with the Rules on the operation of the internal audit that has been based on International Standards for the Professional Practice of Internal Auditing, Code of Internal Audit Principles of the Slovenian Institute of Auditors, and Code of Ethics of an internal auditor of the Slovenian Institute of Auditors. 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 control, control of procedures and their management. It operates with the aim of adding value with more reliable achievement of the objectives set.

In 2017, the internal audit carried out internal audit engagements and other activities in accordance with the adopted annual plan of work. New engagements planned this year and unfinished engagements from the previous year were carried out to a great extent, and two unplanned engagements were also conducted.

In implementing the planned transactions, the risks identified in the preparation of the annual plan served as guidance ,and were also supplemented in the phase of detailed observation of each audit area and initial risk assessment. The greater part of the service assurance included verification whether internal controls have been devised appropriately and whether they function in accordance with pre-defined objectives and standards. Based on identified deficiencies, recommendations were made for their improvement. Based on our assessment that the current level of maturity of the risk control system does not fully allow for assurances on risk management processes to be given, internal auditing of this area mostly comprises identification of policies and promoting further development.

In addition to the planned and unplanned auditing, after-audit activities were performed on a quarterly basis; the aim of which was to review the implemented measures for a better management of risks perceived during the internal audit work. Consulting activity was primarily focusing on assistance in the development of internal controls and risk management, and was related to cooperation with providers of external controls.

The internal audit reported on each individual engagement to the management of the audited unit the Management Board and the Audit Committee of the Supervisory Board; and quarterly, it submitted a report on the implementation of internal audit recommendations to the Management Board and the Audit Committee. 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 ensure to all the interested parties that operation of the internal control is in compliance with the applicable rules of the profession and that its operation is successful and efficient. The last external audit of the internal audit quality operation that confirmed these facts was carried out in 2017, and until the next one, the quality and improvement in its operation shall be provided by internal audits.

EXTERNAL AUDIT

At the 29th meeting of 28 December 2017, the General Meeting of Shareholders appointed the audit firm BDO Revizija, d. o. o., družba za revidiranje, Cesta v Mestni log 1, Ljubljana for the audit of the financial statements of Luka Koper, d. d. and the Luka Koper Group in the financial year 2017.

The costs of audit services performed for Luka Koper, d. d. and its subsidiaries are presented in the consolidated accounting report, Note 33: Transactions with the audit firm.

Dimitrij Zadel

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

Metod Podkrižnik

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

Irma Gubanec, MSc

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

Vojko Rotar

Member of the Luka Koper, d. d. Management Board – Workers Director

8 Survey of relevant events, novelties and achievements in 2017

JANUARY

- A record monthly container throughput in the history of the port was achieved amounting to TEU 78,527.
- Luka Koper released a revised Management Policy of the public limited company.
- 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.
- The bankruptcy of the associated company Golf Istra, d. o. o. was completed.

FEBRUARY

- A record monthly cargo throughput in the history of the port was achieved, amounting to 2.2 million tonnes.
- 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. received a new Mercur tugboat that was made in Spain.
- The management of Luka Koper, d. d. and the Crane operators union reached on 27th February 2018 a social agreement, which shall ensure long-term social stability. Both parties agreed that the agreement is in interest of the whole port system and all ancillary activities, because it ensures a stable business environment, which is the basis for a continuous and constructive dialogue between the social partners.

MARCH

- Luka Koper, d. d. took over the half-year presidency in the North Adriatic Ports Association (NAPA).
- In cooperation with the Koper Regional Museum, the Company opened the exhibition devoted to the 60th anniversary of Luka Koper.
- As part of a numerous Slovenian team, Luka Koper visited the largest passenger ship tourism market, Seatrade Cruise Global 2017, where Slovenia was featured as an attractive tourist destination.
- 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 of whom started on 8 April 2017.

- "The Port of Koper – An Attractive Alternative for Southern Germany" was the title of a business forum organised by Luka Koper for the interested public in Munich
- The Viking Sea cruise ship opened this year's passenger season.
- The Management Board adopted the decision to initiate the procedure for the award of a contract to select the provider to complete a new Sermin entrance.
- Via the website of the Ljubljana Stock Exchange, Luka Koper responded to the draft Act Regulating the Construction, Operation and Management of the Second Track of the Divača-Koper Railway Line.
- The Supervisory Board of Luka Koper, d. d. gave consent to an investment in the parking garage and adopted a position on the draft Act Regulating the Construction, Operation and Management of the Second Track of the Divača-Koper Railway Line.
- Luka Koper presented its operations in Egypt, at the so-called Port Day, and signed an agreement on cooperation with the Egyptian ports of Alexandria and Damietta.

APRIL

- The Luka Koper container terminal took possession of two new Liebherr super post-panamax container cranes.
- Luka Koper attended a specialised food products WorldFood fair in Warsaw.
- On 20 April 2017, the National Assembly approved the Act Regulating the Construction, Operation and Management of the Second Track of the Divača-Koper Railway Line.
- At the extraordinary session of 26 April 2017, the National Council voted to impose a suspensive veto on the Act Regulating the Construction, Operation and Management of the Second Track of the Divača-Koper Railway Line.
- Luka Koper participated at the Belgrade conference – Transport & Logistics of South East Europe Region – where it was presented the Brand Leader Award for exceptional achievements in the industry and high quality services.
- Luka Koper visited the Ministry of Infrastructure to outline an alternative solution for its new entrance, which was initially envisaged to be linked to the Bertoki approach roundabout.

MAY

- A new record monthly cargo throughput in the history of the port was achieved, amounting to 2.3 million tonnes.

- A new record monthly container throughput in the history of the port was achieved amounting to TEU 79,918.
- 60 years have passed on 23 May since the establishment of Pristanišče Koper, a predecessor to today's Luka Koper, d. d.
- Luka Koper obtained the ISO 9001:2015 certification for quality management systems with the Slovenian Institute of Quality and Metrology (SIQ).
- Luka Koper participated at the major European specialised fair – Transport & Logistic – in Munich, together with 14 Slovenian logistics companies.
- Slovenian Environment Agency issued the environmental approval to Luka Koper for an integral rearrangement of Pier I, against which the Municipality of Koper launched an appeal.
- Luka Koper organised the first Port of Koper Day in Warsaw to present to Polish business partners the transport path via Koper.
- At the – Multimodal 2017 - a bridge between Europe and Asia – conference in Hamburg, Luka Koper was presented as an entry point and transport hub between Asia and Europe.
- Luka Koper presented awards to the best suppliers in 2016.
- At the Port of Koper Day, visitors were able to see the port and learn about its processes.

JUNE

- High winds caused an accident in the dry bulk cargo terminal, with a ship hitting and pulling down a ship-to-shore gantry crane. Despite the accident, activities at the terminal continued without interruption.
- Luka Koper participated in the "Day of Austrian logistics" in Graz.
- On 30 June, the shareholders of Luka Koper, d. d. gathered at the 28th General Meeting. At the meeting, the shareholders:
  - Took a decision on the proposal for the appropriation of the accumulated profit for the year 2016 in the amount of EUR 20.321.602.99 (a counter-proposal of Small Shareholders' Association of Slovenia as the proposing party was adopted):
    - a portion of the accumulated profit in the amount of EUR 19,600,000.00 is to be used for dividend payout in the gross value of EUR 1.40 per ordinary share,
    - the residual amount of accumulated profit in the amount of EUR 721,602.99 is to remain unappropriated.
  - Were informed about the adopted Annual Report of Luka Koper, d. d. and the Luka Koper Group for 2016, the 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 2016,

  - Did not grant discharge for the year 2016 to the Management Board and members of the Supervisory Board Alenka Žnidaršič Kranjc, PhD and Mladen Jovičić,
  - Appointed the audit firm KPMG Slovenija, podjetje za revidiranje, d. o. o. for the audit of the financial statements of Luka Koper, d. d. and the Luka Koper Group for years 2017, 2018 and 2019,
  - Were informed about the decision of the Workers' Council of Luka Koper, d. d. of 12 September 2016 that the Workers' Council appointed Rok Parovel as the representative of the employees in the Supervisory Board for a 4-year term of office, which began on 12 September 2016,
  - Recalled the following members of the Supervisory Board from their position: Alenka Žnidaršič Kranjc, PhD, Elen Twrdy, PhD, Rado Antolovič, Andrej Šercer, MSc, and Žiga Škerjanc, and appointed the following as new members of the Supervisory Board: Rado Antolovič, Andraž Lipolt, MSc, Uroš Ilić, MSc, Milan Jelenc, MSc, and Barbara Nose.
  - Appointed the audit firm PriceWaterhouseCoopers, podjetje za revizijo in druge finančno računovodske storitve, d. o. o., as a special auditor to review the management of individual operations of Luka Koper, d. d.
- Luka Koper presented its development plans to municipal councillors, heads of municipal offices and representatives of local communities in the Municipality of Koper.
- A gathering to celebrate the 60th anniversary of Luka Koper attracted around 400 participants from among sales and operational staff of Slovenian and foreign business partners.

JULY

- On 29 July 2017, a fatal work accident occurred at the dry bulk terminal. It was found that a worker employed with an external provider of port services was clasped by a crane grab in the ship's hold. The competent authorities began investigating the accident immediately. Procedures are not yet completed.
- A new record monthly container throughput in the history of the port was achieved amounting to TEU 80,840.
- At the inaugural meeting of the Supervisory Board of Luka Koper, d. d. on 14 July 2017, Rado Antolovič was appointed Chairperson of the Supervisory Board, and Uroš Ilić, MSc, was appointed Deputy Chairperson. The Supervisory Board appointed the following committees: Audit Committee, Personnel Committee, Committee for organization and processes, and Investment Committee.

AUGUST

- SŽ – Tovorni promet, d. o. o. brought an action against Luka Koper, d. d., claiming EUR 1,758,281.00 for damages from spontaneous interruption of work in July 2016.
- Luka Koper responded to the letter from the Slovenian Sovereign Holding and thereby to the initiative put forward by MP Matej T. Vatovec, in section referring to Luka Koper and the issue of external port service providers.
- The Company responded to the call of the PanSlovenian Shareholders' Association to take a position on representations stated by the President of the Slovenian Sovereign Holding at the 28th General Meeting of Shareholders of Luka Koper d. d.
- Luka Koper d. d. received an action by the Koper District Court brought against it by the PanSlovenian Shareholders' Association on rendering null and void the resolutions adopted by the 28th General Meeting of 30 June 2017 relating to the appointment of the members of the Supervisory Board Andraž Lipolt, Milan Jelenc, MSc, and Barbara Nose.

SEPTEMBER

- The opening of a new multipurpose warehouse on Pier II took place on 27 September 2017.

OCTOBER

- Luka Koper was successful with its tender for an international contract awarded by Daimler, after being selected by this German corporation as one of the main export ports for its vehicles for the first time in 2015.
- An additional weekly railway connection was established between the Koper container terminal and the Mahart terminal in Budapest, and a Ro-Ro ship connection was established with Japanese ports.
- On 5 October 2017, Luka Koper celebrated its 60th anniversary with the port community and with Slovenian and foreign business partners.
- Luka Koper d. d. received a decision from the Higher Court in Koper rejecting the complaint of the PanSlovenian Shareholders' Association against the decision of the District Court in Koper rejecting the proposal of the PanSlovenian Shareholders' Association to issue a temporary injunction regarding the challenge of resolutions adopted by the 28th General Meeting of Shareholders.
- Luka Koper organised a business meeting with its Israeli business partners in Tel Aviv, which was also attended by numerous Slovenian logistics companies and freight forwarders.
- Development plans and planned cooperation with Cypriot partners in marketing and in the framework of the EU projects were presented to the Minister for transport, communications and construction of the Republic of Cyprus, Marios Demetriades, who

was visiting Luka Koper.

- Luka Koper issued a publication dedicated to the 60th anniversary of the Company and presented it to the general and expert public.

NOVEMBER

- On 13 November 2017, based on the provision of Article 10 (2) of the Articles of Association of Luka Koper, d. d., the Supervisory Board convened the 29th General Meeting of Shareholders of Luka Koper, d. d. to be held on Thursday 14 December 2017 at 9 a.m. in the Portus Congress Centre, Slovenija Hotel, Portorož, Slovenia.
- On 24 November 2017, the Supervisory Board of Luka Koper, d. d. withdrew the notice convening the 29th General Meeting of Shareholders to be held on 14 December 2017, which was published on the SEOnet and the Company website on 13 November 2017, and on the AJPES web portal on 14 November 2017.
- On 24 November 2017, based on the provision of Article 10 (2) of the Articles of Association of Luka Koper, d. d., the Supervisory Board convened the 29th General Meeting of Shareholders of Luka Koper, d. d. to be held on Thursday 28 December 2017 at 10 a.m. in the Portus Congress Centre, Slovenija Hotel, Portorož, Slovenia.
- Representatives of the Ministry of Infrastructure and of the Municipality of Ankaran signed a contract on the exchange of 7,080 square metres of land to enable the construction of the Sermin entrance to the port.
- After a five-year suspension, the port of Ravenna re-joined the NAPA North Adriatic Port Association.
- In Dusseldorf, Luka Koper organised a seminar entitled The opportunities that Slovenian logistics can offer Japanese companies. It was attended by representatives of Japanese companies in Europe.
- The Association of logistics providers in the Brčko district in Bosnia and Herzegovina, awarded Luka Koper particular appreciation for its contribution to the development of logistics capacity in the Brčko region.
- The Municipality of Koper brought an action against the issued environmental approval for the extension of Pier I.
- Luka Koper organised a business meeting with Serbian business partners in Belgrade.

DECEMBER

- The 50th anniversary of the railway line Koper - Prešnica was commemorated in Dol pri Hrastovljah.
- The business partners of Luka Koper attending the pre-New Year's gathering watched the documentary entitled 'Not yet Hamburg, but will be' dedicated to the 60th anniversary of

Luka Koper and made by the Koper - Capodistria regional centre of the Slovenian national television.

- At the 29th General Meeting, the shareholders of Luka Koper passed a vote of no confidence against three members of the Management Board of Luka Koper.
- As of 29 December 2017, the Supervisory Board of Luka Koper removed Dragomir Matić from his position of President of the Management Board, and Irena Vincek and Andraž Novak from their positions of members of the Management Board. To fill these positions, it appointed on the same day Dimitrij Zadel as President of the Management Board, Metod Podkrižnik as member of the Management Board, and Irma Gubanec as member of the Management Board in charge of Finance and Accounting.
- Luka Koper has carried out a survey among the local population on the impacts of port operations on their lives and on port development plans.

9 Relevant events after the end of the financial year

JANUARY 2018

- The Government of the Republic of Slovenia adopted the amended Decree on the administration of the freight port of Koper and thus facilitated the expansion of the concession area for the construction of a new entrance to the port in Sermin.
- A conference was held in Koper within the ELEMED European project, aiming at establishing infrastructure for alternative fuels.

FEBRUARY 2018

- The ship Arethusa opened the passenger traffic season 2018.
- The Supervisory Board gave its consent to the business plan of the Company and of the Luka Koper Group.
- The Supervisory Board concluded a consensual termination of the contract on management operations with Stojan Čepar, and appointed Vojko Rotar to fill his position of member of the Management Board - Workers Director.

MARCH 2018

- At its ordinary meeting of 26 March 2018, the Supervisory Board discussed the course of business restructuring of the Company and was briefed about the proposal for a port service provider strategy, which was devised by the Management Board. The Strategy will also be verified by adopting external expert opinions, particularly as regards its legality, economy, autonomy and business performance. At the same time, the Management Board will develop an action plan of strategy implementation and launch vital preparation activities.
- Luka Koper, d. d. reached a conditional court settlement with the PanSlovenian Shareholders' Association, based on which the Association renounced its claim on rendering null and void the resolutions adopted by the General Meeting relating to the appointment of the members of the Supervisory Board Milan Jelenc, Andraž Lipolt, and Barbara Nose.
- Luka Koper sold to the University of Primorska the Prisoje facility, which used to be a rooming house and then a vacation facility.

10 Performance analysis in 2017

10.1 Summary of performance of the LUKA KOPER GROUP in 2017

Comparison of the results achieved by the Luka Koper Group in 2017 and 2016

In 2017, net sales of the Luka Koper Group were generated in the amount of EUR 211.4 million, which was an increase of 6% or EUR 11.9 million compared to 2016. When compared to the previous year, the Group's net sales increased in the field of core activity, i.e. loading and unloading of cargoes, filling and emptying of containers, storage and additional services.

In 2017, capitalised own products and own services amounted to EUR 738.1 thousand, among which the Group recorded the services that increased the value of property, plant and equipment and were mostly carried out by the subsidiary Luka Koper INPO, d. o. o.

In 2017, other revenue of the Luka Koper Group amounted to EUR 3.6 million, which was an increase by 16% or EUR 496.9 thousand as compared to 2016. The largest share of other revenue in 2017 were subsidies, grants and similar revenue of EUR 1.7 million.

Operating expenses of the Luka Koper Group stood EUR 179.2 million in 2017, which was an increase of 16% or EUR 24.4 million from 2016. All types of costs recorded under operating expenses increased when compared to the previous year. In 2017, the costs of material of the Luka Koper Group amounted to EUR 15.9 million, which was an increase by 3% or EUR 398 thousand compared to 2016. Energy costs increased by 14 percent or EUR 864.3 thousand from the previous year. The costs of ancillary material and spare parts also increased in 2017 due to a larger scope of maintenance works. The costs of services of the Luka Koper Group amounted to EUR 51.8 million in 2017, and went up by 3% or EUR 1.5 million compared to 2016. The costs of port services increased most among the costs of services due to the increased throughput and greater scope of services rendered. Concession costs also increased as a result of higher operating revenue. Labour costs of the Luka Koper Group amounted to EUR 54.5 million in 2017, and grew by 5% or EUR 2.6 million compared to 2016. They were higher due to a higher number of employees, an increase of the basic salary. In 2017, other operating expenses of the Luka Koper Group amounted to EUR 28.5 million, which was an increase by 169% or EUR 17.9 million from 2016. Additional provisions for liabilities arising from legal commitments were formed under other operating expenses, amounting to EUR 15.7 million. Operating expenses from revaluation with respect to impairments of land in the municipality of Sežana increased by EUR 3.4 million.

The share of operating expenses in net sales in 2017 accounted for 84.7%, which is 7.2 of a percentage point more than in 2016. Comparatively, the share of costs of services in net sales decreased from 2016, but the shares of costs of material, labour costs and amortisation and depreciation expenses remained at the same level, and the share of other operating expenses increased.

In 2017, earnings before interest and taxes (EBIT) of the Luka Koper Group amounted to EUR 36.6 million, which was a decrease of 26% or EUR 12.7 million from 2016.

Earnings before interest, taxes, depreciation and amortisation (EBITDA) of the Luka Koper Group amounted to EUR 65.1 million in 2017, which was a 14% or EUR 10.7 million decrease from 2016.

The EBITDA margin of the Luka Koper Group accounted for 30.8% in 2017, which is 19 percent or 7.2 of a percentage point less than in 2016. Other operating expenses in 2017 also included the impairment of the Orleška Gmajna property amounting to EUR 3.4 million.

Profit or loss from financing activities in 2017 amounted to -377.3 thousand, whereas in 2016, the Luka Koper Group achieved the financial result of EUR -459.1 thousand. In 2017, the result of the associated companies amounted to EUR 1.7 million, which was a decrease of 11% or EUR 207.7 thousand compared to 2016.

Net profit or loss of the Luka Koper Group amounted to EUR 35 million in 2017, which was a decrease of 21% or EUR 9.4 million from 2016.

The return on equity (ROE) in 2017 amounted to 10.3%, which is 26 percent or 3.7 of a percentage point less than in 2016.

As at 31 December 2017, the financial liabilities of the Luka Koper Group amounted to EUR 117.1 million, and grew by 6% or EUR 6.8 million from the previous year-end. Loans from banks in the country increased due to the absorption of the remaining principal of the loan received by the parent company from a commercial bank.

As at 31 December 2017, non-current financial liabilities to banks of the Luka Koper Group accounted for 86% of total financial liabilities. When compared to the balance of the previous year-end, their share reduced by 2.8 percentage points.

In 2017, the Luka Koper Group allocated the amount of EUR 37.3 million to investments.

Implementation of the plans

In 2017, the Luka Koper Group generated net sales in the amount of EUR 211.4 million, which was a decrease of 2% or EUR 3.9 million under the budgeted net sales.

Net sales of the Group relating to the market activity exceeded the budgeted net sales in 2017 by 4% or EUR 8.1 million. The revenue from the performance of the public utility service of regular maintenance of the port infrastructure intended for public transport lagged behind the plan by 77% or EUR 12 million, which had an impact on the total revenue of the Group lower than budgeted by 2% in 2017.

In 2017, earnings before interest and taxes (EBIT) of the Luka Koper Group amounted to EUR 36.6 million, which was a decrease of 33% or EUR 18 million when compared to the plan.

Earnings before interest, taxes, depreciation and amortisation (EBITDA) of the Luka Koper Group amounted to EUR 65.1 million in 2017, which was 21% or EUR 17.5 million less than planned.

In 2017, the EBITDA margin of the Luka Koper Group was lower by 20% or 7.6 percentage point when compared to the budgeted margin.

With regard to 2017, Luka Koper, d. d. foresaw a higher volume of maintenance works for the public utility service of regular maintenance of the port infrastructure, and, consequently, due to drawing long-term deferred revenue, its expected revenue higher by EUR 12.8 million than were achieved in 2017. As the approval of the plan by the Ministry of infrastructure was delayed – the Company only received the approval to the plan of current maintenance of port infrastructure in October 2017, whereas the plan of investment maintenance has still not been approved by the Ministry of infrastructure – the volume of actually performed maintenance works of the port infrastructure intended for public transport was lower than planned.

The Luka Koper Group thus puts emphasis on the EBITDA margin from market activities, which in 2017 amounted to 31.3% and was 24% lower than planned.

In 2017, Luka Koper, d. d. formed provisions for liabilities arising from legal commitments amounting to EUR 15.7 million. Operating expenses from revaluation in relation to the impairment of land in the Sežana increased by EUR 3.4 million.

Net profit or loss of the Luka Koper Group in 2017 amounted to EUR 35 million, which was a decrease of 26% or EUR 12.5 million when compared to the plan.

10.2 Summary of performance of Luka Koper, d. d. in 2017

Comparison of the results achieved by Luka Koper, d. d. in 2017 and 2016

In 2017, net sales of Luka Koper, d. d. were generated in the amount of EUR 206.8 million, which was an increase of 9% or EUR 16.4 million compared to 2016. When compared to 2016, net sales increased in the field of core activity, i.e. loading and unloading of cargoes, filling and emptying of containers, storage and additional services. In 2017, the generated net sales of the Company accounted for 97.8% of net sales of the Luka Koper Group.

In 2017, other revenue of Luka Koper, d. d. amounted to EUR 1.6 million, which was an increase by 42% or EUR 482.5 thousand as compared to 2016. The largest share of other revenue in 2017 represented the revenue from recovered written off receivables of EUR 520 thousand. In comparison with 2016, revaluation operating income and revenue from recovered written off receivables increased the most.

Operating expenses of Luka Koper, d. d. in 2017 stood at EUR 173.4 million, which was an increase of 19% or EUR 27.4 million from 2016. All types of costs recorded under operating expenses increased when compared to 2016. In 2017, the costs of material of Luka Koper, d. d. amounted to EUR 14.7 million, and grew by 8% or EUR 1 million compared to 2016. The costs of energy rose the most under the costs of material. The costs of services of the Company amounted to EUR 54.8 million in 2017, and went up by 7% or EUR 3.8 million compared to 2016. The costs of port services increased the most among the costs of services due to the increased throughput, complex procedures of car throughput and high occupancy rate of storage areas. Concession-related also costs increased, which was a result of higher operating income. Labour costs of Luka Koper, d. d. amounted to EUR 48 million in 2017, and grew by 6% or EUR 2.7 million compared to 2016. They were higher due to a higher number of employees, an increase of the basic salary and higher payments for work performance and holiday allowance. Other operating expenses of the Company amounted to EUR 28.4 million in 2017, which was an increase of 170% or EUR 17.9 million from 2016. Luka Koper, d. d. formed additional provisions for liabilities arising from legal commitments under other operating expenses, amounting to EUR 15.7 million. Operating expenses from revaluation with respect to impairments of land in the municipality of Sežana increased by EUR 3.4 million.

The share of operating expenses in net sales in 2017 accounted for 83.9%, which was a decrease by 7.2 percentage points from 2016. Comparatively, the share of costs of services and labour costs in net sales decreased from 2016, but the shares of costs of material, amortisation and depreciation expenses and of other operating expenses remained at the same level.

In 2017, earnings before interest and taxes (EBIT) of Luka Koper, d. d. amounted to EUR 35 million, which was a decrease of 23% or EUR 10.5 million from 2016.

Earnings before interest, taxes, depreciation and amortisation (EBITDA) of Luka Koper, d. d. amounted to EUR 62.6 million in 2017, which was a 12% or EUR 8.5 million decrease from 2016.

The EBITDA margin of Luka Koper, d. d. in 2017 accounted for 30.3%, which was a decrease of 19% or 7.1 percentage points from 2016. Other operating expenses in 2017 also included the provisions for liabilities arising from legal commitments amounting to EUR 15.7 million, and impairment of the Orleška Gmajna property amounting to EUR 3.4 million.

Profit or loss from financing activities was positive in 2017 and amounted to EUR 1.4 million, which was an increase of 44% from 2016. Financial expenses in respect of lower interest expenses from the interest rate swap and in respect of impairments of other financial investments decreased year-on-year. In 2017, these expenses were not recognised.

In 2017, net profit or loss of Luka Koper, d. d. amounted to EUR 33.1 million, which was a decrease of 18% or EUR 7.4 million from 2016.

The return on equity (ROE) in 2017 amounted to 10.6%, which is 23 percent 3.2 of a percentage point lower than in 2016.

As at 31 December 2017, the financial liabilities of Luka Koper, d. d. amounted to EUR 133.1 million, and grew by 5% or EUR 6.8 million from the previous year-end. Loans received from banks in Slovenia increased.

As at 31 December 2017, non-current financial liabilities to banks accounted for 75.6% of total financial liabilities. When compared to the balance of the previous year-end, their share reduced by 1.9 percentage points.

In 2017, cash or cash equivalents increased by EUR 27.2 million.

Luka Koper, d. d. allocated the amount of EUR 36.7 million to investments in 2017, which accounted for 98% of investments of the Luka Koper Group.

Implementation of the plans

In 2017, net sales of Luka Koper, d. d. were generated in the amount of EUR 206.8 million, which was a decrease of 1% or EUR 2.7 million under the budgeted net sales.

Net sales of Luka Koper, d. d. relating to the market activity exceeded the budgeted net sales in 2017 by 5% or EUR 9.3 million. The revenue from the performance of the public utility service of regular maintenance of the port infrastructure intended for public transport lagged behind the plan by 77% or EUR 12 million, which had an impact on the total revenue of Luka Koper, d. d. lower than budgeted by 1% in 2017.

In 2017, earnings before interest and taxes (EBIT) of Luka Koper, d. d. amounted to EUR 35 million, which was a decrease of 34% or EUR 18.3 million when compared to the plan.

Earnings before interest, taxes, depreciation and amortisation (EBITDA) of Luka Koper, d. d. amounted to 62.6 million in 2017, which was 22% or EUR 17.8 million less than planned.

In 2017, the EBITDA margin of Luka Koper, d. d. was lower by 21% or 8.1 percentage point when compared to the budgeted margin.

With regard to 2017, Luka Koper, d. d. foresaw a higher volume of maintenance works for the public utility service of regular maintenance of the port infrastructure, and, consequently, due to drawing long-term deferred revenue, its expected revenue higher by EUR 12.8 million than were achieved in 2017. As the approval of the plan by the Ministry of infrastructure was delayed – the Company only received the approval to the plan of current maintenance of port infrastructure in October 2017, whereas the plan of investment maintenance has still not been approved by the Ministry of infrastructure – the volume of actually performed maintenance works of the port infrastructure intended for public transport was lower than planned.

The Luka Koper Group thus puts emphasis on the EBITDA margin from market activities, which in 2017 amounted to 30.8% and was 26% lower than planned.

In 2017, Luka Koper, d. d. formed provisions for liabilities arising from legal commitments amounting to EUR 15.7 million. Operating expenses from revaluation with respect to impairments of land in the municipality of Sežana increased by EUR 3.4 million.

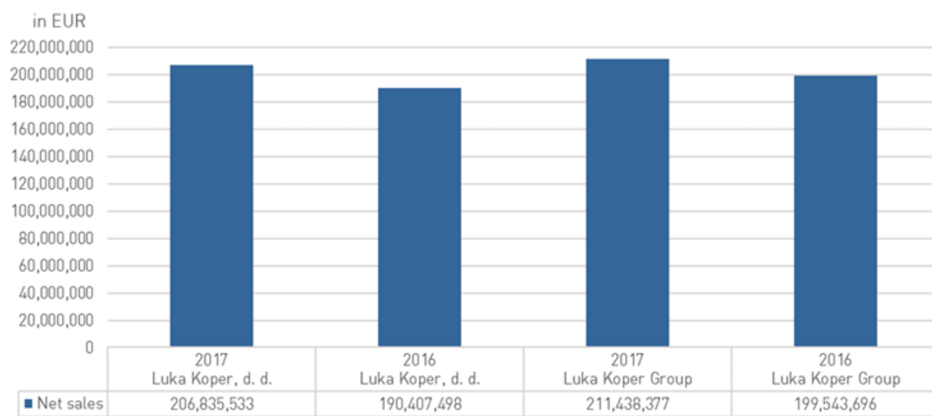
Net profit or loss of Luka Koper, d. d. in 2017 amounted to EUR 33.1 million, which was a decrease of 29% or EUR 13.4 million when compared to the plan.

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

In 2017, net sales of the Luka Koper Group were generated in the amount of EUR 211.4 million, which was an increase of 6% or EUR 11.9 million compared to 2016. When compared to the previous year, the Group's net sales increased in the field of core activity, i.e. loading and unloading of cargoes, filling and emptying of containers, storage and additional services.

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



CAPITALISED OWN PRODUCTS AND SERVICES

In 2017, capitalised own products and own services amounted to EUR 738.1 thousand. Under the capitalised own products and services, the Group recorded maintenance works on the infrastructure, which were mostly carried out by the subsidiary Luka Koper INPO, d. o. o.

OTHER REVENUE

In 2017, other revenue of the Luka Koper Group amounted to EUR 3.6 million, which was an increase by 16% or EUR 496.9 thousand as compared to 2016. The largest share of other revenue in 2017 represented subsidies, grants and similar revenue in the amount of EUR 1.7 million. The biggest share thereof refers to income on utilising assigned assets arising from retained contributions from the subsidiary Luka Koper INPO, d. o. o.

OPERATING EXPENSES

Operating expenses of the Luka Koper Group stood at EUR 179.2 million in 2017, which was an increase of 16% or EUR 24.4 million from 2016. All types of costs recorded under operating expenses increased when compared to the previous year. The share of operating expenses in net sales in 2017 accounted for 84.7%, an inecrease of 7.2 percentage points from 2016. Comparatively, the share of costs of services in net sales decreased from 2016, but the shares of costs of material, labour costs and amortisation and depreciation expenses remained at the same level, and the share of other operating expenses increased.

Costs of material

In 2017, the costs of material of the Luka Koper Group amounted to EUR 15.9 million, which was an increase by 3% or EUR 398 thousand compared to 2016. The major share of costs of material in 2017 referred to the costs of energy, which increased by 14 percent or EUR 964.3 thousand from the previous year. Consumption of all energy products increases year-on-year, with the price of fuel also having increased. The costs of ancillary material and spare parts also increased in 2017 due to a larger scope of maintenance works.

Costs of services

The costs of services of the Luka Koper Group amounted to EUR 51.8 million in 2017, and went up by 3% or EUR 1.5 million compared to 2016. Among the costs of services in 2017, the major share represented the costs of port services that amounted to EUR 29.2 million, which was an increase by 16% or EUR 4 million from 2016. The increase in costs of port services was a result of the increased volume of throughput and greater scope of services rendered.

Costs of other services also accounted for a relevant share in the costs of services; they amounted to EUR 12.8 million in 2017, and decreased by 12% or EUR 1.7 million compared to 2016.

Labour costs

Labour costs of the Luka Koper Group amounted to EUR 54.5 million in 2017, and grew by 5% or EUR 2.6 million compared to 2016. 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 2017 in Luka Koper, d. d., Luka Koper INPO, d. o. o. and Adria Terminali, d. o. o., and higher payments with respect to holiday allowance. On the basis of the provisions of the collective agreement, Luka Koper, d. d. and its subsidiaries paid the holiday allowance for 2017 to their employees in March 2017 amounting to up to 70% of the average salary of the previous month but one of employees in the Republic of Slovenia published on the site of the Statistical Office of the Republic of Slovenia.

As at 31 December 2017, the companies within the Luka Koper Group employed a total of 1,108 persons, which was an increase of 3% or 37 persons when compared to 31 December 2016.

Depreciation / amortisation expense

In 2016, the depreciation / amortisation expense of the Luka Koper Group amounted to EUR 28.4 million in 2017, and grew by 7% or EUR 2 million compared to 2016.

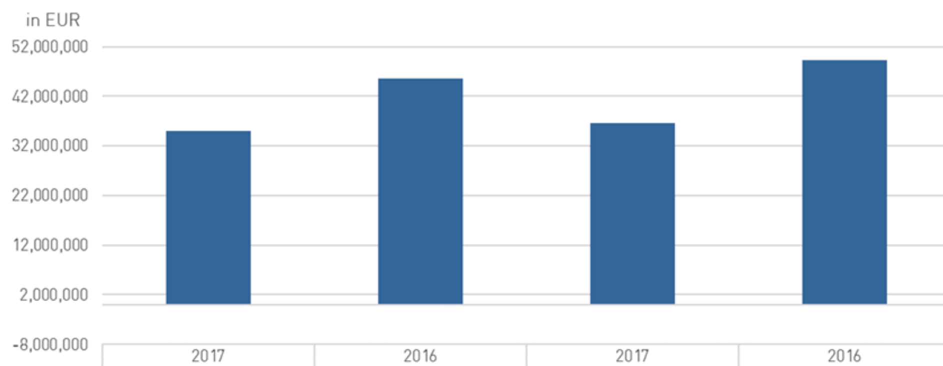
Other operating expenses

In 2017, other operating expenses of the Luka Koper Group amounted to EUR 28.5 million, which was an increase by 169% or EUR 17.9 million from 2016. Additional provisions for liabilities arising from legal commitments were formed under other operating expenses, amounting to EUR 15.7 million. Operating expenses from revaluation with respect to impairments of land in the municipality of Sežana increased by EUR 3.4 million.

OPERATING PROFIT OR LOSS

In 2017, earnings before interest and taxes (EBIT) of the Luka Koper Group amounted to EUR 36.6 million, which was a decrease of 26% or EUR 12.7 million from 2016. The lower EBIT is mainly the result of formed provisions for liabilities arising from legal commitments amounting to EUR 15.7 million.

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



	2017 Luka Koper, d. d.	2016 Luka Koper, d. d.	2017 Luka Koper Group	2016 Luka Koper Group
Earnings before interest and taxes (EBIT)	35,032,311	45,536,427	36,639,872	49,325,438

Earnings before interest, taxes, depreciation and amortisation (EBITDA) of the Luka Koper Group amounted to EUR 65.1 million in 2017, which was a 14% or EUR 10.7 million decrease from 2016.

The EBITDA margin of the Luka Koper Group was 30.8% in 2017, which was a 19% or 7.2 percentage point decrease from 2016.

FINANCIAL REVENUE AND FINANCIAL EXPENSES

In 2017, financial revenue of the Luka Koper Group amounted to EUR 1.3 million, which was a decrease by 11% or EUR 161.1 thousand compared to 2016. Financial revenue from shares in other companies and financial revenues from operating receivables decreased.

Financial expenses of the Luka Koper Group amounted to EUR 1.7 million in 2017, which was a reduction of 12% or EUR 242.9 thousand from 2016. Financial expenses for financial liabilities fell by EUR 418.1 thousand, which was the result of lower financial expenses arising from the instrument of interest rate swap and of the recognised capitalisation of borrowing costs. Financial expenses due to impairment and write-offs of investments declined by EUR 100 thousand as the impairment of a financial investment amounting to EUR 100 thousand was recognised in 2017.

Profit or loss from financing activities in 2017 amounted to -377.3 thousand, whereas in 2016, the Luka Koper Group achieved the financial result of EUR -459.1 thousand.

RESULTS OF ASSOCIATED COMPANIES

The results of associated companies in 2017 increased the profit before tax of the Luka Koper Group in the amount of EUR 1.7 million, which was a decrease by 11% or EUR 207.7 thousand compared to 2016. In 2017, the profits of the following companies were added:

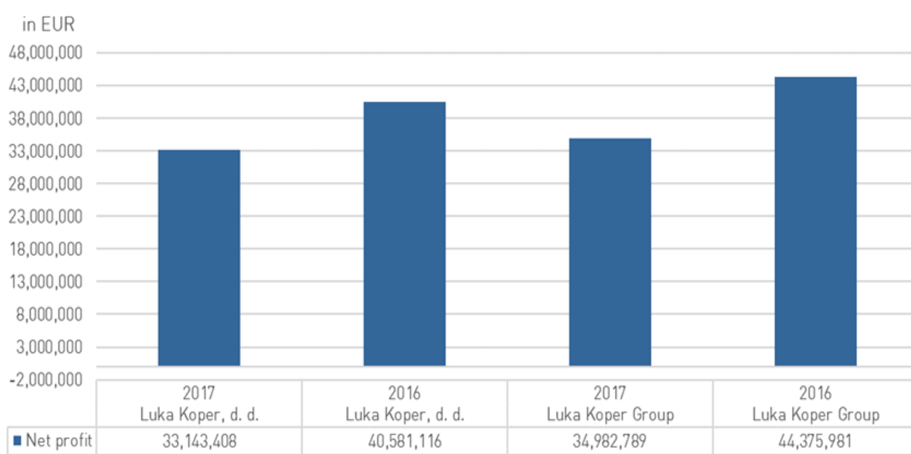
- Adria-Tow, d. o. o., in the amount of EUR 0.5 million,
- Adria Transport, d. o. o., in the amount of EUR 0.4 million,
- Avtoservis, d. o. o., in the amount of EUR 0.5 million,
- Adriafin, d. o. o., in the amount of EUR 0.3 million.

PROFIT BEFORE TAX AND NET PROFIT OR LOSS

In 2017, profit before tax of the Luka Koper Group amounted to EUR 38 million, which was a decrease of 25% or EUR 12.8 million from 2016.

Net profit or loss of the Luka Koper Group amounted to EUR 35 million in 2017, which was a decrease of 21% or EUR 9.4 million from 2016.

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

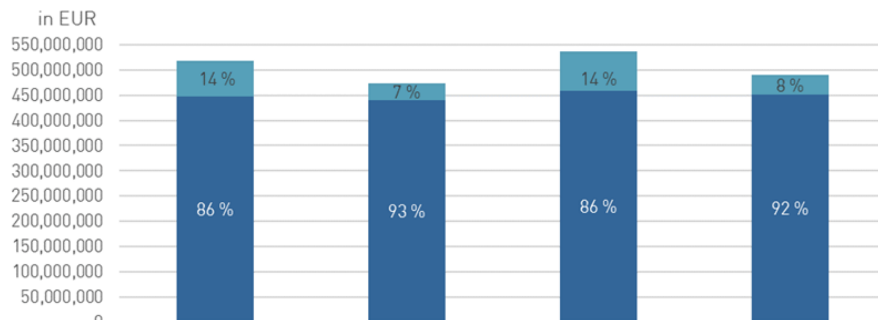


In 2017, income tax and deferred taxes decreased the net profit or loss of the Luka Koper Group by EUR 3 million, whereas in 2016, it was reduced by EUR 6.4 million.

FINANCIAL POSITION AND FINANCIAL MANAGEMENT

As at 31 December 2017, the balance sheet total of the Luka Koper Group amounted to EUR 536.5 million, which was an increase of 9% or EUR 46.5 million when compared to 31 December 2016.

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



	2017 Luka Koper, d. d.	2016 Luka Koper, d. d.	2017 Luka Koper Group	2016 Luka Koper Group
Current assets	71,384,517	32,876,473	76,973,034	39,261,329
Non-current assets	447,568,391	440,055,662	459,505,654	450,729,768

As at 31 December 2017, non-current assets of the Luka Koper Group amounted to EUR 459.5 million, which was an increase by 2% or EUR 8.8 million when compared to 31 December 2016. As at 31 December 2017, non-current assets accounted for 86% of the balance sheet total of the Luka Koper Group.

Property, plant and equipment increased by 2% or EUR 8.8 million due to higher investments. Intangible assets and long-term deferred costs and accrued revenue reduced by 16% or EUR 659.1 thousand due to depreciation and amortisation expense. Shares and interests increased by 5% or EUR 696.1 thousand due to profits of associated companies, and increased by 12% or EUR 3.7 million due to an increase in the market value of non-current investments in other shares and interests that were recorded at fair value.

As at 31 December 2017, current assets of the Luka Koper Group amounted to EUR 77 million, and grew by 96% or EUR 37.7 million from the previous year-end.

As at 31 December 2017, the balance of inventories of material used for maintenance amounted to EUR 1 million, which was an increase by 28% or EUR 227.6 million when compared to 31 December 2016. Operating and other receivables increased due to higher trade receivables. These amounted to EUR 35.7 million and were higher than in 2016 by 25% or EUR 7.2 million. Income tax assets as at 31 December 2017 amounted to EUR 4.5 million.

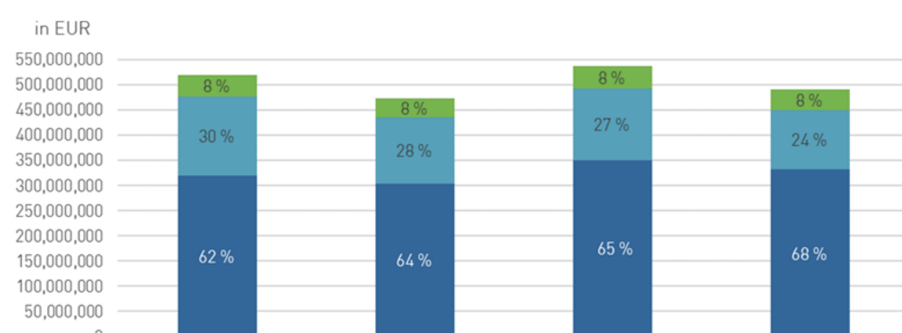
They refer to tax incentives arising from fixed capital formation. Cash and cash equivalents increased by EUR 26.5 million due to an increase in money in accounts.

As at 31 December 2017, the equity of the Luka Koper Group amounted to EUR 350.4 million, which was an increase by 6% or EUR 18.5 million when compared to 31 December 2016. The equity of the Luka Koper Group increased due to other revenue reserves, a special revaluation adjustment of equity in respect of non-current financial investments and net profit or loss brought forward. As at 31 December 2017, the equity accounted for 65.3% of the balance sheet total.

As at 31 December 2017, non-current liabilities including long-term provisions and long-term accrued costs and deferred revenue of the Luka Koper Group amounted to EUR 142.7 million, and grew by 20% or EUR 24.1 million from the previous year-end. Loans received from banks increased due to absorption of a loan granted by a commercial bank in 2016, and provisions for actions and pensions, and long-term accruals and deferrals also increased. Non-current operating liabilities increased due to higher securities for the excise duty. As at 31 December 2017, non-current liabilities including long-term provisions and long-term accrued costs and deferred revenue accounted for 26.6% of liabilities.

As at 31 December 2017, short-term liabilities of the Luka Koper Group amounted to EUR 43.3 million, and grew by 10% or EUR 4 million from the previous year-end. Loans received from banks in the country, as well as operating liabilities to suppliers and liabilities arising from advances and securities increased, whereas other financial liabilities and liabilities relating to the corporate income tax decreased.

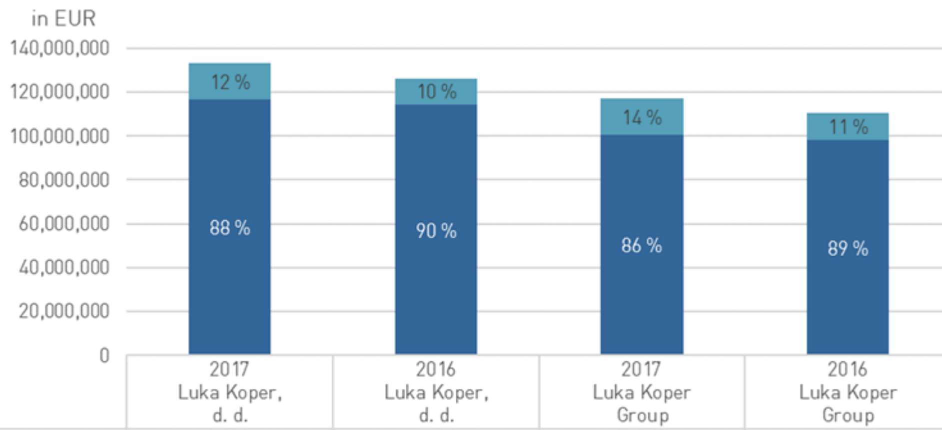
Structure of liabilities of Luka Koper, d. d. and the Luka Koper Group as at 31 December



	2017 Luka Koper, d. d.	2016 Luka Koper, d. d.	2017 Luka Koper Group	2016 Luka Koper Group
Short-term liabilities	42,267,096	36,891,767	43,340,558	39,373,218
Non-current liabilities including long-term provisions and long-term accrued costs and deferred revenue	156,033,161	131,614,419	142,700,743	118,638,958
Equity	320,652,651	304,425,949	350,437,387	331,978,921

As at 31 December 2017, the financial liabilities of the Luka Koper Group amounted to EUR 117.1 million, and grew by 6% or EUR 6.8 million from the previous year-end. Loans from banks in the country increased due to the absorption of the remaining principal of the loan received by the parent company from a commercial bank.

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



	2017 Luka Koper, d. d.	2016 Luka Koper, d. d.	2017 Luka Koper Group	2016 Luka Koper Group
Short-term financial liabilities	16,432,568	12,012,296	16,432,568	12,012,346
Non-current financial liabilities	116,682,274	114,320,612	100,682,274	98,320,612

As at 31 December 2017, non-current financial liabilities to banks of the Luka Koper Group accounted for 86% of total financial liabilities. When compared to the balance of the previous year-end, their share reduced by 2.8 percentage points.

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 for a long-term loan amounting to EUR 31.5 million. As at 31 December 2017, the loan accounted for an almost 27% share of total financial liabilities arising from loans received by the Luka Koper Group, which means that 27% of total loans of the Group were secured against a possible increase in interest rates. As a consequence, any changes in the variable interest rates could have an impact on 73% of total loans of the Group; in 2016, such loans accounted for 69% of financial liabilities.

As at 31 December 2017, the share of financial liabilities in equity accounted for 33.4%, which was a decrease of 0.2 percentage compared to 31 December 2016. Further details on financial liabilities of the Luka Koper Group are provided in the consolidated accounting report.

CASH FLOW STATEMENT

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

	Luka Koper, d. d.		Luka Koper Group	
	2017	2016	2017	2016
Net cash from operating activities	68,817,536	63,053,493	69,248,721	68,465,172
Net cash from investing activities	-28,925,110	-56,703,499	-30,002,300	-58,724,007
Net cash from financing activities	-12,673,142	-10,555,258	-12,698,742	-16,524,678
Net increase in cash and cash equivalents	27,219,284	-4,205,264	26,547,679	-6,783,513

In 2017, net cash from operating activities of the Luka Koper Group amounted to EUR 69,2 million and increased by EUR 783.5 thousand from 2016. Operating profit before the change in net current assets and taxes amounted to EUR 70.3 million, which was a EUR 7.3 million decrease from 2016. Changes in operating liabilities, provisions and non-current deferred revenue had a positive impact on net cash from operating activities in scope of changes in current assets, whereas changes in operating receivables, inventories, and expenses for interest and taxes had a negative impact.

Net cash from investing activities of the Luka Koper Group was negative in 2017 and amounted to EUR 30 million. In 2017, expenses for the purchase of property, plant and equipment and intangible assets amounted to EUR 32.7 million and were lower by EUR 29.1 million than in 2016.

Net cash from financing activities was negative and amounted to EUR 12.7 million. In 2017, expenses for the repayment of loans amounted to EUR 11.8 million and the amount of EUR 19.6 million was intended for the payment of dividends. The Luka Koper Group in 2017 also recognised revenue from non-current loans received in the amount of EUR 18.7 million.

The closing balance of cash and cash equivalents of the Luka Koper Group in 2017 amounted to EUR 32.4 million, which was an increase by EUR 26.5 million from the year-end of 2016.

11 Marketing: cargo groups and markets

11.1 Marketing strategy

In today's business world, the market situation changes at a faster rate than ever, which makes it of key importance for the long-term viability and growth of the Company to identify the changes as well as the needs of customers in a timely manner. Focus on customers, respect for commitments to customers and customer satisfaction are the basic guidances for the conduct of employees and the key components of the Company's marketing activities. These activities, however, are subordinated to the Company's marketing strategy and its strategic goals to maintain and keep upgrading a flexible, modern and competitive port system, thus creating the expected value for customers, employees, owner and other stakeholders of Luka Koper, d. d.

Key cargo groups

Containers and cars remain the key cargo groups. With the growth in container traffic, however, container loading and unloading has also been on an increase, i.e. activities related to storage processing of goods, which also means opportunities for added value services. In general, the port wants to maintain its multipurpose character, especially with a view to maximise the benefits of existing facilities and established operations, and to diversify its range of services rendered.

Markets

The Market share of Luka Koper has been increasing in key markets through active sales, including the domestic Slovenian market, but primarily in hinterland markets of Austria, Hungary, Slovakia, the Czech Republic, Italy, Poland, Germany and Serbia. Marketing activities in 2017 continued in the overseas markets of the Mediterranean (Israel, Egypt) as well as the markets of the Middle and Far East where the visibility of the port was being fostered. Luka Koper has been seeking to improve its competitiveness by identifying opportunities in each market, responding to them and establishing a strong partner network based on mutual cooperation.

11.2 Customers

Satisfied customers are the basis of efficient partnership relations. The Company has thus been striving systematically to establish and maintain orderly long-term partner relations with existing customers, which makes for the best reference a company can have. An important part of the activities of Luka Koper is to identify potential new customers and other logistics partners. Constant increase in the number of customers, i.e. growth of the partner network is a precondition for the growth of the Company. It is the Company's strategic orientation to act as a promoter of comprehensive logistic services. This means striving to integrate various participants of the logistics chain and port community with a view to form integrated transport solutions.

With their enthusiasm, competencies and expertise, the employees create a friendly environment for business partners, whom they treat with respect, responsibility and reliability. Furthermore, employees ensure the legality and transparency of operations and enhance the positive image and reputation of the Company, and thus contribute to creating a recognizable brand.

For Luka Koper, d. d., 2017 was a jubilee year. To celebrate its 60th anniversary, a series of events were organised and held in Koper, to which Slovenian and foreign business partners were invited with the aim of reinforcing and nurturing business relations.

The Company attended various fairs and conferences in hinterland markets. Representatives of the Company visited the Fruit Logistics fair in Berlin and Fresh Market in Warsaw, and presentations were held at the Logistics Day in Graz, the Conference on Logistics in Budapest and the Transport Week conference in Poland. The Company had its own exhibition space at the Export Tag fair in Linz and the Logistics Business Expo in Graz, at the Cold Chain fair in Warsaw, whereas the central exhibition event in its strategy was the Transport Logistic fair in Munich where the Company had a joint presentation with other Slovenian logistics providers. The so-called Port Day was organised in Poland and in Serbia, and the business seminar entitled The opportunities that Slovenian logistics can offer Japanese companies was held in Düsseldorf.

In neighbouring ports, competition has been strengthening by positioning strong logistics players, and increasingly focusing on hinterland markets. Luka Koper has therefore been constantly identifying its advantages to improve its competitive edge. By means of regular communication, the Company seeks to anticipate and intercept the needs of customers and respond to them quickly, to encourage customers to make proposals for the improvement of services and thus integrate them in the Company's development, which in turn strengthens the business relationship and upgrades the port system.

11.3 Port throughput

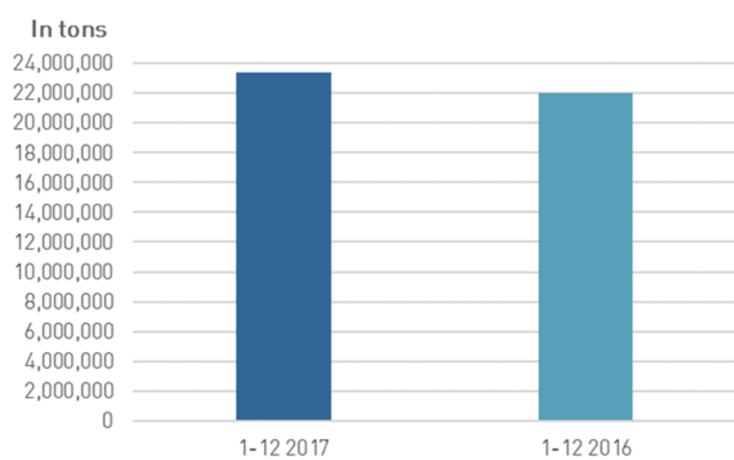
The port throughput achieved in 2017 amounted to EUR 23.4 million tons, which is a new milestone in the history of the port. Container throughput provided a major contribution to the record year. The Luka Koper Group has also recorded growth in dry bulk, bulk and liquid cargoes, whereas car throughput remained at the level of 2016. The passenger terminal recorded 72,175 passengers in 2017, which is a 9% decrease from 2016.

2017: THE HIGHEST THROUGHPUT IN THE HISTORY OF THE PORT – 23.4 MILLION TONS OF PORT THROUGHPUT

- RECORD QUANTITY OF CONTAINER THROUGHPUT: 911.5 THOUSAND TEU
- RECORD QUANTITY OF GENERAL CARGO THROUGHPUT: 987.3 THOUSAND TONS

In 2017, the Port observed a 9% increase in cargoes unloaded from ships and the same amount of cargoes loaded to ships compared to 2016.

Port throughput

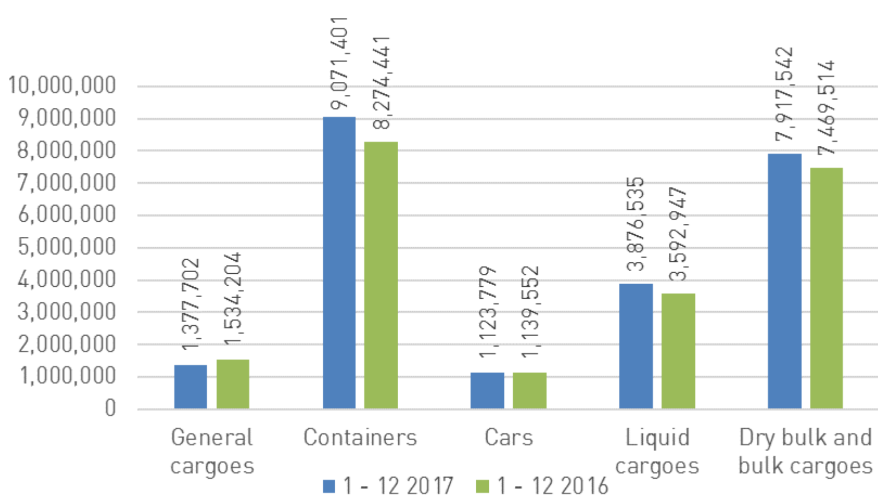


11.4 Throughput structure by cargo group

Containers prevail in the total throughput structure and their share increased by 1 percentage point from 2016. The share of general cargo has decreased, and the share of other cargoes has remained unchanged.

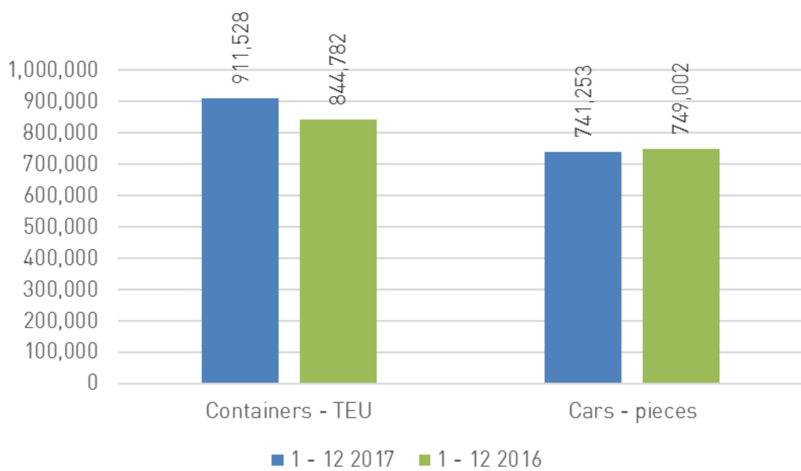
Throughput in tons per cargo group in 2017 and 2016

CARGO GROUPS (in tons)	2017	2016	Index 2017/2016
General cargoes	1,377,702	1,534,204	90
Containers	9,071,401	8,274,441	110
Cars	1,123,779	1,139,552	99
Liquid cargoes	3,876,535	3,592,947	108
Dry bulk and bulk cargoes	7,917,542	7,469,514	106
TOTAL	23,366,959	22,010,657	106



Throughput of containers (in TEU) and cars (in pieces) in 2017 and 2016

CARGO GROUPS	2017	2016	Index 2017/2016
Containers – TEU	911,528	844,782	108
Cars – pieces	741,253	749,002	99



GENERAL CARGOES

The Luka Koper Group ended the year 2017 with a 10% decrease in the throughput of general cargoes compared to 2016. Within the general cargo group, an increase was observed in the throughput of aluminium and pulp imports due to the higher demand in the EU countries. Exports of livestock for the Arabian market have increased. The throughput of steel products remained at the same level as in 2016.

In 2017, a great drop was observed in timber traffic, which was due to unstable political and economic conditions in North African countries and in particular in the Algerian market.

With respect to throughput of fruits and vegetables, the Group has recorded an increase in the throughput of fruits and vegetables imported from Egypt owing to longstanding market activities aimed at improving direct shipping links with Egypt, as well as the efforts of the members of the port to improve the dispatch of goods arriving; the Group has also recorded an increase in exports of apples and energy drinks.

CONTAINERS

For the container terminal, 2017 was yet another record year: the number of 900,000 TEU was exceeded for the first time, the financial year ending with the transhipment of 911,528 TEU. An 8 percent growth in traffic was recorded at the annual level compared to 2016. The largest, i.e. 10% growth was again recorded with full containers, which means that customers see the Port of Koper as a safe and reliable link in their supply chain and in supply of goods to final customers.

The year 2017 was also very intense and successful for the container terminal in terms of investments, as they received two new cranes for container throughput on ships with a capacity of up to 20,000 TEU, and three new RMG cranes for operations on trains. Capacities on ships and trains have thus increased considerably, which provides the terminal with additional possibilities for a long-term increase in throughput.
The investment cycle will be continued in 2018 and is expected to be completed in 2020.

To markets of Central and South Eastern Europe, the geostrategic position of the port of Koper is of exceptional importance, offering great potential for worldwide distribution (import/export) of goods. Rail operators have continued to establish of new railway connections to the main hinterland markets, which increases the Luka Koper catchment area in Central Europe. This provides the port of Koper with further added value, enabling it to access new markets which, in the past, were out of reach due to limited land links.

CARS

In 2017, the throughput amounted to 741,253 cars, which was a decrease of 1% from 2016. 438 thousand cars were loaded on ships, and 303 thousand were unloaded.

In comparison with the previous year, throughput of cars for export to the Far East and to the Spanish market continued to grow due to the growth of sales in these markets and the transfer of land logistic routes to shipping. Because of unstable political conditions, there was a drop in exports to Mediterranean countries such as Turkey, Israel, Egypt, Morocco, Malta, Lebanon and Algeria.

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 and RO-RO terminal are planned in the future years.

LIQUID CARGOES

In 2017, the liquid cargo throughput grew by 8% compared to 2016. The throughput in the liquid cargo group increased by 28% over the previous year. The newly constructed storage capacities extending over 60,000 square metres, mostly intended for handling and storage of petroleum products, served as the main reason for the growth of throughput. In addition, the result was affected by the delayed arrival of the ship loaded with aviation fuel at the beginning of 2017.

In the field of throughput of petroleum products, the Luka Koper Group recorded 3% growth compared with 2016.

DRY BULK AND BULK CARGOES

In 2017, the throughput of dry bulk and bulk cargoes grew by 6% in comparison with the year 2016.

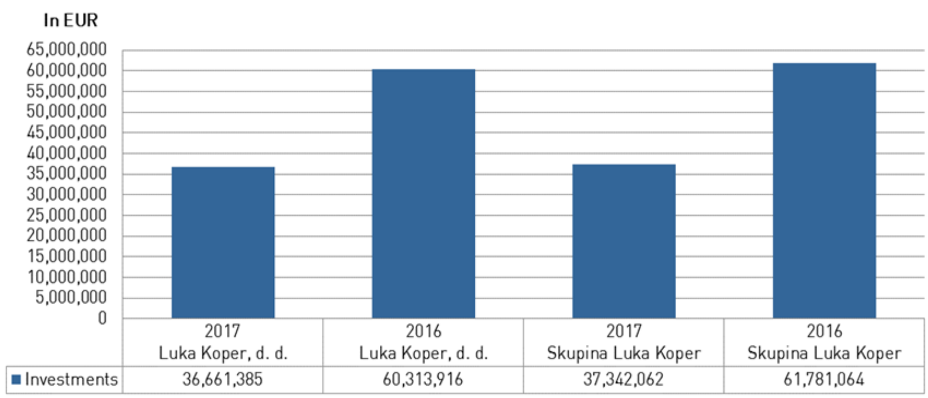
Cargo throughput at the bulk cargo terminal in 2017 grew by 7% compared to 2016. The increase in cargo throughput when compared to the financial year 2016 was mainly due to the increased throughput of iron ore and coal for the steel industry and the related manufacture of iron products.

The throughput of dry bulk cargoes in 2017 grew by 1% over the previous year. The throughput of gritting salt increased in 2017 because of colder winters compared with previous years. There was also an increase in throughput of fertilisers. The throughput in the cargo groups of old iron and cereals continued to decline.

12 Investments in non-financial assets

In 2017, the Luka Koper Group allocated EUR 37.3 million to the investments in property, plant and equipment, investment property and intangible assets, which is 40% less than in 2016. Luka Koper, d. d. allocated the amount of EUR 36.7 million to investments in 2017, which accounted for 98% of investments of the Luka Koper Group.

Investments in property, plant and equipment, investment property and intangible assets (Cash flow statement) of Luka Koper, d. d. and the Luka Koper Group



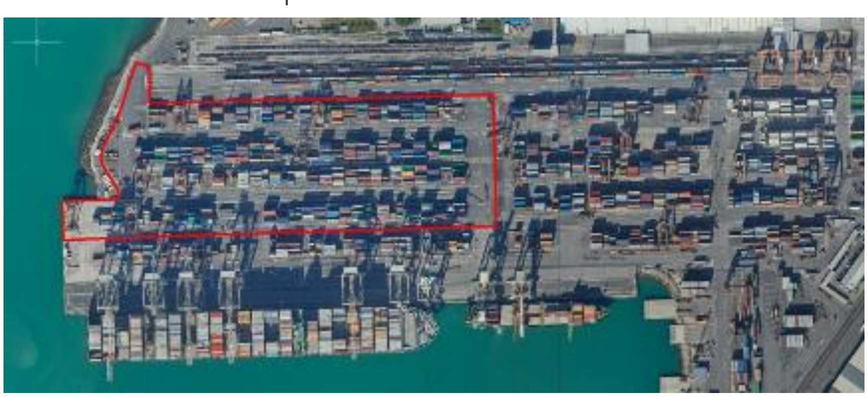
In 2017, the Luka Koper Group made the following major investments:

- Eight new terminal tugs, two manipulators for empty containers, three rail mounted gantry cranes (RMG), two Ship to shore container cranes (STS) and seven electrified rubber-tyred gantry cranes (ERTG) were purchased for the needs of the container terminal.
- Twelve new forklifts (17 ton and 8 ton and electric forklift) were purchased for the needs of general cargoes.
- A Volvo loader and a bagging facility for packing fertilisers into Big Bags were purchased for the needs of dry bulk cargoes.
- Storage area for empty DEPO containers was ensured for the needs of the container terminal. This investment included reconstruction of the existing facility into a container repair station, construction of a gallery with power supply for refrigerated containers, destruction of an existing electrical substation and construction of a new one, construction of the new 18C railway track of 300 m length.

DEPO – terminal for empty containers and related services
(Legend: red– area of work, light blue – entire DEPO area)

Gallery with power supply for refrigerated containers

- Phase 1 and 2 of moving storage units was completed, which included the move of light towers and the purpose of which was to improve the traffic between the units and to ensure wider transport routes between the units.



Organization of the Container Terminal - Phase 1 and 2 of moving storage units
(Legend: red– area of work)

- A new mooring buoy and a new access gangway for port staff handling mooring were installed in Basin III, decrepit fenders were replaced at an existing ramp to increase the safety for RORO ship landings on the multi-purpose terminal.



- The north wall of a silo chamber was renovated due to deterioration.

- A multi-purpose storehouse was constructed, its surroundings rearranged and a new weighing device was set up.

- An additional washing line for car wash was installed at the Avtoservis servicing facility.

- A macadam area in Sežana extending over 5,000 square metres was asphalted.

- Several minor investments were made.

All investments foreseen for the year 2017 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 2017, the Luka Koper Group allocated a portion of funds to ecology and to saving electricity, to maintain harmony with the environment in line with its strategic orientations. For this purpose, old (floodlight) lamps on old light towers at the container terminal were replaced by modern LED lamps pursuant to the Decree on light pollution.

13 Development activity

In the field of research and development, Luka Koper, d. d. in 2017 continued the activities relating to the development needs of the ports, considering the trends of the line of business and long-term plans. An important activity that was initiated in end 2016 and implemented systematically in 2017 included four strategic programmes that follow the strategic plan of the Company from 2015. These strategic programmes comprise a comprehensive range of activities involving both market and infrastructure aspects as well as the acquisition, process and staff segments due to ensuring sufficient capacities at all levels. With respect to its strategic objectives, the Company has formed four strategic programmes: increase in container throughput, increase in car throughput, increased port flow capacity, and increased container loading and unloading activity, which offer opportunities for added value logistics: The strategic programmes thus include many development activities that build on the strategic goals of the Company.

Existing capacities of the port being used quite fully, the key development issue remains a more rapid implementation of priority infrastructure projects and the possibility of obtaining grants to this end. There are also challenges related to new technologies, disposal or processing of sediments to increase and maintain port depths, environmental, energy and security issues, information sections as well as novelties in marketing. To ensure better coordination and a comprehensive exploration of development issues and challenges, a development team has been established that combines various areas of expertise.

Activities related to emphasising the major importance of the timely construction of the second railway track Koper – Divača continued in 2017, as this project ensures opportunities for further growth of throughput and thereby for development of the port, logistic activities at the national level and international trade among hinterland countries of Central and Eastern Europe. In February 2017, competent official persons successfully registered this project for funding within the CEF programme, and in June they submitted the application for CEF blending. In March 2017, the proposed new law was published that primarily specifies the financing of this project, and regarding which a referendum was held at the end of September 2017. Although the referendum confirmed the validity of the new law, new complications ensued at the end of 2017 when the referendum was subjected to constitutional review, which prevented the law to have taken effect. Regarding Luka Koper, the law introduces a new throughput fee to be paid to the project company 2TDK, d. o. o., which will result in a major burden on company's operations but on the other hand, after the construction of the second track, this will enable the company to significantly increase the volume of throughput, thereby ensuring the long-term development of the company. According to the construction schedule, the second railway track Koper – Divača is currently predicted to be operational by the end of 2025.

13.1 European projects

With regard to European projects, the most intense activities in 2017 were implemented within projects of the CEF programme. Luka Koper sought to implement projects related to actual development challenges and infrastructure needs of the port to ensure optimal absorption of the assigned funds, also taking into consideration the implementation of the EU corridor policy:

- Activities of the following projects continued to be implemented: NAPA4CORE, GAINN4MOS, Fresh Food Corridors, CarEsmatic and ELEMED (Luka Koper being the coordinator of projects NAPA4CORE, Fresh Food Corridors and CarEsmatic).
- Luka Koper submitted an application to the call for tender in February 2017, proposing two new projects, Quays4Koper and ConnectingMoS, however, despite achieving very positive quality assessment, the co-financing priorities of the Republic of Slovenia and the European Union were different this time and the port projects were not selected for funding.

Within the Obzorje 2020 programme, the RCMS (Rethinking Container Management System) project was concluded in January 2017, and a new information security project, SAURON, was approved and began to be implemented in May 2017.

In the field of territorial cooperation featuring issues of predominantly regional focus and softer cooperation as well as emphasis on partnership projects, the TalkNet project (Central Europe programme) was initiated in June 2017, and the SecNET (Slovenia - Italy programme) was initiated in October 2017. In the third quarter, preparations began for three new projects of the ADRION programme (ADRIPASS, ISTEN, SUPAIR), which began to be implemented in January 2018.

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, etc.

At the beginning of 2017, Luka Koper was granted approval for the Logistika Competence Center partner project, which supports education and competence development, to be funded within Structural funds. In the context of smart specialisation projects, Luka Koper continued to implement the RRS project (exploiting the potential of biomass for the development of advanced materials and bio-based products), which Luka Koper uses to examine the excavated sediments and the possibility of their further use. During the course of the year, Luka Koper participated in preparing the Mobility action plan within Strategic research and innovation partnerships (SRIP), which will form the basis for new co-financing of smart specialisation projects in the field of logistics.

In 2017, Luka Koper was still pursuing efforts to obtain a solution with regard to the possibility of co-financing of the Passenger terminal since the project documentation was at an advanced stage, which made it important to obtain a definitive answer for Luka Koper to make a decision on project implementation. Although the Company was looking for solutions, negotiating with the key stakeholders: the Ministry of Economic Development and Technology, Ministry of Infrastructure, and Municipality of Koper, it has still received no positive reply that would be consistent with the legal and formal and strategic restrictions of the Company and the port.

In January 2017, port regulations were adopted at the EU level following yeas of efforts to regulate the port activities, however, it will not affect the port governance model and port management. The regulation focuses mainly the availability of market services and financial transparency. In the scope of international institutional activities that are important for the long-term placement of the port of Koper in the institutional developments of the European Union, the Company's representatives attended meetings of the ESPO European Sea Ports Organisation, FEPORT Federation of European Private Port Companies and Terminals, and corridor forums (Baltic-Adriatic and Mediterranean) which were established by the European Commission. In March 2017, representatives of the European Commission for motorways of the sea visited Koper. In the first half of 2017, Luka Koper chaired the NAPA North Adriatic Ports Association. In June 2017, Luka Koper responded to the invitation to attend the consultation of port workers in Trieste, which was dedicated to further successful development of port activity in the northern Adriatic, particularly as regards opportunities for new and high quality jobs. In September 2017, the Company attended the central annual CEF event, which was organised by the European Commission in Tallinn, and presented the CEF projects in which it participates.

It should be emphasised that the Port of Koper enjoys great visibility among European institutional stakeholders, however, it is of vital importance for further development of the port to be supported by the state and local communities, which, in turn, necessitates the understanding of the port operations also in the light of its strategic role.

13.2 Information solutions and projects

Having been implemented in Luka Koper in recent years, digital transformation is in the priority list of the current strategy of information technology. Based on information technology and digitisation, Luka Koper has been striving to optimise its business processes and increase their efficiency.

In 2017, Luka Koper carried out over 200 different changes to existing functionalities in its information systems and introduced a number of new ones, the overall aim being to optimise and digitise its processes.

Luka Koper has been enabling its customers and partners to order services electronically for more than 20 years, while also putting much effort in full digitisation of the area. To this end, the Company in 2017 performed activities in three major areas:

- EDI CENTER 2, which is to introduce EDIFACT messages for container ship-owners, thus making a substantial contribution to methods and processes of communication and work in the port community,
- The truck announcement digitisation project, which will increase efficiency in optimisation of truck transport and provide the preconditions to implement supervision and thereby increase safety,
- Optimisation of the container loading and unloading process, which will use EDIFACT messages for the release of empty containers, as well as improve the manner of communication in the port community and enable internal electronic support to the planning of work in this segment.

In addition, Luka Koper was working intensely in 2017 to overhaul the IT support system for processes at the car and Ro-Ro terminal, which will be fully introduced in 2018. A comprehensive information solution will thus be established to optimise the existing processes, establish a better integrated connection with the main operational port information system (TinO) and at the same time offer new functionalities in work processes in the field as in administrative processes.

Alongside the above, many other system upgrades and new functionalities were also introduced:

- The system for supporting container terminal operational processes was upgraded, and support for RMG technology (Rail Mounted Crane) was introduced,
- The contract registry was digitised, which also resulted in support to the process of negotiating and initialling contracts,
- New support for e-Travel orders, holidays and other absence began to be developed,
- New functionalities were introduced to facilitate and further automate container weighing related work,
- Archival system was established for data that are generated in the context of the TinO information system.

New solutions were also introduced in subsidiaries; in Luka Koper INPO, d. o. o., the SAP MM module was introduced for the needs of purchase procedures, and digitised invoicing was made possible for customers paying in advance.

In the infrastructure part, the entire work environment was transferred to new working stations, which included the transition to Microsoft Office 365.

In the era of digital transactions, information security has become of major importance for the entire operation of the Company rather than being restricted to information technology, which is why Luka Koper has been particularly sensitive in this regard. Regular reviews of the information and communication technology (ICT) are being implemented, users are educated and made aware of the correct and secure use of information resources, and awareness of the importance of information security is being raised. To ensure smooth operation of information systems, it is crucial that they are highly available and reliable, which is maintained in Luka Koper on a very high level. In 2017, it amounted to 99.9 percent.

Development of information systems in Luka Koper will continue to focus on parties who will be enabled the maximum possible rate of transaction digitisation and system integration based on connecting various links in the logistics chain, and on employees who will be offered the tools, applications and devices to be able to perform their tasks quickly and efficiently.

14 The LKPG Share

The share of Luka Koper, d. d., marked LKPG, is listed on the Ljubljana Stock Exchange, the first listing. At the end of 2017, the value of the LKPG share was by almost 22% higher than in 2016. On the last trading day of 2017, the price per LKPG share was EUR 30.40.

The ownership structure of Luka Koper, d. d. experienced no major changes in 2017. As at 31 December 2017, 9,993 shareholders were entered in the shareholder register, which was 432 less than in 2016. Republic of Slovenia remains the major shareholder of the Company.

Ten major shareholders as at 31 December

Shareholder	Number of shares as at 31 Dec 2017	Ownership share 2017 (in %)	Number of shares as at 31 Dec 2016	Ownership share 2016 (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 of Koper	439,159	3.14%	439,159	3.14%
Citibank N.A. - fiduciary account	215,937	1.54%	0	0.00%
Aktsiaselts Trigon Asset Management	161,384	1.15%	0	0.00%
Hrvatska poštanska banka d. d. - fiduciary account	129,582	0.93%	129,582	0.93%
Zavarovalnica Triglav	113,568	0.81%	104,756	0.75%
Sei Global Investments Fund plc	102,392	0.73%	102,392	0.73%
Utilico Emerging Markets Limited	98,400	0.70%	0	0.00%
Total	10,654,858	76.11%	10,170,325	72.65%

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

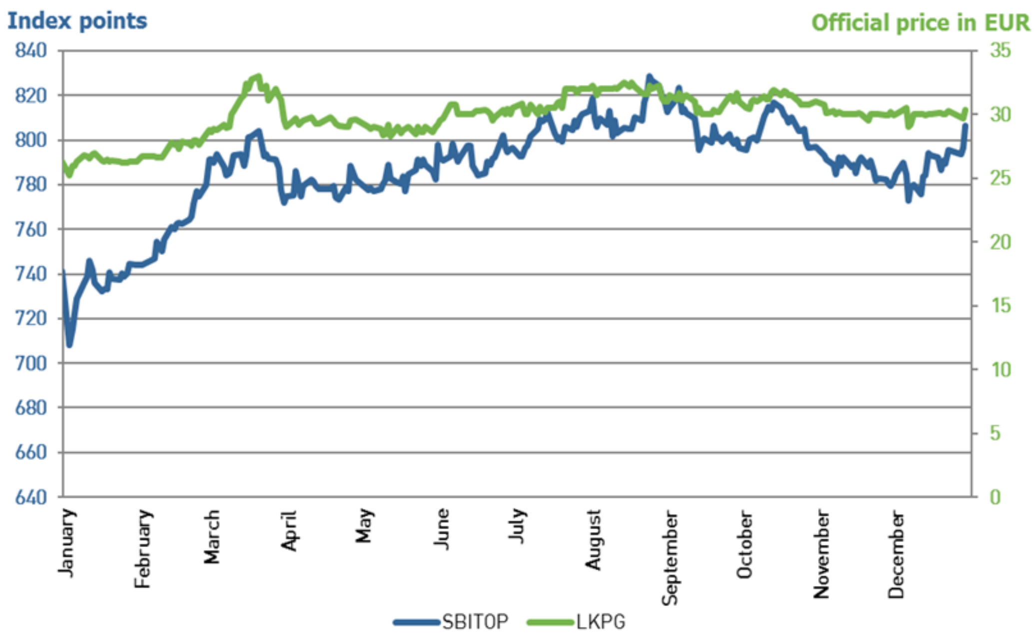
Shareholder	Number of shares as at 31 Dec 2017	Ownership share 2017 (in %)	Number of shares as at 31 Dec 2016	Ownership share 2016 (in %)
Republic of Slovenia	7,140,000	51.00%	7,140,000	51.00%
Natural persons	2,213,981	15.81%	2,254,503	16.10%
Slovenski državni holding, d. d.	1,557,857	11.13%	1,557,857	11.13%
Foreign legal entities	1,283,133	9.17%	847,891	6.06%
Kapitalska družba, d. d.	696,579	4.98%	696,579	4.98%
Other legal entities	480,468	3.43%	879,582	6.28%
Municipality of Koper	439,159	3.14%	439,159	3.14%
Mutual and pension funds	118,246	0.84%	123,501	0.88%
Brokerage houses	32,454	0.23%	29,961	0.21%
Banks	28,572	0.20%	25,374	0.18%
Foreign banks	9,551	0.07%	5,593	0.04%
Total	14,000,000	100.00%	14,000,000	100.00%

14.1 Share trading

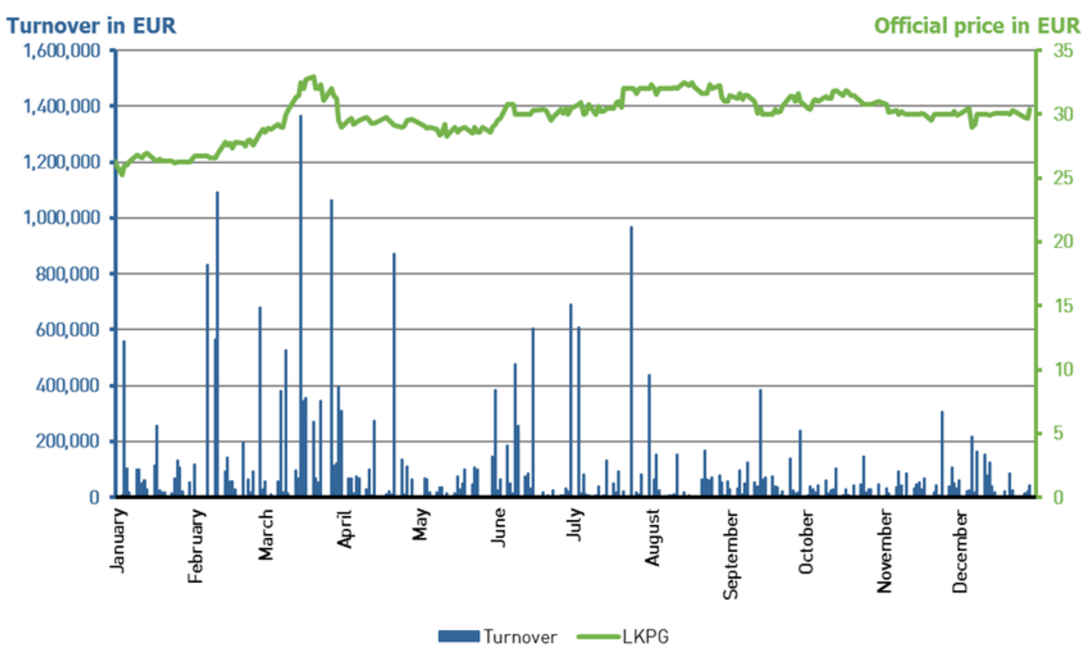
The average daily price of the Luka Koper, d. d. share amounted to EUR 29.89 in 2017. During the year, its value fluctuated between EUR 25.23 and EUR 32.97. The highest market price of the share was EUR 33.00 and the lowest EUR 24.51. Market cap of Luka Koper, d. d. shares as at 31 December 2017 was EUR 425,600,000.

In 2017, the shareholders witnessed a stable story on the share of Luka Koper, d. d. While owners of Slovenian shares generally had to accept significant deviations of the SBITO index and only an increase of 14%, the shareholders of Luka Koper experienced a 20% increase in the value of company shares. The total number of stock-exchange transactions and deals with lots for the LKPG share was 3,201. Total turnover in the period amounted to EUR 26,332,990; whereby 888,003 shares changed owners.

Changes in the SBI TOP index and the daily LKPG price in 2017



Changes in the daily LKPG share and daily turnover in 2017



Key data on the LKPG share

	2017	2016
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)	30.40	25.00
Share's book value as at 31 Dec (in EUR)	22.90	21.74
Average market price / share's book price (P/B)	1.33	1.15
Average market price (in EUR)[27]	29.65	22.95
Average share's book price (in EUR)[28]	22.93	21.11
Average market price / average share's book price	1.29	1.09
Net earnings per share (EPS) (in EUR)	2.37	2.90
Market price / earnings per share (P/E)	12.84	8.62
Market cap as at 31 Dec 2016 (in EUR million)	425.6	350.0
Total share turnover (in EUR million)	26.3	18.7
Dividend per share (in EUR)	1.40	1.13

14.2 Dividend policy

The dividend policy of Luka Koper, d. d. is to maintain the stakeholders' tendency towards dividend earnings and towards using the net profit for the period in order to finance investment projects. The Company endeavours to allocate up to a third of the net generated profit of the period for dividends, while taking into account the planned investments in the port infrastructure and equipment.

Taking into account the financial results achieved in 2017 the appropriation of accumulated profit, which was EUR 17,261,911.95 as at 31 December 2017, as proposed by the Management Board is as follows:

- a portion of accumulated profit in the amount of EUR 14,700,000.00 to be used for dividend pay-out i.e. EUR 1.05 gross per share,
- the residual amount of accumulated profit in the amount of EUR 2,561,911.95 to remain unappropriated.

[27] 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.

[28] The average bookkeeping value of a share is calculated on the basis of average monthly balances of the ratio of equity to number of ordinary shares.

14.3 Cross-linkages with other companies

As at 31 December 2017, Luka Koper, d. d. did not hold a 5% interest in any company which owns shares of Luka Koper, d. d. The shareholders holding at least 5% of the LKPG shares are the Republic of Slovenia (51.00%) and Slovenian Sovereign Holding (11.13%).

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

	Shareholder	Ownership as at 31 Dec 2017
Supervisory Board	Uroš Ilić, Chairperson of the Supervisory Board	55
	Marko Grabljevec, member of the Supervisory Board	10
	Rok Parovel, member of the Supervisory Board	8

As at 31 December 2017, the remaining members of the Supervisory Board and the Management Board held no shares of the Company.

14.5 Own shares, authorised capital, conditional capital increase

As at 31 December 2017, 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 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 to keep the interested public equally informed on all significant business events, and is an important element in strengthening the confidence of investors and the reputation of Luka Koper. The purpose of the Rules is to enable the persons subject 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

Luka Koper communicates with its investors regularly and keeps them informed on Company news through various communication tools and channels:

SEO-net

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

Website

A special chapter on our website headed “For Investors” is devoted to shareholders and investors 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 Meetings of Shareholders, answers to most frequently asked questions on shares.

Port Bulletin

Each month, brokerage companies and analysts are sent a copy of the Port Bulletin, which also covers other issues related to operations of the Company and general developments in the port.

Port Shareholder

Once a year, in the period prior to the General Meeting of Shareholders, Luka Koper issues the Port Shareholder, a publication focusing on business results of the previous year, which is sent to all the shareholders.

Events

Representatives of the Company regularly attend meetings with investors and financial analysts. On 25 and 26 May 2017, they participated in the Slovenian and Croatian Investors' Day in Zagreb where they attended 19 individual meetings, and on 21 November 2017,they attended further dozen meetings with Slovenian and foreign investors at the investor convention in Ljubljana.

Information for investors is available at https://luka-kp.si/eng/lkpg-share.

Contact person:
Rok Štemberger
Investor Relations

Tel: +386 (0)5 66 56 140
E-mail: rok.stemberger@luka-kp.si

14.8 Calendar of relevant publications in 2018

Periodical 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 dates of individual publications will be regularly published on our website.

15 Management system

In 2017, it has been 20 years since Luka Koper acquired the first Quality Management System certificate. Given such a lengthy period, these systems have since become part of the Company business culture, so to speak. Their target operation mainly focuses on creating an appropriate internal environment, on internal factors that affect how well organized the company is, how it manages processes and resources, in what way it implements strategy and plans, how employees are cared for and much more. Management systems have a strong impact on the functioning of the organisation. To celebrate this occasion, particularly as this is also the year when Luka Koper celebrated 60 years of its existence, an expert meeting was organised, entitled 'Management systems - a burden or advantage?' The purpose was not only to provide an answer to the above question, rather, to commemorate in a special way the anniversary of Luka Koper being certified using the ISO 9001 standard.

In 1997, the year of being granted the first certificate, Luka Koper transhipped 7 million tons of cargo, whereas today the throughput exceeds the record number of 23 million tons. In the meantime, Luka Koper has acquired some new additional certifications in addition to the ISO 9001, also for management systems according to: ISO 14001, ISO 22000, BS OHSAS, EMAS, GMP+ BR and others. Rather than being a burden, management systems are a necessity entities are faced with due to current challenges, and particularly due to customers and other stakeholders within the overall context of the organization.

Operations of Luka Koper in 2017 comprised its regular annual activity, which, in the first third of the year mainly focused on planning and implementation of external audits. With the aim to prepare well for the gradual transition, gaps between the present and future requirements of the management system standard were studied already in 2016, and a programme of gradual transition with the final awarding of the certificate in 2017 was prepared on this basis.
In 2017, the core activities on the systemic and operative levels were the following:

- Introduction of process owners and internal reviewers to understand the requirements of the new standard based on training courses and internal workshops,
- Conduct of 14 internal audits throughout the year in compliance with the plan,
- Preparation and conduct of an external review by an external certification body in April 2017,
- Implementation of the annual management review
- Meeting of requirements of the standards mentioned, as well as requirements of Non-GMO, EKO and ISCC EU certificates in scope of management systems,

- Implementing activities to raise the objective of higher level realisation of proposed improvements in the context of inventive activities,
- Project approach has been updated and upgraded.

ACCOUNTING REPORT

16 Separate Financial Statements of Luka Koper, d. d.

16.1 Separate Income Statement

(in EUR)	Note	2017	2016
Revenue	1	206,835,533	190,407,498
Capitalised own products and services		0	5,243
Other income	2	1,634,425	1,151,914
Costs of material	3	-14,656,410	-13,629,976
Costs of services	4	-54,775,310	-50,982,018
Employee benefits expense	5	-48,047,075	-45,396,062
Amortisation and depreciation expense	6	-27,538,509	-25,507,032
Other operating expenses	7	-28,420,343	-10,513,140
Operating profit		**35,032,311**	**45,536,427**
Finance income		2,973,923	3,070,990
Finance expenses		-1,588,287	-2,107,533
Profit or loss from financing activity	**8**	**1,385,636**	**963,457**
Profit before tax		**36,417,947**	**46,499,884**
Income tax expense	9	-3,151,706	-7,093,243
Deferred taxes	9	-122,833	1,174,475
Net profit for the period		**33,143,408**	**40,581,116**
Net earnings per share	**10**	**2.37**	**2.90**

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

16.2 Separate Statement of Other Comprehensive Income

(in EUR)	Note	2017	2016
Profit for the period		**33,143,408**	**40,581,116**
Actuarial gains/losses from post-employment benefits	21	-147,550	-9,349
Deferred tax on actuarial gains or losses	17	11,035	8,297
Items not to be reclassified into profit/loss in future periods		-136,515	-1,052
Change in revaluation surplus of available-for-sale financial assets	16	3,160,721	-4,213,091
Deferred tax on revaluation of available-for-sale financial assets	17	-600,537	510,470
Change in fair value of cash flow hedging instruments	25	320,526	220,082
Deferred tax on the change in fair value of cash flow hedging instruments	17	-60,900	-29,016
Effective portion of change in fair value of cash flow hedging instruments, transferred to profit or loss	25	0	397,546
Deferred tax on the effective portion of change in fair value of cash flow hedging instruments, transferred to profit or loss	17	0	-67,583
Items that might be reclassified into profit/loss in future periods		2,819,810	-3,181,592
Total comprehensive income for the period		**35,826,703**	**37,398,472**

16.3 Separate Statement of Financial Position

(in EUR)	Note	31 Dec 2017	31 Dec 2016
ASSETS			
Property, plant and equipment	11	367,818,139	358,594,707
Investment property	12	26,467,395	29,918,504
Intangible assets	13	3,122,833	3,761,498
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	30,499,584	27,338,863
Deposits and loans given		22,592	31,005
Non-current operating receivables		41,772	41,772
Deferred tax assets	17	8,325,304	9,098,541
Non-current assets		**447,568,391**	**440,055,662**
Inventories	18	1,037,066	809,467
Deposits and loans given		8,413	68,123
Trade and other receivables	19	38,021,057	31,015,578
Income tax assets		4,115,392	0
Cash and cash equivalents	20	28,202,589	983,305
Current assets		**71,384,517**	**32,876,473**
TOTAL ASSETS		**518,952,908**	**472,932,135**
EQUITY AND LIABILITIES			
Share capital		58,420,965	58,420,965
Capital surplus (share premium)		89,562,703	89,562,703
Revenue reserves		145,607,356	129,035,652
Reserves arising from valuation at fair value		9,799,716	7,085,026
Retained earnings		17,261,911	20,321,603
Equity	**21**	**320,652,651**	**304,425,949**
Provisions	22	20,217,568	4,265,164
Deferred income	23	18,166,217	12,334,719
Non-current loans and borrowings	24	116,682,274	113,900,739
Other non-current financial liabilities	25	0	419,873
Non-current operating liabilities	26	967,102	693,924
Non-current liabilities		**156,033,161**	**131,614,419**
Current borrowings	27	16,060,399	11,761,732
Other current financial liabilities	28	372,169	250,564
Income tax liabilities		0	1,960,528
Trade and other payables	29	25,834,528	22,918,943
Current liabilities		**42,267,096**	**36,891,767**
TOTAL EQUITY AND LIABILITIES		**518,952,908**	**472,932,135**

16.4 Separate Statement of Cash Flows

(in EUR)	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the period	**33,143,408**	**40,581,116**
Adjustments for:		
Amortisation/Depreciation	27,538,509	25,507,032
Reversal and impairment losses on property, plant and equipment, and intangible assets	3,989,166	1,632,731
Gain on sale of property, plant and equipment, and investment property	-154,605	-30,082
Allowances for receivables	917,135	336,990
Collected written-off receivables and written-off liabilities	-110,159	-211,754
Reversal of provisions	-16,954	-2,323
Finance income	-2,973,923	-3,070,990
Finance expenses	1,588,287	2,107,533
Income tax expense and income (expenses) from deferred taxes	3,274,539	5,918,768
Profit before change in net current operating assets and taxes	**67,195,403**	**72,769,021**
Change in operating receivables	-7,790,926	-1,269,975
Change in inventories	-227,599	4,267
Change in operating liabilities	-1,353,056	-883,995
Change in provisions	15,955,870	1,095,131
Change in non-current deferred income	5,831,498	1,476,758
Cash generated in operating activities	**79,611,190**	**73,191,207**
Interest expenses	-1,566,028	-2,243,846
Tax expenses	-9,227,626	-7,893,868
Net cash from operating activities	**68,817,536**	**63,053,493**
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Interest received	121,840	177,564
Dividends received – subsidiaries	652,780	672,918
Dividends received – associates	993,808	917,101
Dividends received – other companies	1,203,250	1,302,259
Proceeds from sale of property, plant and equipment, and intangible assets	154,655	26,390
Proceeds from investment property	0	9,742
Proceeds from sale, less investments and loans given	288,123	564,443
Acquisition of property, plant and equipment, and intangible assets	-32,119,566	-60,313,916
Acquisition of investments, increase in loans given	-220,000	-60,000
Net cash used in investing activities	**-28,925,110**	**-56,703,499**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from non-current borrowings	18,700,000	15,300,000
Repayment of current borrowings	-11,761,733	-10,054,104
Dividends paid	-19,611,409	-15,801,154
Net cash used in financing activities	**-12,673,142**	**-10,555,258**
Net increase in cash and cash equivalents	**27,219,284**	**-4,205,264**
Opening balance of cash and cash equivalents	983,305	5,188,569
Closing balance of cash and cash equivalents	**28,202,589**	**983,305**

16.5 Separate Statement of Changes in Equity

2017

(in EUR)	Share capital	Capital surplus	Legal reserves	Other revenue reserves	Retained earnings	Reserves arising on valuation at fair value: Investments	Financial Instruments	Actuarial gains and losses	Total equity
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**
Changes in equity – transactions with owners									
Dividends paid	0	0	0	0	-19,600,000	0	0	0	-19,600,000
	0	**0**	**0**	**0**	**-19,600,000**	**0**	**0**	**0**	**-19,600,000**
Total comprehensive income for the period									
Profit for the period	0	0	0	0	33,143,408	0	0	0	33,143,408
Change in revaluation surplus of financial assets, less tax	0	0	0	0	0	2,560,183	0	0	2,560,183
Change in fair value of cash flow hedging instruments, less tax	0	0	0	0	0	0	259,626	0	259,626
Actuarial gains/losses, less tax	0	0	0	0	0	0	0	-136,515	-136,515
	0	**0**	**0**	**0**	**33,143,408**	**2,560,183**	**259,626**	**-136,515**	**35,826,702**
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	16,571,704	-16,571,704	0	0	0	0
Other changes in equity	0	0	0	0	-31,396	0	0	31,396	0
	0	**0**	**0**	**16,571,704**	**-16,603,100**	**0**	**0**	**31,396**	**0**
Balance at 31 December 2017	**58,420,965**	**89,562,703**	**18,765,115**	**126,842,241**	**17,261,911**	**10,893,274**	**-80,471**	**-1,013,087**	**320,652,651**

2016

	Share capital	Capital surplus	Statutory reserves	Other revenue reserves	Retained earnings	Fair value valuation reserves: Investments	Fair value valuation reserves: Financial Instruments	Fair value valuation reserves: Actuarial gains and losses	Total equity
Balance as at 31 December 2015	**58,420,965**	**89,562,703**	**18,765,115**	**89,979,979**	**15,880,814**	**12,035,713**	**-861,126**	**-936,685**	**282,847,478**
Changes in 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								
Net profit or loss 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 tax	0	0	0	0	0	0	0	-1,052	-1,052
	0	**0**	**0**	**0**	**40,581,116**	**-3,702,621**	**521,029**	-1,052	**37,398,473**
Changes within equity									
Allocation of part of profit for comparable 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
Other changes in equity	0	0	0	0	-29,769	0	0	29,769	0
	0	**0**	**0**	**20,290,558**	**-20,320,327**	**0**	**0**	29,769	**0**
Balance as at 31 December 2016	**58,420,965**	**89,562,703**	**18,765,115**	**110,270,537**	**20,321,603**	**8,333,092**	**-340,097**	**-907,968**	**304,425,950**

17 Notes to Separate Financial Statements

17.1 Bases for the presentation 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 cargo handling and warehousing of all types of goods, which the Company supplements with diverse goods-related services and other services to secure 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 2017.

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 18 April 2018.

Bases for measurement

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

Preparation of financial statements in conformity with IFRSs requires the management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates are formed based on past experience and expectations in the accounting period. Formation of estimates and the related assumptions and uncertainties 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 accounting estimates are recognised in the period for which the estimates are modified, or in the coming periods that are impacted by respective changes.

Estimates and judgements are used primarily with the following accounting items:

Assessing the impairment of property, plant and equipment (Note 11 and 12 and policy 18.1.2)

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 the higher of the following two items: its fair value less selling expenses or its value in use.

Assessing the formation of provisions for legal disputes (Note 22 and 30 and policy 18.1.16)

The provision is recognised if the Company has legal or indirect obligations arising from a past event that can be reliably assessed, and if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Potential obligations are not recognised in the financial statements, as their exact amount could not be established or their actual existence will be confirmed only upon the occurrence or non-occurrence of events in the unforeseeable future, which the Company cannot influence.

The Company's Management regularly checks whether the settlement of a potential obligation will likely require an outflow of resources embodying economic benefits. 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 18.1.2 and 18.1.4)

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 useful lives with significant assets and in case of changed circumstances, the Company changes the useful life and consequently revalues the cost of depreciation.

Statements assessing the adequacy of revenue recognition (Note 1 and policy 18.1.26)

The Company discloses its revenue in accordance with IAS 18. Revenue is classified as net sales revenues, 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. for cargo handling by volume and working hours performed, and for warehousing by days and volume. The revenue is recognised under this method in the reporting period, in which the services were performed.

The 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 cash receipts, unless such receipts were already realised when revenue was generated, and their amount can be reliably measured.

The Management assesses the method of recognising revenue applied by the Company, which has not changed in recent years, as fully appropriate and in line with standards.

Assessing the Impairment of financial instruments and non-financial assets

Information on significant estimates about uncertainty and critical judgement in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements, was applied in the assessment of:

- Value of property, plant and equipment (Note 11),
- Value of investment property (Note 12),
- Valuation of investments in subsidiaries, associates and other companies (Notes 14, 15 and 16), and
- Recognition of deferred tax assets (Note 17).

Assessing the possibility of using receivables for deferred taxes (Note 17 and policy 18.1.24)

Based on the estimate that sufficient profit will be available in the future, the Company has created deferred tax assets provided under the 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 relevant amounts of provisions utilised or increased by amounts of newly formed provisions.

Given that the impairment losses on investments and receivables are not recognised as tax expenditure upon formation, the Company formed deferred tax assets in the relevant amounts. Deferred tax assets will be capitalised upon the sale or disposal of the investment or financial instrument and upon the 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 reassessed. If there is no 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 18.1.16)

Obligations for defined post-employment and other benefits record the present value of retirement benefits and jubilee premiums. They are recognised on the basis of an actuarial calculation approved by the Management. The actuarial calculation is based on assumptions and assessments valid during the calculation, which may differ in the future from the actual assumptions in force at the time as a result of changes. This pertains particularly to the determination of the discount rate, the assessment of the fluctuation of employees, the assessment of the death rate and the assessment of salary growth. Due to the complexity of the actuarial calculation and the long-term nature of the item obligations for defined benefits are sensitive to changes in the mentioned assessments.

Estimate of fair value and efficiency of financial instruments (Note 25 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 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 earmarked within hedge accounting exclusively to hedge the selected borrowing against the rise of interest rates.

In addition, at the end of the reporting period, the Company assesses on an annual basis the effectiveness or efficiency of the hedge against interest rate risk, each time verifying the key elements of hedge and compliance of the instrument with the selected borrowing that is subject to respective hedging.

18 Summary of significant accounting policies and disclosures

18.1 Accounting policies used

The accounting policies detailed below were consistently applied in all the periods presented in the financial statements.

18.1.1 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 the income statement.

18.1.2 Property, plant and equipment

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 also includes 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

Pursuant to IAS 23, the purchase cost of property, plant and equipment can also include borrowing costs if they can be directly associated to the purchase, construction or production of an asset in the course of construction. If the Company or Group agrees on a general borrowing which cannot be directly associated with the purchase of an asset in the course of construction, it will capitalise a proportionate share of costs calculated using the weighted annual interest rate by taking into account interest rate hedging, but solely for major investments (value and construction period exceeding EUR 1 million and 12 months, respectively). Investments with durations of several years that witnessed no inputs in the reporting period (halted investments) are excluded from the method of capitalising interest.

Borrowing costs are capitalised until the asset is in the course of construction. When the asset is transferred to use, 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

In each period, depreciation charge is recognised in the income statement. An asset is subject to depreciation when it is made available for 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	2017	2016
Buildings	16.67–66.67 years	16.67–66.67 years
Transport and transhipment equipment	5–17.86 years	5–17.86 years
– locomotives	6.67–10 years	6.67–10 years
– forklifts, shippers	8 years	8 years
Computer hardware	4–5 years	4–5 years
Other equipment	4–10 years	4–10 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.

18.1.3 Investment property

Investment properties are held to bring rent and/or increase the value of the non-current investment. 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 used for investment property:

Investment property	2017	2016
Buildings	16.67–66.67 years	16.67–66.67 years

18.1.4 Intangible assets

Initially, intangible assets are recognised at cost. After 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 intangible assets have finite useful lives.

The amortisation period and amortisation method for an intangible asset with finite useful life is reviewed at least at each financial year-end. If the asset's expected useful life differs significantly from previous estimates, the 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. The assessed useful life of other items of intangible assets is 10 years (the applied useful lives are presented in the table below).

Intangible assets	2017	2016
Non-current property rights	5–10 years	5–10 years

18.1.5 Investments in related entities

Investments in subsidiaries, associates and other companies are measured at cost. On each date of the statement of financial position, the Company assesses whether there is any indication of impairment. Any impairment loss on investment is recognised in the income statement.

18.1.6 Financial Instruments

Financial instruments are classified into the following categories:

1. Financial instruments at fair value through profit or loss,
2. Held-to-maturity investments,
3. Loans and receivables,
4. Available-for-sale financial assets.

18.1.7 Loans and receivables

Loans and receivables are recognised on the settlement date and measured at amortised cost using the effective interest rate method.

18.1.8 Trade receivables

Non-current and current receivables are carried separately in books of account. Interest arising on stated receivables is recorded among off balance sheet items. Upon recognition, non-current and current trade receivables are disclosed at contractually agreed amounts or as recorded in the relevant accounting documents. Other operating receivables include short-term deferred costs or expenses and accrued income.

Allowances for trade receivables

The Company forms allowances in their full amount for all trade receivables and interest receivables based on individual assessment. Allowances for receivables due from companies in bankruptcy or liquidation procedure are formed immediately once such proceeding begins, in the total amount (100 percent).

Impairment losses are charged to revaluation operating expenses associated with receivables.

18.1.9 Loans given

On initial recognition, loans are carried at fair value. After initial recognition, they are stated at amortised cost using the effective interest rate method. In terms of maturity, loans are classified into non-current or current assets. With a view of credit risk management, maturity of individual loans as well as the method of settlement and collateral (e.g. bills of exchange, pledge of securities and other movable or immovable property, potential for unilateral netting of mutual liabilities, etc.) is determined taking into consideration the credit rating of the borrower. In the event of a borrower failing to meet their contractual liabilities, collateral is liquidated or, if legal proceedings have been instituted, the investment is impaired.

18.1.10 Borrowings

On initial recognition, borrowings are carried at fair value and thereupon at amortised cost using the effective interest rate method. In terms of 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.

18.1.11 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 the transaction relating to the acquisition of an individual financial asset. Fair value is considered market value based on the closing price of a security on a stock exchange or the published daily net asset value of a mutual fund. Fair value changes are recognised in other comprehensive income within equity. The declining volume of securities is accounted for in books of account using the average prices method. Upon derecognition, gains or losses are transferred to profit or loss. Additions and disposals are recognised as at 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 cost.

18.1.12 Cash

Cash comprises cash in hand and sight deposits, deposits redeemable at notice or deposits with maturities of up to three months.

18.1.13 Derivatives

The Company does not issue derivative financial instruments (derivatives) for trading purposes. Derivatives are used to hedge the Company's exposure to risks arising from financing and investing activities. Derivatives are recognised at fair value. The method of recognising gains or losses from changes in fair value depends on the type of hedging and on whether hedge accounting has been applied or not. In hedge accounting, gains or losses from changes 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 forecast transaction becomes 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 hedge is immediately recognised in profit or loss.

18.1.14 Inventories

Inventories are measured at cost or net market value, whichever is lower. An item of the materials inventory is measured at cost, which comprises the purchase price, import duties and other non-refundable purchase taxes, and direct costs of purchase. Non-refundable purchase taxes also include non-refundable VAT. The purchase price is reduced by trade discounts. The weighted average price method is used for reducing the materials inventory. Small tools put in use are immediately transferred among costs. Inventories are not subject to revaluation due to increases..

18.1.15 Equity

Share capital

The share capital of Luka Koper, d. d. in the amount of EUR 58,420,965 consists of 14,000,000 shares that are freely transferable. The nominal value of a share is EUR 4.17.

Capital surplus (share premium) and revenue reserves

The Company records legal reserves in the amount of at least 10 percent 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.

Reserves arising from valuation at fair value

Reserves arising on valuation at fair value comprise reserves arising from valuation of investments measured at fair value, valuation of hedging instruments measured at fair value, and with respect to unrealised actuarial gains and losses.

Retained earnings

Retained earnings consist of the unappropriated portion of the net profit for the period.

Dividends

Dividends are recognised in the Company's financial statements once the decision on the distribution of dividends is adopted by the general meeting.

Authorised capital

As at 31 December 2017, the Company had no authorised capital.

18.1.16 Provisions

Provisions for legal disputes and damages

The Company forms provisions for disputes and damages related to alleged business offences. Provisions are formed and their amount determined in consideration of the following criteria:

- Whether a present obligation (legal or constructive) exists as a result of past events,
- Probability that an outflow of resources will be required to settle an obligation (legal dispute) – the provision is recognised if the probability is high,
- A reliable estimate can be made of the amount of the obligation.

Provisions for severance pays and long-service awards

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 that requires that an actuarial liability is assessed on the basis of expected salary growth from the valuation date until the employee's anticipated retirement. This means that benefits are accrued in proportion to the work performed. The assessed liability is recognised as the present value of expected future expenditure. Anticipated salary growth and employee turnover are also considered as part of measurement.

Actuarial gains or losses for termination benefits in the current year are recognised in other comprehensive income under equity based on an actuarial calculation, whereas current and previous employee benefits and interest expenditure are recognised in profit or loss.

Current employee benefit costs and interest expenditure as well as actuarial gains or losses are recognised in profit or loss for jubilee premiums.

The calculation of provisions for retirement and jubilee premiums is based on the actuarial calculation as at 31 December 2017, using data as at 31 October 2017 (no major deviations), which took into account the following assumptions:

- Currently applicable amount of termination benefits and jubilee premiums;
- Mortality rate that is based on mortality tables from 2007 applicable to Slovenia and presented separately for men and women, decreased by 10 percent (active population). In total, the aforesaid shows as at 31 December 2017 a 0.3 percent decline in mortality for the next fiscal year (in terms of number of staff);
- Staff fluctuation, declining on a straight-line basis from 1.0 percent at 15 years to 0.5 percent at 54 years, thereupon remaining constant at 0.5 percent. In total, this indicates an annual fluctuation of 0.6 percent for next year as at 31 December 2017.
- Foreseen retirement of individual employees has been taken into account based on data on employee gender, date of birth and length of service as at 31 December 2017 pursuant to Article 27 and third indent of Article 28 (1) of Pension and Disability Insurance Act (ZPIZ-2).
- For the 2018 and 2019 calculations, we used average salary increase rates for the Republic of Slovenia as outlined in the Autumn Forecast of Economic Trends 2017 (Institute of Macroeconomic Analysis and Development). Average salaries in Slovenia are expected to increase as of 2020 by an annual 2 percent due to inflation and by 1 percent due to real growth. It is assumed that 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 Gazette of RS No 140/06 and 76/08) in 2018 and 2019 will not increase, whereby an increase of these amounts is expected subsequently in line with inflation;
- Increase in basic salaries in the amount of the annual inflation, increased by 0.2 percent from 2020 onwards; basic gross salary growth is taken into account due to promotions, i.e. 0.5 percent p.a. Bonus for total years of service is taken into account at 0.5 percent of the basic salary for each full year of service. In case of four individual contracts, the bonus for total years in service does not apply. Accordingly, nominal monthly wage growth rate – in view of inflation and actual growth – would be 1.6 percent next year, 2.1 percent in 2019 and 2.2 percent from 2020 onwards.
- The discount rate for the calculation as at 31 December 2017 is stipulated at 1.4 percent on the basis of the yield of Slovenian government bonds as at 30 November 2017, and by interpolation with respect to the average weighted duration of the Company's commitments (13.9 years).

18.1.17 Non-current deferred income

Non-current deferred income is formed in the Company for maintenance purposes. Non-current deferred income for maintenance is formed if costs of the public utility services of regularly maintaining the port infrastructure are formed up to the amount that corresponds to the amount of revenues from port dues. In the event of costs exceeding revenues from port dues, non-current deferred income is derecognised in the amount of the surplus.

18.1.18 Government grants

All kinds of government grants are initially recognised in the statement of financial position as deferred income when there is assurance that the Company will receive such grants and meet the related terms. Government grants to cover costs are consistently recognised in profit or loss in the periods when the relevant costs that these revenues are supposed to cover are incurred.

18.1.19 Concession-related activity

In compliance with the Maritime Code, Luka Koper, d. d. (hereinafter: Company) and the Government of the Republic of Slovenia arranged matters in the port of Koper in September 2008 by entering into a Concession Agreement within the Decree on the Administration of the Freight Port of Koper, Port Operations, and on Granting the Concession for the Administration, Management, Development and Regular Maintenance of its Infrastructure, and defined the concession relationship for the period of 35 years from the date of concluding the Agreement.

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 dues in an individual year and of costs of performing concessions activities.

Any income surplus generated through port dues 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. Financial monitoring of the public service is based on policies and principles of cost accounting and criteria of separate bookkeeping. In 2017, the Company reviewed the criteria and proposed a change thereof. The change of criteria was adopted by the supervisory body of Luka Koper, d. d. in March 2018. Relevance of criteria and regularity of use were verified by the approved auditor BDO Revizija, d. o. o., by issuing a written opinion on 12 April 2018.

In accordance with the Concession Agreement concluded with the Republic of Slovenia and the criteria approved by the latter, Luka Koper, d. d. forms non-current deferred income for ordinary maintenance of port infrastructure in the amount equal to the surplus of income from port dues over the related costs of the public service. In the event of costs exceeding revenues from port dues, non-current deferred income is derecognised in the amount of the surplus.

The Company, as the concession operator, obtained from the Republic of Slovenia, as the concession provider, the exclusive right for performing port activities of cargo operation and maritime passenger transport in the port area, and the related exclusive right for port administration and management, and for the administration and development of port infrastructure not intended for public transport, and pursuant to Article 44 of the Maritime Code, also the exclusive right to perform public utility services of regular maintenance of the port infrastructure that is intended for public transport.

Furthermore, pursuant to Article 7.9.6. of the Concession Agreement, the Company keeps records on investments made in port infrastructure in each financial year. The Company is required to indicate investments in each individual year in a special appendix to the annual report, which is to be examined and approved by a certified auditor.

In accordance with Article 10.1. of the Concession Agreement, the Company pays a concession tax, which amounts to 3.5 percent of the annual revenue generated less port dues collected in the relevant year. The basis for levying the concession tax is the Company's audited income statement. The annual concession tax amount is paid in monthly instalments of 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 controlling company's operating income and are in terms of their content a constituent part thereof. The amount of port dues is defined by the controlling company Luka Koper, d. d. in agreement with the government. The remaining 96 percent of operating income is generated through rendering of services of 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 on its own behalf. 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 shall not apply IFRIC 12.

18.1.20 Public utility service of collecting waste from vessels in the Koper port area

The public utility service of collecting waste from vessels in the Koper port area is being performed in line with the Decree 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), and the Decree on port reception facilities for ship-generated waste and cargo residues (Official Gazette of the Republic of Slovenia, No. 78/2008). These services comprise regular reception of ship-generated waste and cargo residues, installation of port facilities for reception of ship-generated waste and cargo residues in accordance with regulations governing port reception facilities, receipt of messages about intended delivery of ship-generated waste and cargo residues, separate collection, sorting and storage of accepted waste and cargo residues by using port reception facilities, delivery for processing with a view of re-use, recycling or disposal of processing residues in accordance with environmental protection regulations governing waste management, and informing the public and users about the manner of delivering waste and cargo residues. For purposes of reports within the public utility service of collecting waste from vessels, the Company, based on provisions of the Transparency of Financial Relations and Maintenance of Separate Accounts for Different Activities Act has taken into account the principles of cost accounting and criteria of separate bookkeeping. In 2017, the Company devised the criteria which were adopted by the supervisory body of Luka Koper, d. d. in March 2018. Relevance of criteria and regularity of use were verified by the approved auditor BDO Revizija, d. o. o., by issuing a written opinion on 12 April 2018.

Until 31 December 2016, the Company was performing the public utility service of collecting waste from vessels through its subsidiary Luka Koper INPO, d. o. o., which acted as its performance assistant. The two companies had an agreement of cooperation between them. Luka Koper INPO, d. o. o., is fully controlled by Luka Koper, d. d. and the companies are considered to form a single economic unit based on the settled case law of the European Court of Justice. As at 1 January 2017, the companies signed an annex to the agreement stipulating, among others, that from 1 January 2017, Luka Koper INPO, d. o. o., as the performance assistant shall perform the public utility service of collecting waste from vessels in the Koper port area in the name and for the account of Luka Koper, d. d.

18.1.21 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.

18.1.22 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.

18.1.23 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 2017, income tax liability was calculated at the rate of 19 percent.

18.1.24 Deferred taxes

In order to disclose an appropriate profit and loss for the reporting period, the Company also accounted for deferred taxes. These are disclosed as deferred tax assets and deferred tax liabilities. In accounting for deferred taxes, the balance sheet liability method was applied. The book value of assets and liabilities was compared with their tax value, and the difference between both was defined as either permanent or temporary. Temporary differences were subdivided into taxable and deductible differences. Taxable temporary differences increased the Company's taxable amounts and deferred tax liabilities.

Deductible temporary differences decreased the Company's taxable amounts and increased deferred tax assets.

Deferred tax assets are offset against deferred tax liabilities if a legally enforceable right exists to offset current tax assets against current corporate income tax liabilities and the deferred taxes involve the same taxable legal entity and the same tax authority.

18.1.25 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.

18.1.26 Revenue

Operating income

Revenue from services rendered

The Company's core activity is cargo handling and warehousing of all types of goods, goods-related services, and other related 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 most significant for Luka Koper, d. d., as well as from Asia and America. The 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 highest quality logistics service.

Operating income is recognised when it can be reasonably expected that it will result in cash receipts, unless such receipts 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 as at 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 primarily comprises 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 to cover the costs incurred are recognised strictly as income in the periods when the relevant costs that this income is supposed to cover are incurred. Other income is recognised when it can be justifiably expected that cash receipts will flow from them.

18.1.27 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 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.

18.1.28 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 if decreases in economic benefits during the accounting period are associated with decreases in assets or increases in liabilities, and those decreases can be measured reliably.

18.1.29 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.

18.1.30 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.

18.1.31 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 2017 and 31 December 2016, as well as items in the income statement for the financial year then ended, inclusive of any necessary adjustments of the cash flow.

18.1.32 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.

18.1.33 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 the 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.

The 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 32 'Financial instruments and financial risk management'.

18.1.34 Newly adopted standards and interpretations

The standards and interpretations presented below were not yet effective until the date of separate financial statements and have not yet been confirmed by the European Union. Relevant standards and interpretations will be applied in preparing the Company's financial statements upon their entry into force.

IFRS 9 Financial Instruments

In July 2014, the International Accounting Standards Board published the final version of the standard IFRS 9 Financial Instruments containing the requirements of all individual phases of the project to replace the standard IAS 39 Financial Instruments: Recognition and Measurement and all the previous versions of the IFRS 9 standard. The IAS 39 remains in force for a fair value hedge of interest rate risk of a portfolio of financial assets or liabilities; an entity may choose as its accounting policy choice to continue to apply the hedge accounting requirements of IAS 39 or to apply the hedge accounting requirements in IFRS 9. The revised standard introduces new requirements for the classification and measurement of financial assets and liabilities, recognition of their impairment and hedge accounting. Even though the basis for applicable measurement of measuring financial assets – amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL) – remain similar to those in IAS 39, the criteria for setting the correct measurement criteria differ materially.

A financial asset is measured according to its amortized value if the following requirements are met:

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

Entities can also irrevocably include subsequent changes to the fair value (including positive and negative currency exchange differences) of an equity instrument that is not meant for trading, in their other comprehensive income statement. The above subsequent changes can in no case be transferred to profit or loss. Debt instruments, measured according to fair value through other comprehensive income (FVOCI), income from interest, expected credit loses as well as positive and negative currency exchange results, are recognised in the profit and loss statement in the same way as assets measured according to amortised value. Other profit and loss is recognised in other comprehensive income and is, after revoking the recognition, transferred to the profit and loss account. The model calculates impairments in accordance with the IFRS 9 and replaces the model of incurred loss as recognised by IAS 39, which also includes the model of expected credit loss; the latter means that impairment can be recognised before the loss actually occurs. IFRS 9 includes a new general hedge accounting model, which brings such accounting closer to actual risk management. Various types of hedge accounting – fair value hedges, cash flow hedges and hedges of net investments in foreign operations – remain unchanged, however require additional assessments. The standard includes new requirements that must be met (continuing with and stopping hedging risk calculations) and allows other types of hedging to be treated as protected items. Additional and extensive disclosures are necessary regarding hedging and activities to deal with risk mitigation.

The EU adopted the standard on 22 November 2016. The revised standard IFRS 9 is effective for accounting periods beginning on or after 1 January 2018. Conversion of data from previous periods is not necessary and is allowed if data is available and without using the new provisions. Earlier application is permitted. Amendments to the standard must be applied retrospectively, however, presentation of compared data is not compulsory. Earlier application of previous versions of standard IFRS 9 which were published in the years 2009, 2010 and 2013 is permitted provided that an entity carried out the transition to IFRS at any time before 1 February 2015.

The Company does not expect for the standard in question to have a significant impact on its separate financial statements for the following reasons:

- Financial assets that are currently classified as available-for-sale financial assets are eligible for classification as at fair value through other comprehensive income and their accounting, therefore, will not change.
- The investments that are currently measured at fair value through profit or loss will continue to be measured on the same basis under IFRS 9.
- Debt instruments currently measured at amortised cost fulfil the conditions for classification at amortized cost under IFRS 9.

The new impairment model requires the recognition of provisions for impairment, which is based on expected credit losses rather than just realized credit losses, such as is the case with IAS 39. The Company will also form a value adjustment for receivables non past due based on the risk assessment performed for its customers whose total turnover will exceeded 98 percent within a specified period. Despite the above, the Company does not expect a significant impact on its separate financial statements in this respect.

The newly-adopted standard does not impact financial investments.

Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

Amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing the new insurance contracts standard being devised by the Board to replace IFRS 4. All companies that issue insurance contracts may choose between an optional temporary exemption from applying IFRS 9 and overlay application.

Amendments were adopted by the EU on 3 November 2017. Temporary exemption shall apply for accounting periods beginning on or after 1 January 2018 or at the first application of IFRS 9.

The Company may opt for overlay approach upon first application of IFRS 9 and use it retroactively for the financial assets set out upon transition to IFRS 9. The Company adjusts the comparative information that reflect the overlay application only if it adjusts the comparative information upon using IFRS 9.

The Company does not expect these amendments to have a significant impact on its separate financial statements.

IFRS 15 Revenues from Contracts with Customers

In May 2014, the International Accounting Standards Board published IFRS 15, which introduces a new five-stage model for recognition of revenue obtained by an entity from contracts with customers. Pursuant to IFRS 15, an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. With regards to the fulfilled criteria, the income is recognised over time and in the way that reflects the entity's operations or in moment when control over goods and services is transferred to the customer. The accounting principles under IFRS 15 thus offer a more structured approach to measurement and recognition of revenue. IFRS 15 also establishes the principles that bind an entity to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

The new standard applies to all entities and replaces the existing requirements of International Financial Reporting Standards in relation to recognition of revenue. The EU adopted the standard and the amendment to IFRS 15 "Date of entering into force of IFRS 15" on 22 September 2016. Full application of the new standard is effective for annual periods beginning on or after 1 January 2018, whereas a modified standard has to be applied retrospectively. The new standard provides a framework that supersedes the existing instructions on revenue recognition under IFRS. Earlier application is permitted.

The Company does not expect any significant differences in the recognition of revenues from the sale of goods and services under the new standard. An analysis of contracts with customers has shown that they meet the criteria of the new standard for revenue recognition; performance obligations are defined adequately in contracts, allowing their classification and measurement, and determining when they might be satisfied. Contracts with customers comprise the sale of goods and services, which shall be shown separately by the Company in its financial statements.

The Company does not expect any significant differences in time-based recognition of revenue.

The majority of revenue results from contracts defined as simple supply of services. Since the contracts include no separately identifiable obligations, the Company deems its valid accounting policy for recognition of revenue to be in line with the new requirements of IFRS 15.

IFRS 15 contains specific criteria to determine which contract related costs may be capitalized, while also introducing the distinction between the costs related to the acquisition and to fulfilment of contracts. The Company estimates that there will be no significant implementation costs.

The Company does not expect for the standard in question to have a significant impact on its separate financial statements:

Clarifications to IFRS 15, Revenue from contracts with customers

In April 2016, the International Accounting Standards Board published Clarifications to IFRS 15 addressing several matters that have been subjected to assessment by the Expert Group "Joint Transition Resource Group for Revenue Recognition".

The amendments:

- Clarify when the promised goods or services do not comply with the content of the contract,
- Clarify how an entity should consider the relationship between a principal and an agent, including the assessment unit of account, how an entity may apply the control principle in services and how to transform indicators,
- Clarify when an entity's activities have a significant impact on intellectual property (IP) to which the customer has rights, which is the decisive factor in determining whether the entity recognises the revenue from granting the licence over time or at a point in time,
- Clarify the scope of the exemption for royalties arising from the sale or use of intellectual property licenses (limitation of royalties) with regard to other promised goods or service under the contract,
- Contain two practical expedients regarding the fulfilment of transitional provisions of IFRS 15 for:

(a) Completed contracts upon full transition and recognition for the past periods, and
(b) Modified contracts upon transition to the new standard.

Amendments to the standard shall enter into force on 1 January 2018, the date of entry into force of IFRS 15. They further clarify rather than change the requirements of IFRS 15. These amendments must be applied retrospectively. Earlier application is permitted and must be disclosed.

In the 2017 financial year, the Company studied the requirements of IFRS 15 and applied the standard's five-step model to its contracts:

Step 1 - Identify the contract(s)

In 2017, the Company assessed the contracts and bids in order to ascertain whether they meet the criteria to be labelled as such or whether contracts would have to be joined.

Step 2 - Identify the performance obligations in the contract

Based on its review of contracts and bids, the Company identified performance obligations but adopted a position that it holds only one performance obligation, namely the provision of port activities. This performance obligation is then divided into sets and these into subsets. For the subsets, it was necessary to determine whether performing the service happens instantly or over time. Subsets defined as "over time" consist of several co-dependent services (i.e. ship – storage – vehicle) and are billed at the entrance or exit.

The position that the Company only holds one performance obligation was adopted because the goods on which the Company performs its services are located on the premises of Luka Koper, which is under close scrutiny by the Company itself as well as other bodies (customs etc.) and because the owner of goods or any other stakeholder in the logistics chain cannot benefit from the service until it is completed and the goods dispatched, thus leaving the area of Luka Koper. Several performance obligations could be defined if the customer would benefit from an individual subset of services, which would be available to him independently and when the promise to transfer the service would have been separated from other provisions in the contract.

Step 3 - Determine the transaction price

The prices in the Company are set at fixed or variable rates. Variable rates occur when the Company offers a volume discount.

Step 4 - Allocate the transaction price to the performance obligations

Should it be ascertained that the Company disposes of several performance obligations in some of its contracts, it would have been necessary to set the price for individual obligations, however such a case was not found among the identified Company contracts.

Step 5 - Recognise revenue when (or as) a performance obligation is satisfied

The Company ascertained the moment when revenue is recognised according to contract identification. For the contracts, which stipulate that a service can be performed over a longer period of time, the standard determines that revenue over time of performing the service is recognised only if one of the following criteria is met:

- The customer simultaneously receives and consumes all of the benefits of the entity's performance during the performance itself – no such cases exist in the Company, because the goods on which service is performed are under its control until the final dispatch;
- The entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced – no such cases exist in the Company either, because the goods on which service is performed are under its control until the final dispatch;
- The entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date – such cases have been identified in contracts. This data was of key importance, because it was ascertained that in certain cases the Company charged the customer with the full price of service and thus recognised the revenue before the service had been performed in full, however the services that fall under the scope of premature invoicing, are performed by the Company by using the "bill and keep" principle.

Based on the above investigation, the Company does not expect these amendments to have a significant impact on its separate financial statements.

IFRS 16 Leases

The scope of application of IFRS 15 comprises leases of all assets with a few exceptions. Pursuant to the standard, lessees should recognise all leases through profit and loss under a single lessee accounting model, regardless of a business or financial lease, as part of the balance sheet and in the same manner that finance leases are recognised pursuant to IAS 17. IFRS 16 replaces IAS 17 Leases. The standard allows two exemptions in recognising assets, i.e. when the underlying asset is of low value (such as personal computers) and short-term leases (leases with a term of less than 12 months). As at the date of the beginning of lease, the lessee is required to recognise the obligation to make lease payments (i.e. a lease liability) and the asset representing the right to use the underlying leased asset for the duration of the lease (i.e. a right-of-use asset).

Pursuant to 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 payment. Lessees shall recognise separately interest expense with respect to the lease liability and depreciation costs from the right-of-use asset. The right to use of asset is amortized and the interest accrued to the liability. The later causes a concentrated pattern of costs for the major share of leases, even though the lessee pays back-to-back annual lease payments. If certain events should occur (such as changes in the lease period, changes in the value of future lease payments due to variations in the index or rate, based on which lease payment is determined), lessees shall have to re-measure the lease liability). In general, lessees recognise the re-measurement value of lease liability as an adjustment to the right-of-use asset.

The application of the new standard does not significantly change the lease calculation for the lessor and the distinction between business and financial lease remains in force for the lessor.
For the lessor, accounting requirements are not considerably different from those in force under IAS 17.

The EU adopted the standard on 31 October 2017. The IFRS 16 standard is effective for annual periods beginning on or after 1 January 2019. The lessee may decide to apply the standard retroactively in full or in part. Transitional provisions of the Standard allow for certain facilitating measures. Earlier application is permitted, but only if an entity has already applied IFRS 15.

The Company is examining the effects of the new standard and will apply it as it enters into force.

<u>New standards and interpretations, which entered into force on 1 January 2017</u>

Amendments to IAS 7: Statement of Cash Flows – Disclosure Initiative

Pursuant to the amendments, entities are required to disclose changes in liabilities arising from financing activities, including the changes from financing cash flows and non-financial changes such as positive or negative effects of foreign exchange rates, changes arising from obtaining or losing control of subsidiaries and changes in fair values.
Amendments were adopted by the EU on 6 November 2017 and apply to annual periods starting on or after 1 January 2017.

Upon adopting the amended standard, entities do not have to provide comparative information for previous periods. Earlier application was permitted.

Amendments did not have a major impact on the Company's statements.

Amendments to IAS 12: Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses

The Board published the Amendments to IAS 12: Income Taxes in order to explain the calculation of deferred tax assets for unrealised losses for debt instruments, measured according to fair value.
Amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which the deductible temporary differences can be utilised. They also clarify how an entity is to determine its future taxable profit and the circumstances in which a taxable profit can entail the return of certain assets to the amount that exceeds their bookkeeping value.
Upon applying the amended standard for the first time, an entity may recognise the change in the opening equity of the earliest comparative period in opening retained earnings (or

other comparable equity component) without allocating the change between opening retained earnings and other components of equity. The entities using this deduction had to disclose said usage.

Amendments were adopted by the EU on 6 November 2017 and apply to annual periods starting on or after 1 January 2017.

Amendments did not have a major impact on the Company's statements.

Amendments to IFRS 12: Disclosure of Interests in Other Entities

Amendments clarify the area of application of the standard as they state that disclosures required in IFRS 12 (with the exception of those subsumed in accounting statements of subsidiaries, joint arrangements and associated companies) also apply to the entity's stakes, listed in article 5 and in accordance with IFRS 5: Non-current Assets Held for Sale and Discontinued Operations, are listed among sales assets, among assets to be distributed among the owners, or discontinued operations, however, these amendments are not used for disclosure pursuant to items B10-B16.

Amendments did not have a major impact on the Company's statements.

New standards and interpretations not yet adopted by the European Union

Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures

Amendments refer to the question whether in the event of long-term interests (particularly in the light of requirements to weaken long-term interests in associates and joint ventures that form part of the "net investment" in such associates or joint ventures) an entity should apply IFRS 9, IAS 28, or a combination of both. Amendments clarify that when accounting for long-term interests that are not measured by the equity method, the entity applies IFRS 9 Financial instruments before applying IAS 28. When applying IFRS 9, the entity does not take into account any adjustments of the carrying value of long-term interests, which derive from the IAS 28.

Amendments apply for annual periods beginning on or after 1 January 2019. Earlier application of amendments is permitted.

The Company is examining the effects of the new standard and will apply it as it enters into force.

Amendments to IAS 40: Investment Property

Amendments clarify requirements for transfers to, or from, investment properties.

An entity applies the amendments to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is also permitted if that is possible without the use of hindsight. Amendments reinforce the principle from IAS 40 Investment Property regarding the transfers into, or out of, investment property so that it now specifies that such a transfer should only be made when there has been a change in use of the property. Pursuant to the amendments, a property transfer takes place when, and only when, a de-facto change occurs in the usage, i.e. a property begins to or ceases to meet the definition of investment and there exists evidence of such a change in use. A change in management's intentions does not constitute evidence of a change in use.

Amendments were adopted by the EU on 14 March 2018 and are applicable to annual periods beginning on or after 1 January 2018 as well as are applicable prospectively. Earlier application of is permitted.

The Company is examining the effects of the amendments to the standard and will apply them as they enter into force.

Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions

Amendments refer to three main areas:

- The effect of vesting conditions on measuring cash-settled share-based payment transactions.

Amendments clarify that the method of accounting for performance conditions for measuring equity-settled share-based payment transactions is also used for cash-settled share-based payment transactions.

- Classification of share-based payment transactions with a net settlement feature for withholding tax obligations.

This amendment adds an exception to address a specific circumstance when there is an agreement on net settlement for an entity to meet its obligation to withhold a certain amount based on tax laws or regulations, thus to fulfil the employees' tax obligation linked with share-based payment.

- 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.

This amendment clarifies that in the case of a change to the conditions of the cash-settled share-based payments, due to which such a payment becomes equity-settled share-based payment, from the date of the change such a transaction shall be recorded as equity-settled payment.

This amendment was adopted by the EU on 26 February 2018. It is applicable retroactively and applies to annual periods beginning on or after 1 January 2018. Earlier application is permitted. Upon adoption, entities must apply the amendments without adjusting information for preceding periods. However, retrospective application is allowed when an entity decides to use the three amendments and when all other criteria have been met. Earlier application is permitted.

The Company does not expect these amendments to have a significant impact on its separate financial statements.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Pursuant to these amendments, particular financial assets with a prepayment feature, enabling the contractual party to receive or demand reasonable additional compensation for early terminations of contracts (which is considered "negative compensation" by the holder of a financial asset), are measured at amortized cost or at fair value through other comprehensive income.

Amendments were adopted by the EU on 22 March 2018 and are applicable to annual periods beginning on or after 1 January 2019. Earlier application of amendments is permitted.

The Company is examining the effects of the new standard and will apply it as it enters into force.

Amendments to standards IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

Amendments address an acknowledged inconsistency between IFRS 10 and IAS 28 relating to how to account for transactions in which a parent entity loses control of a subsidiary by selling it or contributing it to an associate or joint venture. Amendments clarify that an entity must recognise a full gain or loss when a sale or contribution of assets between an investor and an associate or a joint venture involves a business as defined in IFRS 3. A gain or loss from sale or contribution if the asset transferred does not contain a business must be recognised partially up to the amount of the share of unrelated investors in an associate or joint venture. The International Accounting Standards Board has deferred the effective date indefinitely. An entity opting for early adoption of these amendments must apply them to future periods.

The Company does not expect these amendments to have a significant impact on its separate financial statements.

Interpretation IFRIC 22: Foreign Currency Transactions and Advance Consideration

The interpretation addresses the exchange rate for transactions that include the receipt or payment of advance consideration in a foreign currency.

It covers foreign currency transactions when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income. It does not apply when an entity measures the related asset, expense or income on initial recognition at fair value or at the fair value of the consideration received or paid at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability. It also need not be applied to income taxes, insurance contracts or reinsurance contracts.

IFRIC 22 is effective for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted. The interpretation can be applied prospectively to all foreign currency assets, expenses and income in the scope of the interpretation initially recognised on or after the beginning of the reporting period an entity first applies the interpretation in or the beginning of a prior reporting period presented as comparative information.

The Company is examining the effects of the interpretation and will apply it as it enters into force.

Interpretation IFRIC 23: Uncertainty over Income Tax Treatments

The interpretation is to be applied to the determination of taxable profit when there is uncertainty over income tax treatments under IAS 12 Income Taxes. The interpretation introduces guidelines for: whether uncertain income tax treatments should be considered independently or collectively; taxation authorities' examinations; the use of an appropriate method reflecting the uncertainty while also taking into account any changes to facts and circumstances.

Interpretations apply for annual periods beginning on or after 1 January 2019. Earlier application of interpretations is permitted.

The Company does not expect for these interpretations to have a significant impact on its separate financial statements.

Amendments to standards and interpretations adopted in the period 2014-2016

Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures

For measurements of long term interests in associates and joint ventures owned by an entity that is a venture capital organisation, or other eligible entity, the amendments clarify that any investment in associates and joint ventures may be measured at fair value through profit or loss upon initial recognition; however, the election is made separately for each associate or joint venture. Amendments apply for annual periods beginning on or after 1 January 2018.

The Company is examining the effects of the amendments to the standard and will apply them as they enter into force.

Amendments to IFRS 1: First-time Adoption of International Financial Reporting Standards

The amendment deleted the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose. Amendment is applicable to annual periods beginning on or after 1 January 2018.

The Company does not expect these amendments to have a significant impact on its separate 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.

In measuring the fair value of a non-financial asset, the Company must take into account the market participant's ability to generate economic benefits by using the asset at its highest and best use or by selling it to another market participant that would use the asset at its highest and best use.

The Company uses valuation techniques that are appropriate under the given circumstances and for which there is enough data available, mainly based on the use of appropriate market inputs and the minimum use of non-market inputs.

All assets and liabilities that are measured or disclosed at fair value in the financial statements are classified into a fair value hierarchy based on the lowest level of inputs required for measuring the total fair value:

Level 1 – quoted prices (unadjusted) in active markets for similar assets and liabilities,

Level 2 – valuation model based directly or indirectly on market data,

Level 3 – valuation model not based on market data.

At the end of each reporting period, the Company determines whether any transitions between levels occurred in the case of assets and liabilities recognised in the financial statements for previous periods by re-examining the distribution of assets, taking into account the lowest level of inputs required for measuring the total fair value.

The fair value measurement hierarchy of the Company's assets and liabilities is presented in Note 32.

19 Additional Notes to Separate Income Statement

Note 1. Revenue

(in EUR)	2017	2016
Revenue generated on sales with domestic customers	**62,149,151**	**58,754,660**
- services	60,716,958	57,284,695
- goods and material	18,020	38,788
- rentals	1,414,173	1,431,177
Revenue generated on sales with foreign customers	**144,686,382**	**131,652,838**
- services	144,682,781	131,589,237
- rentals	3,601	63,601
Total	**206,835,533**	**190,407,498**

The item of total revenue comprises one individual customer that exceeds 10 percent of total sales.

Note 2. Other income

(in EUR)	2017	2016
Other operating income	**281,718**	**244,144**
Reversal of provisions	16,954	2,323
Revaluation operating income	**264,764**	**241,821**
Income on sale of property, plant and equipment, and investment property	154,605	30,082
Collected written-off receivables and written-off liabilities	110,159	211,739
Other income	**1,352,707**	**907,770**
Compensations and damages	453,563	405,969
Subsidies and other income not related to services	353,102	229,011
Other income	546,042	272,790
Total	**1,634,425**	**1,151,914**

Note 3. Costs of material

(in EUR)	2017	2016
Costs of auxiliary material	2,083,012	2,316,770
Cost of spare parts	5,132,038	4,787,344
Cost of energy	6,918,770	6,047,228
Cost of office stationery	154,163	121,619
Other cost of material	368,427	357,015
Total	**14,656,410**	**13,629,976**

Note 4. Costs of services

(in EUR)	2017	2016
Port services	30,877,371	25,291,457
Cost of transportation	252,564	265,257
Cost of maintenance	7,026,050	8,339,284
Rentals	382,981	775,734
Reimbursement of labour-related costs	331,323	368,411
Costs of payment processing, bank charges and insurance premiums	765,572	712,075
Costs of intellectual and personal services	876,301	734,827
Advertising, trade fairs and hospitality	1,238,507	1,153,061
Costs of services provided by individuals not performing business activities	341,803	290,062
Costs of other services		
Sewage and disposal services	926,997	857,723
Information support	2,934,523	2,976,972
Concession-related costs	7,156,615	6,397,118
Costs of other services	1,664,703	2,820,037
Total	**54,775,310**	**50,982,018**

As in previous years, port services (EUR 30,877,371) account for the highest amount within cost of services. Providers of port services are subcontracted by Luka Koper to 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 increased as a result of higher operating income.

All lease arrangements are revocable and the relevant future liabilities arising thereunder are insignificant.

Note 5. Employee benefits expense

(in EUR)	2017	2016
Wages and salaries	31,889,905	30,156,877
Wage compensations	5,016,303	4,658,890
Costs of additional pension insurance	1,439,021	1,381,522
Employer's contributions on employee benefits	6,008,500	5,714,609
Annual holiday pay, reimbursements and other costs	3,693,346	3,484,164
Total	**48,047,075**	**45,396,062**

With the exception of members of the Management Board and employees under individual contracts, in December 2017, the employees received an additional average monthly salary (13th salary) for having reached the planned added value in 2017.

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 16th consecutive year.

The annual holiday pay amounted to EUR 1,150 per employee in 2017 (2016: EUR 1,100).

In 2017, 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 2017	Headcount in 2016
VIII/2	1	2
VIII/1	23	18
VII	104	103
VI/2	153	142
VI/1	70	67
V	260	259
IV	228	220
III	13	13
I–II	42	44
Total	**893**	**868**

In the 2016 annual report, the number of employees by education was reported as at day; therefore, comparable data for 2016 has been repaired.

Note 6. Amortisation and depreciation expense

(in EUR)	2017	2016
Depreciation of buildings	12,778,987	12,414,691
Depreciation of equipment and spare parts	13,454,317	11,807,539
Depreciation of small tools	21,767	21,251
Depreciation of investment property	638,759	626,054
Amortisation of intangible assets	644,679	637,497
Total	**27,538,509**	**25,507,032**

Note 7. Other expenses

(in EUR)	2017	2016
Provisions	15,652,295	905,267
Impairment costs, write-offs and losses on property, plant and equipment and investment property	3,989,166	1,632,731
Expenses for allowances for receivables	917,135	336,990
Levies that are not contingent upon employee benefits expense and other types of cost	6,670,100	6,711,659
Donations	161,500	130,030
Environmental levies	140,430	135,086
Awards and scholarship to students inclusive of tax	13,870	9,905
Awards and scholarship to students	4,400	6,002
Other costs and expenses	871,447	645,470
Total	**28,420,343**	**10,513,140**

In 2017, the Company formed additional provisions for legal liabilities amounting to EUR 15,652,295. Impairment costs, write-offs and losses on property, plant and equipment and investment property are mainly composed of Impairment of investment property at the Sežana location amounting to EUR 3,413,713.

Levies that are not contingent upon employee benefits expense and other types of cost mostly relate to the fee for the use of construction land, which in 2017 amounted to EUR 6,461,785.
Other costs and expenses mainly consist of compensations amounting to EUR 510,964 and court expenses amounting to EUR 299,225.

Note 8. Finance income and finance expenses

(in EUR)	2017	2016
Finance income from shares and interests	**2,849,838**	**2,892,278**
Finance income from shares and interests in Group companies	652,780	672,918
Finance income from shares and interests in associated companies	993,808	917,101
Finance income from shares and interests in other companies	1,203,250	1,302,259
Finance income - interest	**2,219**	**16,509**
Interest income - Group companies	847	839
Interest income - other	1,372	15,670
Finance income from operating receivables	**121,866**	**162,203**
Finance income from operating receivables due from others	121,866	162,203
Total finance income	**2,973,923**	**3,070,990**
Finance expenses for investments	**0**	**-100,000**
Finance expenses – interest	**-1,504,662**	**-1,897,092**
Interest expenses – Group companies	-175,980	-150,311
Interest expenses – associates and jointly controlled entities	0	-4,228
Interest expenses – banks	-1,328,682	-1,742,553
Finance expenses for financial liabilities	**-83,625**	**-110,441**
Finance expenses for trade payables	-256	-6
Finance expenses for other operating liabilities	-83,369	-110,435
Total finance expenses	**-1,588,287**	**-2,107,533**
Net financial result	**1,385,636**	**963,457**

Finance income from shares and interests in Group companies include profits for 2016, i.e. profits of Luka Koper INPO, d. o. o. (EUR 639,597) and Adria investicije, d. o. o. (EUR 13,183).

Finance income from shares and interests in associates refer to sharing of profits for 2016 of companies Adria Transport, d. o. o. (EUR 320,000), Adria-Tow, d. o. o. (EUR 250,000), and Avtoservis, d. o. o. (EUR 423,808).

Finance income from shares and interests in other entities refer to dividends paid under investments into securities.

Financial expenses arising on interest in 2017 amounted to EUR 1,504,662 and show a slight decline over the previous year, mainly due to lower effective interest rates.

Note 9. Taxes and effective tax rate

(in EUR)	2017	2016
Profit before tax	36,417,947	46,499,884
Income tax (19%)	6,919,410	7,904,980
Non-taxable income and increase in expenditure	-11,786	-45,446
Non-taxable dividends received	-549,101	-491,307
Tax incentives	-3,767,613	-722,664
Expenses not recognised for tax purposes	670,191	407,663
Impairment loss not recognised for tax purposes	0	7,500
Other reduction in the tax base	-14,017	0
Other increase in the tax base	27,455	26,301
Change in tax rate	0	-1,168,259
Total tax expense	3,274,539	5,918,768
Effective tax rate	**8.99%**	**12.73%**

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 includes investments in plant and equipment.

Note 10. Net earnings per share

(in EUR)	31 Dec 2017	31 Dec 2016
Net profit for the period	33,143,408	40,581,116
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	**2.37**	**2.90**

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.

20 Additional Notes to the separate Statement of Financial Position

Note 11. Property, plant and equipment

(in EUR)	31 Dec 2017	31 Dec 2016
Land	15,117,508	15,086,203
Buildings	245,729,683	226,377,007
Plant and machinery	91,568,985	52,370,362
Property, plant and equipment being acquired and advances given	15,401,963	64,761,135
Total	**367,818,139**	**358,594,707**

None of Company's items of property, plant and equipment were pledged as collateral or held under a finance lease.

The cost of the property, plant and equipment in use, of which the carrying value as at 31 December 2017 equalled zero, is recorded at EUR 248,193,244 (31 December 2016: EUR 225,769,504).
As at 31 December 2017, the outstanding trade payables to suppliers of items of property, plant and equipment amounted to EUR 4,541,819 (31 December 2016: EUR 6,859,931).

The item of assets being acquired includes advances given for acquiring property, plant and equipment. As at the reporting date, they were recorded at EUR 79,988 (31 December 2016: 26,461,875).

In 2017, total investments amounted to EUR 36,661,385. Company's largest investments comprise:

- Ship to shore container cranes (STS),
- Electrified rubber tired gantry cranes (eRTG),
- Finalising the construction of a multipurpose warehouse,
- Rail mounted gantry cranes (RMG), and
- Continued setting of warehouse areas.

In 2017, the Company found no material indication of required impairment to be carried out with respect to the assets. Write-offs occurred with regard to a damaged crane on the dry bulk cargo terminal, and with regard to property, plant and equipment due to necessary refurbishment and obsolete equipment.

Write-offs 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 2017

(in EUR)	Land	Buildings	Plant and equipment	Assets being acquired	Total
Cost					
Balance at 31 Dec 2016	15,086,203	442,253,826	255,502,984	64,761,135	777,604,148
Additions	31,285	0	0	36,630,100	36,661,385
Transfer from investments in progress	20	31,988,806	53,424,745	-85,413,571	0
Disposals, write-offs	0	-82,475	-16,096,389	0	-16,178,864
Transfer to intangible assets	0	0	-11,408	0	-11,408
Transfer from intangible assets	0	714,261	0	0	714,261
Transfer to investment property	0	0	0	-601,364	-601,364
Reclassifications within property, plant and equipment	0	192,678	-218,341	25,663	0
Balance at 31 Dec 2017	**15,117,508**	**475,067,096**	**292,601,591**	**15,401,963**	**798,188,158**
Accumulated depreciation					
Balance at 31 Dec 2016	0	215,876,819	203,132,622	0	419,009,441
Depreciation	0	12,778,987	13,476,084	0	26,255,071
Disposals, write-offs	0	-47,543	-15,557,291	0	-15,604,834
Transfer to intangible assets	0	0	-3,920	0	-3,920
Transfer from intangible assets	0	714,261	0	0	714,261
Reclassifications within property, plant and equipment	0	14,889	-14,889	0	0
Balance at 31 Dec 2017	**0**	**229,337,413**	**201,032,606**	**0**	**430,370,019**
Carrying amount					
Balance at 31 Dec 2016	**15,086,203**	**226,377,007**	**52,370,362**	**64,761,135**	**358,594,707**
Balance at 31 Dec 2017	**15,117,508**	**245,729,683**	**91,568,985**	**15,401,963**	**367,818,139**

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	249,042,403	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 property	0	-117	0	-113,303	-113,420
Transfer from investment property	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**

Note 12. Investment property

(in EUR)	31 Dec 2017	31 Dec 2016
Investment property - land	14,747,020	18,160,734
Investment property - buildings	11,720,375	11,757,770
Total	**26,467,395**	**29,918,504**

The item of investment property includes land and buildings leased out, and properties that increase the value of the non-current investment. Investment properties are valued by using the cost model.

Leased properties

(in EUR)	2017	2016
Rental income on investment property	1,366,177	1,084,074
Depreciation of investment property	638,759	626,054

Investment properties are not pledged as collateral.

Fair value of investment property as at 31 December 2017 amounted to EUR 27,920,395.

Fair value of investment property was assessed on the basis of valuation, based on the value the buyer is willing to pay, and by means of estimated total value of expected future cash flows generated through renting.

During periodic verification of fair value of investment property based on valuation, impairment of land in the Sežana municipality was implemented in 2017. Valuation was carried out by a registered property valuer. All property valuation methods were verified during value assessment, i.e. the sales comparison approach, the income approach, and the cost approach. The income approach was chosen for purposes of valuation and ensuring the quality of information.

Impairment of investment property was recognised among costs for impairment, write-offs and losses on sale of property, plant and equipment and investment property (Note 7).

Movements in investment property in 2017

(in EUR)	Land	Buildings	Total
Cost			
Balance at 31 Dec 2016	18,160,734	19,888,603	38,049,337
Transfer from investments in course of construction	0	601,364	601,364
Impairment charge	-3,413,713	0	-3,413,713
Balance at 31 Dec 2017	**14,747,021**	**20,489,967**	**35,236,988**
Accumulated depreciation			
Balance at 31 Dec 2016	0	8,130,833	8,130,833
Depreciation	0	638,760	638,760
Balance at 31 Dec 2017	**0**	**8,769,593**	**8,769,593**
Carrying amount			
Balance at 31 Dec 2016	**18,160,734**	**11,757,770**	**29,918,504**
Balance at 31 Dec 2017	**14,747,021**	**11,720,374**	**26,467,395**

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
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**

Note 13. Intangible assets

In Luka Koper, d. d., intangible assets comprise industrial property rights and other rights such as computer software, information systems and development-related projects and programmes. At the year-end of 2017, intangible assets amounted to EUR 3,122,833 (31 December 2016: EUR 3,761,498).

The cost of intangible assets in use, of which the carrying value as at 31 December 2017 equalled zero, is recorded at EUR 6,078,928 (31 December 2016: EUR 6,829,230).

As at 31 December 2017, the Company recorded no payables to suppliers for intangible assets (31 December 2016: EUR 21,110).

Intangible assets were not pledged as collateral as at 31 December 2017.

The difference between the cost and value adjustment for intangible assets written off was recognised among costs for impairment, write-offs and losses on sale of property, plant and equipment and investment property (Note 7).

Movements in intangible assets in 2017

(in EUR)	Industrial property and other rights	Intangible assets being acquired	Total
Cost			
Balance at 31 Dec 2016	13,247,083	149,237	13,396,320
Transfer from investments in course of construction	97,250	-97,250	0
Disposals, write-offs	-40,242	0	-40,242
Transfer from property, plant and equipment	11,408	0	11,408
Transfer to property, plant and equipment	-714,261	0	-714,261
Balance at 31 Dec 2017	**12,601,238**	**51,987**	**12,653,225**
Accumulated depreciation			
Balance at 31 Dec 2016	9,634,822	0	9,634,822
Depreciation	644,680	0	644,680
Disposals, write-offs	-38,769	0	-38,769
Transfer from property, plant and equipment	3,920	0	3,920
Transfer to property, plant and equipment	-714,261	0	-714,261
Balance at 31 Dec 2017	**9,530,392**	**0**	**9,530,392**
Carrying amount			
Balance at 31 Dec 2016	**3,612,261**	**149,237**	**3,761,498**
Balance at 31 Dec 2017	**3,070,846**	**51,987**	**3,122,833**

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
Transfer 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**

Note 14. Shares and interests in Group companies

Investments in subsidiaries

As at 31 December 2017, investments in subsidiaries amounted to EUR 4,533,063. No changes were recorded in 2017 with respect to investments in subsidiaries.

Investments in subsidiaries are not pledged as collateral.

Detailed presentation of transactions with subsidiaries is provided in Note 31 of this report.

Investments in subsidiaries

(in EUR)	Equity interest	Investments at 31 Dec 2017	Revenue at 2017	Profit or loss at 2017	No. of employees 31 Dec 2017
Subsidiaries:					
Luka Koper INPO, d. o. o.	100%	1,336,288	9,232,883	860,709	153
Luka Koper Pristan, d. o. o.	100%	485,000	740,292	35,275	4
Adria Terminali, d. o. o.	100%	226,000	2,274,688	413,723	21
Adria Investicije, d. o. o.	100%	1,775,775	40,186	13,044	0
Logis Nova, d. o. o.	100%	710,000	19,838	-2,758,575	0
TOC, d. o. o.	68.13%	0	419,261	66,739	4

Note 15. Shares and interests in associates

(in EUR)	Equity interest	Investments at 31 Dec 2017	Investments at 31 Dec 2016
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 - v stečaju, d. o. o.	20%	0	0
Total		**6,737,709**	**6,737,709**

Shares and interests in associates are not pledged as collateral.

Bankruptcy proceedings against Golf Istra - v stečaju, d. o. o., which was 20 percent owned by the Company, ended on 6 January 2017. The Company had previously formed a value adjustment for the total value of the investment.

Note 16. Other non-current investments

(in EUR)	31 Dec 2017	31 Dec 2016
Other investments measured at cost	928,827	928,827
Other investments measured at fair value through equity	29,570,757	26,410,036
Total	**30,499,584**	**27,338,863**

Other non-current investment primarily comprise investments in securities and equity interests. Investments in securities include investments in shares in Krka, d. d. and Intereuropa, d. d., whose value as at 31 December 2017 was EUR 27,644,186, and mutual funds, whose value was EUR 1,926,571.

Other investments measured at cost refer to investments in other companies, where the Company's equity interest is less than 20 percent.

Movements in other non-current investments

(in EUR)	2017	2016
Balance at 1 Jan	27,338,863	31,677,981
Increase		
Revaluation to fair value through equity	3,160,721	0
Decrease		
Payout	0	-26,028
Impairment	0	-100,000
Revaluation to fair value through equity	0	-4,213,090
Balance at 31 Dec	30,499,584	27,338,863

The increase in other non-current investments is 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 2017**	**31 Dec 2016**	**31 Dec 2017**	**31 Dec 2016**
Deferred tax assets and liabilities relating to:				
impairment of investments in subsidiaries	415,238	572,368	0	0
impairment of investments in associates	0	17,575	0	0
impairment of other investments and deductible temporary differences arising on securities	9,329,990	9,334,430	2,555,213	1,954,676
financial instruments	18,875	79,776	0	0
allowances for trade receivables	359,877	225,729	0	0
provisions for retirement benefits	251,092	318,854	0	0
provisions for jubilee premiums	51,462	50,502	0	0
non-current accrued costs and deferred income for public utility services	453,983	453,983	0	0
Total	**10,880,517**	**11,053,217**	**2,555,213**	**1,954,676**
Off-set with deferred tax liabilities relating to impairment of other investments and deductible temporary differences arising on securities	-2,555,213	-1,954,676	-2,555,213	-1,954,676
Total	**8,325,304**	**9,098,541**	**0**	**0**

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 utility services. In 2017, deferred taxes decreased the operating result by EUR 122,833, as compared to an increase of EUR 1,174,474 in the preceding year, which was mostly due to the changed tax rate.

As at the 31 December 2017, the Company conducted an off-set of its deferred tax liabilities with receivables in the amount of EUR 2,555,213 (31 December 2016: EUR 1,954,676).

Movements in deferred tax assets and deferred tax liabilities in 2017

	Receivables				Liabilities		
	Balance at 31 Dec 2016	Recognised in the income statement	Recognised in the statement of other comprehensive income	Balance at 31 Dec 2017	Balance at 31 Dec 2016	Recognised in the statement of other comprehensive income	Balance at 31 Dec 2017
Deferred tax assets and liabilities relating to:							
impairment of investments in subsidiaries	572,368	-157,130	0	**415,238**	0	0	**0**
impairment of investments in associates	17,575	-17,575	0	**0**	0	0	**0**
impairment of other investments and deductible temporary differences arising on securities	9,334,430	-4,441	0	**9,329,987**	1,954,676	600,537	**2,555,213**
financial instruments	79,776	0	-60,900	**18,876**	0	0	**0**
allowances for trade receivables	225,729	134,149	0	**359,878**	0	0	**0**
provisions for retirement benefits	318,854	-78,796	11,035	**251,093**	0	0	**0**
provisions for jubilee premiums	50,502	960	0	**51,462**	0	0	**0**
non-current accrued costs and deferred income for public utility services	453,983	0	0	**453,983**	0	0	**0**
Total	**11,053,217**	**-122,833**	**-49,865**	**10,880,518**	**1,954,676**	**600,537**	**2,555,213**
Off-set with deferred tax liabilities relating to impairment of other investments and deductible temporary differences arising on securities	-1,954,676	0	-600,537	**-2,555,213**	-1,954,676	-600,537	**-2,555,213**
Deferred tax assets in the statement of financial position	**9,098,541**	**-122,833**	**-650,402**	**8,325,304**	**0**	**0**	**0**

Movements in deferred tax assets and deferred tax liabilities in 2016

	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 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 for public utility 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**

Note 18. Inventories

As at 31 December 2017, inventories are recorded at EUR 1,037,066 (31 December 2016: EUR 809,467). A 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 2017	31 Dec 2016
Current trade receivables:		
domestic market	16,581,025	16,874,155
foreign markets	18,273,278	10,610,265
Current operating receivables due from Group companies	363,927	50,291
Current operating receivables due from associates	55,902	44,443
Current trade receivables	**35,274,132**	**27,579,154**
Current receivables due from dividends	0	50,000
Advances and collaterals given	94,103	4,083
Current receivables related to finance income	0	2,246
Receivables due from the state	1,596,594	2,506,533
Other current receivables	72,904	125,106
Trade receivables	**37,037,733**	**30,267,122**
Short-term deferred costs and expenses	540,338	371,498
Accrued income	442,986	376,958
Other receivables	**983,324**	**748,456**
Total	**38,021,057**	**31,015,578**

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 pursuant to the accounting manual, and regularly forms related allowances should it be highly likely that repayment is not possible. Irrespective of maturity, the Company also forms allowances for receivables, with regard to which risk has been assessed of not being repaid.

In 2017, the Company formed allowances for receivables in the amount of EUR 913,345 and eliminated the allowance for collected written-off receivables amounting to EUR 109,812.

At 31 December 2017, 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 2017 amounted to EUR 2,900,000, the Company signed a contract on assigning receivables. As of the reporting date, these receivables amounted to EUR 266,230.

Other receivables include short-term accrued income in the amount of EUR 232,125 which refers to income arising on expenses for European development projects, co-financed by European institutions, and short-term deferred costs in the amount of EUR 540,338.

From 1 January 2017, the Company has recorded costs related to a loan under short-term deferred costs. The Company thus ensures that the borrowings are managed by observing the effective interest rate principal, hence any expenses related to an individual borrowing are deferred upon accrual among non-current liabilities and thereupon reversed on a monthly basis until the date of maturity. In this respect, the amount of EUR 118,797 was recorded among short-term deferred costs as at 31 December 2017.

Maturity of trade receivables and receivables relating to finance income:

(in EUR)	31 Dec 2017	Allowances 31 Dec 2017	31 Dec 2016	Allowances 31 Dec 2016
Outstanding and undue trade receivables	30,628,915	0	24,642,936	-93,553
Past due receivables:				
up to 30 days	4,775,829	-519,624	2,163,559	-1,572
31 to 60 days overdue	197,593	0	582,498	-5,274
61 to 90 days overdue	79,277	0	66,819	-3,331
91 to 180 days overdue	33,257	0	172,588	-2,177
more than 180 days overdue	2,501,102	-2,422,217	2,187,657	-2,128,751
Total	**38,215,973**	**-2,941,841**	**29,816,057**	**-2,234,658**

Note: the amount comprises trade receivables due from subsidiaries and associates, and interest receivables.

Movements in allowances for receivables

(in EUR)	2017	2016
Balance at 1 January	2,234,658	2,179,891
Increase:		
Formation of allowances	913,345	336,990
Decrease:		
Collected receivables written off	-109,812	-211,121
Final write-off of receivables	-96,350	-71,102
Balance at 31 December	**2,941,841**	**2,234,658**

Note 20. Cash and cash equivalents

(in EUR)	31 Dec 2017	31 Dec 2016
Cash in hand	51	46
Bank balances	28,202,538	983,259
Total	**28,202,589**	**983,305**

Note 21. Equity

Share capital

The share capital of Luka Koper, d. d. in the amount of EUR 58,420,965 consists of 14,000,000 shares that are freely transferable. The nominal value of a share is EUR 4.17.

Capital surplus (share premium) and revenue reserves

The Company records legal reserves in the amount of at least 10 percent 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. On a proposal of the Management Board, the Company, pursuant to Article 230 (3) of the Companies Act, formed at the year-end of 2017 additional other revenue reserves in the amount of a half of net profit or loss, which equalled EUR 16,571,704.

(in EUR)	31 Dec 2017	31 Dec 2016
Share premium	89,562,703	89,562,703
Legal reserves	18,765,115	18,765,115
Other revenue reserves	126,842,241	110,270,537
Total	**235,170,059**	**218,598,355**

Reserves arising from valuation at fair value

At the year-end of 2017, reserves arising on valuation at fair value with respect to the valuation of investments measured at fair value, valuation of hedging instruments measured at fair value, and with respect to unrealised actuarial gains and losses, amounted to EUR 12,229,708. After deducting deferred taxes, they are recorded at EUR 9,799,716.

Retained earnings

Retained earnings consist of the unappropriated portion of the net profit for the period, which as at 31 December 2017 amounted to EUR 16,571,704, and net profit brought forward that was recorded at EUR 690,207.

Use of accumulated profit

The Management and Supervisory Board proposed to the Shareholders' Meeting to appropriate the accumulated profit, which as at 31 December 2016 amounted to EUR 20,321,603, as follows

- A portion of accumulated profit in the amount of EUR 13,440,000 to be used for dividend pay-out i.e. EUR 0.96 gross per share,
- The residual amount of accumulated profit in the amount of EUR 6,881,603 to remain unappropriated.

During the 28th Shareholders' Meeting of Luka Koper on 30 June 2017, a counter-proposal filed by SDH, d. d, was voted through, according to which the accumulated profit is to be appropriated as follows:

- A portion of accumulated profit in the amount of EUR 19,600,000 to be used for dividend pay-out i.e. EUR 1.40 gross per share,
- The residual amount of accumulated profit in the amount of EUR 721,603 to remain unappropriated.

The statement of accumulated profit for the financial year 2017 and the proposal for its distribution are provided in Section 21, 'Statement of accumulated profit'.

Note 22. Provisions

(in EUR)	31 Dec 2017	31 Dec 2016
Provisions for retirement benefits and jubilee premiums	3,184,782	2,884,673
Provisions for legal disputes	17,032,786	1,380,491
Total	**20,217,568**	**4,265,164**

In 2017, the Company formed additional provisions for termination benefits and jubilee premiums amounting to EUR 444,822. Based on actuarial calculation, the unrealised actuarial loss from the current and preceding year with respect to termination benefits amounting to EUR 136,515 was recorded in other comprehensive income. The Company recognised in the income statement the current service cost with respect to termination benefits and jubilee premiums in the amount of EUR 265,185, and the interest cost amounting to EUR 49,041. In 2017, payments under jubilee premiums and termination benefits amounted to EUR 144,713.

Additional provisions were formed in 2017 for legal liabilities amounting to EUR 15,652,295. Pursuant to Article 92 of IAS 37 — Provisions, Contingent Liabilities and Contingent Assets, the Company does not disclose information on legal commitments, since their disclosure would form a judgement on the position of the Company in a dispute with other parties.

Movements of provisions in 2017

(in EUR)	Termination benefits	Jubilee premiums	Total postemployment benefits	Claims and damages	Total
Balance at 31 Dec 2016	2,353,073	531,600	2,884,673	1,380,491	4,265,164
Movement:					
Formation	357,128	70,740	427,868	15,652,295	16,080,163
Use	-80,661	-64,052	-144,713	0	-144,713
Reversal	13,535	3,419	16,954	0	16,954
Balance at 31 Dec 2017	**2,643,075**	**541,707**	**3,184,782**	**17,032,786**	**20,217,568**

Movements of provisions in 2016

(in EUR)	Termination benefits	Jubilee premiums	Total postemployment 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**

Note 23. Deferred income

(in EUR)	31 Dec 2017	31 Dec 2016
Non-current deferred income for regular maintenance	13,693,827	7,987,214
Non-current deferred income	4,472,390	4,347,505
Total	**18,166,217**	**12,334,719**

Pursuant to the Concession Agreement, Luka Koper, d. d. records deferred income on regular maintenance as non-current deferred income since it has the right and obligation to collect port dues, which serve as income intended to cover the costs of performing public utility services of regularly maintaining the port infrastructure intended for public transport. With respect to any annual surplus of revenue over costs, the Company forms non-current deferred income for covering the costs of public utility services relating to regular maintenance of the port infrastructure in the coming years. In the event that costs exceeded the revenue, the Company would be utilising non-current deferred income.

Non-current deferred income refers to received EU funds, which are drawn in accordance with the assets' useful life.

Movement of deferred income in 2017

(in EUR)	Non-current deferred income for regular maintenance	Nonrefundable grants received	Total
Balance at 31 Dec 2016	7,987,214	4,347,505	12,334,719
Movement:			
Formation	5,706,613	1,290,955	6,997,568
Transfer from other liabilities	0	22,535	22,535
Transfer to other liabilities	0	-1,110,728	-1,110,728
Use	0	-77,877	-77,877
Balance at 31 Dec 2017	**13, 693,827**	**4,472,390**	**18,166,217**

Movement of deferred income in 2016

(in EUR)	Non-current deferred income for regular maintenance	Nonrefundable 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**

Note 24. Non-current loans and borrowings

(in EUR)	31 Dec 2017	31 Dec 2016
Non-current financial liabilities to Group companies	16,000,000	16,000,000
Non-current borrowings from banks in Slovenia	71,419,979	66,383,117
Non-current borrowings from banks abroad	29,262,295	31,517,622
Total	**116,682,274**	**113,900,739**

Non-current financial liabilities to Group companies remained at the same level as the previous year. These liabilities refer to a borrowing from 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 100,682,274, and have thus increased by 2.8 percent or EUR 2,781,535 as compared to the year-end of 2016. The difference comprises the net effect of the final absorption of a loan taken with a commercial bank in the previous year, and the transfer of a part of liabilities to current borrowings. 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 2017, the total amount of the hedged borrowing is recorded at EUR 31,557,377. Further details on the relevant interest rate hedging are provided in Note 32 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 is collateralised with assignment of receivables. The Company complies with all financial covenants under the loan agreements. Up to 31 December 2016 inclusive, the item of borrowings also comprised the costs of loan approval, which were reducing the balance of the borrowings received. From 1 January 2017, deferred costs have been transferred to current deferred costs under other receivables. The Company thus ensures that the borrowings are managed by observing the effective interest rate, hence any expenses related to an individual borrowing are deferred upon accrual among current liabilities and thereupon reversed on a monthly basis. Accordingly, deferred costs referring to current liabilities for loans received amounted to EUR 118,797 as at 31 December 2017, whereas in 2016 such costs amounted to EUR 141,935 and were reducing the actual balance of loan principals at the year-end.

Movement of non-current borrowings in 2017

	Lender		
(in EUR)	**Group companies**	**Banks**	**Total**
Balance at 31 Dec 2016	16,000,000	97,900,739	113,900,739
New borrowings	0	18,700,000	18,700,000
Reclassifications	0	141,935	141,935
Transfer to current borrowings – the portion that matures within 1 year	0	-16,060,400	-16,060,400
Balance at 31 Dec 2017	**16,000,000**	**100,682,274**	**116,682,274**

Movement of non-current borrowings in 2016

(in EUR)	Lender		
	Group companies	Banks	Total
Balance at 31 Dec 2015	10,000,000	100,354,822	110,354,822
Transfer from current borrowings	6,000,000	9,300,000	15,300,000
Deferred costs of approval	0	7,648	7,648
Transfer to current borrowings – the 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**

Loan principals (non-current and current borrowings) in 2017

(in EUR)	Currency of loan	Interest rate	Date of maturity	Approved principal amount	Principal at 31 Dec 2017
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	79,314,102
Loans C	EUR	Euribor6m + from 1.550 to 2.000	from 30 Jun 2018 to 14 Apr 2025	50,000,000	37,428,571
Total				**189,000,000**	**132,742,673**
- whereof current portion					16,060,399

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

Balance of non-current and current borrowings from banks at par value and by their maturity in 2017

(in EUR)	Principal at 31 Dec 2017	2018	2019	2020	2021	2022	Period 2023–2032
Balance of bank loan principals by maturity	132,742,673	16,060,399	16,004,399	17,898,602	26,652,225	10,652,225	45,474,824
Expected interest	5,578,019	1,384,618	1,141,323	928,901	773,465	477,899	871,811
Total	**138,320,692**	**17,445,017**	**17,145,722**	**18,827,503**	**27,425,690**	**11,130,124**	**46,346,636**

Balance of non-current and current borrowings from banks at par value and by their maturity in 2016

(in EUR)	Principal at 31 Dec 2016	2017	2018	2019	2020	2021	Period 2022–2032
Balance of bank loan principals 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	5,834,316	1,378,841	1,224,865	952,547	675,464	484,349	1,118,250
Total	**115.638.721**	**13,140,573**	**17,285,264**	**16,956,946**	**18,574,066**	**8,186,574**	**41,495,299**

Note 25. Other non-current financial liabilities

Other non-current financial liabilities include the fair value of instrument (i.e. interest rate swap), which the Company entered into in connection with its largest borrowing. Since the interest rate swap entered into becomes payable in 2018, the Company transferred the balance of non-current financial liabilities to current financial liabilities as at 31 December 2017. The balance as at 31 December 2016 amounted to EUR 419,873. Further details on the relevant interest rate hedging are provided in Note 32 Financial instruments and financial risk management, in the section 'Management of interest rate risk'.

Note 26. Non-current operating liabilities

(in EUR)	31 Dec 2017	31 Dec 2016
Non-current advances and collaterals received	967,102	693,924
Total	**967,102**	**693,924**

Non-current operating liabilities mostly relate to received security deposits for re-invoiced excise duties.

Note 27. Current loans and borrowings

(in EUR)	31 Dec 2017	31 Dec 2016
Current borrowings from banks in Slovenia	13,765,317	9,466,650
Current borrowings from banks abroad	2,295,082	2,295,082
Total	**16,060,399**	**11,761,732**

Current borrowings from banks as at 31 December 2017 refer to the portion of non-current principal amounts, which mature in 2018 according to amortisation schedules.

Movement of current borrowings in 2017

	Lender	
(in EUR)	Banks	Total
Balance at 31 Dec 2016	11,761,732	11,761,732
Repayments	-11,761,733	-11,761,733
Transfer from non-current borrowings – the portion that matures within 2018	16,060,400	16,060,400
Balance at 31 Dec 2017	**16,060,399**	**16,060,399**

Movement of current borrowings in 2016

	Lender			
(in EUR)	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 – the portion that matures within 2017	0	0	11,761,732	11,761,732
Balance at 31 Dec 2016	**0**	**0**	**11,761,732**	**11,761,732**

Note 28. Other current financial liabilities

At the year-end of 2017, other current financial liabilities amounted to EUR 372,169 (2016: EUR 250,614), comprising interest payables, liabilities related to the distribution of profit, the liability to pay the interest rate swap entered into for the purpose of hedging against interest rate risk, and the current portion of other non-current financial liabilities related to protection from interest rate risk..

Note 29. Trade and other payables

(in EUR)	31 Dec 2017	31 Dec 2016
Current liabilities to:		
domestic suppliers	16,066,533	12,787,935
foreign suppliers	402,988	342,852
Current liabilities to Group companies	841,474	570,253
Current liabilities to associates	83,775	145,110
Current trade payables	**17,394,770**	**13,846,150**
Current liabilities from advances	1,018,067	19,234
Current liabilities to employees	3,587,424	3,190,575
Current liabilities to the state and other institutions	1,560	430,916
Total operating liabilities	**22,001,821**	**17,486,875**
Accrued costs	3,832,707	5,432,068
Other operating liabilities	**3,832,707**	**5,432,068**
Total	**25,834,528**	**22,918,943**

As compared to the preceding year, trade and other payables increased by EUR 2.915.586. The largest increase is recorded with current liabilities to domestic suppliers, which is attributable to higher liabilities arising from re-invoiced excise duties. Current liabilities from advances mostly relate to the funds received from the EU to cover the future costs incurred by co-financed projects.

Accrued costs relate to 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, accrued costs for unused vacation days, and accrued charges for invoices to be received.

Note 30. Contingent liabilities

(in EUR)	31 Dec 2017	31 Dec 2016
Guarantees given	1,610,000	1,560,000
Securities given	4,200,467	7,235,468
Contingent liabilities under legal disputes	1,933,240	93,809
Approved borrowing	0	54,700,000
Total contingent liabilities	**7,743,707**	**63,589,277**

Guarantees given refer to customs operations and as at 31 December 2017 amounted to EUR 1,610,000.

Securities given are composed of:

- Securities in the amount of EUR 3,950,467 given to the company Adria Transport, d. o. o. to cover a lease of locomotives, and
- Securities in the amount of EUR 250,000 given to the company Adria Terminali, d. o. o. as insurance of a bank guarantee for liabilities arising under customs duties.

Companies that received collaterals and guarantees from Luka Koper, d. d. regularly pay their liabilities in this regard and as at 31 December 2017 disclose no outstanding instalments.

As at 31 December 2017, the Company's Contingent liabilities under legal disputes include contingent liabilities for lawsuits received. 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. In 2017, contingent liabilities for legal disputes increased by EUR 1,839,431.

The item of approved borrowing refers to a great extent to the prospective borrowing granted by the European Investment Bank (EIB) for the project of extending Pier I. As at 31 December 2017, terms for drawing the borrowing were not met since the Company had not yet received the building permit, and has therefore removed the item.

The remaining part of loans granted refers to a part of the loan taken with a commercial bank in 2016, its final portion absorbed in 2017.

Note 31. Related party transactions

Remuneration of Members of the Management Board in 2017

Name and Surname	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 of the Management Board from 10 Jun 2014 to 29 Dec 2017	179,832	36,166	1,150	221	7,408	224,777
Andraž Novak, Member from 10 Jun 2014 to 29 Dec 2017	163,516	38,547	1,150	221	6,201	209,635
Irena Vincek, Member from 21. Aug 2015 to 29 Dec 2017	162,876	21,863	1,150	221	9,328	195,438
Stojan Čepar, Workers Director since 30 Nov 2015	160,641	22,264	1,150	221	11,858	196,134
Total	**666,865**	**118,840**	**4,600**	**884**	**34,795**	**825,984**

As at 29 December 2017, a new Management Board was appointed, the remuneration of whom will be first paid in January 2018.

Remuneration of Members of the Management Board in 2016

Name and Surname	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 of the Management Board since10 Jun 2014	172,656	23,246	1,100	207	8,297	205,506
Andraž Novak, Member since 10 Jun 2014	155,031	20,840	1,789	207	6,770	184,636
Irena Vincek, Member since 21 Aug 2015	154,451	7,512	0	207	0	162,170
Stojan Čepar, Workers Director since 30 Nov 2015	156,761	1,759	1,100	207	10,396	170,223
Matjaž Stare, Workers Director until 17 Oct 2015	0	33,337	1,100	0	13,799	48,236
Total	**638,900**	**86,695**	**5,089**	**826**	**39,262**	**770,772**

Pursuant to Article 294, Item 5 of the Companies Act, the above table comprises remuneration for exercising respective functions as well as other income, such as cost reimbursement, supplementary retirement schemes and jubilee premiums. To ensure data comparability, the remuneration of members of the Management Board for 2016 has been adjusted.

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 indent of Article 4 (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 all or part 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 their mandate ends and they continue to work in the Company Should, however, the President/member of the Management Board upon the end of their term issue a written statement that they will no longer be employed in the Company, a severance pay is paid in the amount equalling six times the average monthly earnings they received during the term of office as President/member of Management Board, unless their 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.

Remuneration of groups of persons in 2017

Groups of persons	Gross wages (fixed and variable part)	Annual holiday pay and jubilee premiums	Insurance premium benefits	Benefits and other receipts	Total remuneration
Members of the Management Board	785,705	4,600	884	34,795	825,984
Members of the Supervisory Board (nine members)	227,307	0	1,989	71,416	300,712
Employees with individual employment contracts	2,520,939	30,818	0	172,128	2,723,885
Total	**3,533,951**	**35,418**	**2,873**	**278,339**	**3,850,581**

Remuneration of groups 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 remuneration
Members of the Management Board	725,595	5,089	826	39,263	770,773
Members of the Supervisory Board (nine members)	201,315	0	1,818	45,317	248,450
Employees with individual employment contracts	2,439,204	28,028	0	144,481	2,611,713
Total	**3,366,114**	**33,117**	**2,644**	**229,061**	**3,630,936**

Gross remuneration of members of the Supervisory Board and its Committees in 2017

Name and Surname	Performance of function	Insurance premium benefits (SB)	Attendance fees and reimbursement of costs	Total gross earnings
Alenka Žnidaršič Kranjc, member from 7 Oct 2013 to 30 Jun.2017	11,375	127	3,019	14,522
Elen Twrdy, member from 7 Oct 2013 to 30 Jun.2017	11,185	127	2,469	13,782
Andrej Šercer, member from 7 Oct 2013 to 30 Jun.2017	11,375	127	3,515	15,018
Žiga Škerjanec, member from 7 Oct 2013 to 30 Jun.2017	10,427	127	3,243	13,798
Rado Antolovič, member since 7 Oct 2013	21,073	221	73,419	94,713
Sabina Mozetič, member since 21 Aug 2015	16,136	221	3,369	19,726
Mladen Jovičić, member since 18 Mar 2013	17,255	221	6,915	24,390
Marko Grabljevec, member since 18 Jan 2016	16,136	221	4,895	21,252
Rok Parovel, member since 12 Sep 2016	17,255	221	6,271	23,746
Uroš Ilić, member since 1 Jul 2017	8,394	94	4,916	13,404
Andraž Lipolt, member since 1 Jul 2017	7,898	94	5,007	12,998
Milan Jelenc, member since 1 Jul 2017	7,898	94	5,977	13,969
Barbara Nose, member since 1 Jul 2017	7,898	94	5,049	13,040
Polona Pergar Guzaj, external member of the SB's Audit Committee from 7 Jul 2016 to 30 Aug 2017	2,429	0	1,673	4,102
Mateja Kupšek, external member of the SB's Audit Committee since 31 Aug 2017	821	0	1,430	2,251
TOTAL	**167,555**	**1,989**	**131,168**	**300,712**

Gross remuneration of members of the Supervisory Board and its Committees in 2016

Name and Surname	Performance of function	Insurance premium benefits (SB)	Attendance fees and reimbursement of costs	Total gross earnings
Alenka Žnidaršič Kranjc, member since 7 Oct 2013	19,500	207	5,797	25,503
Elen Twrdy, member since 7 Oct 2013	19,175	207	4,730	24,112
Rado Antolovič, member since 7 Oct 2013	19,500	207	46,540	66,247
Andrej Šercer, member from 7 Oct 2013	19,500	207	7,028	26,734
Žiga Škerjanec, member since 7 Oct 2013	17,875	207	6,125	24,207
Sabina Mozetič, member since 21 Aug 2015	16,250	207	4,262	20,719
Mladen Jovičić, member since 18 Mar 2013	16,250	207	4,770	21,226
Marko Grabljevec, member since 18 Jan 2016	13,044	182	3,575	16,800
Rok Parovel, member since 12 Sep 2016	2,907	45	283	3,235
Stojan Čepar, member from 18 Mar 2013 to 29 Nov 2015	0	0	220	220
Nebojša Topič, member from 28 Jul 2012 to 27 Jul 2016	10,659	146	3,685	14,489
Polona Pergar Guzaj, external member of the SB's Audit Committee since 7 Jul 2016	1,302	0	397	1,699
Barbara Nose, external member of the SB's Audit Committee from 23 Aug 2014 do 6 Jul 2016	1,948	0	1,311	3,260
TOTAL	**157,909**	**1,818**	**88,723**	**248,451**

Remuneration in 2017 was paid pursuant to 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, which was adopted at the 26th General Meeting on 21 August 2015, stipulating as follows:

For attending a session, Members of the Supervisory Board receive attendance fee of EUR 275 gross each, and for attending a session of a Committee, Members of a 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, each Member of the Supervisory Board is entitled to the payment of attendance fees in a year until the total amount of such fees (either from sessions of the Supervisory Board or sessions of the Committees of the Supervisory Board) of a Member of the Supervisory Board reaches the value of 50 percent of the basic payment for performing their function.

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 Chairperson 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 their deputy is entitled to 10 percent of the basic payment for carrying out the function of a Member of the Supervisory Board.

Members of a 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 Chairperson of a Committee is also entitled to an additional supplement of 50 percent of the payment 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 of 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 are entitled to refund of travel expenses and other attendance-related expenses in compliance with the Company's Articles of Association.

In addition to the payments to the Supervisory Board Members, in 2017 the Supervisory Board paid to their members EUR 3.185 for the training, EUR 30.281 for external intellectual services, and EUR 120 for memberships of the Slovenian Directors' Association SDA.

Transactions with the Government of the Republic of Slovenia

In 2017, transactions between Luka Koper, d. d. and the Government of the Republic of Slovenia included the following:

(in EUR)	Payments in 2017	Costs/expenses in 2017	Payments in 2016	Costs/expenses in 2016
Concessions and the water fee	7,999,036	7,156,615	6,158,558	6,397,118
Dividends	9,996,000	0	8,068,200	0
Corporate income tax (taxes and advance payments)	7,927,743	3,284,706	5,132,716	7,093,243
Other taxes and contributions	6,023,746	6,008,500	5,678,335	5,714,609
Total	**31,946,525**	**16,449,821**	**25,037,809**	**19,204,970**

No other transactions between the Government of the Republic of Slovenia and the Company were recorded.

Dividends were paid out to two other companies, in which the Government of the Republic of Slovenia holds a controlling interest i.e. to the company SDH, d. d.in the amount of EUR 2,181,000 and the company Kapitalska družba, d. d. in the amount of EUR 975,211.

Transactions with companies, in which the Republic of Slovenia has directly dominant influence

The shareholder-related companies are those in which the Republic of Slovenia and the SDH together directly hold at least a 20 percent stake. The list of such companies is published on the SDH website (https://www.sdh.si/sl-si/upravljanje-nalozb/seznam-nalozb).

In 2017, transactions conducted between Luka Koper, d. d. and companies in which the state has directly dominant influence were recorded at EUR 20,301,434, which included sales to such companies amounting to EUR 11,646,970, and purchasing transactions amounting to EUR 8,654,464. The majority of sale referred to services related to port activity, whereas major purchasing included costs of railway transport, purchases of energy and insurance costs. As at 31 December 2017, Luka Koper, d. d. recorded receivables and liabilities to such companies of EUR 1,727,507 and EUR 24,215,356 respectively. The major part of liabilities was related to a loan given by SID - Slovenska izvozna in razvojna banka, d.d., which was raised under market conditions.

Transactions with subsidiaries and associates

Related party transactions have been concluded under market conditions.

(in EUR)	**2017**	**2016**
Sale to subsidiaries:		
Luka Koper INPO, d. o. o.	1,724,397	315,229
Luka Koper Pristan, d. o. o.	113,956	110,220
Adria Terminali, d. o. o.	389,528	376,138
TOC, d. o. o.	4,200	4,200
Adria Investicije, d. o. o.	828	828
Logis-Nova, d. o. o.	1,200	1,200
Sale to associates:		
Adria Transport, d. o. o.	236,983	226,787
Adria-Tow, d. o. o.	177,041	210,257
Avtoservis, d. o. o.	233,977	223,202
Adriafin, d. o. o.	13,440	13,440
Total	**2,895,551**	**1,481,501**

(in EUR)	2017	2016
Purchase from subsidiaries:		
Luka Koper INPO, d. o. o.	6,420,656	6,277,739
Luka Koper Pristan, d. o. o.	7,365	8,250
Adria Terminali, d. o. o.	4,800	0
TOC, d. o. o.	14,902	16,405
Adria Investicije, d. o. o.	40,186	39,936
Purchase from associates:		
Adria Transport, d. o. o.	7,740	89,021
Adria-Tow, d. o. o.	37,805	23,025
Avtoservis, d. o. o.	1,178,045	1,107,051
Total	**7,711,500**	**7,561,427**

A 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 2017	31 Dec 2016
Trade and other receivables due from subsidiaries:		
Luka Koper INPO, d. o. o.	326,374	14,275
Luka Koper Pristan, d. o. o.	1,025	972
Adria Terminali, d. o. o.	36,101	34,667
TOC, d. o. o.	427	427
Adria Investicije, d. o. o.	84	84
Logis-Nova, d. o. o.	122	122
Trade and other receivables due from associates:		
Adria Transport, d. o. o.	17,922	25,308
Adria-Tow, d. o. o.	7,284	6,734
Avtoservis, d. o. o.	29,330	11,034
Adriafin, d. o. o.	1,366	51,366
Total	**420,035**	**144,989**

(in EUR)	31 Dec 2017	31 Dec 2016
Trade and other payables due from subsidiaries:		
Luka Koper INPO, d. o. o.	836,828	581,702
Luka Koper Pristan, d. o. o.	209	63
Adria Terminali, d. o. o.	1,464	0
TOC, d. o. o.	2,973	3,318
Adria Investicije, d. o. o.	2,038	1,733
Trade and other payables due from associates:		
Adria Transport, d. o. o.	0	23,599
Avtoservis, d. o. o.	83,775	121,510
Total	**927,287**	**731,925**

(in EUR)	31 Dec 2017	31 Dec 2016
Loans to subsidiaries:		
Adria Terminali, d. o. o.	0	60,000
Total	**0**	**60,000**

(in EUR)	31 Dec 2017	31 Dec 2016
Finance income from loans to subsidiaries:		
Adria Terminali, d. o. o.	847	839
Total	**847**	**839**

Finance income from shares and interests in subsidiaries relate to sharing of profits for 2016 by companies Luka Koper INPO, d. o. o. (EUR 639,597) and Adria investicije, d. o. o. (EUR 13,183).

Finance income from shares and interests in associates refer to sharing of profits for 2016 by companies Adria Transport, d. o. o. (EUR 320,000), Adria-Tow, d. o. o. (EUR 250,000), and Avtoservis, d. o. o. (EUR 423,808).

(in EUR)	31 Dec 2017	31 Dec 2016
Borrowings from subsidiaries:		
Luka Koper INPO, d. o. o.	16,000,000	16,000,000
Total	**16,000,000**	**16,000,000**

(in EUR)	31 Dec 2017	31 Dec 2016
Finance expenses for liabilities to subsidiaries:		
Luka Koper INPO, d. o. o.	175,980	149,853
Luka Koper Pristan, d. o. o.	0	458
Finance expenses for liabilities to associates:		
Adria-Tow, d. o. o.	0	4,228
Total	**175,980**	**154,539**

Note 32. Financial instruments and financial risk management

Financial risks to which the Company 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.

Financial risk management has been organised within the Company's finance and accounting. The specifics of the existing economic environment make forecasting future financial categories quite demanding, introducing into the planned categories a higher degree of unpredictability and, consequently, a higher level of risk. The Company has consequently tightened the control over individual financial categories. Other, mainly non-financial risks have also been recorded and are described in detail in the Risk Management section of the Business Report.

1. Risk management relating to change in fair value

As at 31 December 2017, the Company had invested 5.7 percent of its assets (31 December 2016: 5.6 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 has been identified with regard to investments in market securities of successful Slovenian companies. As at 31 December 2017, the value of non-current available-for-sale investments at fair value through equity amounted to EUR 29,570,757. 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 2017

Change of index (in %)	Impact on equity
-10%	-2,957,076
10%	2,957,076

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

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 2,957,076. 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 was the 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 2017

	Valuation at fair value			
(in EUR)	Carrying amount at 31 Dec 2017	Direct stock market quotation (Level 1)	Value based on comparable market inputs (Level 2)	No observable market inputs (Level 3)
Assets measured at fair value				
Other shares and interests	29,570,757	29,570,757	0	0
Liabilities measured at fair value				
Interest rate hedging for borrowings	99,346	0	99,346	0

Fair value hierarchy in 2016

(in EUR)	Valuation at fair value			
	Carrying amount at 31 Dec 2016	Direct stock market quotation (Level 1)	Value based on comparable market inputs (Level 2)	No observable market inputs (Level 3)
Assets measured at fair value				
Other shares and interests	26,410,036	26,410,036	0	0
Liabilities measured at fair value				
Interest rate hedging for borrowings	419,873	0	419,873	0

Shares and interests measured at fair value were valued at publicly applicable exchange rates of the Ljubljana Stock Exchange and mutual funds quotations.

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 also faces interest rate risk as an unexpected growth in variable interest rates can have an adverse effect on the planned results. Having drawn the final portion of the non-current borrowing from 2016, the Company increased its financial liabilities by 5.4 percent as compared to the previous year, thus amounting to EUR 133,114,842 at the year-end of 2017.

In the overall structure of liabilities, the share of financial liabilities decreased from 26.7 percent in 2016 to 25.7 percent in 2017. The effect of variable interest rates changes on future profit and loss is shown in the table below.

With respect to the largest borrowing having a final maturity date in 2031, the Company has entered into an instrument as interest rate hedging. Having been entered into in 2013, the instrument shall be due in 2018. Thus, the amount of borrowings hedged against interest rate as at 31 December 2017 amounted to EUR 31,557,377 (31 December 2016: EUR 33,852,459). Possible interest rate fluctuations would consequently have an impact on 64.2 percent (2016: 60.4 percent) of Company's total borrowings. The remaining 35.9 percent of borrowings is hedged against interest rate fluctuations or concluded with a fixed interest rate.

(in EUR)	31 Dec 2017	Exposure in 2017	31 Dec 2016	Exposure in 2016
Borrowings received at variable interest rate (without interest rate hedge)	85,185,296	64.2%	75,951,946	60.4%
Borrowings received at variable interest rate (with interest rate hedge)	31,557,377	23.8%	33,852,459	26.9%
Borrowings received at nominal interest rate	16,000,000	12.1%	16,000,000	12.7%
Total	**132,742,673**	**100.0%**	**125,804,405**	**100.0%**

The interest rate hedging instrument is entered into for the period of five years and during the hedging period, it is fully compliant with the borrowing that is the 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 2017, the fair value of the derivative interest rate swap is recognised as the Company's current liability in the amount of EUR 99,346.

(in EUR)	Non-hedged bank borrowings under the variable interest rate at 31 Dec 2017	Increase by 15 bp	Increase by 25 bp	Increase by 50 bp
3M EURIBOR	47,756,725	0	0	81,664
6M EURIBOR	37,428,571	0	0	85,711
Total effect on interest expenses	**85,185,296**	**0**	**0**	**167,375**

(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**

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 or 25 base points, the Company's interest expenses in view of unchanged borrowing would not grow. If the variable interest rates are to grow by 50 base points, the interest expenses would increase by EUR 167,375. At the year-end of 2017, the Company's borrowings not hedged against interest rate risk were subject to the movement of the 3M or 6M Euribor. One borrowing in the amount of EUR 33,557,377 was hedged with interest rate swap, hence it is not included in the above loan sensitivity overview with regard to borrowings subject to the variable interest rate.

3. Management of liquidity risk

Liquidity risk refers to the risk that the Company would 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 also 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	Over 5 years	Total
31 Dec 2017						
Loans and borrowings*	2,974,147	13,086,251	16,004,399	55,203,051	45,474,824	132,742,673
Accrued interest maturing in the next calendar year	80,644	0	0	0	0	80,644
Expected interest on all borrowings	254,320	1,130,298	1,141,323	2,180,266	871,811	5,578,019
Other financial liabilities	372,169		0	0	0	372,169
Payables to suppliers	17,394,770	0	0	0	0	17,394,770
Other operating liabilities	4,607,051	0	0	0	0	4,607,051
Total	**25,683,102**	**14,216,549**	**17,145,722**	**57,383,317**	**46,346,636**	**160,775,326**
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	0	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**

*The item also includes 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). At the year-end of 2017, the average monthly balance of outstanding trade receivables amounted to USD 24.5 thousand. As at 31 December 2017, outstanding receivables denominated in US dollars amounted to 0.31 percent (2016: 0.72 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. Management of credit risk

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 has accelerated collection-related activities in the past five years and more consistently monitored trade receivables past due. In case of customers, regarding which 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 of avoiding the 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 the 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 2017	31 Dec 2016
Non-current loans granted		22,592	31,005
Non-current operating receivables		41,772	41,772
Current loans granted		8,413	68,123
Current trade receivables	19	35,274,132	27,579,154
Other current receivables	19	983,324	2,687,967
Cash and cash equivalents	20	28,202,589	983,305
Guarantees and collaterals granted	29	5,810,467	8,795,468
Total		**70,343,289**	**40,186,794**

6. Management of risk relating to adequate capital structure

It is vital for the Company to successfully identify the optimal capital structure and as a result, to seek to approximate the existing capital structure to the optimal one. As at the year-end of 2017, the Company's financial liabilities amounted to EUR 133,112,842, and showed an increase over the previous period by EUR 6,781,936.

(in EUR)	31 Dec 2017		31 Dec 2016	
	in EUR	Share (%)	in EUR	Share (%)
Equity	320,652,651	61.8%	304,425,949	64.4%
Non-current liabilities	156,033,161	30.1%	131,614,419	27.8%
Current liabilities	42,267,096	8.1%	36,891,767	7.8%
Equity and liabilities	**518,952,908**	**100.0%**	**472,932,135**	**100.0%**

The Company's non-current strategic goal is to maintain the debtor's share within the liabilities side below 40 percent. The increase in the Company's financial liabilities is not reflected in the equity's share within total equity and liabilities, which in 2017 remained at the level of the preceding year and as at 31 December 2017 dropped by 2.6 percentage points.

Note 33. Transactions with the audit firm

The contractual value of audit services render for the Company by the company BDO Revizija, d. o. o. for the fiscal year 2017 amounted to EUR 34,333 (exclusive of VAT), travel costs included. The contractual value of providing assurance on financial statements for the public utility service of regular maintenance of port infrastructure intended for public transport and public utility service of collecting waste from vessels for the financial year 2017, which for the Company was carried out by BDO Revizija, d. o. o., amounted to EUR 1,640 (exclusive of VAT).

21 Statement of accumulated profit

In 2017, Luka Koper, d. d. generated a net profit of EUR 33,143,408. At the year-end of 2017, the Company's Management Board earmarked half of the profit in the amount of EUR 16,571,704 to other revenue reserves pursuant to Article 230 (3) of the Companies Act. Thus, the Company's accumulated profit in 2017 was recorded at EUR 17,261,912.

(in EUR)	2017	2016
Profit for the period	33,143,408	40,581,116
Retained net profit	690,207	31,045
Increase in revenue reserves	-16,571,704	-20,290,558
Total accumulated profit	**17,261,912**	**20,321,603**

The Company's dividend policy is to maintain 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 2017 the appropriation of accumulated profit, which was EUR 17,261,912 as at 31 December 2017, as proposed by the Management Board is as follows:

- a portion of accumulated profit in the amount of EUR 14,700,000 to be used for dividend pay-out i.e. EUR 1.05 gross per share,
- the residual amount of accumulated profit in the amount of EUR 2,561,912 to remain unappropriated.

22 Relevant Events after the Reporting Date

MARCH 2018

- Luka Koper, d. d. reached a conditional court settlement with the PanSlovenian Shareholders' Association, based on which the Association renounced its claim on rendering null and void the resolutions adopted by the General Meeting relating to the appointment of the members of the Supervisory Board Milan Jelenc, Andraž Lipolt, and Barbara Nose.
- Luka Koper sold to the University of Primorska the Prisoje facility, which used to be a rooming house and then a vacation facility.

23 Independent Auditor's Report

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of **Luka Koper d.d.**

Opinion

We have audited the separate financial statements of Luka Koper d.d. (the Company), which comprise the statement of financial position as at 31 December 2017, separate income statement, separate statement of other comprehensive income, separate statement of changes in equity, and separate statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the accompanying separate financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance for the year then ended in accordance with International Financial Reporting Standards as adopted by European Union (IFRSs).

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 Responsibilities for the Audit of the separate Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, 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.

We have fulfilled all our obligations described in the paragraph "Auditor's responsibilities for the audit of the separate financial statements", including those related to these matters. Therefore, the audit comprised the implementation of the procedures determined on the basis of our assessment of the risk of material misstatement in the separate financial statements. The results of our audit procedures, including the procedures performed in relation to the matters stated hereinafter, serve as the basis for issuing our audit opinion about the attached separate financial statements.

Revenue recognition

Key audit matter

Revenue for the year ended 31 December 2017 amounted to EUR 206.835.533 EUR (2016: EUR 190.407.498).

The Company's core activities include transhipment of goods and rendering other accompanying and supporting services.

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.

Transshipment and other accompanying and supporting services are frequently contracted by the Company within a single customer arrangement.

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 measures fair value, the transaction consideration may need to be allocated to separately identifiable components with different patterns of revenue recognition.

Accounting for such bundled arrangements requires significant management judgement in determining the appropriate measurement and timing of revenue, hence we considered this area to be a key audit matter.

Our response

Our audit procedures included, among others:

- Testing of 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.
- Assessing the Company´s policy for recognizing revenue, including considering whether the policy is in accordance with relevant financial reporting standards.
- Based on our inspection of a sample of contracts with key customers:
  - challenging the Company´s identification of identifiable components within the revenue contracts;
  - critically assessing the Company´s selection of revenue recognition patterns for identified revenue components by reference to the Company´s accounting policies;
- 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 harbour in the end of December 2017.
- Inspecting manual journal entries posted to revenue accounts focusing on unusual and irregular items, or entries modified subsequent to the balance sheet date.

We refer to the separate financial statements Note 22.1 Basis for preparation of financial statements (revenue recognition judgement), Note 23.1.25 Revenue (accounting policy) and Note 24 Additional notes to the separate income statement, Note 1 Net revenue from sales (notes).

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Impairment of property, plant and equipment under construction and investment property

Key audit matter

The carrying amount of property, plant and equipment under construction as at 31 December 2017: EUR 15.401.963 (2016: EUR 64.761.135). The carrying amount of investment property as at 31 December 2017: EUR 26.467.395 (2016: 29.918.504 EUR). Impairment loss recognized in 2017 in respect of investment property: EUR 3.413.713.

As at 31 December 2017, the Company had significant assets under construction, mainly in relation to the port entrances and an office building (Barka II) projects.

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.

The Company concluded that these factors represented an indication that certain assets under construction may be impaired and performed impairment tests as required by relevant financial reporting standards.

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.

The Company discloses the fair value of investment property and estimates the value of investment property for these purposes.

Our response

Our audit procedures included among other:

- Assessing and testing the Company´s internal controls designed to identify impairment indicators.
- Evaluating the appropriateness of the Company´s judgments regarding identification of assets under construction which may be impaired.
- 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.
- 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 entrance.
- 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:
  - assessing the valuation technique used for valuation of Barka II;
  - assessing the competence and independence of the external experts used by the Company;
  - assessing the reasonableness of key assumptions used by the Company, such as discount rates.

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 the separate statements of financial position and Note 11 Property, Plant and equipment (notes).

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Provisions for Lawsuits

Key audit matter

The carrying amount of provisions for lawsuits as at 31 December 2017: EUR 17.032.786 (2016: EUR 1.380.491); contingent liabilities arising from lawsuits as at 31 December 2017: EUR 1.933.240 (2016: EUR 93.809).

The Company is exposed to material potential claims arising from pending lawsuits, regarding its operations. The claims and legal disputes, including recognised provisions, are important for the audit, since their recognition requires management judgement and since the assessment process is complex and based on future development of events, which is why the matter was defined as a key audit matter.

We refer to Note 22 Provisions and Note 30 Contingent liabilities describing the Company's exposure to lawsuits.

There is great uncertainty in the assessment of whether these are provisions or contingent liabilities. When adopting a decision, the Company uses material assumptions and assessments. The amounts of claims represent a material liability, and the assessment of the need to establish provisions is mostly subjective.

We particularly point out the legal bases of lawsuits, which are the subject of assessment and thus subjective, just as the assessment of the amount of liabilities.

Our response

We assessed the management estimate of the current status of disputes and claims towards the Company and judged if potential provisions and the related disclosures should be recognised in accordance with the accounting standards. The management prepared the legal and financial assessment of the situation and obtained the assessments from several lawyers and independent legal experts.

Our audit procedures included among other:

- Attendance at the meeting of the Management Board, where the external legal experts presented the legal bases for the claims.
- Inspecting the minutes of the Management and Supervisory Board of Luka Koper d.d.
- With the assistance of our legal experts, we assessed the reasonableness of our legal bases for recognising the provisions. We reviewed the appropriateness of estimates and assumptions used by the Company regarding the recognition of provisions or disclosing contingent liabilities for lawsuits. We focused on the judgement of the management regarding probability of unfavourable outcome and reliability of the assessed amount of claims.
- We evaluated the range of values and the assumptions included in the management's assessment of potential outflows of benefits and discussed the management assessment with the Company's Management Board and Audit Committee.
- We have assessed whether the Company's disclosures regarding provisions for lawsuits were appropriate considering the IFRSs.

We refer to the separate financial statements, Note 22 Provisions, Note 30 Contingent liabilities, Basis for preparation of financial statements and the policies - Assessment of established provisions for lawsuits 18.1.16 and Expenses-Costs 18.1.28.

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Other Matter

The separate financial statements of the Company for the year ended 31 December 2016 were audited by another auditor who expressed an unmodified opinion on those statements on 17 March 2017.

Other Information

Management is responsible for the other information. The other information comprises Introduction, Business Report and Sustainability report included in the Company´s annual report but does not include the separate financial statements and our auditor's report thereon.

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

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

- The other information is in all material respect consistent with audited separate financial statements;
- The other information is prepared in compliance with applicable law or regulation; and
- Based on the knowledge and understanding of the Company obtained in the audit on the other information, we have not identified any material misstatement on fact.

Responsibilities of Management and the Supervisory Board for the Separate Financial Statements

Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with IFRSs, 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 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.

The Supervisory Board is responsible for overseeing the Company's financial reporting process.

Auditor´s Responsibilities for the Audit of the 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud

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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 scepticism 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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 auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the 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.

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

We also provide the Supervisory Board and the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to 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 the Supervisory Board and the Audit Committee, 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 auditor's 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.

Other reporting obligations as required by EU Regulation No. 537/2017 of the European Parliament and of the Council

In compliance with Article 10 (2) of EU Regulation No. 537/2014 of the European Parliament and of the Council, we provide the following information in our Independent Auditor's report, which is required in addition to the requirements of International Standards on Auditing:

Appointment of the Auditor and the Period of Engagement

We were appointed as the statutory auditor of the Company for the first time by the shareholders on the General Shareholders´ Meeting held on 28 December 2017 for the financial years 2017, 2018 and 2019, Chairman of the Supervisory Board signed the engagement letter on 29 December 2017. The audit is carried out by Certified Auditor M.Sc. Nadja Kranjc.

Consistence with the Additional Report to the Audit Committee

We confirm that our audit opinion on the separate financial statements expressed herein is consistent with the additional report issued to the Audit Committee of the Company on 23 April 2018.

Prohibited Services

We confirm that we have not performed any prohibited services referred to the Article 5(1) of EU Regulation No. 537/2014 of the European Parliament and the Council. We declare that we ensure our independence from audit Company.

Other Audit Services

In addition to the statutory audit services, we have performed other audit procedures for the Company in relation to the assessment of the objective reasonableness of the criteria that serve the allocation of assets and liabilities, costs, expenses and revenues, and procedures related to the assessment of the correctness of the criteria application in the preparation of separate financial statements when performing a public services of administration, management, development and regular maintenance of port infrastructure in the area of the Koper cargo port and waste collection from vessels.

Ljubljana, 23 April 2018

BDO Revizija d.o.o.
Cesta v Mestni log 1, Ljubljana

BDO Revizija d.o.o.
Družba za revidiranje

M.Sc. Nadja Kranjc, Certified auditor,
Director

Translation only - Slovenian original prevails

24 Consolidated Financial Statements of the Luka Koper Group

24.1 Consolidated Income Statement

(in EUR)	Note	2017	2016
Revenue	1	211,438,377	199,543,696
Capitalised own products and services	2	738,058	1,400,175
Other income	3	3,642,170	3,145,245
Costs of material	4	-15,939,587	-15,541,573
Costs of services	5	-51,797,610	-50,280,131
Employee benefits expense	6	-54,513,475	-51,901,043
Amortisation and depreciation expense	7	-28,447,776	-26,468,688
Other operating expenses	8	-28,480,285	-10,572,243
Operating profit		**36,639,872**	**49,325,438**
Finance income		1,346,731	1,507,871
Finance expenses		-1,724,038	-1,966,966
Profit or loss from financing activity		**-377,307**	**-459,095**
Profit of associates		1,689,933	1,897,614
Profit before tax	**9**	**37,952,498**	**50,763,957**
Income tax expense	10	-3,235,672	-7,538,193
Deferred taxes	10	265,963	1,150,217
Net profit for the period		**34,982,789**	**44,375,981**
Net profit attributable to the parent/controlling company		**34,961,520**	**44,375,299**
Net profit attributable to non-controlling interest		**21,269**	**682**
Net earnings per share	**11**	**2.50**	**3.17**

24.2 Consolidated Statement of Other Comprehensive Income

	Note	2017	2016
Profit for the period		**34,982,789**	**44,375,981**
Actuarial gains/losses from post-employment benefits	21	-164,695	20,205
Deferred tax on unrealised actuarial gains or losses	17	11,100	9,195
Items not to be reclassified into profit/loss in future periods		-153,595	-9,010
Change in revaluation surplus of available-for-sale financial assets	16	3,666,234	-3,812,866
Deferred tax on revaluation of available-for-sale financial assets	17	-696,585	433,319
Change in fair value of cash flow hedging instruments	25	320,525	220,082
Deferred tax on the change in fair value of cash flow hedging instruments	17	-60,900	-29,016
Effective portion of change in fair value of cash flow hedging instruments, transferred to profit or loss	25	0	397,546
Deferred tax on the effective portion of change in fair value of cash flow hedging instruments, transferred to profit or loss	17	0	-67,583
Items that might be reclassified into profit/loss in future periods		3,229,274	-2,858,518
Total comprehensive income for the period		**38,058,468**	**41,508,453**
Total comprehensive income attributable to owners of the parent		**38,037,200**	**41,507,771**
Total comprehensive income of non-controlling interests		**21,268**	**682**

24.3 Consolidated Statement of Financial Position

(in EUR)	Note	Balance at 31 Dec 2017	31 Dec 2016
ASSETS			
Property, plant and equipment	12	384,819,160	376,011,980
Investment property	13	15,329,841	18,575,530
Intangible assets	14	3,467,042	4,126,170
Shares and interests in associates	15	13,376,467	12,680,341
Other non-current investments	16	34,217,435	30,551,199
Deposits and loans given		22,592	31,005
Non-current operating receivables		41,772	41,772
Deferred tax assets	17	8,231,345	8,711,771
Non-current assets		**459,505,654**	**450,729,768**
Assets (disposal groups) held for sale		864	1,372
Inventories	18	1,037,066	809,467
Deposits and loans given		79,541	105,489
Trade and other receivables	19	38,952,623	32,518,465
Income tax assets		4,528,725	0
Cash and cash equivalents	20	32,374,215	5,826,536
Current assets		**76,973,034**	**39,261,329**
TOTAL ASSETS		**536,478,688**	**489,991,097**
EQUITY AND LIABILITIES			
Share capital		58,420,965	58,420,965
Capital surplus (share premium)		89,562,703	89,562,703
Revenue reserves		145,607,356	129,035,652
Reserves arising from valuation at fair value		10,498,049	7,374,500
Retained earnings		46,155,978	47,414,033
Equity attributable to owners of the parent	**21**	**350,245,051**	**331,807,853**
Non-controlling interests		**192,336**	**171,068**
Equity		**350,437,387**	**331,978,921**
Provisions	22	20,701,828	4,781,422
Deferred income	23	20,271,398	14,764,838
Non-current loans and borrowings	24	100,682,274	97,900,739
Other non-current financial liabilities	25	0	419,873
Non-current operating liabilities	26	1,045,243	772,086
Non-current liabilities		**142,700,743**	**118,638,958**
Current loans and borrowings	27	16,060,399	11,761,732
Other current financial liabilities	28	372,169	250,614
Income tax liabilities		0	1,896,207
Trade and other payables	29	26,907,990	25,464,665
Current liabilities		**43,340,558**	**39,373,218**
TOTAL EQUITY AND LIABILITIES		**536,478,688**	**489,991,097**

24.4 Consolidated Statement of Cash Flows

(in EUR)	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the period	**34,982,789**	**44,375,981**
Adjustments for:		
Amortisation/Depreciation	28,447,776	26,468,688
Reversal and impairment losses on property, plant and equipment, and intangible assets	3,990,061	1,646,276
Gain on sale of property, plant and equipment, and investment property	-311,010	-30,822
Allowances for receivables	925,112	351,230
Collected written-off receivables and written-off liabilities	-119,738	-232,105
Reversal of provisions	-16,954	-2,380
Finance income	-1,346,731	-1,507,871
Finance expenses	1,724,038	1,966,966
Recognised result of subsidiaries under equity method	-1,689,933	-1,897,614
Income tax expense and income (expenses) from deferred taxes	2,969,709	6,387,976
Profit before change in net current operating assets and taxes	**69,555,119**	**77,526,325**
Change in operating receivables	-7,190,138	-732,738
Change in inventories	-227,599	4,267
Change in assets (disposal group) held for sale	0	12,675
Change in operating liabilities	-4,069,750	243,612
Change in provisions	15,937,360	1,113,406
Change in non-current deferred income	6,594,753	979,478
Cash generated in operating activities	**80,599,745**	**79,147,025**
Interest expenses	-1,690,420	-2,116,303
Tax expenses	-9,660,604	-8,565,550
Net cash from operating activities	**69,248,721**	**68,465,172**
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Interest received	130,298	193,866
Dividends received – associates	993,808	917,101
Dividends received – other companies	1,216,433	1,314,005
Proceeds from sale of property, plant and equipment, and intangible assets	311,893	30,245
Proceeds from sale, less investments and loans given	34,634	699,207
Acquisition of property, plant and equipment, and intangible assets	-32,689,093	-61,781,064
Acquisition of investments, increase in loans given	-273	-97,367
Net cash used in investing activities	**-30,002,300**	**-58,724,007**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from non-current borrowings	18,700,000	9,300,000
Repayment of current borrowings	-11,775,924	-10,023,524
Dividends paid	-19,622,818	-15,801,154
Net cash used in financing activities	**-12,698,742**	**-16,524,678**
Net increase in cash and cash equivalents	**26,547,679**	**-6,783,513**
Opening balance of cash and cash equivalents	5,826,536	12,610,049
Closing balance of cash and cash equivalents	**32,374,215**	**5,826,536**

24.5 Consolidated Statement of Changes in Equity

Financial Year 2017

(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	Actuarial gains and losses	Total equity attributable to owners of controlling shares	Equity of non-controlling interests	Total equity
Balance at 31 December 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**
Changes in equity – transactions with owners											
Dividends paid	0	0	0	0	-19,600,000	0	0	0	-19,600,000	0	-19,600,000
	0	**0**	**0**	**0**	**-19,600,000**	**0**	**0**	**0**	**-19,600,000**	**0**	**-19,600,000**
Total comprehensive income for the period											
Profit for the period	0	0	0	0	34,961,520	0	0	0	34,961,520	21,268	34,982,788
Change in revaluation surplus of financial assets, less tax	0	0	0	0	0	2,969,649	0	0	2,969,649	0	2,969,649
Change in fair value of cash flow hedging instruments, less tax	0	0	0	0	0	0	259,625	0	259,625	0	259,625
Actuarial gains/losses, less tax	0	0	0	0	0	0	0	-153,595	-153,595	0	-153,595
	0	**0**	**0**	**0**	**34,961,520**	**2,969,649**	**259,625**	**-153,595**	**38,037,199**	**21,268**	**38,058,467**
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	16,571,704	-16,571,704	0	0	0	0	0	0
Other changes in equity	0	0		0	-47,873	0	0	47,873	0	0	0
	0	**0**	**0**	**16,571,704**	**-16,619,577**	**0**	**0**	**47,873**	**0**	**0**	**0**
Balance at 31 December 2017	**58,420,965**	**89,562,703**	**18,765,115**	**126,842,241**	**46,155,977**	**11,671,809**	**-80,472**	**-1,093,285**	**350,245,053**	**192,336**	**350,437,387**

Financial Year 2016

(in EUR)	Share capital	Capital surplus	Legal reserves	Other revenue reserves	Retained earnings	Fair value valuation reserves: Investments	Fair value valuation reserves: Financial Instruments	Actuarial gains and losses	Total equity attributable to owners of controlling shares	Equity of non-controlling interests	Total equity
Balance at 31 December 2015	**58,420,965**	**89,562,703**	**18,765,115**	**89,979,979**	**39,187,702**	**12,081,707**	**-861,126**	**-1,016,963**	**306,120,082**	**170,386**	**306,290,468**
Changes in 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 tax	0	0	0	0	0	0	0	-9,010	-9,010	0	-9,010
	0	**0**	**0**	**0**	**44,375,299**	**-3,379,547**	**521,029**	-9,010	**41,507,771**	**682**	**41,508,453**
Changes within equity											
Allocation of residual net profit for comparable period to other equity components	0	0	0	20,290,558	-20,290,558	0	0	0	0	0	0
Other changes in equity	0	0			38,410	0	0	38,410	0	0	0
	0	**0**	**0**	**20,290,558**	**-20,328,968**	**0**	**0**	38,410	**0**	**0**	**0**
Balance at 31 December 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**

25 Composition of the Luka Koper Group

The consolidated financial statements of the Luka Koper Group for the year ended 31 December 2017 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 2017:

- Logis Nova, d. o. o., 100%
- Adria Investicije, d. o. o., 100%

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 a fair presentation of the Group's financial position.

26 Notes to the Consolidated Financial Statements

26.1 Bases for the presentation of financial statements

Reporting entity

Luka Koper, d. d., pristaniški in logistični sistem, 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 2017 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 cargo handling and warehousing of all types of goods, which the Group supplements with diverse goods-related services and other services to secure an overall logistics support. Given the Concession 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 18 April 2018.

Bases for measurement

The consolidated 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

The consolidated financial statements are presented in EUR (exclusive of cents), which is the functional currency of the controlling company.

Use of estimates and judgements

Preparation of financial statements in conformity with IFRSs requires the management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates are formed based on past experience and expectations in the accounting period. Formation of estimates and the related assumptions and uncertainties 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 accounting estimates are recognised in the period for which the estimates are modified, or in the coming periods that are impacted by respective changes.

Estimates and judgements are used primarily with the following accounting items:

Assessing the impairment of property, plant and equipment (Note 12 and 13 and policy 27.2.5)

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, the Group 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 the higher of the following two items: its fair value less selling expenses or its value in use.

Assessing the formation of provisions for legal disputes (Note 22 and 30 and policy 27.2.16)

The provision is recognised if the Group has legal or indirect obligations arising from a past event that can be reliably assessed, and if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Potential obligations are not recognised in the financial statements, as their exact amount could not be established or their actual existence will be confirmed only upon the occurrence or non-occurrence of events in the unforeseeable future, which the Company cannot influence.

The Management of each entity regularly checks whether the settlement of a potential obligation will likely require an outflow of resources embodying economic benefits. 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 policies 27.2.5 and 27.2.7)

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 useful lives with significant assets and in case of changed circumstances, the Group changes the useful life and consequently revalues the cost of depreciation.

Statements assessing the adequacy of revenue recognition (Note 1 and policy 27.2.26)

The Group discloses its revenue in accordance with IAS 18. Revenue is classified as net sales revenues, other income and finance income. For the purpose of revenue recognition, each company applies the method of percentage of work finality as at the date of statement of financial position i.e. for cargo handling by volume and working hours performed, for warehousing and logistics by days and volume, for maintenance upon construction situations and hours performed, for laboratory services by hours performed, and for hospitality and accommodation services by days and services rendered. The revenue is recognised under this method in the reporting period, in which the services were performed.

Operating income is recognised by each company when it can be reasonably expected that it will result in cash receipts, unless such receipts were already realised when revenue was generated, and their amount can be reliably measured.

Assessing the Impairment of financial instruments and non-financial assets

Information on significant estimates about uncertainty and critical judgement in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements was applied in the assessment of:

- Value of property, plant and equipment (Note 12),
- Value of investment property (Note 13),
- Valuation of investments in subsidiaries, associates and other companies (Notes 15 and 16), and
- Recognition of deferred tax assets (Note 17).

Assessing the possibility of using receivables for deferred taxes (Note 17 and policy 27.2.24)

Based on the estimate that sufficient profit will be available in the future, the Group has created deferred tax assets provided under the 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 relevant amounts of provisions utilised or increased by amounts of newly formed provisions.

Given that the impairment losses on investments and receivables are not recognised as tax expenditure upon formation, the Group formed deferred tax assets in the relevant amounts. Deferred tax assets will be capitalised upon the sale or disposal of the investment or financial instrument and upon the 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.

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 reassessed. If there is no 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 21 and policy 27.2.16)

Obligations for defined post-employment and other benefits record the present value of retirement benefits and jubilee premiums. They are recognised on the basis of an actuarial calculation approved by the Management. The actuarial calculation is based on assumptions and assessments valid during the calculation, which may differ in the future from the actual assumptions in force at the time as a result of changes. This pertains particularly to the determination of the discount rate, the assessment of the fluctuation of employees, the assessment of the death rate and the assessment of salary growth. Due to the complexity of the actuarial calculation and the long-term nature of the item, obligations for defined benefits are sensitive to changes in the mentioned assessments.

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 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 earmarked within hedge accounting exclusively to hedge the selected borrowing against the rise of interest rates.

In addition, at the end of the reporting period, the Company assesses on an annual basis the effectiveness or efficiency of the hedge against interest rate risk, each time verifying the key elements of hedge and compliance of the instrument with the selected borrowing that is subject to respective hedging.

27 Summary of significant accounting policies and disclosures

27.1 Introduction

The accounting policies detailed below were consistently applied in all the periods presented in the consolidated financial statements.

The Luka Koper Group companies apply uniform accounting policies that have been changed and adjusted to Group's policies where necessary.

27.2 Basis for consolidation and accounting policies applied

27.2.1 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. In assessing control, potential voting rights that might currently be exercised or replaced are taken into account as regards their existence and effect. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

27.2.2 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 the 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.

27.2.3 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.

27.2.4 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 as at the date of the statement of financial position are translated at the reference exchange rate of the ECB at the final day of the accounting year. All differences resulting from foreign currency translation are recognised in the income statement.

27.2.5 Property, plant and equipment

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 also includes 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

Pursuant to IAS 23, the purchase cost of property, plant and equipment can also include borrowing costs if they can be directly associated to the purchase, construction or production of an asset in the course of construction. If the Company or Group agrees on a general borrowing which cannot be directly associated with the purchase of an asset in the course of construction, it will capitalise a proportionate share of costs calculated using the weighted annual interest rate by taking into account interest rate hedging, but solely for major investments (value and construction period exceeding EUR 1 million and 12 months, respectively). Investments with durations of several years that witnessed no inputs in the reporting period (halted investments) are excluded from the method of capitalising interest.

Borrowing costs are capitalised until the asset is in the course of construction. When the asset is transferred to use, borrowing costs are no longer capitalised. The amount of borrowing costs capitalised in the period must not exceed 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

In each period, depreciation charge is recognised in the income statement. An asset is subject to depreciation when it is made available for 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:

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.

Assets	2017	2016
Buildings	16.67–66.67 years	16.67–66.67 years
Transport and transhipment equipment	5–17.86 years	5–17.86 years
– locomotives	6.67–10 years	6.67–10 years
– forklifts, shippers	8 years	8 years
Computer hardware	4–5 years	4–5 years
Other equipment	4–10 years	4–10 years

27.2.6 Investment property

Investment properties are held to bring rent and/or increase the value of the non-current investment. 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 used for investment property:

Investment property	2017	2016
Buildings	16.67–66.67 years	16.67–66.67 years

27.2.7 Intangible assets

Initially, intangible assets are recognised at cost. After 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 intangible assets have finite useful lives.

The amortisation period and amortisation method for an intangible asset with finite useful life is reviewed at least at each financial year-end. If the asset's expected useful life differs significantly from previous estimates, the 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. The assessed useful life of other items of intangible assets is 10 years (the applied useful lives are presented in the table below).

Intangible assets	2017	2016
Non-current property rights	5–10 years	5–10 years
Development costs	10 years	10 years

27.2.8 Investments in associates and other companies

Investments in associates and other companies are measured at cost. On each date of the statement of financial position, the Group assesses whether there is any indication of impairment. Any impairment loss on investment is recognised in the income statement.

27.2.9 Financial Instruments

Financial instruments are classified into the following categories:

1. Financial instruments at fair value through profit or loss,
2. Held-to-maturity investments,
3. Loans and receivables,
4. Available-for-sale financial assets.

27.2.10 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 is recorded among off balance sheet items. Upon recognition, current and non-current trade receivables are disclosed at contractually agreed amounts or as recorded in the relevant accounting documents. Other operating receivables include short-term deferred costs or expenses and accrued income.

Allowances for trade receivables

The Group companies form allowances in their full amount for all trade receivables and interest receivables based on individual assessment. Allowances for receivables due from companies in bankruptcy or liquidation procedure are formed immediately once such proceeding begins, in the total amount (100 percent).

Impairment losses are charged to revaluation operating expenses associated with receivables.

Loans given

On initial recognition, loans are carried at fair value. After initial recognition, they are stated at amortised cost using the effective interest rate method. In terms of maturity, loans are classified into non-current or current assets. With a view of credit risk management, maturity of individual loans as well as the method of settlement and collateral (e.g. bills of exchange, pledge of securities and other movable or immovable property, potential for unilateral netting of mutual liabilities, etc.) is determined taking into consideration the credit rating of the borrower. In the event of a borrower failing to meet their contractual liabilities, collateral is liquidated or, if legal proceedings have been instituted, the investment is impaired.

Borrowings

On initial recognition, borrowings are carried at fair value and thereupon at amortised cost using the effective interest rate method. In terms of 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.

27.2.11 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 an individual financial asset. Fair value is considered market value based on the closing price of a security on a stock exchange or the published daily net asset value of a mutual fund. Fair value changes are recognised in other comprehensive income within equity. The declining volume of securities is accounted for in books of account using the average prices method. Upon derecognition, gains or losses are transferred to profit or loss. Additions and disposals are recognised as at 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 cost.

27.2.12 Cash

Cash comprises cash in hand and sight deposits, deposits redeemable at notice or deposits with maturities of up to three months.

27.2.13 Derivatives

The Group does not issue derivative financial instruments (derivatives) for trading purposes. Derivatives are used to hedge the Group's exposure to risks arising from financing and investing activities. Derivatives are recognised at fair value. The method of recognising gains or losses from changes in fair value depends on the type of hedging and on whether hedge accounting has been applied or not. The Group uses derivatives for hedge accounting exclusively. In hedge accounting, gains or losses from changes 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 forecast transaction becomes 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 hedge is immediately recognised in profit or loss.

27.2.14 Inventories

Inventories are measured at cost or net market value, whichever is lower. An item of the materials inventory is measured at cost, which comprises the purchase price, import duties and other non-refundable purchase taxes, and direct costs of purchase. Non-refundable purchase taxes also include non-refundable VAT. Cost is reduced by trade discounts. The weighted average price method is used for reducing the materials inventory. Small tools put in use are immediately transferred among costs. Inventories are not subject to revaluation due to increases.

27.2.15 Equity

Share capital

The share capital of the Luka Koper Group in the amount of EUR 58,420,965 consists of 14,000,000 shares that are freely transferable. The nominal value of a share is EUR 4.17.

Capital surplus (share premium) and revenue reserves

The Group records legal reserves in the amount of at least 10 percent 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.

Reserves arising from valuation at fair value

Reserves arising on valuation at fair value comprise reserves arising from valuation of investments measured at fair value, valuation of hedging instruments measured at fair value, and with respect to unrealised actuarial gains and losses.

Retained earnings

Retained earnings consist of the unappropriated portion of the net profit for the period.

Dividends

Dividends are recognised in the Group's financial statements once the decision on the distribution of dividends is adopted by the general meeting.

Authorised capital

As at 31 December 2017, the Group had no authorised capital.

27.2.16 Provisions

Provisions for legal disputes and damages

The Group forms provisions for disputes and damages related to alleged business offences. Provisions are formed and their amount determined in consideration of the following criteria:

- Whether a present obligation (legal or constructive) exists as a result of past events,
- Probability that an outflow of resources will be required to settle an obligation (legal dispute) – the 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 that requires that an actuarial liability is assessed on the basis of expected salary growth from the valuation date until the employee's anticipated retirement. This means that benefits are accrued in proportion to the work performed. The assessed liability is recognised as the present value of expected future expenditure. Anticipated salary growth and employee turnover are also considered as part of measurement.

Actuarial gains or losses for termination benefits in the current year are recognised in other comprehensive income under equity based on an actuarial calculation, whereas current and previous employee benefits and interest expenditure are recognised in profit or loss. Current employee benefit costs and interest expenditure as well as actuarial gains or losses are recognised in profit or loss for jubilee premiums.

The calculation of provisions for retirement and jubilee premiums is based on the actuarial calculation as at 31 December 2017, using data as at 31 October 2017 (no major deviations), which took into account the following assumptions:

- Currently applicable amount of termination benefits and jubilee premiums;
- Mortality rate that is based on mortality tables from 2007 applicable to Slovenia and presented separately for men and women, decreased by 10 percent (active population). In total, the aforesaid shows as at 31 December 2017 a 0.3 percent decline in mortality for the next fiscal year (in terms of number of staff);
- Staff fluctuation, declining on a straight-line basis from 1.0 percent at 15 years to 0.5 percent at 54 years, thereupon remaining constant at 0.5 percent. In total, this indicates an annual fluctuation of 0.6 percent for next year as at 31 December 2017.
- Foreseen retirement of individual employees has been taken into account based on data on employee gender, date of birth and length of service as at 31 December 2017 pursuant to Article 27 and 3rd indent of Article 28 (1) of Pension and Disability Insurance Act (ZPIZ-2).
- For the 2018 and 2019 calculations, we used average salary increase rates for the Republic of Slovenia as outlined in the Autumn Forecast of Economic Trends 2017 (Institute of Macroeconomic Analysis and Development). Average salaries in Slovenia are expected to increase as of 2020 by an annual 2 percent due to inflation and by 1 percent due to real growth. It is assumed that 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 Gazette of RS No 140/06 and 76/08) in 2018 and 2019 will not increase, whereby an increase of these amounts is expected subsequently in line with inflation;

- Increase in basic salaries in the amount of the annual inflation, increased by 0.2 percent from 2020 onwards; basic gross salary growth is taken into account due to promotions, i.e. 0.5 percent p.a. Bonus for total years of service is taken into account at 0.5 percent of the basic salary for each full year of service. In case of four individual contracts, the bonus for total years in service does not apply. Accordingly, the nominal monthly wage growth rate – in view of inflation and actual growth – would be 1.6 percent next year, 2.1 percent in 2019 and 2.2 percent from 2020 onwards.
- The discount rate for the calculation as at 31 December 2017 is stipulated at 1.4 percent on the basis of the yield of Slovenian government bonds as at 30 November 2017, and by interpolation with respect to the average weighted duration of the Company's commitments (13.9 years).

27.2.17 Non-current deferred income

Non-current deferred income is recognised if over a period exceeding one year, it covers the anticipated expenses.

The Group forms non-current deferred income for regular maintenance of port infrastructure. Non-current deferred income for maintenance is formed if costs of the public utility services of regularly maintaining the port infrastructure are formed up to the amount that corresponds to the amount of revenues from port dues. In the event of costs exceeding revenues from port dues, non-current deferred income is derecognised in the amount of the surplus.

27.2.18 Government grants

All kinds of government grants are initially recognised in the statement of financial position as deferred income when there is assurance that the Group will receive such grants and meet the related terms. Government grants to cover costs are consistently recognised in profit or loss in the periods when the relevant costs that these revenues are supposed to cover are incurred.

27.2.19 Concession-related activity

In compliance with the Maritime Code, Luka Koper, d. d. and the Government of the Republic of Slovenia arranged matters in the port of Koper in September 2008 by entering into a Concession Agreement within the Decree on the Administration of the Freight Port of Koper, Port Operations, and on Granting the Concession for the Administration, Management, Development and Regular Maintenance of its Infrastructure, and defined the concession relationship for the period of 35 years from the date of concluding the Agreement.

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 of costs of performing concessions activities. Any 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. Financial monitoring of the public service is based on policies and principles of cost accounting and criteria of separate bookkeeping. In 2017, the Company reviewed the criteria and proposed a change thereof. The change of criteria was adopted by the supervisory body of Luka Koper, d. d. in March 2018. Relevance of criteria and regularity of use were verified by the approved auditor BDO Revizija, d. o. o., by issuing a written opinion on 12 April 2018.

In accordance with the Concession Agreement concluded with the Republic of Slovenia and the criteria approved by the latter, Luka Koper, d. d. forms non-current deferred income for ordinary maintenance of port infrastructure in the amount equal to the surplus of income from port dues over the related costs of the public service. In the event of costs exceeding revenues from port dues, non-current deferred income is derecognised in the amount of the surplus.

The Company Luka Koper, d. d. as the concession operator, obtained from the Republic of Slovenia, as the concession provider, the exclusive right for performing port activities of cargo operation and maritime passenger transport in the port area, and the related exclusive right for port administration and management, and for the administration and development of port infrastructure not intended for public transport, and pursuant to Article 44 of the Maritime Code, also the exclusive right to perform public utility services of regular maintenance of the port infrastructure that is intended for public transport.

Furthermore, pursuant to Article 7.9.6. of the Concession Agreement, Luka Koper, d. d. keeps records on investments made in port infrastructure in each financial year. Luka Koper, d. d. is required to indicate investments in each individual year in a special appendix to the annual report, which is to be examined and approved by a certified auditor.

In accordance with Article 10.1. of the Concession Agreement, Luka Koper, d. d. pays a concession tax, which amounts to 3.5 percent of the annual revenue generated less port dues collected in the relevant year. The basis for levying the concession tax is the audited income statement of Luka Koper, d. d. The annual concession tax amount is paid in monthly instalments of advance payments calculated not later than by 30 July of the current year on the basis of audited data for the previous calendar year. Port dues account for 4 percent of the controlling company's operating income and are in terms of their content a constituent part thereof. The amount of port dues is established by the controlling company Luka Koper,

d. d. in agreement with the government. The remaining 96 percent of the controlling company's operating income is generated through rendering of services of 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 controlling company in its own capacity and on its own behalf. 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 Group shall not apply IFRIC 12.

27.2.20 Public utility service of collecting waste from vessels in the Koper port area

The public utility service of collecting waste from vessels in the Koper port area is being performed in line with the Decree 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), and the Decree on port reception facilities for ship-generated waste and cargo residues (Official Gazette of the Republic of Slovenia, No. 78/2008). These services comprise regular reception of ship-generated waste and cargo residues, installation of port facilities for reception of ship-generated waste and cargo residues in accordance with regulations governing port reception facilities, receipt of messages about intended delivery of ship-generated waste and cargo residues, separate collection, sorting and storage of accepted waste and cargo residues by using port reception facilities, delivery for processing with a view of re-use, recycling or disposal of processing residues in accordance with environmental protection regulations governing waste management, and informing the public and users about the manner of delivering waste and cargo residues. For purposes of reports within the public utility service of collecting waste from vessels, the Company Luka Koper, d. d., based on provisions of the Transparency of Financial Relations and Maintenance of Separate Accounts for Different Activities Act has taken into account the principles of cost accounting and criteria of separate bookkeeping. In 2017, the Company reviewed the criteria and proposed a change thereof. The change of criteria was adopted by the supervisory body of Luka Koper, d. d. in March 2018. Relevance of criteria and regularity of use were verified by the approved auditor BDO Revizija, d. o. o., by issuing a written opinion on 12 April 2018.

Until 31 December 2016, Luka Koper, d. d. was performing the public utility service of collecting waste from vessels through its subsidiary Luka Koper INPO, d. o. o., which acted as its performance assistant. The two companies had an agreement of cooperation between them. Luka Koper INPO, d. o. o., is fully controlled by Luka Koper, d. d. and the companies are considered to form a single economic unit based on the settled case law of the European Court of Justice. As at 1 January 2017, the companies signed an annex to the agreement stipulating, among others, that from 1 January 2017, Luka Koper INPO, d. o. o. as the performance assistant shall perform the public utility service of collecting waste from vessels in the Koper port area in the name and for the account of Luka Koper, d. d.

27.2.21 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.

27.2.22 Operating liabilities

Non-current operating liabilities include collaterals received for rented business premises. Current 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.

27.2.23 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 2017 and the comparative 2016, income tax liability was calculated at the rate of 19 percent.

27.2.24 Deferred taxes

In order to disclose an appropriate profit and loss for the reporting period, the Group also accounted for deferred taxes. These are disclosed as deferred tax assets and deferred tax liabilities. In accounting for deferred taxes, the balance sheet liability method was applied. The book value of assets and liabilities was compared with their tax value, and the difference between both was defined as either permanent or temporary. Temporary differences were subdivided into taxable and deductible differences. Taxable temporary differences increased the Group's taxable amounts and deferred tax liabilities. Deductible temporary differences decreased the Group's taxable amounts and increased deferred tax assets.

Deferred tax assets are offset against deferred tax liabilities if a legally enforceable right exists to offset current tax assets against current corporate income tax liabilities and the deferred taxes involve the same taxable legal entity and the same tax authority.

27.2.25 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 in issue.

27.2.26 Revenue

Operating income

Revenue from services rendered

The Group's core activity is cargo handling and warehousing of all types of goods, goods-related services, and other related 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 most significant for the Group, as well as from Asia and America. The '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 highest quality logistics service.

The Group recognises operating income when it can be reasonably expected that it will result in cash receipts, unless such receipts 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 as at 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 primarily comprises 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 to cover the costs incurred are recognised strictly as income in the periods when the relevant costs that this income is supposed to cover are incurred.

Income from utilising retained wage contributions is 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 cash receipts will flow from them.

27.2.27 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 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.

27.2.28 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 if decreases in economic benefits during the accounting period are associated with decreases in assets or increases in liabilities, and those decreases can be measured reliably.

27.2.29 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 up to the amount to which the increased book value of an asset does not exceed the book value that would be established after deducting depreciation if impairment loss on the asset was not recognised in previous years. 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.

27.2.30 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.

27.2.31 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 2017 and 31 December 2016, as well as items in the income statement for the financial year then ended, inclusive of any necessary adjustments of the cash flow.

27.2.32 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.

27.2.33 Risk management

The Group monitors and strives to manage risks at all levels of 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 requires active and ongoing 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 within the Group is disclosed in Note 32 'Financial instruments and financial risk management'.

27.2.34 Newly adopted standards and interpretations

The standards and interpretations presented below were not yet effective until the date of consolidated financial statements and have not yet been confirmed by the European Union. Relevant standards and interpretations will be applied in preparing the Group's financial statements upon their entry into force.

IFRS 9 Financial Instruments

In July 2014, the International Accounting Standards Board published the final version of the standard IFRS 9 Financial Instruments containing the requirements of all individual phases of the project to replace the standard IAS 39 Financial instruments: Recognition and Measurement and all the previous versions of the IFRS 9 standard. The IAS 39 remains in force for a fair value hedge of interest rate risk of a portfolio of financial assets or liabilities; an entity may choose as its accounting policy choice to continue to apply the hedge accounting requirements of IAS 39 or to apply the hedge accounting requirements in IFRS 9. The revised standard introduces new requirements for the classification and measurement of financial assets and liabilities, recognition of their impairment and hedge accounting. Even though the basis for applicable measurement of measuring financial assets – amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL) – remain similar to those in IAS 39, the criteria for setting the correct measurement criteria differ materially.

A financial asset is measured according to its amortized value if the following requirements are met:

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

Entities can also irrevocably include subsequent changes to the fair value (including positive and negative currency exchange differences) of an equity instrument that is not meant for trading, in its other comprehensive income statement. The above subsequent changes can in no case be transferred to profit or loss. Debt instruments, measured according to fair value through other comprehensive income (FVOCI), income from interest, expected credit loses as well as positive and negative currency exchange results, are recognised in the profit and loss statement in the same way as assets measured according to amortised value. Other profit and loss is recognised in other comprehensive income and is, after revoking the recognition, transferred to the profit and loss account. The model calculates impairments in accordance with the IFRS 9 and replaces the model of incurred loss as recognised by IAS 39, which also includes the model of expected credit loss; the latter means that impairment can be recognised before the loss actually occurs. IFRS 9 includes a new general hedge accounting model, which brings such accounting closer to actual risk management. Various types of hedge accounting – fair value hedges, cash flow hedges and hedges of net investments in foreign operations – remain unchanged, however require additional assessments. The standard includes new requirements that must be met (continuing with and stopping hedging risk calculations) and allows other types of hedging to be treated as protected items. Additional and extensive disclosures are necessary regarding hedging and activities to deal with risk mitigation.

The EU adopted the standard on 22 November 2016. The revised standard IFRS 9 is effective for accounting periods beginning on or after 1 January 2018. Conversion of data from previous periods is not necessary and is allowed if data is available and without using the new provisions. Earlier application is permitted. Amendments to the standard must be applied retrospectively, however, presentation of compared data is not compulsory. Earlier application of previous versions of standard IFRS 9 which were published in the years 2009, 2010 and 2013 is permitted provided that an entity carried out the transition to IFRS at any time before 1 February 2015.

The Group does not expect for the standard in question to have a significant impact on its consolidated financial statements for the following reasons:

- Financial assets that are currently classified as available-for-sale financial assets are eligible for classification as at fair value through other comprehensive income and their accounting, therefore, will not change.
- The investments that are currently measured at fair value through profit or loss will continue to be measured on the same basis under IFRS 9.
- Debt instruments currently measured at amortised cost fulfil the conditions for classification at amortized cost under IFRS 9.

The new impairment model requires the recognition of provisions for impairment, which is based on expected credit losses rather than just realized credit losses, such as is the case with IAS 39. The Group will also form a value adjustment for receivables non past due based on the risk assessment performed for its customers whose total turnover will exceeded 98 percent within a specified period. Despite the above, the Group does not expect a significant impact on its consolidated financial statements in this respect.

The newly-adopted standard does not impact financial investments.

Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing the new insurance contracts standard being devised by the Board to replace IFRS 4. All companies that issue insurance contracts may choose between an optional temporary exemption from applying IFRS 9 and overlay application.

Amendments were adopted by the EU on 3 November 2017. Temporary exemption shall apply for accounting periods beginning on or after 1 January 2018 or at the first application of IFRS 9.

The Group may opt for overlay approach upon first application of IFRS 9 and use it retroactively for the financial assets set out upon transition to IFRS 9. The Group adapts the comparative information that reflect the overlay application only if it adjusts the comparative information upon using IFRS 9.

The Group does not expect for these amendments to have a significant impact on its consolidated financial statements.

IFRS 15 Revenues from Contracts with Customers

In May 2014, the International Accounting Standards Board published IFRS 15, which introduces a new five-stage model for recognition of revenue obtained by an entity from contracts with customers. Pursuant to IFRS 15, an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. With regards to the fulfilled criteria, the income is recognised over time and in the way that reflects the entity's operations or in moment when control over goods and services is transferred to the customer. The accounting principles under IFRS 15 thus offer a more structured approach to measurement and recognition of revenue. IFRS 15 also establishes the principles that bind an entity to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

The new standard applies to all entities and replaces the existing requirements of International Financial Reporting Standards in relation to recognition of revenue. The EU adopted the standard and the amendment to IFRS 15 "Date of entering into force of IFRS 15" on 22 September 2016. Full application of the new standard is effective for annual periods beginning on or after 1 January 2018, whereas a modified standard has to be applied retrospectively. The new standard provides a framework that supersedes the existing instructions on revenue recognition under IFRS. Earlier application is permitted.

The Group does not expect any significant differences in the recognition of revenues from the sale of goods and services under the new standard. An analysis of contracts with customers has shown that they meet the criteria of the new standard for revenue recognition; performance obligations are defined adequately in contracts, allowing their classification and measurement, and determining when they might be satisfied. Contracts with customers comprise the sale of goods and services, which shall be shown separately by the Group in its financial statements.

The Group does not expect any significant differences in time-based recognition of revenue.

The majority of revenue results from contracts defined as simple supply of services. Since the contracts include no separately identifiable obligations, the Group deems its valid accounting policy for recognition of revenue to be in line with the new requirements of IFRS 15.

IFRS 15 contains specific criteria to determine which contract related costs may be capitalized, while also introducing the distinction between the costs related to the acquisition and to fulfilment of contracts. The Group estimates that there will be no significant implementation costs.

The Group does not expect for the standard in question to have a significant impact on its separate financial statements:

Clarifications to IFRS 15, Revenue from Contracts with Customers

In April 2016, the International Accounting Standards Board published Clarifications to IFRS 15 addressing several matters that have been subjected to assessment by the Expert Group "Joint Transition Resource Group for Revenue Recognition".

Amendments:

- Clarify when the promised goods or services do not comply with the content of the contract,
- Clarify how an entity companies should consider the relationship between a principal and an agent, including the assessment unit of account, how an entity may apply the control principle in services and how to transform indicators,
- Clarify when an entity's activities have a significant impact on intellectual property (IP) to which the customer has rights, which is the decisive factor in determining whether the entity recognises the revenue from granting the licence over time or at a point in time,
- Clarify the scope of the exemption for royalties arising from the sale or use of intellectual property licenses (limitation of royalties) with regard to other promised goods or service under the contract,
- Contain two practical expedients regarding the fulfilment of transitional provisions of IFRS 15 for:

(c) Completed contracts upon full transition and recognition for the past periods, and
(d) Modified contracts upon transition to the new standard.

Amendments to the standard shall enter into force on 1 January 2018, the date of entry into force of IFRS 15. They further clarify rather than change the requirements of IFRS 15. The Group must apply the amendments retrospectively. Earlier application is permitted and must be disclosed by the Group.

The Group has carried out an impact assessment of IFRS 15 for all companies in the Group and detected potential impact only for the controlling company.

In the 2017 financial year, the Group studied the requirements of IFRS 15 and applied the standard's five-step model to its contracts:

Step 1 - Identify the contract(s)

In 2017, the Group assessed the contracts and bids in order to ascertain whether they meet the criteria to be labelled as such or whether contracts would have to be joined.

Step 2 - Identify the performance obligations in the contract

Based on its review of contracts and bids, the Group identified performance obligations but adopted a position that it holds only one performance obligation, namely the provision of port activities. This performance obligation is then divided into sets and these into subsets. For the subsets, it was necessary to determine whether performing the service happens instantly or over time. Subsets defined as "over time" consist of several co-dependent services (i.e. ship – storage – vehicle) and are billed at the entrance or exit.

The position that the Group only holds one performance obligation was adopted because the goods on which the Group performs its services are located on the premises of Luka Koper, which is under close scrutiny by the Company itself as well as other bodies (customs etc.) and because the owner of goods or any other stakeholder in the logistics chain cannot benefit from the service until it is completed and the goods dispatched, thus leaving the area of Luka Koper. Several performance obligations could be defined if the customer would benefit from an individual subset of services, which would be available to him independently and when the promise to transfer the service would have been separated from other provisions in the contract.

Step 3 - Determine the transaction price

The prices in the Company are set at fixed or variable rates. Variable rates occur when the Company offers a volume discount.

Step 4 - Allocate the transaction price to the performance obligations

Should it be ascertained that the Group disposes of several performance obligations in some of its contracts, it would have been necessary to set the price for individual obligations, however such a case was not found among the identified Company contracts.

Step 5 - Recognise revenue when (or as) a performance obligation is satisfied

The Group ascertained the moment when revenue is recognised according to contract identification. For the contracts, which stipulate that a service can be performed over a longer period of time, the standard determines that revenue over time of performing the service is recognised only if one of the following criteria is met:

- The customer simultaneously receives and consumes all of the benefits of the entity's performance during the performance itself – no such cases exist in the Group, because the goods on which service is performed are under its control until the final dispatch;The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced – no such cases exist in the Group either, because the goods on which service is performed are under its control until the final dispatch;
- The Group's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date – such cases have been identified in contracts. This data was of key importance, because it was ascertained that in certain cases the Group charged the customer with the full price of service and thus recognised the revenue before the service had been performed in full, however the services that fall under the scope of premature invoicing, are performed by the Company by using the "bill and keep" principle.

Based on the above investigation, the Group does not expect these amendments to have a significant impact on its separate financial statements.

IFRS 16 Leases

The scope of application of IFRS 15 comprises leases of all assets with a few exceptions. Pursuant to the standard, lessees should recognise all leases through profit and loss under a single lessee accounting model, regardless of a business or financial lease, as part of the balance sheet and in the same manner that finance leases are recognised pursuant to IAS 17. IFRS 16 replaces IAS 17 Leases. The standard allows two exemptions in recognising assets, i.e. when the underlying asset is of low value (such as personal computers) and short-term leases (leases with a term of less than 12 months). As at the date of the beginning of lease, the lessee is required to recognise the obligation to make lease payments (i.e. a lease liability) and the asset representing the right to use the underlying leased asset for the duration of the lease (i.e. a right-of-use asset).

Pursuant to 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 payment. Lessees shall recognise separately interest expense with respect to the lease liability and depreciation costs from the right-of-use asset. The right to use of asset is amortized and the interest accrued to the liability. The later causes a concentrated pattern of costs for the major share of leases, even though the lessee pays back-to-back annual lease payments. If certain events should occur (such as changes in the lease period, changes in the value of future lease payments due to variations in the index or rate, based on which lease payment is determined), lessees shall have to re-measure the lease liability). In general, lessees recognise the re-measurement value of lease liability as an adjustment to the right-of-use asset.

The application of the new standard does not significantly change the lease calculation for the lessor and the distinction between business and financial lease remains in force for the lessor.

For the lessor, accounting requirements are not considerably different from those in force under IAS 17.

The EU adopted the standard on 31 October 2017. The IFRS 16 standard is applicable for annual periods beginning on or after 1 January 2019. The lessee may decide to apply the standard retroactively in full or in part. Transitional provisions of the Standard allow for certain facilitating measures. Earlier application is permitted, but only if an entity has already applied IFRS 15.

The Group is examining the effects of the new standard and will apply it as it enters into force.

New standards and interpretations, which entered into force on 1 January 2017

Amendments to IAS 7: Statement of Cash Flows – Disclosure Initiative

Pursuant to the amendments, entities are required to disclose changes in liabilities arising from financing activities, including the changes from financing cash flows and non-financial changes such as positive or negative effects of foreign exchange rates, changes arising from obtaining or losing control of subsidiaries and changes in fair values.

The amendments were adopted by the EU on 6 November 2017 and apply to annual periods starting on or after 1 January 2017.

Upon adopting the amended standard, entities do not have to provide comparative information for previous periods. Earlier application was permitted.

Amendments did not have a major impact on the Group's statements.

Amendments to IAS 12: Income taxes – Recognition of Deferred Tax Assets for Unrealised Losses

The Board published the Amendments to IAS 12: Income taxes in order to explain the calculation of deferred tax assets for unrealised losses for debt instruments, measured according to fair value.

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which the deductible temporary differences can be utilised. They also clarify how an entity is to determine its future taxable profit and the circumstances in which a taxable profit can entail the return of certain assets to the amount that exceeds their bookkeeping value.

Upon applying the amended standard for the first time, an entity may recognise the change in the opening equity of the earliest comparative period in opening retained earnings (or other comparable equity component) without allocating the change between opening retained earnings and other components of equity. The entities using this deduction had to disclose said usage.

The amendments were adopted by the EU on 6 November 2017 and apply to annual periods starting on or after 1 January 2017.

Amendments did not have a major impact on the Group's statements.

Amendments to IFRS 12: Disclosure of Interests in Other Entities

The amendments clarify the area of application of the standard as they state that disclosures required in IFRS 12 (with the exception of those subsumed in accounting statements of subsidiaries, joint arrangements and associated companies) also apply to the entity's stakes, listed in article 5 and in accordance with IFRS 5: Non-current Assets Held for Sale and Discontinued Operations, are listed among sales assets, among assets to be distributed among the owners, or discontinued operations, however, these amendments are not used for disclosure pursuant to items B10-B16.

Amendments did not have a major impact on the Group's statements.

New standards and interpretations not yet adopted by the European Union

Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures

Amendments refer to the question whether in the event of long-term interests (particularly in the light of requirements to weaken long-term interests in associates and joint ventures that form part of the "net investment" in such associates or joint ventures) an entity should apply IFRS 9, IAS 28, or a combination of both. Amendments clarify that when accounting for long-term interests that are not measured by the equity method, the entity applies IFRS 9 Financial instruments before applying IAS 28. When applying IFRS 9, the entity does not take into account any adjustments of the carrying value of long-term interests, which derive from the IAS 28.

Amendments apply for annual periods beginning on or after 1 January 2019. Earlier application of amendments is permitted.

The Group is examining the effects of the new standard and will apply it as it enters into force.

Amendments to IAS 40: Investment Property

Amendments clarify requirements for transfers to, or from, investment properties.

An entity applies the amendments to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is also permitted if that is possible without the use of hindsight.

Amendments reinforce the principle from IAS 40 Investment property regarding the transfers into, or out of, investment property so that it now specifies that such a transfer should only be made when there has been a change in use of the property. Pursuant to the amendments, a property transfer takes place when, and only when, a de-facto change occurs in the usage, i.e. a property begins to or ceases to meet the definition of investment and there exists evidence of such a change in use. A change in management's intentions does not constitute evidence of a change in use.

Amendments were adopted by the EU on 14 March 2018 and are applicable to annual periods beginning on or after 1 January 2018 as well as are applicable prospectively. Earlier application is permitted.

The Group is examining the effects of the amendments to the standard and will apply them as they enter into force.

Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions

Amendments refer to three main areas:

- The effect of vesting conditions on measuring cash-settled share-based payment transactions.

Amendments clarify that the method of accounting for performance conditions for measuring equity-settled share-based payment transactions is also used for cash-settled share-based payment transactions.

- Classification of share-based payment transactions with a net settlement feature for withholding tax obligations.

This amendment adds an exception to address a specific circumstance when there is an agreement on net settlement for an entity to meet its obligation to withhold a certain amount based on tax laws or regulations, thus to fulfil the employees' tax obligation linked with share-based payment.

- 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.

This amendment clarifies that in the case of a change to the conditions of the cash-settled share-based payments, due to which such a payment becomes equity-settled share-based payment, from the date of the change such a transaction shall be recorded as equity-settled payment.

This amendment was adopted by the EU on 26 February 2018. It is applicable retroactively and applies to annual periods beginning on or after 1 January 2018. Earlier application is permitted. Upon adoption, entities must apply the amendments without adjusting information for preceding periods. However, retrospective application is allowed when an entity decides to use the three amendments and when all other criteria have been met. Earlier application is permitted.

The Group does not expect for these amendments to have a significant impact on its consolidated financial statements.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Pursuant to these amendments, particular financial assets with a prepayment feature, enabling the contractual party to receive or demand reasonable additional compensation for early terminations of contracts (which is considered "negative compensation" by the holder of a financial asset), are measured at amortized cost or at fair value through other comprehensive income.

Amendments were adopted by the EU on 22 March 2018 and are applicable to annual periods beginning on or after 1 January 2019. Earlier application of amendments is permitted.

The Group is examining the effects of the new standard and will apply it as it enters into force.

Amendments to standards IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

Amendments address an acknowledged inconsistency between IFRS 10 and IAS 28 relating to how to account for transactions in which a parent entity loses control of a subsidiary by selling it or contributing it to an associate or joint venture. Amendments clarify that an entity must recognise a full gain or loss when a sale or contribution of assets between an investor and an associate or a joint venture involves a business as defined in IFRS 3. A gain or loss from sale or contribution if the asset transferred does not contain a business must be recognised partially up to the amount of the share of unrelated investors in an associate or joint venture. The International Accounting Standards Board has deferred the effective date indefinitely. An entity opting for early adoption of these amendments must apply them to future periods.

The Group does not expect for these amendments to have a significant impact on its consolidated financial statements.

Interpretation IFRIC 22: Foreign Currency Transactions and Advance Consideration

The interpretation addresses the exchange rate for transactions that include the receipt or payment of advance consideration in a foreign currency.

It covers foreign currency transactions when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income. It does not apply when an entity measures the related asset, expense or income on initial recognition at fair value or at the fair value of the consideration received or paid at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability. It also need not be applied to income taxes, insurance contracts or reinsurance contracts.

IFRIC 22 is effective for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted. The interpretation can be applied prospectively to all foreign currency assets, expenses and income in the scope of the interpretation initially recognised on or after the beginning of the reporting period an entity first applies the interpretation in or the beginning of a prior reporting period presented as comparative information.

The Group is examining the effects of the interpretation and will apply it as it enters into force.

Interpretation IFRIC 23: Uncertainty over Income Tax Treatments

The interpretation is to be applied to the determination of taxable profit when there is uncertainty over income tax treatments under IAS 12 Income Taxes. The interpretation introduces guidelines for: whether uncertain income tax treatments should be considered independently or collectively; taxation authorities' examinations; the use of an appropriate method reflecting the uncertainty while also taking into account any changes to facts and circumstances.

Interpretations apply for annual periods beginning on or after 1 January 2019. Earlier application of interpretations is permitted.

The Group does not expect for these interpretations to have a significant impact on its separate financial statements.

Amendments to standards and interpretations adopted in the period 2014-2016

Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures

For measurements of long term interests in associates and joint ventures owned by an entity that is a venture capital organisation, or other eligible entity, the amendments clarify that any investment in associates and joint ventures may be measured at fair value through profit or loss upon initial recognition; however, the election is made separately for each associate or joint venture. Amendments apply for annual periods beginning on or after 1 January 2018.

The Group is examining the effects of the amendments to the standard and will apply them as they enter into force.

Amendments to IFRS 1: First-time Adoption of International Financial Reporting Standards

The amendment deleted the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose. Amendment is applicable to annual periods beginning on or after 1 January 2018.

The Group does not expect for these amendments to have a significant impact on its consolidated 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.

In measuring the fair value of a non-financial asset the Group must take into account the market participant's ability to generate economic benefits by using the asset at its highest and best use or by selling it to another market participant that would use the asset at its highest and best use.

The Group uses valuation techniques that are appropriate under the given circumstances and for which there is enough data available, mainly based on the use of appropriate market inputs and the minimum use of non-market inputs.

All assets and liabilities that are measured or disclosed at fair value in the financial statements are classified into a fair value hierarchy based on the lowest level of inputs required for measuring the total fair value:

1. Level 1 – quoted prices (unadjusted) in active markets for similar assets and liabilities,
2. Level 2 – valuation model based directly or indirectly on market data,
3. Level 3 – valuation model not based on market data.

At the end of each reporting period, the Group determines whether any transitions between levels occurred in the case of assets and liabilities recognised in the financial statements for previous periods by re-examining the distribution of assets, taking into account the lowest level of inputs required for measuring the total fair value.

The fair value measurement hierarchy of the Group's assets and liabilities is presented in Note 32.

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 accounts 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 2017	Port activity 2016	Other 2017	Other 2016	Total 2017	Total 2016	Consolidation bookings 2017	Consolidation bookings 2016	Total Group 2017	Total Group 2016
Revenue from sales outside the Group	208,033,453	198,156,553	3,404,924	2,787,318	211,438,377	200,943,871	0	0	211,438,377	200,943,871
Revenue from intersegment sales	511,011	490,278	29,317	25,998	540,328	516,276	-540,328	-516,276	0	0
Amortisation and depreciation expense	-28,195,817	-25,864,669	-251,959	-604,019	-28,447,776	-26,468,688	0	0	-28,447,776	-26,468,688
Operating profit or loss	36,090,792	49,352,847	549,080	-27,409	36,639,872	49,325,438	0	0	36,639,872	49,325,438
Finance income	1,346,671	1,508,661	907	507	1,347,578	1,509,168	-847	-1,298	1,346,731	1,507,870
Finance expenses	-1,723,008	-1,966,457	-1,877	-1,807	-1,724,885	-1,968,264	847	1,298	-1,724,038	-1,966,966
Profit or loss from financing activities	-376,337	-457,796	-970	-1,300	-377,307	-459,096	0	0	-377,307	-459,096
Profits of associates under equity method	0	0	0	0	0	0	1,689,933	1,897,614	1,689,933	1,897,614
Income tax and deferred taxes	-3,343,743	-6,347,452	-32,374	-40,524	-3,376,117	-6,387,976	406,408	0	-2,969,709	-6,387,976
Profit or loss for the period	32,370,712	42,547,599	515,736	-69,233	32,886,448	42,478,366	2,096,341	1,897,614	34,982,789	44,375,980

(in EUR)	Port activity 31 Dec 2017	Port activity 31 Dec 2016	Other 31 Dec 2017	Other 31 Dec 2016	Total 31 Dec 2017	Total 31 Dec 2016	Consolidation bookings 31 Dec 2017	Consolidation bookings 31 Dec 2016	Total Group 31 Dec 2017	Total Group 31 Dec 2016
Total assets	522,322,333	476,511,434	14,909,768	13,644,594	537,232,101	490,156,028	-753,413	-99,525	536,478,688	490,056,503
Whereof shares and interests in associates	6,737,709	6,737,709	0	0	6,737,709	6,737,709	6,638,758	5,942,632	13,376,467	12,680,341
Liabilities	185,389,524	157,384,127	694,191	857,303	186,083,715	158,241,430	-42,414	-163,848	186,041,301	158,077,582

28 Additional Notes to the Consolidated Income Statement

Note 1. Revenue

(in EUR)	2017	2016
Revenue generated on sales with domestic customers	**65,883,934**	**64,781,952**
- services	64,630,274	63,514,032
- goods and material	18,020	38,788
- rentals	1,235,640	1,229,132
Revenue generated on sales with foreign customers	**145,554,443**	**134,761,744**
- services	145,500,842	134,658,133
- rentals	53,601	103,611
Total	**211,438,377**	**199,543,696**

The item of total revenue comprises one individual customer that exceeds 10 percent of total sales.

Note 2. Capitalised own products and services

Under the item of capitalised own products and own services, the Group records services that increase the value of property, plant and equipment, which are primarily carried out by the subsidiary Luka Koper INPO, d. o. o. In 2017, capitalised income amounted to EUR 738,058 (2016: EUR 1,400,175).

Note 3. Other income

(in EUR)	2017	2016
Other operating income	**2,240,291**	**2,233,046**
Reversal of provisions	69,301	2,380
Subsidies, grants and similar income	1,740,242	1,967,739
Revaluation operating income	**430,748**	**262,927**
Income on sale of property, plant and equipment, and investment property	311,010	30,822
Collected written-off receivables and written-off liabilities	119,738	232,105
Other income	**1,401,879**	**912,199**
Compensations and damages	474,614	408,916
Subsidies and other income not related to services	353,102	229,011
Other income	574,163	274,272
Total	**3,642,170**	**3,145,245**

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 1,681,067. The assets are used in compliance with the Vocational Rehabilitation and Employment of Disabled Persons Ac for covering 75 percent 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. Costs of material

(in EUR)	2017	2016
Costs of material	1,357	1,510
Costs of auxiliary material	3,231,441	4,090,978
Cost of spare parts	4,957,081	4,606,615
Cost of energy	7,166,315	6,302,021
Cost of office stationery	172,965	137,646
Other cost of material	410,428	402,803
Total	**15,939,587**	**15,541,573**

Note 5. Costs of services

(in EUR)	2017	2016
Cost of services rendered in connection with the core activity	29,174,547	25,185,101
Cost of transportation	193,901	234,510
Cost of maintenance	5,462,111	6,022,387
Rentals	504,399	938,197
Reimbursement of labour-related costs	350,027	400,950
Costs of payment processing, bank charges and insurance premiums	831,071	783,400
Costs of intellectual and personal services	913,407	778,612
Advertising, trade fairs and hospitality	1,244,125	1,163,259
Costs of services provided by individuals not performing business activities	363,395	319,408
Costs of other services		
Sewage and disposal services	349,778	184,932
Information support	3,137,138	3,144,623
Concession-related costs	7,646,472	6,916,138
Costs of other services	1,627,239	4,208,614
Total	**51,797,610**	**50,280,131**

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 and other services), managing of port mechanisation and similar.

Concession-related costs 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)	2017	2016
Wages and salaries	36,975,658	34,225,557
Wage compensations	5,738,018	5,397,233
Costs of additional pension insurance	1,648,359	1,586,735
Employer's contributions on employee benefits	6,786,955	6,493,979
Annual holiday pay, reimbursements and other costs	4,364,485	4,197,539
Total	**54,513,475**	**51,901,043**

In December 2017, all employees of 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 2017, whereas 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 16th consecutive year.

The annual holiday pay amounted to EUR 1,150 per employee in 2017 (2016: EUR 1,091 to 1,100).

In 2017, 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 2017	Headcount in 2016
VIII/2	1	2
VIII/1	25	22
VII	113	116
VI/2	158	153
VI/1	79	78
V	293	293
IV	289	284
III	22	23
I–II	93	100
Total	**1,073**	**1,071**

Note 7. Amortisation and depreciation expense

(in EUR)	2017	2016
Depreciation of buildings	13,371,253	13,000,004
Depreciation of equipment and spare parts	14,153,499	12,564,211
Depreciation of small tools	24,621	24,073
Depreciation of investment property	200,995	193,594
Amortisation of intangible assets	697,408	686,806
Total	**28,447,776**	**26,468,688**

Note 8. Other expenses

(in EUR)	2017	2016
Provisions	15,652,295	905,267
Impairment costs, write-offs and losses on property, plant and equipment and investment property	3,990,061	1,646,276
Expenses for allowances for receivables	925,112	351,230
Levies that are not contingent upon employee benefits expense and other types of cost	6,718,308	6,723,177
Donations	164,760	133,011
Environmental levies	125,601	119,928
Awards and scholarship to students inclusive of tax	17,364	11,488
Awards and scholarship to students	4,400	6,002
Other costs and expenses	882,384	675,864
Total	**28,480,285**	**10,572,243**

In 2017, the Group formed additional provisions for legal liabilities amounting to EUR 15,652,295.

Impairment costs, write-offs and losses on property, plant and equipment and investment property are mainly composed of Impairment of investment property at the Sežana location amounting to EUR 3,413,713.

Levies that are not contingent upon employee benefits expense and other types of cost mostly relate to the fee for the use of construction land, which in 2017 amounted to EUR 6,502,535.

Other costs and expenses mainly consist of compensations amounting to EUR 518,317 and court expenses amounting to EUR 300,455.

Note 9. Finance income and finance expenses

(in EUR)	2017	2016
Finance income from shares and interests	**1,216,433**	**1,314,005**
Finance income from shares and interests in other companies	1,216,433	1,314,005
Finance income from other investments	0	0
Finance income from loans	**1,792**	**17,992**
Finance income from loans to others	1,792	17,992
Finance income from operating receivables	**128,506**	**175,874**
Finance income from operating receivables due from others	128,506	175,874
Total finance income	**1,346,731**	**1,507,871**
Finance expenses for investments	**0**	**-100,000**
Finance expenses for financial liabilities	**-1,328,682**	**-1,746,781**
Finance expenses for borrowings from associates	0	-4,228
Finance expenses for borrowings from banks	-1,328,682	-1,742,553
Finance expenses for operating liabilities	**-395,356**	**-120,185**
Finance expenses for trade payables	-259	-6
Finance expenses for other operating liabilities	-395,097	-120,179
Total finance expenses	**-1,724,038**	**-1,966,966**
Net financial result	**-377,307**	**-459,095**

Finance income from shares and interests in other entities refers to dividends paid under investments into securities.

Financial expenses arising on interest in 2017 amounted to EUR 1,328,682 and show a slight decline over the previous year, mainly due to lower effective interest rates.

Note 10. Taxes and effective tax rate

(in EUR)	2017	2016
Profit before tax	**37,895,971**	**50,444,616**
Income tax	**7,200,234**	**8,575,585**
Non-taxable income and increase in expenditure	-30,551	-55,798
Non-taxable dividends received	-549,101	-491,307
Tax incentives	-4,458,279	-955,271
Expenses not recognised for tax purposes	793,989	444,751
Impairment loss not recognised for tax purposes	0	7,500
Other reduction in the tax base	-14,510	-25,074
Other increase in the tax base	27,927	26,301
Change in tax rate	0	-1,138,711
Total tax expense	**2,969,709**	**6,387,976**
Effective tax rate	**7.84%**	**12.66%**

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. The largest share of tax incentives includes investments in plant and equipment.

Note 11. Net earnings per share

In 2017, the Group reported net profit in the amount of EUR 34,961,520 (2016: EUR 44,375,981), whereof EUR 34,961,520 is attributable to the owner of the controlling company (2016: EUR 44,375,299) and EUR 21,298 to owners of noncontrolling interests (2016: EUR 682). The non-controlling interest belongs to the co-owner of subsidiary TOC, d. o. o.

(in EUR)	31 Dec 2017	31 Dec 2016
Net profit for the period of the owner of the controlling company	34,961,520	44,375,299
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	**2.50**	**3.17**

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.

29 Additional Notes to the Consolidated Statement of Financial Position

Note 12. Property, plant and equipment

(in EUR)	31 Dec 2017	31 Dec 2016
Land	18,286,759	18,255,454
Buildings	256,665,415	237,646,358
Plant and machinery	94,289,996	55,330,933
Property, plant and equipment being acquired and advances given	15,576,990	64,779,235
Total	**384,819,160**	**376,011,980**

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 2017 equalled zero, is recorded at EUR 249,957,534 (31 December 2016: EUR 232,770,864).
As at 31 December 2017, the outstanding trade payables to suppliers of items of property, plant and equipment amounted to EUR 4,652,969 (31 December 2016: EUR 7,270,478).

The item of assets being acquired includes advances given for acquiring property, plant and equipment. As at the reporting date, they were recorded at EUR 79,988 (31 December 2016: 26,461,875).

In 2017, total investments amounted to EUR 37,309,797. The Group's largest investments comprise:

- Sip to shore container cranes (STS),
- Electrified rubber tired gantry cranes (eRTG),
- Finalising the construction of a multipurpose warehouse,
- Rail mounted gantry cranes (RMG), and
- Continued setting of warehouse areas.

In 2017, the Group found no material indication of required impairment to be carried out with respect to the assets. In 2017, the amount of all write-offs was recorded at EUR 576,737, occurring with regard to a damaged crane on the dry bulk cargo terminal, and with regard to necessary refurbishment and obsolete equipment. 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 2017

(in EUR)	Land	Buildings	Plant and equipment	Assets being acquired	Total
Cost					
Balance at 31 Dec 2016	18,255,454	461,721,048	268,118,147	64,779,235	812,873,884
Additions	31,285	24,188	461,933	36,792,391	37,309,797
Transfer from investments in progress	20	32,223,265	53,427,995	-85,651,280	0
Disposals, write-offs	0	-82,475	-16,479,608	0	-16,562,083
Transfer to intangible assets	0	0	-11,408	0	-11,408
Transfer from intangible assets	0	714,261	0	0	714,261
Transfer to investment property	0	0	0	-369,019	-369,019
Reclassifications within property, plant and equipment	0	211,031	-236,694	25,663	0
Balance at 31 Dec 2017	**18,286,759**	**494,811,318**	**305,280,365**	**15,576,990**	**833,955,432**
Accumulated depreciation					
Balance at 31 Dec 2016	0	224,074,690	212,787,214	0	436,861,904
Depreciation	0	13,371,254	14,178,119	0	27,549,373
Disposals, write-offs	0	-47,543	-15,937,803	0	-15,985,346
Transfer to intangible assets	0	0	-3,920	0	-3,920
Transfer from intangible assets	0	714,261	0	0	714,261
Reclassifications within property, plant and equipment	0	14,886	-14,886	0	0
Reclassifications within cost and value adjustment	0	18,355	-18,355	0	0
Balance at 31 Dec 2017	**0**	**238,145,903**	**210,990,369**	**0**	**449,136,272**
Carrying amount					
Balance at 31 Dec 2016	**18,255,454**	**237,646,358**	**55,330,933**	**64,779,235**	**376,011,980**
Balance at 31 Dec 2017	**18,286,759**	**256,665,415**	**94,289,996**	**15,576,990**	**384,819,160**

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, write-offs	0	-600,542	-554,655	-1,413,747	-2,568,944
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 property	0	-117	0	-113,303	-113,420
Transfer from investment property	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, write-offs	0	-520,876	-542,368	0	-1,063,244
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	45,660	0	0
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**

Note 13. Investment property

(in EUR)	31 Dec 2017	31 Dec 2016
Investment property - land	11,577,769	14,991,483
Investment property - buildings	3,752,072	3,584,047
Total	**15,329,841**	**18,575,530**

The item of investment property includes land and buildings leased out, and properties that increase the value of the non-current investment. Investment properties are valued by using the cost model.

(in EUR)	2017	2016
Rental income on investment property	869,752	585,835
Depreciation of investment property	200,995	193,594

Investment properties are not pledged as collateral.

Fair value of investment property as at 31 December 2017 amounted to EUR 15,216,415.

Fair value of investment property was assessed on the basis of valuation, based on the value the buyer is willing to pay, and by means of estimated total value of expected future cash flows generated through renting.

During periodic verification of fair value of investment property based on valuation, impairment of land in the Sežana municipality was implemented in 2017. Valuation was carried out by a registered property valuer. All property valuation methods were verified during value assessment, i.e. the sales comparison approach, the income approach, and the cost approach. The income approach was chosen for purposes of valuation and ensuring the quality of information.

Impairment of investment property was recognised among costs for impairment, write-offs and losses on sale of property, plant and equipment and investment property (Note 8).

Movements in investment property in 2017

(in EUR)	Land	Buildings	Total
Cost			
Balance at 31 Dec 2016	14,991,483	5,520,689	20,512,172
Impairment	-3,413,714	0	-3,413,714
Transfer to property, plant and equipment	0	369,019	369,019
Balance at 31 Dec 2017	**11,577,769**	**5,889,708**	**17,467,477**
Accumulated depreciation			
Balance at 31 Dec 2016	0	1,936,642	1,936,642
Depreciation	0	200,994	200,994
Balance at 31 Dec 2017	**0**	**2,137,636**	**2,137,636**
Carrying amount			
Balance at 31 Dec 2016	**14,991,483**	**3,584,047**	**18,575,530**
Balance at 31 Dec 2017	**11,577,769**	**3,752,072**	**15,329,841**

Movements in investment property in 2016

(in EUR)	Land	Buildings	Total
Cost			
Balance at 31 Dec 2015	14,991,483	5,501,692	20493175
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	1743751
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**

Note 14. Intangible assets

(in EUR)	31 Dec 2017	31 Dec 2016
Development costs	195,373	234,447
Non-current property rights	3,271,669	3,891,723
Total	**3,467,042**	**4,126,170**

The cost of intangible assets in use, of which the carrying value as at 31 December 2017 equalled zero, is recorded at EUR 6,084,633 (31 December 2016: EUR 6,834,934).

As at 31 December 2017, the Group recorded no trade payables relating to intangible assets (31 December 2016 EUR 45,506).

Intangible assets were not pledged as collateral as at 31 December 2017.

The 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 195,373 relate to the company TOC, d. o. o. in connection with the CAPSorb project (development of efficient ecological absorbents to control spills of all types of hydrophilic and hydrophobic hazardous and non-hazardous substances on hard and on water surfaces).

The difference between the cost and value adjustment for intangible assets written off was recognised among costs for impairment, write-offs and losses on sale of property, plant and equipment and investment property (Note 8).

Movements in intangible assets in 2017

(in EUR)	Development costs	Industrial property and other rights	Intangible assets being acquired	Total
Cost				
Balance at 31 Dec 2016	390,746	13,453,548	157,123	14,001,417
Additions	0	32,265	0	32,265
Transfer from investments in course of construction	0	97,250	-97,250	0
Disposals, write-offs	0	-40,242	0	-40,242
Transfer from property, plant and equipment	0	11,408	0	11,408
Transfer to property, plant and equipment	0	-714,261	0	-714,261
Balance at 31 Dec 2017	**390,746**	**12,839,968**	**59,873**	**13,290,587**
Accumulated depreciation				
Balance at 31 Dec 2016	156,299	9,718,948	0	9,875,247
Depreciation	39,074	658,334	0	697,408
Disposals, write-offs	0	-38,769	0	-38,769
Transfer from property, plant and equipment	0	3,920	0	3,920
Transfer to property, plant and equipment	0	-714,261	0	-714,261
Balance at 31 Dec 2017	**195,373**	**9,628,172**	**0**	**9,823,545**
Carrying amount				
Balance at 31 Dec 2016	**234,447**	**3,734,600**	**157,123**	**4,126,170**
Balance at 31 Dec 2017	**195,373**	**3,211,796**	**59,873**	**3,467,042**

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	0	-1,591	0	-1,591
Balance at 1 Jan 2015	390,746	14,844,419	306,030	15,541,195
Additions	0	760	98,740	99,500
Transfer 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	-56,329
Balance at 31 Dec 2016	**390,746**	**13,453,548**	**157,123**	**14,001,417**
Accumulated depreciation				
Balance at 31 Dec 2015	117,224	10,693,230	0	10,810,454
Restatement	0	-1,591	0	-1,591
Balance at 1 Jan 2015	117,224	10,691,639	0	10,808,863
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**	**4,732,332**
Balance at 31 Dec 2016	**234,447**	**3,734,600**	**157,123**	**4,126,170**

Note 15. Shares and interests in associates

		31 Dec 2017	31 Dec 2016
(in %)	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
Adriafin, d. o. o.	Slovenia	49.0	49.0

Shares and interests in associates are not pledged as collateral.

Bankruptcy proceedings against Golf Istra - v stečaju, d. o. o., which was 20 percent owned by Luka Koper, d. d., ended on 6 January 2017. A value adjustment was previously formed for the total value of the investment.

Movements of shares and interests in associates

(in EUR)	2017	2016
Balance at 1 Jan	**12,680,341**	**11,699,829**
Increase		
Attributable profits	1,689,934	1,897,613
Decrease		
Dividends paid	-993,808	-917,101
Balance at 31 Dec	**13,376,467**	**12,680,341**

Profits in the total amount of EUR 1,689,934 were generated in 2017 in connection with investments in associates and relating to Adria Transport, d. o. o. (EUR 432,911), to Adria-Tow, d. o. o. (EUR 466,845), to Adriafin, d. o. o. (EUR 309,565) and to Avtoservis, d. o. o. (EUR 480,613).

Significant data on associates in 2017

(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	12,619,968	9,208,225	10,150,081	865,822	432,911	320,000
Adria Tow, d. o. o.	50.0	15,901,055	5,589,681	6,015,704	933,689	466,845	250,000
Adriafin d. o. o.	50.0	10,998,596	25,231	496,754	619,130	309,565	0
Avtoservis, d. o. o.	49.0	3,477,467	455,895	4,080,875	980,842	480,613	423,808

Significant data on associates in 2016

(in EUR)	Equity interest (in %)	Assets	Liabilities	Revenue	Net profit or loss	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	5,645,867	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

Note 16. Other non-current investments

(in EUR)	31 Dec 2017	31 Dec 2016
Other investments measured at cost	3,414,602	3,414,602
Other investments measured at fair value through equity	30,802,833	27,136,597
Total	**34,217,435**	**30,551,199**

Other non-current investment primarily comprise investments in securities and equity interests. Investments in securities include investments in shares in Krka, d. d. and Intereuropa, d. d., whose value as at 31 December 2017 was EUR 28,876,262, and mutual funds, whose value was EUR 1,926,571.

Other investments measured at cost refer to investments in other companies, where the Group's equity interest is less than 20 percent, and two companies that are fully (100 percent) owned by the controlling company and are not consolidated due to insignificance.

Movements in other non-current investments

(in EUR)	2017	2016
Balance at 1 Jan	30,551,199	34,490,093
Increase		
Revaluation to fair value through equity	3,666,236	0
Decrease		
Payout	0	-26,028
Impairment	0	-100,000
Revaluation to fair value through equity	0	-3,812,866
Balance at 31 Dec	**34,217,435**	**30,551,199**

The increase in other non-current investments is 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 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Deferred tax assets and liabilities relating to:				
impairment of investments in subsidiaries	415,238	0	0	0
impairment of investments in associates	0	183,535	0	0
impairment of other investments and deductible temporary differences arising on securities	9,351,157	9,355,596	2,737,833	2,041,247
financial instruments	18,875	79,776	0	0
allowances for trade receivables	381,366	253,315	0	0
provisions for retirement benefits	290,204	368,654	0	0
provisions for jubilee premiums	58,355	58,159	0	0
non-current accrued costs and deferred income for public utility services	453,983	453,983	0	0
Total	**10,969,178**	**10,753,018**	**2,737,833**	**2,041,247**
Off-set with deferred tax liabilities relating to impairment of other investments and deductible temporary differences arising on securities	-2,737,833	-2,041,247	-2,737,833	-2,041,247
Total	**8,231,345**	**8,711,771**	**0**	**0**

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 utility services. In 2017, deferred taxes decreased the operating result by EUR 265,963, as compared to an increase of EUR 1,138,708 in the preceding year, which was mostly due to the changed tax rate.

As at the 31 December 2017, the Group conducted an off-set of its deferred tax liabilities with receivables in the amount of EUR 2,737,833 (31 December 2016: EUR 2,041,247).

Within deferred taxes, the Group also records deferred taxes relating to impairment of investments in subsidiaries, which due to being a tax item of the controlling company, is not excluded.

Movements in deferred tax assets and deferred tax liabilities in 2017

	Receivables				Liabilities		
(in EUR)	Balance at 31 Dec 2016	Recognised in the income statement	Recognised in the statement of other comprehensive income	Balance at 31 Dec 2017	Balance at 31 Dec 2016	Recognised in the statement of other comprehensive income	Balance at 31 Dec 2017
Deferred tax assets and liabilities relating to:							
impairment of investments in subsidiaries	0	249,278	165,960	**415,238**	0	0	**0**
impairment of investments in associates	183,535	-17,574	-165,961	**0**	0	0	**0**
impairment of other investments and deductible temporary differences arising on securities	9,355,596	-4,439	0	**9,351,157**	2,041,047	696,586	**2,737,633**
financial instruments	79,776	0	-60,901	**18,875**	0	0	**0**
allowances for trade receivables	253,315	128,051	0	**381,366**	0	0	**0**
provisions for retirement benefits	368,654	-89,549	11,099	**290,204**	0	0	**0**
provisions for jubilee premiums	58,159	196	0	**58,355**	0	0	**0**
non-current accrued costs and deferred income for public utility services	453,983	0	0	**453,983**	0	0	**0**
Total	**10,753,018**	**265,963**	**-49,803**	**10,969,178**	**2,041,047**	**696,586**	**2,737,633**
Off-set with deferred tax liabilities relating to impairment of other investments and deductible temporary differences arising on securities	-2,041,247	0	-696,586	**-2,737,833**	-2,041,047	-696,586	**-2,737,633**
Deferred tax assets in the Group's statement of financial position	**8,711,771**	**265,963**	**-746,389**	**8,231,345**	**0**	**0**	**0**

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 comprehensive income**	**Balance at 31 Dec 2015**
Deferred tax assets and liabilities relating to:							
impairment of investments in associates	15,725	1,850	165,960	**183,535**	0	0	**0**
impairment of other investments and deductible temporary differences arising on securities	8,478,190	1,008,349	-130,943	**9,355,596**	2,441,778	-400,531	**2,041,247**
financial instruments	176,375	0	-96,599	**79,776**	0	0	**0**
allowances for trade receivables	217,712	37,830	-2,227	**253,315**	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 for public utility services	409,091	44,892	0	**453,983**	0	0	**0**
Total	**9,657,414**	**1,150,217**	**-54,613**	**10,753,018**	**2,441,778**	**-400,531**	**2,041,247**
Off-set with deferred tax liabilities relating to impairment of other investments and deductible temporary differences arising on securities	-2,441,778	0	400,531	**-2,041,247**	-2,441,778	400,531	**-2,041,247**
Deferred tax assets in the Group's statement of financial position	**7,215,636**	**1,150,217**	**345,918**	**8,711,771**	**0**	**0**	**0**

Note 18. Inventories

As at 31 December 2017, inventories are recorded at EUR 1,037,066 (31 December 2016: EUR 809,467). A 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 2017	31 Dec 2016
Current trade receivables:		
domestic market	17,300,996	17,691,462
foreign markets	18,439,648	10,837,721
Current operating receivables due from associates	55,902	44,443
Current trade receivables	**35,796,546**	**28,573,626**
Current receivables due from dividends	0	50,000
Advances and collaterals given	94,490	4,405
Current receivables related to finance income	14,844	17,114
Receivables due from the state	1,955,276	2,689,836
Other current receivables	102,589	145,938
Trade receivables	**37,963,745**	**31,480,919**
Short-term deferred costs and expenses	545,755	660,544
Accrued income	443,123	377,002
Other receivables	**988,878**	**1,037,546**
Total	**38,952,623**	**32,518,465**

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 pursuant to the accounting manual, and regularly forms related allowances should it be highly likely that repayment is not possible. Irrespective of maturity, the Company also forms allowances for receivables, with regard to which risk has been assessed of not being repaid.

In 2017, the Group formed allowances for receivables in the amount of EUR 921,229 and eliminated the allowance for collected written-off receivables amounting to EUR 119,611.

As at 31 December 2017, 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 2017 amounted to EUR 2,900,000, the Group signed a contract on assigning receivables. As of the reporting date, these receivables amounted to EUR 266,230.

Other receivables include short-term accrued income in the amount of EUR 232,125 which refers to income arising on expenses for European development projects, co-financed by European institutions, short-term accrued income in the amount of EUR 210,999, and short-term deferred costs in the amount of EUR 545,755. Short-term deferred costs and expenses also include costs of loans amounting to EUR 118,797.

Maturity of trade receivables and receivables relating to finance income:

(in EUR)	31 Dec 2017	Allowances 31 Dec 2017	31 Dec 2016	Allowances 31 Dec 2016
Outstanding and undue trade receivables	30,882,773	0	25,336,761	-93,553
Past due receivables:				
up to 30 days	4,963,985	-519,624	2,316,539	-1,572
31 to 60 days overdue	245,383	0	630,352	-5,274
61 to 90 days overdue	100,069	0	96,716	-3,456
91 to 180 days overdue	54,402	0	251,024	-2,176
more than 180 days overdue	2,619,720	-2,535,318	2,339,198	-2,273,819
Total	**38,866,332**	**-3,054,942**	**30,970,590**	**-2,379,850**

Movements in allowances for receivables

(in EUR)	2017	2016
Balance at 1 Jan	2,379,850	2,351,964
Increase:		
Formation of allowances	921,229	351,014
Decrease:		
Collected receivables written off	-119,611	-229,777
Final write-off of receivables	-126,526	-93,351
Balance at 31 Dec	**3,054,942**	**2,379,850**

Note 20. Cash and cash equivalents

(in EUR)	31 Dec 2017	31 Dec 2016
Cash in hand	11,657	10,477
Bank balances	30,382,558	2,836,059
Current deposits	1,980,000	2,980,000
Total	**32,374,215**	**5,826,536**

Note 21. Equity

Share capital

Share capital in the amount of EUR 58,420,965 consists of 14,000,000 shares of the controlling company Luka Koper, d. d. that are freely transferable. The nominal value of a share is EUR 4.17.

The ownerships structure, the movement of the share price and the dividend policy are outlined in detail 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 at least 10 percent 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. On a proposal of the Management Board, the controlling company, pursuant to Article 230 (3) of the Companies Act, formed at the year-end of 2017 additional other revenue reserves in the amount of a half of net profit or loss, which equalled EUR 16,571,704.

(in EUR)	31 Dec 2017	31 Dec 2016
Share premium	89,562,703	89,562,703
Legal reserves	18,765,115	18,765,115
Other revenue reserves	126,842,241	110,270,537
Total	**235,170,059**	**218,598,355**

Reserves arising from valuation at fair value

At the year-end of 2017, reserves arising from valuation at fair value with respect to the valuation of investments measured at fair value, valuation of hedging instruments measured at fair value, and with respect to unrealised actuarial gains and losses, amounted to EUR 13,102,240. After deducting deferred taxes, they are recorded at EUR 10,498,049.

Retained earnings

Retained earnings consist of the unappropriated portion of the net profit for the period, which as at 31 December 2017 amounted to EUR 18,389,816, and net profit brought forward that was recorded at EUR 27,766,161.

Note 22. Provisions

(in EUR)	31 Dec 2017	31 Dec 2016
Provisions for retirement benefits and jubilee premiums	3,669,042	3,400,931
Provisions for legal disputes	17,032,786	1,380,491
Total	**20,701,828**	**4,781,422**

In 2017, the Group formed additional provisions for termination benefits and jubilee premiums amounting to EUR 444,822. Based on actuarial calculation, the unrealised actuarial loss from the current and preceding year with respect to termination benefits amounting to EUR 153,600 was recorded in other comprehensive income. The Group recognised in the income statement the current service cost with respect to termination benefits and jubilee premiums in the amount of EUR 321,453, and the interest cost amounting to EUR 55,867. In 2017, payments under jubilee premiums and termination benefits amounted to EUR 245,856.

Additional provisions were formed in 2017 for legal commitments amounting to EUR 15,652,295. Pursuant to Article 92 of IAS 37 — Provisions, Contingent Liabilities and Contingent Assets, the Group does not disclose information on legal commitments, since their disclosure would form a judgement on the position of the Company in a dispute with other parties.

Movements of provisions in 2017

(in EUR)	Termination benefits	Jubilee premiums	Total post-employment benefits	Claims and damages	Total
Balance at 31 Dec 2016	2,788,733	612,197	3,400,931	1,380,491	4,781,422
Movement:					
Formation	420,366	110,555	530,921	15,652,295	16,183,216
Use	-140,790	-105,066	-245,856	0	-245,856
Reversal	-13,535	-3,419	-16,954	0	-16,954
Balance at 31 Dec 2017	**3,054,774**	**614,267**	**3,669,042**	**17,032,786**	**20,701,828**

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	282,478	71,651	354,129	905,267	1,259,396
Use	-103,980	-62,215	-166,195	0	-166,195
Reversal	-2,380	0	-2,380	0	-2,380
Balance at 31 Dec 2016	**2,753,543**	**601,999**	**3,400,931**	**1,380,491**	**4,781,422**

Note 23. Deferred income

(in EUR)	31 Dec 2017	31 Dec 2016
Non-current deferred income for regular maintenance	13,693,827	7,987,214
Non-refundable grants received	4,916,166	4,829,468
Non-current deferred income	1,661,405	1,948,156
Total	**20,271,398**	**14,764,838**

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. With respect to any annual surplus of revenue over costs, the controlling company forms non-current deferred income for covering the costs of public utility services relating to regular maintenance of the port infrastructure in the coming years. In the event that costs exceeded the revenue, the controlling company would be utilising non-current deferred income.

Non-current deferred income primarily comprises non-refundable grants and advance payments received with respect to non-refundable funds for investments into EU development projects, which are recorded by the controlling company and are utilised in accord with their useful life. Under non-refundable funds received, the Group also records retained contributions on salaries of employees of the Luka Koper INPO, d. o. o sheltered workshop, i.e. contributions to insurance schemes for retirement pension, disability, sickness, and maternity. The assets are used in compliance with the Vocational Rehabilitation and Employment of Disabled Persons Act for covering 75 percent of wages for disabled persons and labour costs for the staff who assist the disabled persons.

Group's other non-current deferred income comprises non-current deferred income earmarked to cover the costs of depreciation of fixed assets.

Movement of deferred income in 2017

(in EUR)	Non-current deferred income for regular maintenance	Non-refundable grants received	Other non-current deferred income	Total
Balance at 31 Dec 2016	7,987,214	4,829,468	1,948,156	14,764,838
Movement:				
Formation	5,706,613	2,679,689	0	8,386,302
Transfer from other liabilities	0	22,535	0	22,535
Transfer to other liabilities	0	-1,110,728	0	-1,110,728
Use	0	-1,504,798	-286,751	-1,791,549
Balance at 31 Dec 2017	**13,693,827**	**4,916,166**	**1,661,405**	**20, 271,398**

Movement of deferred income in 2016

(in EUR)	Non-current deferred income for regular maintenance	Non-refundable grants received	Other non-current deferred income	Total
Balance at 31 Dec 2015	7,823,250	3,575,640	2,386,470	13,785,360
Movement:				
Formation	163,964	3,678,718	0	3,842,682
Transfer from other liabilities	0	-924,798	0	-924,798
Use	0	-1,500,092	-438,314	-1,938,406
Balance at 31 Dec 2016	**7,987,214**	**4,829,468**	**1,948,156**	**14,764,838**

Note 24. Non-current loans and borrowings

(in EUR)	31 Dec 2017	31 Dec 2016
Non-current borrowings from banks in Slovenia	71,419,979	66,383,117
Non-current borrowings from banks abroad	29,262,295	31,517,622
Total	**100,682,274**	**97,900,739**

As at the balance sheet date, the Group recorded non-current borrowings from banks in the amount of EUR 100,682,274, which have thus increased by 2.8 percent or EUR 2,781,535 as compared to the year-end of 2016. The difference comprises the net effect of the final absorption of a loan taken with a commercial bank in the previous year, and the transfer of a part of liabilities to current borrowings. 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 2017, the total amount of the hedged borrowing is recorded at EUR 31,557,377. Further details on the relevant interest rate hedging are provided in Note 32 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 under non-current borrowings from banks are collateralised with blank bills of exchange and financial covenants, whereby one borrowing is collateralised with assignment of receivables.

The Group complies with all financial covenants under the loan agreements.

Up to 31 December 2016 inclusive, the item of borrowings also comprised the costs of loan approval, which were reducing the balance of the borrowings received. From 1 January 2017, deferred costs have been transferred to current deferred costs under other receivables. The Group thus ensures that the borrowings are managed by observing the effective interest rate, hence any expenses related to an individual borrowing are deferred upon accrual among current liabilities and thereupon reversed on a monthly basis. Accordingly, deferred costs referring to current liabilities for loans received amounted to EUR 118,797 as at 31 December 2017, whereas in 2016 such costs amounted to EUR 141,935 and were reducing the actual balance of loan principals at the year-end.

Movement of non-current borrowings in 2017

	Lender	
(in EUR)	**Banks**	**Total**
Balance at 31 Dec 2016	97,900,739	97,900,739
New borrowings	18,700,000	18,700,000
Reclassifications	141,935	141,935
Transfer to current borrowings – the portion that matures within 1 year	-16,060,400	-16,060,400
Balance at 31 Dec 2017	**100,682,274**	**100,682,274**

Movement of non-current borrowings in 2016

(in EUR)	Lender	
	Banks	Total
Balance at 31 Dec 2015	100,354,822	100,354,822
Transfer from current borrowings	9,300,000	9,300,000
Deferred costs of approval	7,648	7,648
Transfer to current borrowings – the portion that matures within 1 year	-11,761,731	-11,761,731
Balance at 31 Dec 2016	**97,900,739**	**97,900,739**

Loan principals (non-current and current borrowings) in 2017

(in EUR)	Currency of loan	Interest rate	Date of maturity	Approved principal amount	Principal at 31 Dec 2017
Loans B	EUR	Euribor3m + from 0.650 to 2.500	from 30 Sep 2018 to 21 Jul 2031	123,000,000	79,314,102
Loans C	EUR	Euribor6m + from 1.550 to 2.000	from 14 Apr 2025 to 31 Dec 2025	50,000,000	37,428,571
Total				**173,000,000**	**116,742,673**
- whereof current portion					16,060,399

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 0.706 to 2.500	from 30 Sep 2018 to 21 Jul 2031	95,000,000	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				**145,000,000**	**109,804,405**
- whereof current portion					11,761,732

Balance of non-current and current borrowings from banks at par value and by their maturity

(in EUR)	Principal at 31 Dec 2017	2018	2019	2020	2021	2022	Period 2023–2032
Balance of bank loan principals by maturity	116,742,673	16,060,399	16,004,399	17,898,602	10,652,225	10,652,225	45,474,824
Expected interest		1,217,938	965,343	762,196	597,485	477,899	871,811
Total	**116,742,673**	**17,278,337**	**16,969,742**	**18,660,798**	**11,249,710**	**11,130,124**	**46,346,635**

(in EUR)	Principal at 31 Dec 2016	2017	2018	2019	2020	2021	Period 2022-2031
Balance of bank loan principals 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**

Note 25. Other non-current financial liabilities

Other non-current financial liabilities include the fair value of instrument (i.e. interest rate swap), which the Group entered into in connection with its largest borrowing. Since the interest rate swap entered into becomes payable in 2018, the Group transferred the balance of non-current financial liabilities to current financial liabilities as at 31 December 2017. The balance as at 31 December 2016 amounted to EUR 419,873. Further details on the relevant interest rate hedging are provided in Note 32 Financial instruments and financial risk management, in the section 'Management of interest rate risk'.

Note 26. Non-current operating liabilities

Non-current operating liabilities comprise non-current collaterals for the operation of the tax warehouse at the current cargo terminal and non-current collaterals received for leased premises. As at 31 December 2017, they amounted to EUR 1,045,243 (31 December 2016: EUR 772,086).

Note 27. Current loans and borrowings

(in EUR)	31 Dec 2017	31 Dec 2016
Current borrowings from banks in Slovenia	13,765,317	9,466,650
Current borrowings from banks abroad	2,295,082	2,295,082
Total	**16,060,399**	**11,761,732**

Current borrowings from banks as at 31 December 2017 refer to the portion of non-current principal amounts, which mature in 2018 according to amortisation schedules.

Movement of current borrowings in 2017

	Lender	
(in EUR)	**Banks**	**Total**
Balance at 31 Dec 2016	11,761,732	11,761,732
Repayments	-11,761,733	-11,761,733
Transfer from non-current borrowings – the portion that matures within 1 year	16,060,400	16,060,400
Balance at 31 Dec 2017	**16,060,399**	**16,060,399**

Movement of current borrowings in 2016

	Lender	
(in EUR)	**Banks**	**Total**
Balance at 31 Dec 2015	9,523,524	9,523,524
Repayments	-9,523,524	-9,523,524
Transfer from non-current borrowings – the portion that matures within 1 year	11,761,732	11,761,732
Balance at 31 Dec 2016	**11,761,732**	**11,761,732**

Note 28. Other current financial liabilities

At the year-end of 2017, other current financial liabilities amounted to EUR 372,169 (31 December 2016: EUR 250,614), comprising interest payables, liabilities related to the distribution of profit, the liability to pay the interest rate swap entered into for the purpose of hedging against interest rate risk, and the current portion of other non-current financial liabilities related to protection from interest rate risk.

Note 29. Trade and other payables

(in EUR)	31 Dec 2017	31 Dec 2016
Current liabilities to		
domestic suppliers	16,973,624	14,411,457
foreign suppliers	413,868	349,162
Current liabilities to associates	83,776	145,110
Current trade payables	**17,471,268**	**14,905,729**
Current liabilities from advances	1,092,723	68,413
Current liabilities to employees	3,985,606	3,623,899
Current liabilities to the state and other institutions	67,626	965,084
Current operating liabilities	**22,617,223**	**19,563,125**
Accrued costs and expenses	3,518,233	5,794,981
Other operating liabilities	772,535	106,559
Other operating liabilities	**4,290,768**	**5,901,540**
Total	**26,907,991**	**25,464,665**

At the year-end of 2017, current operating liabilities grew by EUR 1,443,326 over the preceding period. The largest increase is recorded with current liabilities to domestic suppliers, which is attributable to higher liabilities arising from reinvoiced excise duties.

Current liabilities from advances mostly relate to the funds received from the EU to cover the future costs incurred by co-financed projects.

Accrued costs relate to 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, accrued costs for unused vacation days, and accrued charges for invoices to be received.

Note 30. Contingent liabilities

(in EUR)	31 Dec 2017	31 Dec 2016
Guarantees given	1,742,058	1,720,309
Securities given	4,200,467	7,235,468
Contingent liabilities under legal disputes	1,933,240	93,809
Approved borrowing	0	54,700,000
Total contingent liabilities	**7,875,765**	**63,749,586**

As at 31 December 2017, the guarantees given refer to customs operations amounting to EUR 1,619,000, and to performance guarantees amounting to EUR 123,058.

Securities provided refer to:

- Securities in the amount of EUR 3,950,467 given to the company Adria Transport, d. o. o. to cover a lease of locomotives, and
- Securities in the amount of EUR 250,000 given to the company Adria Terminali, d. o. o., as insurance of a bank guarantee for liabilities arising under customs duties.

Companies that received collaterals and guarantees from the controlling company regularly pay their liabilities in this regard and as at 31 December 2017 disclose no outstanding instalments.

As at 31 December 2017, the Group's contingent liabilities under legal disputes include contingent liabilities for lawsuits received. 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. In 2017, contingent liabilities for legal disputes increased by EUR 1,839,431.

The item of approved borrowing refers to a large extent to the prospective borrowing granted by the European Investment Bank (EIB) for the project of extending Pier I. As at 31 December 2017, terms for drawing the borrowing were not met since the controlling company had not yet received the building permit, and Luka Koper, d. d. has therefore removed the item.

The remaining part of loans granted refers to a part of the loan taken with a commercial bank in 2016, its final portion absorbed in 2017.

Note 31. Related party transactions

Remuneration of members of the Management and Supervisory Boards of the controlling company are outlined in Note 30 of Luka Koper, d. d. financial report. Remuneration of groups of persons in the controlling company and subsidiaries is presented in tables below.

Remuneration of groups of persons in 2017

Gross remuneration of groups of persons (in EUR)	Gross wages (fixed and variable part)	Annual holiday pay and jubilee premiums	Insurance premium benefits	Benefits and other receipts	Total
Members of the Management Board	785,705	4,600	884	34,795	825,984
Members of the Supervisory Board (nine members)	167,555	0	1,989	131,167	300,711
Employees with individual employment contracts	2,520,939	30,818	0	172,128	2,723,885
Managing Directors of subsidiaries	382,694	4,025	0	42,574	429,293
Total	**3,856,893**	**39,443**		**380,664**	**4,279,873**

Transactions with associates

Income statement items from transactions with associates (in EUR)	Luka Koper Group 2017	2016
Net revenue from sales	690,689	839,422
Cost of material	153,708	130,026
Cost of services	1,074,534	1,092,421
Other operating expenses	6,093	0
Finance expenses from financial liabilities	0	4,228
Profit or losses of associates	1,689,934	1,897,613

Items of the statement of financial position to associates (in EUR)	Luka Koper Group 31 Dec 2017	31 Dec 2016
Non-current investments except loans	13,388,464	12,680,341
Current operating receivables due	55,902	94,442
Current operating liabilities	83,775	145,109

Transactions with the Government of the Republic of Slovenia

In 2017, transactions between the Luka Koper Group and the Government of the Republic of Slovenia included the following:

(in EUR)	Payments in 2017	Costs/expenses in 2017	Payments in 2016	Costs/expenses in 2016
Concessions and the water fee	8,488,894	7,646,473	6,677,578	6,916,138
Dividends	9,996,000	0	8,068,200	0
Corporate income tax (taxes and advance payments)	7,982,344	3,235,672	5,804,534	7,538,193
Other taxes and contributions	6,023,746	6,008,500	5,678,335	5,714,609
Total	**32,490,984**	**16,890,645**	**26,228,647**	**20,168,940**

No other transactions between the Government of the Republic of Slovenia and the Group were recorded.

Dividends were paid out to two other companies, in which the Government of the Republic of Slovenia holds a controlling interest i.e. to SDH, d. d.in the amount of EUR 2,181,000 and Kapitalska družba, d. d. in the amount of EUR 975,211.

Transactions with companies, in which the Republic of Slovenia has directly dominant influence

The shareholder-related companies are those in which the Republic of Slovenia and the SDH together directly hold at least a 20 percent stake. The list of such companies is published on the SDH website (https://www.sdh.si/sl-si/upravljanje-nalozb/seznam-nalozb).

In 2017, transactions conducted between the Luka Koper Group and companies in which the state has directly dominant influence were recorded at EUR 20,395,150, which included sales to such companies amounting to EUR 11,657,482, and purchasing transactions amounting to EUR 8,737,668. The majority of sale referred to services related to port activity, whereas major purchasing included costs of railway transport, purchases of energy and insurance costs. As at 31 December 2017, the Luka Koper Group recorded receivables and liabilities to such companies of EUR 1,731,464 and EUR 24,225,525 respectively. The major part of liabilities was related to a loan given by SID - Slovenska izvozna in razvojna banka, d.d., which was raised under market conditions.

Note 32. Financial instruments and financial risk management

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.

The Group's management of financial risks has been organised within controlling company's finance department. The specifics of the existing economic environment make forecasting future financial categories quite demanding, introducing into the planned categories a higher degree of unpredictability and, consequently, a 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 2017, the Group had 5.7 percent (2016: 5.5 percent) of its assets in investments measured at fair value, whereof 96 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 has been identified with regard to investments in market securities of Slovenian companies. As at 31 December 2017, the value of non-current available-for-sale investments at fair value through equity amounted to EUR 30,802,833. 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 2017

Change of index (in %)	Impact on equity
-10%	-3,080,283
10%	3,080,283

Risk of change in fair value of securities as at 31 December 2016

Change of index (in %)	Impact on equity
-10%	-2,713,660
10%	2,713,660

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 3,080,283. 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 was the 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 2017

	Valuation at fair value			
(in EUR)	**Carrying amount at 31 Dec 2017**	**Direct stock market quotation (Level 1)**	**Value based on comparable market inputs (Level 2)**	**No observable market inputs (Level 3)**
Assets measured at fair value				
Other non-current investments	30,802,833	30,802,833	0	0
Liabilities measured at fair value				
Interest rate hedging for borrowings	99,346	0	99,346	0

Fair value hierarchy in 2016

	Valuation at fair value			
(in EUR)	**Carrying amount at 31 Dec 2016**	**Direct stock market quotation (Level 1)**	**Value based on 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

Shares and interests measured at fair value were valued at publicly applicable exchange rates of the Ljubljana Stock Exchange and mutual funds quotations.

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 also faces interest rate risk as an unexpected growth in variable interest rates can have an adverse effect on the planned results. In 2017, the Group succeeded in reducing the share of financial liabilities within its total assets by 2.6 percentage point over the previous year; as at the reporting date, these liabilities were recorded at EUR 117,114,842. Due to lower volume of borrowing, the lower Euribor variable interest rates also resulted in lower financial expenses for financial liabilities.

In the overall structure of liabilities, the share of financial liabilities decreased from 22.5 percent in 2016 to 22 percent in 2017. The effect of variable interest rates changes on future profit and loss after taxes is shown in the table below.

As at 31 December 2017, one borrowing was hedged against interest rate risk in the amount of EUR 31,557,377, with its final maturity in 2031, whereby the interest rate hedging instrument was entered into by the controlling company in 2013 and is about to mature in 2018. Possible change in variable interest rates could have an impact on 73.0 percent (2016: 6.29 percent) of the Group's total borrowings. The remaining 27 percent of borrowings are hedged against possible change in variable interest rates.

Overview of exposure

(in EUR)	31 Dec 2017	Exposure on 31 Dec 2017	31 Dec 2016	Exposure on 31 Dec 2016
Borrowings received at variable interest rate (without interest rate hedge)	85,185,296	73.0%	75,951,946	69.2%
Borrowings received at variable interest rate (with interest rate hedge)	31,557,377	27.0%	33,852,459	30.8%
Total	**116,742,673**	**100.0%**	**109,804,405**	**100.0%**

During the hedging period, the interest rate hedging instrument is fully compliant with the borrowing that is the 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 2017, the fair value of the derivative interest rate swap is recognised as the Group's current liability in the amount of EUR 99,346.

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 2017	Increase by 15 bp	Increase by 25 bp	Increase by 50 bp
3M EURIBOR	47,756,725	0	0	81,664
6M EURIBOR	37,428,571	0	0	85,711
Total effect on interest expenses	**85,185,296**	**0**	**0**	**167,375**

(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**

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 or 25 base points, the Group's interest expenses in view of unchanged borrowing would not grow. If the variable interest rates are to grow by 50 base points, the interest expenses would increase by EUR 167,375. At the year-end of 2017, the Group's borrowings not hedged against interest rate risk were subject to the movement of the 3M or 6M Euribor. One borrowing in the amount of EUR 31,557,377 was hedged with interest rate swap, hence it is not included in the above loan sensitivity overview with regard to borrowings subject to the variable interest rate.

3. Management of liquidity risk

Liquidity risk refers to the risk that the Group would 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 also charging penalty interest in accordance with the Group's uniform policy of receivable management. Over the past three years, the Group's loans from banks were prepaid due to surplus liquid assets.

(in EUR)	Up to 3 months	3 to 12 months	1 to 2 years	3 to 5 years	Over 5 years	Total
Balance at 31 Dec 2017						
Loans and borrowings*	2,974,147	13,086,251	16,004,399	39,203,051	45,474,824	116,742,672
Expected interest on all borrowings	210,700	1,007,238	965,343	1,837,580	871,811	4,892,672
Other financial liabilities	372,169	0	0	0	0	372,169
Payables to suppliers	17,471,268	0	0	0	0	17,471,268
Other operating liabilities	5,145,955	0	0	0	0	5, 145,955
Total	**26,174,239**	**14,093,489**	**16,969,742**	**41,040,631**	**46,346,635**	**144,624,736**
Balance at 31 Dec 2016						
Loans and borrowings*	1,153,481	10,608,251	16,060,399	41,605,225	40,377,049	109,804,405
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	**21,226,551**	**11,727,761**	**17,705,137**	**43,717,585**	**41,495,299**	**135,872,333**

*The item also includes 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). At the year-end of 2017, the average monthly balance of outstanding trade receivables amounted to USD 25 thousand. As at 31 December 2017, outstanding receivables denominated in US dollars amounted to 0.30 percent (2016: 0.70 percent) of total outstanding trade receivables. According to the Group'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. Management of credit risk

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 has accelerated collection-related activities in the past five years and more consistently monitored trade receivables past due. In case of customers, regarding which the Group detects late payments and inconsistency in observing adopted business agreements, an advance payment system is set up for all ordered services with the aim of avoiding the 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 the Group'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 2017	31 Dec 2016
Deposits and loans given		22,592	31,005
Non-current operating receivables		41,772	41,772
Current deposits		71,128	97,366
Current loans given		8,413	8,123
Trade receivables	19	35,796,546	28,573,626
Other receivables	19	2,167,199	2,907,293
Cash and cash equivalents	20	32,374,215	5,826,536
Guarantees and collaterals granted	30	5,942,525	8,955,777
Total		**76,424,390**	**46,441,498**

6. Management of risk relating to adequate capital structure

It is vital for the Group to identify the optimal capital structure successfully and as a result, to seek to approximate the existing capital structure to the optimal one. As at the year-end of 2017, the Group's financial liabilities amounted to EUR 133,112,842, and showed an increase over the previous period by EUR 6,781,884. In addition, the share of financial assets in the equity and liabilities structure declined by 0.6 percentage point.

(in EUR)		31 Dec 2017		31 Dec 2016
	in EUR	share (%)	in EUR	Share (%)
Equity	350,437,387	65.3%	331,978,921	67.8%
Non-current liabilities	142,700,743	26.6%	118,638,958	24.2%
Current liabilities	43,340,558	8.1%	39,373,218	8.0%
Equity and liabilities	**536,478,688**	**100.0%**	**489,991,097**	**100.0%**

The Group's non-current strategic goal is to maintain the debtor's share within the liabilities side below 40 percent. Due to additional borrowing in 2017, the equity's share within the Group's total equity and liabilities structure has decreased by 2.5 of percentage point in 2017.

Note 33. Transactions with the audit firm

The contractual value of audit services render for the Group by the company BDO revizija, d. o. o. for the financial year 2017 is recorded at EUR 45,223 (exclusive of VAT). The contractual value of providing assurance on financial statements for the public utility service for the financial year 2017, which for the Group was carried out by BDO revizija, d. o. o., amounted to EUR 1,640 (exclusive of VAT).

30 Relevant Events after the Reporting Date

MARCH 2018

- Luka Koper, d. d. reached a conditional court settlement with the PanSlovenian Shareholders' Association, based on which the Association renounced its claim on rendering null and void the resolutions adopted by the General Meeting relating to the appointment of the members of the Supervisory Board Milan Jelenc, Andraž Lipolt, and Barbara Nose.
- Luka Koper sold to the University of Primorska the Prisoje facility, which used to be a rooming house and then a vacation facility.

31 Independent Auditor's Report

BDO

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of **Luka Koper d.d.**

Opinion

We have audited the consolidated financial statements of Luka Koper d.d. (the Company), which comprise the statement of financial position as at 31 December 2017, consolidated income statement, consolidated statement of other comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance for the year then ended in accordance with International Financial Reporting Standards as adopted by European Union (IFRSs).

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 Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, 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 consolidated opinion on these matters.

We have fulfilled all our obligations described in the paragraph "Auditor's responsibilities for the audit of the consolidated financial statements", including those related to these matters. Therefore, the audit comprised the implementation of the procedures determined on the basis of our assessment of the risk of material misstatement in the consolidated financial statements. The results of our audit procedures, including the procedures performed in relation to the matters stated hereinafter, serve as the basis for issuing our audit opinion about the attached consolidated financial statements.

BDO Revizija d.o.o., slovenska družba z omejeno odgovornostjo, je članica BDO International Limited, britanske družbe "limited by guarantee" in je del mednarodne BDO mreže med seboj neodvisnih družb članic.
Okrožno sodišče v Ljubljani, vl. št. 1/26892/00, osnovni kapital: 9.736,66 EUR, matična št.: 5913691, ID št. za DDV: SI94637920

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Revenue recognition

Key audit matter

Revenue for the year ended 31 December 2017 amounted to EUR 211.438.377 EUR (2016: EUR 199.543.696).

The Company's core activities include transhipment of goods and rendering other accompanying and supporting services.

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.

Transhipment and other accompanying and supporting services are frequently contracted by the Company within a single customer arrangement.

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 measures fair value, the transaction consideration may need to be allocated to separately identifiable components with different patterns of revenue recognition.

Accounting for such bundled arrangements requires significant management judgement in determining the appropriate measurement and timing of revenue, hence we considered this area to be a key audit matter.

Our response

Our audit procedures included, among others:

- Testing of 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.
- Assessing the Company´s policy for recognizing revenue, including considering whether the policy is in accordance with relevant financial reporting standards.
- Based on our inspection of a sample of contracts with key customers:
  - challenging the Company´s identification of identifiable components within the revenue contracts;
  - critically assessing the Company´s selection of revenue recognition patterns for identified revenue components by reference to the Company´s accounting policies;
- 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 harbour in the end of December 2017.
- Inspecting manual journal entries posted to revenue accounts focusing on unusual and irregular items, or entries modified subsequent to the balance sheet date.

We refer to the consolidated financial statements Note 26.1 Basis for preparation of consolidated financial statements and Note 27 A summary of important accounting policies, Note 27.2.13 Revenue (accounting policy) and Note 28 Additional notes to the consolidated income statement, Note 1 Net revenue from sales (notes).

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Impairment of property, plant and equipment under construction and investment property

Key audit matter

The carrying amount of property, plant and equipment under construction as at 31 December 2017: EUR 15.576.990 (2016: EUR 64.779.235). The carrying amount of investment property as at 31 December 2017: EUR 15.329.841 (2016: 18.575.530 EUR). Impairment loss recognized in 2017 in respect of investment property: EUR 3.413.713.

As at 31 December 2017, the Company had significant assets under construction, mainly in relation to the port entrances and an office building (Barka II) projects.

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.

The Company concluded that these factors represented an indication that certain assets under construction may be impaired and performed impairment tests as required by relevant financial reporting standards.

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.

The Company discloses the fair value of investment property and estimates the value of investment property for these purposes.

Our response

Our audit procedures included among other:

- Assessing and testing the Company´s internal controls designed to identify impairment indicators.
- Evaluating the appropriateness of the Company´s judgments regarding identification of assets under construction which may be impaired.
- 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.
- 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 entrance.
- 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:
  - assessing the valuation technique used for valuation of Barka II;
  - assessing the competence and independence of the external experts used by the Company;
  - assessing the reasonableness of key assumptions used by the Company, such as discount rates.

We refer to the consolidated financial statements Note 26.1 Basis for preparation of consolidated financial statements (impairment testing for Property, Plant and equipment), Note 27.2.5 Property, Plant and Equipment, Note 27.2.6 Investment property, Note 27.2.29 Impairment of assets (accounting policy), and to Note 28 Additional notes to the consolidated income statements, Note 8 Other expenses and Note 29 Additional notes to the consolidated statements of financial position of the Group, Note 12 Property, Plant and equipment and Note 13 Investment property.

BDO

Provisions for Lawsuits

Key audit matter

The carrying amount of provisions for lawsuits as at 31 December 2017: EUR 17.032.828 (2016: EUR 1.380.491); contingent liabilities arising from lawsuits as at 31 December 2017: EUR - (2016: EUR 93.809).

The Company is exposed to material potential claims arising from pending lawsuits, regarding its operations. The claims and legal disputes, including recognised provisions, are important for the audit, since their recognition requires management judgement and since the assessment process is complex and based on future development of events, which is why the matter was defined as a key audit matter.

We refer to Note 22 Provisions and Note 30 Contingent liabilities describing the Company's exposure to lawsuits.

There is great uncertainty in the assessment of whether these are provisions or contingent liabilities. When adopting a decision, the Company uses material assumptions and assessments. The amounts of claims represent a material liability, and the assessment of the need to establish provisions is mostly subjective.

We particularly point out the legal bases of lawsuits, which are the subject of assessment and thus subjective, just as the assessment of the amount of liabilities.

Our response

We assessed the management estimate of the current status of disputes and claims towards the Company and judged if potential provisions and the related disclosures should be recognised in accordance with the accounting standards. The management prepared the legal and financial assessment of the situation and obtained the assessments from several lawyers and independent legal experts.

Our audit procedures included among other:
- Attendance at the meeting of the Management Board, where the external legal experts presented the legal bases for the claims.
- Inspecting the minutes of the Management and Supervisory Board of Luka Koper d.d.
- With the assistance of our legal experts, we assessed the reasonableness of our legal bases for recognising the provisions. We reviewed the appropriateness of estimates and assumptions used by the Company regarding the recognition of provisions or disclosing contingent liabilities for lawsuits. We focused on the judgement of the management regarding probability of unfavourable outcome and reliability of the assessed amount of claims.
- We evaluated the range of values and the assumptions included in the management's assessment of potential outflows of benefits and discussed the management assessment with the Company's Management Board and Audit Committee.
- We have assessed whether the Company's disclosures regarding provisions for lawsuits were appropriate considering the IFRSs.

We refer to the consolidated financial statements, Note 26.1 Basis for preparation of consolidated financial statements and notes - Assessment of provisioning for lawsuits 27.2.16 and expenses-costs 28 Additional notes to the consolidated income statements - Note 22 Provisions, Note 30 Contingent liabilities.

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Other Matter

The consolidated financial statements of the Company for the year ended 31 December 2016 were audited by another auditor, who expressed an unmodified opinion on those statements on 17 March 2017.

Other Information

Management is responsible for the other information. The other information comprises Introduction, Business Report and Sustainability report included in the Company´s annual report but does not include the consolidated financial statements and our auditor’s report thereon.

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

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

- The other information is in all material respect consistent with audited consolidated financial statements;
- The other information is prepared in compliance with applicable law or regulation; and
- Based on the knowledge and understanding of the Company obtained in the audit on the other information, we have not identified any material misstatement on fact.

Responsibilities of Management and the Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board is responsible for overseeing the Company's financial reporting process.

Auditor´s Responsibilities for the Audit of the 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 scepticism 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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 auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the 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.

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

We also provide the Supervisory Board and the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to 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 the Supervisory Board and the Audit Committee, 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 auditor's 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.

Other reporting obligations as required by EU Regulation No. 537/2017 of the European Parliament and of the Council

In compliance with Article 10 (2) of EU Regulation No. 537/2014 of the European Parliament and of the Council, we provide the following information in our Independent Auditor's report, which is required in addition to the requirements of International Standards on Auditing:

Appointment of the Auditor and the Period of Engagement

We were appointed as the statutory auditor of the Company for the first time by the shareholders on the General Shareholders´ Meeting held on 28 December 2017 for the financial years 2017, 2018 and 2019. Chairman of the Supervisory Board signed the engagement letter on 29 December 2017. The audit is carried out by Certified Auditor M.Sc. Nadja Kranjc.

Consistence with the Additional Report to the Audit Committee

We confirm that our audit opinion on the consolidated financial statements expressed herein is consistent with the additional report issued to the Audit Committee of the Company on 23 April 2018.

Prohibited Services

We confirm that we have not performed any prohibited services referred to the Article 5(1) of EU Regulation No. 537/2014 of the European Parliament and the Council. We declare that we ensure our independence from audit Company.

Other Audit Services

In addition to the statutory audit services, we have performed other audit procedures for the Company in relation to the assessment of the objective reasonableness of the criteria that serve the allocation of assets and liabilities, costs, expenses and revenues, and procedures related to the assessment of the correctness of the criteria application in the preparation of consolidated financial statements when performing a public services of administration, management, development and regular maintenance of port infrastructure in the area of the Koper cargo port and waste collection from vessels.

Ljubljana, 23 April 2018

BDO Revizija d.o.o.
Cesta v Mestni log 1, Ljubljana

BDO Revizija d.o.o.
Družba za revidiranje

M.Sc. Nadja Kranjc, Certified auditor,
Director

Translation only - Slovenian original prevails

32 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 2017 and of their financial performance for the year then ended.

The Management Board confirms that the Annual Report for the Luka Koper Group and Luka Koper, d. d. for 2017 with all its component parts: Management Report, Accounting Report, Sustainability Report, including the Corporate Governance Statement, has been devised and published pursuant to the legislation in force and international accounting standards.

The Management Board confirms that accounting policies were consistently applied and that the accounting judgements were made under the principle of prudence and due diligence of a good manager.

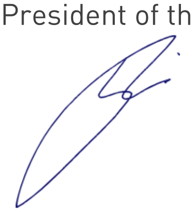
The Management Board further confirms that the financial statements of the Group and the Company have been compiled under the assumption of a going concern of the parent and its subsidiaries and in accordance with the applicable legislation and International Financial Reporting Standards as adopted by 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 could give rise to any significant liability on this account.

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

Dimitrij Zadel
President of the Management Board:



Metod Podkrižnik
Member of the Management Board

Irma Gubanec
Member of the Management Board

Vojko Rotar
Member of the Management Board – and Workers Director

Koper 18th April 2018