REACHING DESTINATIONS RELIABLY FOR 70 YEARS

Intereuropa®
Global Logistics Service
70 years

2016
ANNUAL REPORT

ANNUAL REPORT
of the Intereuropa Group and controlling company Intereuropa d.d. for the year 2016

Publisher: Intereuropa, Global Logistics Services, Ltd. Co., Koper
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Translator: Amidas d.o.o., Ljubljana
Photographs by: Foto Belvedere, Koper and Intereuropa archive

Koper, April 2017

Note: "The English version of the Annual Report 2016 of Intereuropa Group and controlling company Intereuropa d.d. constitutes a translation of the original Slovenian version. Only the Slovenian version is legally binding."

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REACHING DESTINATIONS RELIABLY FOR 70 YEARS

One of the first offices at the company's headquarters in Koper (1947).

01
INTRODUCTION

We opened our doors seventy years ago and decisively entered the then small world of logistic services. We grew from year to year and the world became increasingly bigger. Today we skilfully manage it in all its magnitude.

01 INTRODUCTION

1.1 KEY OPERATING INDICATORS OF THE INTEREUROPA GROUP

TABLE 1: INCOME STATEMENT (IN EUR THOUSAND)

	2013	2014*	2015*	2016	Indeks 16/15
Sales revenues	161,061	140,769	134,613	135,596	101
Earnings before interest, taxes and depreciation and amortisation (EBITDA)	13,755	11,258	10,759	13,339	124
Operating profit (EBIT)	5,301	4,524	4,224	6,661	158
Profit from continuing operations	544	-107	762	4,092	537
Net profit or loss	2,152	-199	288	-1,603	-
Value added	42,414	36,727	36,335	39,904	110
Basic earnings per share (in €)	0.10	0.01	0.04	-0.13	-
Gross dividend per share (in €)	0.00	0.00	0.00	0.00	-

* Data for the previous year were recalculated due to the correction of a material error. Changes are explained in detail on page 111.

TABLE 2: STATEMENT OF FINANCIAL POSITION (IN EUR THOUSAND)

	2013	2014*	2015*	2016	Indeks 16/15
Total assets	313,419	295,228	291,893	255,730	88
Non-current assets	259,370	247,038	242,639	218,614	90
Current assets	54,049	48,190	49,254	37,116	75
Equity	153,763	147,110	147,137	138,562	94
Average capital*	153,252	150,536	146,980	143,651	98
Financial and operating liabilities	154,009	142,647	138,473	115,212	83

* Data for the previous year were recalculated due to the correction of a material error. Changes are explained in detail on page 111.
** Equity does not include net profit or loss for the financial year.

TABLE 3: NUMBER OF EMPLOYEES (BY MAN-HOURS PAID)

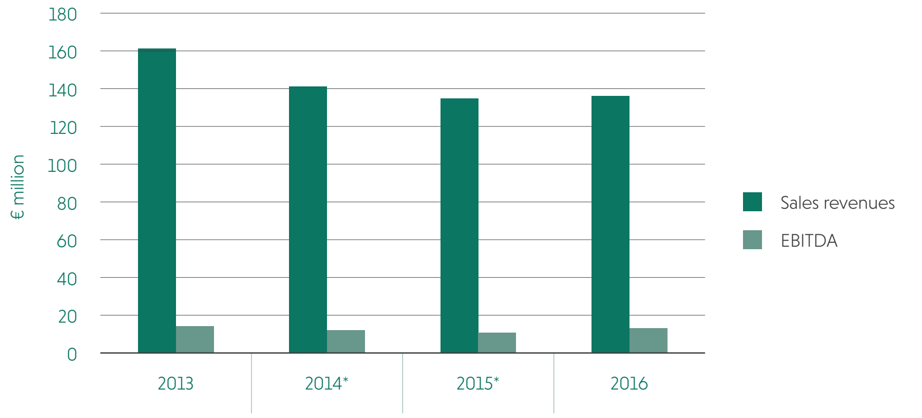
	2013	2014	2015	2016	Indeks 16/15
Return on equity	1,529	1,389	1,370	1,358	99
Return on assets	665	607	607	596	98
Productivity (in €)	864	783	763	763	100
Return on revenue	1.3%	-0.1%	0.2%	-1.2%	-

TABLE 4: PERFORMANCE INDICATORS

	2013	2014*	2015*	2016	Indeks 16/15
Return on equity	1.4%	-0.1%	0.2%	-1.1%	-
Return on assets	0.7%	-0.1%	0.1%	-0.6%	-
Productivity (in € thousend)	105,32	101,34	98,25	99,83	102
Return on revenue	1.3%	-0.1%	0.2%	-1.2%	-

* Data for the previous year were recalculated due to the correction of a material error. Changes are explained in detail on page 111.
EBITDA: Amortisation + revaluation operating expenses for intangible assets and property, plant and equipment + operating profit or loss.
Value added: EBITDA + labour costs
Net return on equity: net profit or loss / average equity.
Net return on assets: net profit or loss / average assets.
Productivity: sales revenue / number of employees.
Return on revenue: net profit or loss / total revenues.

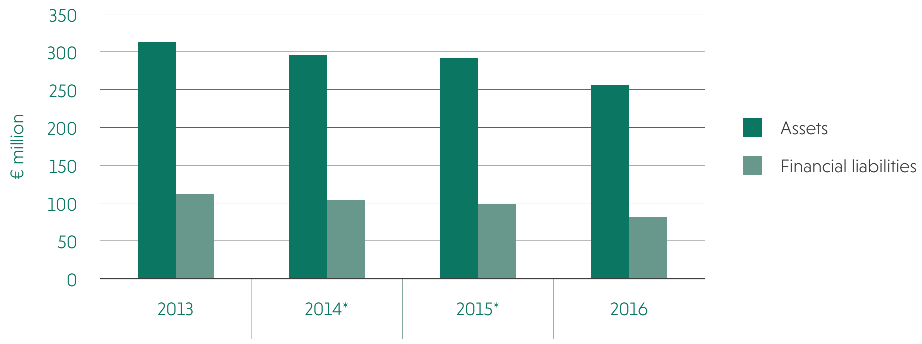
GRAPH 1: CHANGES IN THE SALES REVENUE AND EBITDA OF THE GROUP IN THE PERIOD 2013 TO 2016



* Data for the previous year were recalculated due to the correction of a material error. Changes are explained in detail on page 111.

Sales revenue was up 1% on the previous year, while EBITDA was up 24%.

GRAPH 2: CHANGES IN THE ASSETS AND FINANCIAL LIABILITIES OF THE GROUP IN THE PERIOD 2013 TO 2016



* Data for the previous year were recalculated due to the correction of a material error. Changes are explained in detail on page 111.

The Group continued to reduce its financial liabilities in 2016, through both the regular repayment of financial liabilities and deleveraging via the sale of real estate. Financial liabilities were down by EUR 17.2 million relative to the balance at the beginning of the year, and accounted for 32% of total liabilities at the end of the year.

1.2 PRESENTATION OF THE INTEREUROPA GROUP

1.2.1 BASIC DATA

CONTROLLING COMPANY

Abbreviated name	Intereuropa d.d. (Intereuropa Ltd. Co.)
Country of the parent company	Slovenia
Head office of the parent company	Vojkovo nabrežje 32, 6000 Koper
Contact details:	tel: +386 5 664 1000 e-mail: info@intereuropa.si web: http://www.intereuropa.si
Comp. ID no.	5001684
Tax no.	56405006
Entry in Companies Register	Registered with the District Court in Koper, file no. 1/00212/00
Share capital	27,488,803 €
Number of issued and paid-up shares	27,488,803 no-par value shares, of which 16,830,838 ordinary (IEKG) and 10,657,965 preferencial (IEKN)
Share listing	Shares deignated IEKG are included in blue chips on the Ljubljana Stock Exchange, CEESEG.
Management Board	Ernest Gortan, MSc., President of the Managing Board Tatjana Vošinek Pucer, MSc., Deputy President of the Managing Board* Marko Cegnar, MSc., Managing Board Member**
Chairman of the Supervisory Board	Klemen Boštjančič

* Mutually agreed early termination of term of office on 30 April 2017.
* Appointed to the Management Board on 19 February 2016.

INTEREUROPA GROUP

No. of employees*	1,374 employees
Total warehousing area*	232,400 m^2 (sqm) in-house warehouse area
Total land area*	1,670,000 m^2 of land area
Vehicle fleet*	112 company-owned trucks, tractors, trailers and other commercial vehicles
Membership in international organisations	FIATA, IATA, FONASBA, BIMCO, GS1
Membership in international logistic networks	WCA, FETA, HCL
Quality certificates	certificate ISO 9001:2008 for following companies: Intereuropa d.d., Koper Intereuropa, logističke usluge, d.o.o., Zagreb Intereuropa RTC d.d., Sarajevo
Important certificates	AEO (Authorised Economic Operator) certificate for following company: Intereuropa d.d., Koper
Branch network	Slovenia, Croatia, Montenegro, Bosnia and Hercegovina, Serbia, Kosovo, Macedonia, Albania, Ukraine

* Data as of 31 December 2016.

1.2.2 PRESENTATION OF ACTIVITIES

Intereuropa provides comprehensive logistics services. A full range of services is provided through the following three key business lines:

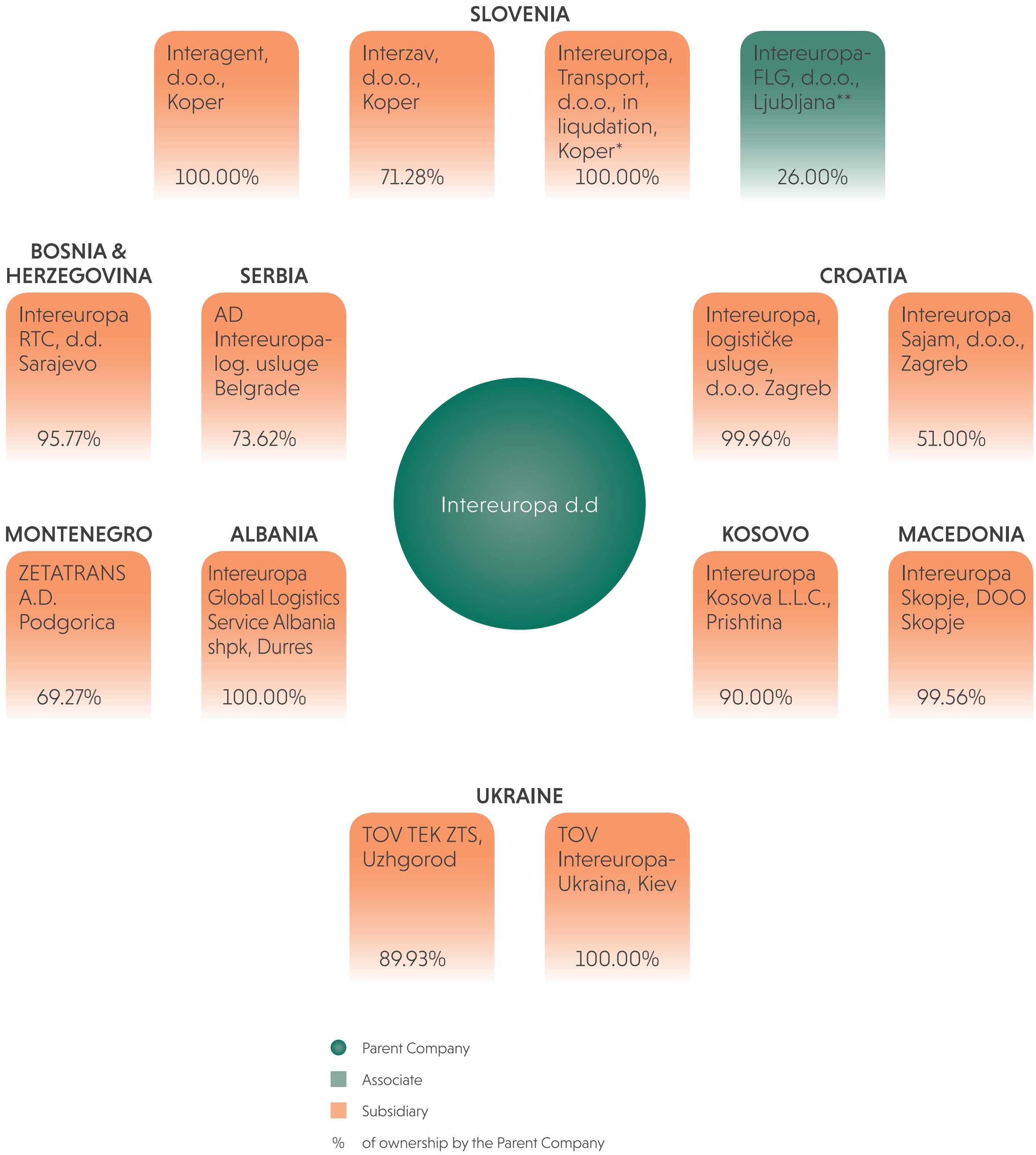
- the land transport segment comprising groupage, domestic transport, road transport, railway freight and customs clearance services;
- the intercontinental transport segment comprising air freight, sea freight, shipping agency and car logistics services; and
- the logistics solutions segment comprising warehousing and distribution services.

We also offer additional services, such as the leasing of business premises and insurance brokerage services.

Our competitive advantages in the provision of services include:

- a good market position on key markets;
- professional and qualified staff;
- brand recognition;
- our own warehouse infrastructure at key locations in the region;
- a high-value customs guarantee; and
- our own business network

1.2.3 ORGANISATIONAL CHART OF THE INTEREUROPA GROUP



* Intereuropa Transport d.o.o., Koper has been in liquidation proceedings since 17 January 2012.
** Intereuropa d.d. concluded an agreement on the sale of a 24% stake in Intereuropa – FLG, d.o.o., Ljubljana on 01 November 2016; for more details see the section Significant events in 2016.

1.2.4 PRESENTATION OF INTEREUROPA GROUP COMPANIES

Company	Management Board/ Director	Super-visory body	Chairman of the Supervisory board/ Representative of IE d.d. in the Supervisory Authority	Business				Distinction
				Land Transport	Logistics Solutions	Intercontinental Transport	Other services	
Intereuropa d.d., Koper	• Ernest Gortan, MSc., President of the Management Board • Tatjana Vošinek Pucer MSc., Deputy President of the Management Board • Marko Cegnar, MSc., appointed as Member of Management Board on 19 Februar 2016	Supervisory Board	• Klemen Boštjančič, Chairman of the Supervisory Board	•	•	•	•	• The leading provider of comprehensive logistic services in Slovenia; • 30 freight vehicles and delivery vans; • 132,000 m² of own and 5,500 m² of hired warehouse facilities.
Interagent d.o.o., Koper	• Sandi Križman, Managing Director	Management Board of Intereuropa d.d.	• President of the Management Board of Intereuropa d.d.			•		• Company specialised for shipping agency services.
Interzav, d.o.o., Koper	• Mojca Žbontar, Managing Director	General Meeting	• Representative of Intereuropa d.d. empowered by the Management Board				•	• As of 17 January 2012, the company is in liquidation proceedings.
Intereuropa Transport d.o.o., Koper, v likvidaciji	• Ernest Gortan, MSc., Liquidation Trustee	Management Board of Inte-reuropa d.d.	• President of Management Board of Intereuropa d.d.					• As of 17 January 2012, the company is in liquidation proceedings.
Intereuropa, logističke usluge, d.o.o., Zagreb	• Petra Končnik, President of the Management Board • Darko Skrnički, Member of Management Board	Supervisory Board	• Marko Cegnar, MSc., Chairman of the Supervisory Board	•	•	•	•	• The leading provider of comprehensive logistic services in Croatia; • 23 freight and delivery vehicles; • 49,300 m² of warehouse facilities.
Intereuropa Sajam, d.o.o., Zagreb	• Krešimir Lipovčić, Managing Director	Supervisory Board	• Matjaž Ujčič, Chairman of the Supervisory Board	•	•		•	• Fairs & Exhibition Logistics; • 2 delivery vans; • 640 m² of own warehouse facilities.
Intereuropa RTC d.d. Sarajevo	• Haris Avdić, Managing Director	Supervisory Board, Audit Committee	• Ernest Gortan, MSc., Chairman of the Supervisory Board • Vildana Huzbašić, President of the Audit Committee	•	•	•	•	• Leading provider of complex logistics services in BiH; • 14 freight vehicles and delivery vans; • 6,900 m² of own and hired 400 m² warehouse facilities.
AD Intereuropa-logističke usluge Beograd	• Nemanja Kačavenda, General Director	Board of Directors	• Tatjana Vošinek Pucer M.Sc., President of the Board of Directors	•	•	•		• One of the leading provider of comprehensive logistic services in Serbia; • 10 freight vehicles and delivery vans; • 23,800 m² of own warehousing area.
Intereuropa Kosova L.L.C, Priština	• Arben Mustafa, Managing Director • Andrej Kariš, Managing Director	General Meeting	• Representative of Intereuropa d.d. empowered by the Management Board	•	•	•	•	• The sole provider of comprehensive logistic services in Kosovo; • 5 delivery vans; • 1,800 m² of leased warehousing areas.
Zetatrans A.D. Podgorica	• Dalibor Stojanov, Executiv Director	Board of Directors	• Ernest Gortan MSc., President of the Board of Directors	•	•	•	•	• VThe leading provider of comprehensive logistic services in Montenegro; • 6 freight vehicles and delivery vans; • 17,700 m² of own and 2,000 leased warehouse areas.
Intereuropa Skopje DOO, Skopje	• Nebojša Cvetanovski, Managing Director	An independent Supervisor	• Ernest Gortan MSc., Independent Supervisor	•	•	•		• The leading provider of groupage services in Macedonia; • 3 commercial delivery vehicles; • 2,100 m² of warehouse facilities.
Intereuropa Global Logistics Service Albania, Drač	• Dashamir Mandija, Managing Director	General Meeting	• Bojan Beškovnik Ph.D., Representative of IE d.d. empowered by the Management Board	•		•		• Company specialised for land and sea transport services.
TOV TEK ZTS, Užgorod	• Anatolly Nikolajević Parfenyuk, Managing Director	General Meeting, Audit Committee	• Miha Romih MSc., representative of IE d.d., empowered by the Management Board • Peter Janežič, President of Audit Committee	•				• The company is specialised in railway transport and international road transport; • 19 freight vehicles and delivery vans.
TOV Intereuropa-Ukraina, Kiev	• Igor Bibikov, Managing Director	Management Board of Intereuropa d.d.	• Representative of Intereuropa d.d. empowered by the Management Board	•				• In 2016 the company was not operating.

1.3 LETTER FROM THE PRESIDENT OF THE MANAGEMENT BOARD

The recovery on individual markets and the gradual strengthening of merchandise flows stimulated growth on the logistics market in 2016. Nevertheless, the price war between transport service providers did not ease. Intense competition between logistics operators and transport service providers of varying size, as well as various providers of internet platforms and public tender processes, maintained prices at minimum levels. In addition to pressures on the sales side, we are also faced with an increase in suppliers' input costs. The latter is driven directly by higher toll costs in Europe, rising road safety costs in certain countries, tighter environmental standards and fluctuating fuel prices, which rose throughout last year.

The Intereuropa Group generated EUR 135.6 million in sales revenue in 2016, a slight increase on the results achieved in 2015. Revenues were up at all Group companies, except at Intereuropa d.d., the subsidiary in Albania and at Interagent d.o.o. We achieved similar results to those achieved in 2015 in the intercontinental transport sector, while results in the logistics solutions segment exceeded those achieved during the same period. We were down on the previous year's results in the land transport segment, particularly in road transport services, due to the above-mentioned trends. Very encouraging is the fact that we compensated in full for the aforementioned decline, primarily through more complex and profitable transactions in the logistics solutions segment, where we achieved 12% growth. This supports our strategic decision to focus on products and transactions that bring higher value added.

Our aim is to increase our focus on sales even further. To that end, we made changes to the organisational structure of the sales function and the customer management system, and updated the incentive system for sales staff at the controlling company and the Croatian subsidiary. We assess that we were also successful in terms of improving profitability. A slightly more favourable revenue structure was enhanced through the optimal provision of services and the sound management of direct costs. As a result, we improved our return on revenues, which remains above the sector average.

The Intereuropa Group earmarked a total of EUR 3.7 million for investments in 2016. We also pursued the objective in this area of supporting projects that ensure growth in transactions involving the most complex product categories, which in turn bring higher value added. We thus built a cold store facility in Maribor with a capacity of 2,500 pallets and a similar facility in Celje with a capacity of 595 m2 for the needs of regular customers. We rearranged 1,500 m2 of space at our subsidiary in Belgrade for the warehousing and storage of goods requiring a special regime.

We continued with the computerisation of business processes with the aim of standardising information systems across the Group. We thus implemented the WexVS IT solution to support the operations of Interagent d.o.o., Koper and the subsidiary in Kosovo, and began implementing support for products in Croatia during the second half of last year, a process that was completed at the beginning of this year. We also continued with preparatory activities to introduce the same IT solution at subsidiaries in Belgrade, Sarajevo and Podgorica. At the beginning of last year, we successfully completed a project to implement the SAP IT solution at the companies in Serbia, Bosnia and Herzegovina and Montenegro.

We believe that the professionalism and commitment of our employees is crucial for the successful development of the Group in the future. With the aim of improving managerial competences, the controlling company carried out a review of the development of those competences through peer assessments. Despite the fact that we can be satisfied with the results, the final assessments of individual managers will serve as a good basis for the continued development of activities to improve competences.

The Group generated earnings before interest, tax, depreciation and amortisation (EBITDA) in the amount of EUR 13.3 million in 2016, an increase of 24% relative to the previous year. The operating profit (EBIT) of the Group was also up by 58%, to stand at EUR 6.7 million in 2016. The Group generated a profit from ordinary operations of EUR 4.1 million.

Corporate income tax amounted to EUR 5.7 million and thus reduced the Group's results from ordinary operations. The main factor in that regard was the reversal of deferred tax assets at the controlling company in the amount of EUR 4.9 million. The Group thus ended the reporting period with a net loss of EUR 1.6 million.

Financial liabilities to banks were settled regularly, while we succeeded in selling off assets not required for business purposes in the amount of EUR 7.9 million. All proceeds from the aforementioned sales were earmarked for debt repayments. We thus reduced our liabilities to banks by EUR 17.2 million in 2016. The Group's net financial debt amounted to EUR 73.5 million on the final day of 2016. Despite deleveraging efforts, the level of debt relative to generated cash flows remains too high. We will therefore continue to sell off assets with insufficient economic benefits for the Group.

I would like to thank our esteemed shareholders, co-workers and business partners for the trust you place in us. The business environment has put numerous challenges in the path that lies before us. Nevertheless, I am confident that we have the ability to achieve the objectives set out in our strategy. Our vision to be a superior provider of comprehensive logistics solutions remains clear. Through the continuous adaptation to the requirements of the business environment, we are developing a business model that ensures the sustainable growth and development of the Intereuropa Group.

I believe that we will continue to meet your expectations in the future through our superior staff, know-how and coordinated work.

Ernest Gortan, MSc
President of the Management Board

1.4 REPORT OF THE SUPERVISORY BOARD FOR 2016

Intereuropa d.d.'s Supervisory Board actively monitored and supervised the operations of the Company and the Intereuropa Group in 2016. It assessed the work of the Management Board, strengthened best practices in its own work, and carried out other activities that contributed to its supervisory function in accordance with the law, various recommendations and internal acts. At its sessions, the Supervisory Board was regularly briefed on various aspects of the Company's operations through reports drafted by the Management Board. It also adopted resolutions and monitored the implementation thereof. Issues involving the work of the Supervisory Board's committees were discussed by the Audit Committee and the Nomination and Remuneration Committee. The Supervisory Board adopted resolutions based on the findings and recommendations of the aforementioned committees.
The Supervisory Board performed its work in accordance with the powers and competences prescribed by the law, the Company's Articles of Association and its own Rules of Procedure.

Supervision of the management of operations and reports submitted to the Supervisory Board by the Management Board

The Supervisory Board of Intereuropa d.d. comprises six members. Four members serve as shareholder representatives, while two serve as employee representatives. The Supervisory Board comprises the following members:

- Klemen Boštjančič, Chairman,
- Nevija Pečar, Deputy Chairman,
- Jure Fišer, member,
- Miro Medvešek, member,
- Maša Čertalič, MSc, member, and
- Ljubo Kobale, member.

Work of the Supervisory Board in 2016

The Supervisory Board met at ten sessions, one of which was a correspondence session. Members were well prepared for topics of discussion and made constructive proposals and comments. They adopted competent decisions in accordance with the Supervisory Board's Rules of Procedure, the Company's internal acts and legally prescribed competences on the basis of professionally prepared, written and oral information provided by the Management Board. Materials were received on time, so that members could prepare for and discuss individual items on the agenda. The Supervisory Board informed interested parties about its most important resolutions. Through its own regular sessions and the sessions of its committees, the Supervisory Board closely and responsibly monitored the operations of the Intereuropa Group during 2016.

With regard to its supervision of the Company's operations, the Supervisory Board was particularly active in the following areas:

- It discussed and approved interim reports regarding the current operations of the entire Intereuropa Group and of individual subsidiaries on a quarterly basis. It also monitored the compliance of reports with adopted business and strategic plans.
- It confirmed the annual report of the Intereuropa Group for 2015, together with the report of the certified auditor Ernst & Young revizija, poslovno svetovanje, d.o.o., and was briefed in advance on the findings of the audit.
- Together with the Management Board, the Supervisory Board drafted the agenda and proposed resolutions with justifications for the 29th General Meeting of Intereuropa d.d., which was held on 8 July 2016.
- It recalled the external member of the Supervisory Board's Audit Committee, Mr Alfjo Kocjančič, and appointed Ms Barbara Nose to the aforementioned position.
- It adopted revised Rules on the Remuneration of the Management Board for Work Performance.
- It was briefed on amendments to the Rules of Procedure of the Management Board.
- It was briefed on the annual risk management report.
- It was briefed on lawsuits filed against Intereuropa d.d.
- It was briefed quarterly on sales activities and changes in the balance of receivables.
- It approved the planning documents of the controlling company Intereuropa d.d., subsidiaries and the Group for 2017, and confirmed the financial calendar for 2017, which includes scheduled significant publications.
- It carried out activities in connection with the appointment of a new member of the Management Board, and made the necessary arrangements for that person's employment contract. The Supervisory Board appointed Marko Cegnar to a four-year term of office as member of the Company's Management Board, effective 19 March 2016.
- It discussed and approved the semi-annual and annual report on the work of the Internal Audit Department.
- It adopted the Rules of Procedure of Intereuropa d.d.'s Supervisory Board.
- It adopted the Corporate Governance Policy of Intereuropa d.d.
- It adopted a resolution whereby it agreed with the early termination of the term of office of member of Intereuropa d.d.'s Management Board, Tatjana Vošinek Pucer, MSc, who will perform her function until 30 April 2017.

- It assessed the effectiveness of the work of Intereuropa d.d.'s Supervisory Board and adopted the appropriate measures for improvements on the basis of the results of that assessment. It also adopted an induction programme for new members of Intereuropa d.d.'s Supervisory Board in accordance with the findings of the aforementioned assessment.
- It regularly monitored the Company's activities aimed at the sale of assets not required for business purposes.
- It was briefed on the Management Board's report regarding a case of fraud in the area of warehousing at the subsidiary AD Zetatrans in Montenegro, and tasked the Audit Committee with reviewing that case in terms of the appropriateness of procedures and risk management.
- It was briefed on other information relating to Intereuropa d.d., the Intereuropa Group and its subsidiaries.

The Management Board reported to the Supervisory Board at the latter's regular sessions with regard to current operations and the financial position of the Company and the Group. The information received by the Supervisory Board based on its resolutions and requests was provided in a timely and transparent manner. The Supervisory Board responded regularly to information received and tasked the Management Board with the continuous implementation of measures based on that information. It also monitored the implementation of adopted resolutions on a regular basis.

The remuneration of members of the Supervisory Board and its committees is disclosed in the financial report of the controlling company Intereuropa d.d. Other costs associated with the work of the Supervisory Board and its committees comprise the costs of liability insurance for members of the Supervisory Board, the costs of hired workers and legal services, membership fees for the Slovenian Directors' Association and training costs for Supervisory Board members. The aforementioned costs amounted to EUR 36,567.98 in 2016.

Assessment of the work of members of the Supervisory Board, Management Board, Audit Committee, and Nomination and Remuneration Committee

Two committees functioned under the aegis of the Supervisory Board in 2016: the Audit Committee and the Nomination and Remuneration Committee. The chairpersons of those committees gave regular reports regarding their work at sessions of the Supervisory Board. Resolutions adopted by the committees were discussed and assessed by the Supervisory Board, which adopted the appropriate measures based on the opinions and recommendations presented. All members were included in the work of the Supervisory Board, and through their attendance at sessions and active participation in discussions contributed to active performance of the Supervisory Board's tasks. The work of committees contributed to the effective work of the Supervisory Board.

Audit Committee

Members of the Audit Committee met at nine sessions. The tasks and competences of the Audit Committee are set out in the Companies Act, the Rules of Procedure of the Supervisory Board, the Rules of Procedure of the Audit Committee, Supervisory Board resolutions and the Recommendations for Audit Committees. The Audit Committee performed the following tasks in the scope of its competences:

- It discussed the audited annual report of Intereuropa d.d. and the Intereuropa Group for the 2015 financial year.
- It discussed the interim reports on the performance of Intereuropa d.d. and the Intereuropa Group.
- It discussed the proposed selection of the auditor of the financial statements for 2016.
- It discussed the draft annual work plan of the Internal Audit Department and proposed amendments to that draft.
- It verified the implementation of the Internal Audit Department's recommendations.
- It was briefed on the semi-annual and annual report on the work of the Internal Audit Department.
- It performed and discussed a self-assessment of the work of the Audit Committee in accordance with the Recommendations for Audit Committees and briefed the Supervisory Board on its findings.
- It promoted activities in connection with the establishment of a corporate integrity system and was briefed on the Management Board's measures in this area.
- It encouraged amendments to the process of assigning customer credit ratings.
- It requested the establishment of a system for monitoring and reporting on transactions with audit firms within the Intereuropa Group.
- It was briefed on risk management reports.
- It was briefed on funds earmarked for sponsorship and donation activities at Intereuropa d.d. and the Intereuropa Group.
- In accordance with the task assigned to it by the Supervisory Board, it drafted a report on a case of fraud in the area of warehousing at the subsidiary AD Zetatrans in Montenegro and submitted it to the Supervisory Board.
- It discussed other information and tasks in the scope of its competences.

The minutes and resolutions of the Audit Committee were submitted to the Supervisory Board for discussion after each session. The Audit Committee's cooperation with the Supervisory Board, Management Board, internal auditors and certified audit firm was constructive.

Nomination and Remuneration Committee

The members of the Nomination and Remuneration Committee met at two sessions. That committee performed the following tasks in accordance with its competences and the resolutions of the Supervisory Board:

- It concluded a new agreement with the Management Board member responsible for sales.
- It primarily discussed HR issues relating to the composition of the Company's Management Board.
- It proposed that the Supervisory Board perform a self-assessment of its work.
- It reviewed quantitative and qualitative criteria for setting the variable component of the Management Board's remuneration and proposed that the Supervisory Board adopt revised Rules on the Remuneration of the Management Board for Work Performance.
- It provided briefings on its work during sessions of the Supervisory Board.
- It performed other tasks in the scope of its competences.

The work of the Supervisory Board was in line with the provisions of applicable legislation, the Company's Articles of Association, the Rules of Procedure of the Supervisory Board, the internal acts of Intereuropa d.d., the Corporate Governance Policy of Intereuropa d.d. and the Corporate Governance Code. The Supervisory Board and Management Board are committed to respecting the independence of the members of both bodies, and to taking the appropriate action in circumstances that could lead to a significant change in the status of an individual member of the Management Board or Supervisory Board in relation to the Company. It was determined that all Supervisory Board members meet the criteria of independence. Members thus signed a statement on the fulfilment of the criteria of independence. In their work and decision-making, Supervisory Board members took into account the objectives of the Company, and subordinated any other personal interests or the individual interests of third parties, the Management Board, shareholders and the public to those objectives. Supervisory Board members possess the professional skills and competences required to perform their supervisory tasks.

The Chairman of the Supervisory Board conducted annual interviews with all members of the Management Board and reported to the other members of the Supervisory Board in this regard. The Supervisory Board provided regular guidance to the Management Board as a whole and to individual members of the aforementioned body, as well as various proposals, requests and expectations required to improve the Management Board's work.

Communication flowed between the Chairman of the Supervisory Board and the President of the Management Board between sessions, while other members of the Supervisory Board were informed accordingly at the latter's regular sessions. To the best of its knowledge and with due care, the Supervisory Board requested the necessary clarifications from the Management Board to assess the position of the Company, and formulated the appropriate resolutions based on those clarifications. The Supervisory Board continuously monitored the implementation of its own resolutions.

Verification of the annual report for 2016

In accordance with the requirements of the Companies Act, the Supervisory Board reviewed the annual report of Intereuropa d.d. and the Intereuropa Group for the 2016 financial year as submitted by the Company's Management Board. The annual report was also reviewed by the Supervisory Board's Audit Committee, which adopted a resolution proposing that the Supervisory Board adopt and approve the 2016 annual report. The Supervisory Board confirmed the annual report at its session held on 20 April 2017 based on the finding that the aforementioned report presents a true and fair picture of the financial position of the controlling company Intereuropa d.d. and the Intereuropa Group in 2016. In the presence of representatives of the certified audit firm KPMG, Slovenija, podjetje za revidiranje, d.o.o., Ljubljana, the Supervisory Board's Audit Committee was given a preliminarily briefing on the auditor's report, to which it had no comments. Based on the findings of the Audit Committee and the approval of the annual report, the Supervisory Board compiled a report on the verification of the annual report of Intereuropa d.d. and the Intereuropa Group for 2016.

Opinion regarding the Auditor's report

The Supervisory Board was briefed on the auditor's report on the audit of the financial statements of the Intereuropa Group and the controlling company Intereuropa d.d., which was submitted by the certified audit firm KPMG, Slovenija, podjetje za revidiranje, d.o.o., Ljubljana.

The Supervisory Board finds that the certified auditor issued an unqualified opinion regarding the financial statements of the Intereuropa Group and Intereuropa d.d., and provided assurance that the financial statements, which form an integral part of the annual report, present a true and fair picture of the financial position of the Company and Group, and of their income statement, statement of comprehensive income, statement of financial position, statement of cash flows and statement of changes in equity in 2016 and as at 31 December 2016, and that those financial statements were in line with the International Financial Reporting Standards, as adopted by the EU.

Pursuant to the provisions of the second paragraph of Article 282 of the Companies Act (ZGD-1) and the third paragraph of point 7.4 of Intereuropa d.d.'s Articles of Association, the Supervisory Board took the following position: "'The Supervisory Board has no comments regarding the auditor's report compiled by the audit firm KPMG, Slovenija, podjetje za revidiranje, d.o.o., Ljubljana."

Approval of the 2016 annual report

The members of the Supervisory Board have carefully studied the annual report, together with the auditor's report, the financial statements and the notes thereto, and other statements made in the annual report. Based on clarifications provided by the Management Board and the unqualified opinion issued by the audit firm KPMG, Slovenija, podjetje za revidiranje, d.o.o., Ljubljana with regard to the annual report, the Supervisory Board hereby finds that the annual report is a credible reflection of events and a comprehensive source of information regarding the operations of the Company during the 2016 financial year and as at 31 December 2016.

When verifying the audited annual report, the Supervisory Board determined that the controlling company Intereuropa d.d. ended the 2016 financial year with a net loss of EUR 3,455,083.01, which will be charged to net profit or loss brought forward.

Pursuant to Article 282 of the Companies Act (ZGD-1) and points 7.4 and 7.5 of the Articles of Association of Intereuropa, Globalni logistični servis d.d., the Supervisory Board hereby approves and adopts the annual report of the Intereuropa Group for the 2016 financial year.

This report was adopted at the Supervisory Board's session held on 20 April 2017.

Klemen Boštjančič,
Chairman of the Supervisory Board

1.5 MANAGEMENT BOARD'S STATEMENT OF RESPONSIBILITY

The Management Board is responsible for compiling the annual report of Intereuropa d.d. and the Intereuropa Group and the accompanying financial statements in such a way that it presents a true and fair picture of the financial position and the results of the operations of the Company and its subsidiaries in 2016.

The Management Board also confirms that the appropriate accounting policies were applied in the compilation of the financial statements of Intereuropa d.d. and the Intereuropa Group, that accounting estimates were made according to the principle of prudence and the diligence of a good manager, and that the financial statements of the Company and the Group present a true and fair picture of their financial position and the results of their operations in 2016.

The Management Board is also responsible for ensuring that accounting is conducted correctly and that appropriate measures are taken to secure property and other assets, and confirms that the financial statements of Intereuropa d.d. and the Intereuropa Group, together with the notes, have been compiled on a going concern basis and in line with current legislation and the International Financial Reporting Standards, as adopted by the EU.

The Management Board hereby confirms that, to the best of its knowledge, the financial report was compiled in accordance with the applicable financial reporting framework and presents a true and fair picture of the assets, liabilities, financial position and operating results of the controlling company and other companies included in the consolidation of the Intereuropa Group. The Management Board also confirms that the business report includes a fair presentation of the development of the Company's operations and of its financial position, including a description of the principal types of risk to which the Company and other companies included in consolidation are exposed. The business report includes a fair presentation of information regarding material transactions with related parties and is compiled in accordance with the applicable legislation and the International Financial Reporting Standards.

The President, Deputy President and other members of the Management Board have been briefed on the constituent parts of the annual report of Intereuropa d.d. and the Intereuropa Group for 2016. By signing below they hereby confirm that they agree with the aforementioned report in full.

Koper, 11 April 2017
Management Board of Intereuropa d.d.

Ernest Gortan, MSc,
President of the Management Board

Tatjana Vošinek Pucer, MSc,
Deputy President of the Management Board

Marko Cegnar, MSc,
Member of the Management Board

1.6 SIGNIFICANT EVENTS IN 2016

January–June

- Intereuropa joined the Slovenian economic delegation to Iran in January and took part in the Slovenian–Iranian business forum. Meetings were held with Iranian logistics providers and other business partners who provide an opportunity for cooperation, particularly in the automotive, pharmaceutical, steel and agricultural mechanisation industries, where Intereuropa can provide its sea freight (shipping) and land transport services.
- On 19 February 2016 the Supervisory Board of Intereuropa d.d. appointed Marko Cegnar to a four-year term of office as member of the Management Board responsible for sales.
- Intereuropa representatives attended the Fruit Logistics fair in Berlin, where they held meetings with customers and business partners.
- Intereuropa launched a regular groupage line in February for imports and exports between Serbia and Turkey, where Belgrade serves as the central hub for shipments to/from Turkey for the entire region in which the Group operates.
- On 3 March 2016 the Supervisory Board was briefed on the performance of the Intereuropa Group during the 2015 financial year. The Intereuropa Group generated revenues of EUR 134.6 million from the sale of logistics services. It achieved an operating profit of EUR 4.7 million and a net profit of EUR 0.8 million.
- Intereuropa took part in a partner conference organised by the HCL Conference (Ecu Air) in Lisbon, Portugal between 8 and 12 March. Representatives of Intereuropa attended several meetings within the partner network and entered into new cooperation agreements. Intereuropa received the award of 'Most Responsive Agent within the HCL Network'.
- Intereuropa representatives also attended the meeting organised by Luka Koper d.d. in Cairo, where they met with existing business partners and made contacts with logistics operators from various partner networks.
- Intereuropa established cooperation with a new partner for groupage services in the UK, with whom it jointly operates two regular weekly lines for the shipment of imports and exports.
- Intereuropa attended the 7th Regional Business Plus Conference on 31 March, where the representatives of regional companies discussed the importance of brands.
- Intereuropa representatives took part in the Supply Chain in Science and Practice congress, which was organised by the Slovenian Logistics Association in Portorož on 6 and 7 April.
- On 21 April the Supervisory Board adopted the audited annual report for 2015, together with the auditor's report compiled by the certified external auditor, as well as the report of the Supervisory Board for 2015.
- As part of the organisation of an event for its key customers, Intereuropa attended the Internautica (yacht) fair on 5 May with the aim of strengthening ties and future business cooperation.
- Intereuropa took part in the 'Employment–New Perspective' employment fair on 10 May. The aforementioned fair was organised by the Koper Regional Office of the Employment Service of Slovenia, which presented its current needs and the most frequently sought-after staff.
- Representatives of Intereuropa attended the 'port days' on 11 May in Katowice (Poland), where they presented the logistics services Intereuropa provides to existing and potential business partners.
- During the implementation of the 'Promoting Occupational Health in the Workplace' project, Intereuropa d.d. purchased four automated external defibrillators (AED) that are installed at Intereuropa's head office in Koper and at our facilities in Ljubljana, Celje and Maribor. The devices are available to any persons in need of such assistance.
- The Supervisory Board was briefed on the unaudited report regarding the business results of the Group for the period January–March 2016 at its session of 18 May. The Intereuropa Group generated sales revenue of EUR 33.7 million during the first quarter. It achieved an operating profit of EUR 1.7 million and a net profit of EUR 0.7 million.
- Intereuropa attended a promotional event organised by Luka Koper in Belgrade on 25 May, where it strengthened current business ties and presented its services to potential Serbian business partners.

July–December

- Intereuropa took part in the sustainable intra-logistics fair 'Intralogistics and Supply Chain Management' (CeMAT) in Hanover from 31 May to 3 June.
- We completed the construction of new cold store facilities in Maribor with a capacity of around 2,500 pallets.
- The 29th General Meeting of Shareholders of Intereuropa d.d. was held on 8 July, when shareholders were briefed on the 2015 annual report of the Intereuropa Group, together with the auditor's opinion. Shareholders conferred official approval on the Supervisory Board and Management Board for their work in 2015, were briefed on the use of distributable profit for 2015 (the full amount of which will remain undistributed) and appointed the audit firm for 2016, i.e. KPMG, Slovenija, podjetje za revidiranje, d.o.o., Ljubljana.
- Intereuropa's subsidiary in Zagreb upgraded its freight vehicle fleet in August through the purchase of four new tractor units, together with semi-trailers.

- The Supervisory Board of Intereuropa d.d. was briefed on the unaudited report regarding the business results of the Group for the period January–June 2016 during its session of 25 August. The Intereuropa Group generated EUR 69.3 million in revenues and disclosed a net profit of EUR 2.0 million during the first six months of the year.
- Intereuropa's subsidiary Zetatrans A.D., Podgorica (Montenegro) provided customs clearance services and helped organise transportation for the humanitarian aid programme that was carried out by the government of the Republic of Montenegro in cooperation with other companies that delivered aid to flood-stricken regions of Macedonia.
- Intereuropa has been a partner of Celjski sejem d.d. for several years now, cooperating with the latter as the official logistics provider for the fair. The Group presented its comprehensive range of logistics services at its own stand at the aforementioned international fair.
- Intereuropa was visited by a delegation from the federal state of Bavaria. The meeting was organised by the Slovenian-German Chamber of Commerce and Industry with the aim of strengthening current business relations and establishing mutual economic ties.
- A case of fraud was discovered in September in the refined petroleum product warehouse at the subsidiary AD Zetatrans A.D., Podgorica, which resulted in damage to the aforementioned company in the amount of EUR 1,037 thousand.
- We renovated 595 m^2 of warehouse space in Celje for customers' needs for the purpose of storing and dispatching cargo requiring a special temperature regime.
- The management and senior officers of the Intereuropa Group met at the annual conference on 20 October to discuss strategic policies and planning points of departure for the 2017 financial year.
- In November we completed the renovation of warehouse space (1.500 m2 in area) at Intereuropa's Belgrade subsidiary for the storage of hazardous materials and goods requiring a special temperature regime.
- The Supervisory Board was briefed on the performance of the Intereuropa Group during the first nine months of the year at its session held on 28 November 2016. The Intereuropa Group generated EUR 102.2 million in sales revenue in the period January–September 2016 and an operating profit of EUR 5.5 million, and ended the aforementioned period with a net profit of EUR 3.1 million.
- Intereuropa d.d. concluded an agreement on 10 November 2016 on the sale of a 24% stake in the joint venture Intereuropa FLG d.o.o., under the suspensive condition that the Slovenian Competition Protection Agency gives its consent. Intereuropa will retain a 26% stake in the aforementioned company following the completion of the sale.
- The Deputy President of the Management Board of Intereuropa d.d. Tatjana Vošinek Pucer, MSc reached an agreement with the Company's Supervisory Board on 14 December regarding the early termination of her term of office. She will continue performing her function until 30 April 2017.
- The Supervisory Board adopted the business plan of the Intereuropa Group for the 2017 financial year at its session held on 14 December 2017.
- Intereuropa d.d. sold its asphalt parking lot within the confines of the Port of Koper on 28 December in accordance with its adopted strategy. The full amount of consideration (EUR 7.8 million) was earmarked for the reduction of the Company's liabilities from bank loans.

Significant events after the end of the 2016 financial year

- On 3 January 2017 KBS banka d.d. was merged with Nova KBM d.d., resulting in the transfer of all of its obligations and rights to Nova KBM d.d. In addition to 1,185,292 preference shares (IEKN), Nova KBM d.d. thus became the owner of an additional 2,850,752 ordinary shares (IEKG), bringing its total participating interest in the capital of Intereuropa d.d. to 14.7%.
- The associate Intereuropa FLG d.o.o. was renamed Rail Cargo Logistics d.o.o. on 3 February. A change in ownership was registered on the same day.

Information regarding significant events is continuously published on the Company's website at www.intereuropa.si.

1.7 CORPORATE GOVERNANCE STATEMENT

Intereuropa d.d. is a public company limited with a two-tier governance system. Corporate governance is based on the laws of the Republic of Slovenia, the Company's Articles of Association, internal acts and the Corporate Governance Policy of Intereuropa d.d. The Company's Articles of Association and the rules of procedures of individual bodies are accessible on the Company's website at www.intereuropa.si in the 'Corporate Governance' section under the 'Investors' tab. The principal guidelines of corporate governance are transparent operations, the clear segregation of responsibilities and tasks between bodies, continuous concern for the independence and loyalty of the members of management and supervisory bodies, and the continuous implementation of improvements to increase the effectiveness of governance.

In 2016 the Company has adopted the recommendations of the Corporate Governance Code, which has been in force since 8 December 2009. The aforementioned code was adopted by the Ljubljana Stock Exchange, the Slovenian Directors' Association and the Managers' Association of Slovenia. In 2017 the Company will begin applying the Slovenian Corporate Governance Code, which was adopted by the Ljubljana Stock Exchange and the Slovenian Directors' Association on 27 October 2016.

1.7.1 GENERAL MEETING OF SHAREHOLDERS

Functional bases and method of convocation

The General Meeting of Shareholders is the Company's highest body. Its purpose is to facilitate the direct exercising of shareholders' rights in matters concerning the Company. The functioning of the General Meeting of Shareholders is governed by the ZGD-1, the Company's Articles of Association and the Rules of Procedures of the General Meeting of Shareholders, which are published on the Company's website in the 'Corporate Governance' section under the 'Investors' tab.

The General Meeting of Shareholders may be convened by the Management Board at its own initiative, or at the request of the Supervisory Board or shareholders. The annual General Meeting of Shareholders is typically convened by the end of June every year. Intereuropa d.d.'s shareholders are informed in a timely manner about the convocation of the General Meeting of Shareholders, which is published on the websites of the AJPES and Intereuropa d.d., and via the Ljubljana Stock Exchange's SEOnet system.

Materials for the General Meeting of Shareholders, including proposed resolutions for all points on the agenda, are available for viewing at the Company's headquarters in Koper, in the Ljubljana Stock Exchange's SEOnet system and on the Company's website in the 'Corporate Governance' section under the 'Investors' tab, from the date of convocation until the day the General Meeting of Shareholders is held.

Intereuropa d.d. encourages all major shareholders to inform the public of their governance policy. To that end, the convocation of the General Meeting of Shareholders included a call to major shareholders to publicly disclose, at a minimum, their voting policy, the type and frequency of governance activities, and the dynamics of communication with the Company's management and supervisory bodies.

Conditions for attendance and communication with shareholders

Only shareholders entered in the Company's share register (managed by the Central Securities Clearing Corporation or KDD) and their authorised representatives or proxies who have registered to attend in writing by the legally prescribed deadline have the right to attend and exercise voting rights at the General Meeting of Shareholders. An authorised representative of a shareholder must also submit authorisation when they register. Each share entitles its holder to one vote.

Intereuropa d.d. encourages the active participation of the maximum number of small shareholders at the General Meeting of Shareholders. Thus, the materials issued when the General Meeting of Shareholders is convened also include sample registration and authorisation forms. The Company's website also has an 'Investors' tab, where small shareholders and other investors will find information regarding corporate governance and annual and interim reports, in addition to information regarding the General Meeting of Shareholders.

Shareholders are briefed on adopted resolutions immediately following the conclusion of the General Meeting of Shareholders, on the Company's website and in the Ljubljana Stock Exchange's SEOnet system.

General Meeting of Shareholders in 2016

The shareholders of Intereuropa d.d. met at the 29th General Meeting of Shareholders held on 8 July 2016. In accordance with the second paragraph of Article 315 of the ZGD-1, the holders of preference shares exercised their voting rights during the General Meeting of Shareholders.

A total of 81.86% of shares with voting rights were represented at the 29th General Meeting of Shareholders. The General Meeting of Shareholders discussed the following points and adopted the following significant resolutions:

- It was briefed on the annual report of the Intereuropa Group for 2015, together with the auditor's opinion, on the Supervisory Board's written report on the verification of the consolidated annual report for 2015, and on the method and scope of verification of the Company's management in 2015, which was submitted by the Supervisory Board.
- It adopted a resolution, whereby distributable profit in the amount of EUR 623,516.18 will remain undistributed.
- It approved the work of the Company's Supervisory Board and Management Board during the 2015 financial year.
- The General Meeting of Shareholders appointed the audit firm KPMG Slovenija, podjetje za revidiranje, d.o.o. to audit the financial statements for the 2016 financial year.

The full text of resolutions adopted by the General Meeting of Shareholders is available on the Company's website at www.intereuropa.si in the subsection 'General Meeting' under the 'Investors' tab.

1.7.2 SUPERVISORY BOARD

Composition of the Supervisory Board and its committees

Intereuropa d.d.'s Supervisory Board comprises six members, four of whom are shareholder representatives and two of whom are employee representatives. Members serve a four-year term of office, with the possibility for re-election. Supervisory Board members who represent the interests of shareholders are elected by the General Meeting. Employee representatives are elected by the Works Council, and the General Meeting is informed accordingly.

TABLE 5: COMPOSITION OF INTEREUROPA D.D.'S SUPERVISORY BOARD DURING THE 2016 FINANCIAL YEAR

Name and surname	Klemen Boštjančič	Maša Čertalič, MSc.	Miro Medvešek	Jure Fišer	Ljubo Kobale	Nevija Pečar
Function (Chairman, deputy, member)	Chairman	Member	Member of the Supervisory Board	Member of the Supervisory Board	Member of the Supervisory Board	Deputy President of the Supervisory Board
Initial appointment to function	21. 6. 2013	11. 9. 2013	11. 9. 2013	20. 6. 2015	19. 11. 2009	18. 11. 2005
End of function/ term of office	21. 6. 2017	11. 9. 2017	11. 9. 2017	20. 6. 2019	20. 11. 2017	20. 11. 2017
Shareholder/employee representative	Shareholder representative	Shareholder representative	Shareholder representative	Shareholder representative	Employee representative	Employee representative
Attendance at sessions with respect to total no. of sessions	10 of 10	9 of 10	10 of 10	10 of 10	10 of 10	10 of 10
Gender	M	F	M	M	M	F
Nationality	Slovene	Slovene	Slovene	Slovene	Slovene	Slovene
Year of birth	1972	1976	1964	1971	1962	1957
Qualifications	Bachelor's degree in economics	Master's degree in transport-logistics management	Bachelor's degree in economics	Bachelor's degree in economics	Sales executive	Economic technician
Membership on supervisory bodies of other companies	Member of the Supervisory Board of Merkur Trgovina d.d., member of the Management Board of Sava d.d.	/	Member of the Supervisory Board of Sava d.d. until 23 December 2016	Member of the Supervisory Board of Merkur Trgovina d.d.	/	/
Membership on committees (e.g. audit, human resource, or remuneration)	Nomination and Remuneration Committee	Nomination and Remuneration Committee	Audit Committee – chairman	Audit Committee	Nomination and Remuneration Committee	Audit Committee
Chairman/member	Chairman	Member	Member	Member	Member	Member
UAttendance at sessions of committees with respect to total no. of sessions	2 of 2	2 of 2	9 of 9	9 of 9	2 of 2	9 of 9

TABLE 6: COMPOSITION OF COMMITTEES DURING THE 2016 FINANCIAL YEAR

External committee members (e.g. audit, human resource or remuneration)								
Name and surname	**Committee**	**Attendance at sessions of committees with respect to total no. of sessions**	**Gender**	**Nationa-lity**	**Qualifications**	**Year of birth**	**Professional profile**	**Membership in supervisory bodies of company/ unaffiliated companies**
Aljfo Kocjančič*	Audit Committee	2 of 9	M	Slovene	Bachelor's degree in economics	1950	Certified auditor	/
Barbara Nose**	Audit Committee	3 of 9	F	Slovene	Bachelor's degree in economics	1964	Certified auditor	/

* Alfjo Kocjančič served as an external member of the Supervisory Board's Audit Committee until 21 April 2016.
** Barbara Nose has been an external member of the Supervisory Board's Audit Committee since 25 August 2016.

Audit Committee

The Audit Committee met at nine sessions at which it primarily discussed topics, in accordance with its recommendations, relating to the financial reporting process, the external auditing of the financial statements, risk management, the internal controls system, internal auditing and compliance-related topics. It reported regularly to the Supervisory Board and provided the latter expert support in the most complex decisions regarding supervision of the management of operations.

The Audit Committee functioned in the following composition in 2016:
- Miro Medvešek, chairman;
- Nevija Pečar, member;
- Jure Fišer, member;
- Alfjo Kocjančič, independent expert and member of the committee until 21 April 2016;
- Barbara Nose, independent expert and member of the committee since 25 August 2016.

The Audit Committee functioned in accordance with its competences, and in the manner set out in the ZGD-1, the Corporate Governance Policy of Intereuropa d.d., the Internal Audit Department's charter and the Rules of Procedure of the Audit Committee. Details regarding the work of the Audit Committee are also included in the report of the Supervisory Board.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee met at two sessions in 2016, where it primarily discussed HR-related topics and topics relating to the remuneration of the Management Board. The committee's work is presented in more detail in the report of the Supervisory Board. The committee functioned in the following composition:
- Klemen Boštjančič, chairman;
- Maša Čertalič, MSc, member;
- Ljubo Kobale, member.

Competences, work method and remuneration

The Supervisory Board functions within the scope of its competences and in the manner set out in the ZGD-1, the Company's Articles of Association and the Rules of Procedure of the Supervisory Board. The Supervisory Board's commitments regarding corporate governance are set out in Intereuropa d.d.'s Corporate Governance Policy, and include a system for identifying conflicts of interest and ensuring the independence of its members. All members of the Supervisory Board signed a statement underlining their positions on the criteria of independence set out in point C.3 of Annex C to the Corporate Governance Code. Those statements are published on the Company's website at www.intereuropa.si.

Regular sessions of the Supervisory Board must be held at a minimum quarterly. The Rules of Procedure of the Supervisory Board define the areas of the aforementioned body's work. The Supervisory Board reports on its work at the General Meeting of Shareholders.

Information regarding the remuneration of the Supervisory Board in 2016 is published in the financial report of the controlling company Intereuropa d.d. According to the Articles of Association, Supervisory Board members shall not participate in the Company's profit.

1.7.3 MANAGEMENT BOARD

The tasks and areas of responsibility of the Management Board are defined in the Company's Corporate Governance Policy, while the aforementioned body's work method is set out in the Rules of Procedure of the Management Board and the Company's Articles of Association. The latter states that the Management Board shall comprise a maximum of four members, while the Supervisory Board defines the number of members taking into account the principles of efficiency and economy. Intereuropa d.d.'s Management Board comprised three members for the majority of 2016, as Marko Cegnar was appointed as a member on 19 February 2016. The Company's Management Board thus comprised the President, Deputy President and one other member in 2016. The Management Board functioned independently in its work and took full responsibility for managing the Company.
The Deputy President of Intereuropa d.d.'s Management Board, Tatjana Vošinek Pucer, MSc, reached an agreement with the Company's Supervisory Board regarding the early termination of her term of office for personal reasons. She will continue performing her function until 30 April 2017.

TABLE 7: COMPOSITION OF THE MANAGEMENT BOARD DURING THE 2016 FINANCIAL YEAR

Name and surname	Function (President, member)	Area of work on the Management Board	Initial appointment to function	End of function/ term of office	Gender	Nationality	Year of birth
Ernest Gortan	President	Human resources and general affairs, quality, legal affairs, internal auditing, public relations	10. 6. 2009	11. 6. 2019	M	Slovene	1968
Tatjana Vošinek-Pucer*	Deputy President	Finance, accounting, controlling, risk management, investments and real estate, and IT support	25. 5. 2010	30. 4. 2017	F	Slovene	1964
Marko Cegnar**	Member	Forwarding and logistics, sales, marketing	19. 2. 2016	18. 3. 2020	M	Slovene	1973

* Tatjana Vošinek Pucer, MSc reached an agreement with the Company's Supervisory Board regarding the early termination of her term of office, which she will perform until 30 April 2017.
** Marko Cegnar was appointed to the Company's Management Board on 19 February 2016.

Work of the Management Board in 2016

The Management Board managed Intereuropa d.d. and the Intereuropa Group in accordance with established strategic objectives and policies. In performing its tasks and fulfilling its responsibilities, the Management Board observed the principles of corporate governance set out in the Corporate Governance Policy of Intereuropa d.d. and complied with the provisions of the Corporate Governance Code. The Management Board performs its work in accordance with the principles set out in Intereuropa d.d.'s Code of Ethics, applicable regulations, the Rules of Procedure of the Management Board, the Company's Articles of Association and the resolutions adopted by the Company's bodies.

Remuneration of the Management Board

The remuneration received by Management Board members comprises fixed and variable components, and is proportionate to the tasks of those persons and the financial position of the Company. The variable component of remuneration is dependent on the performance of the Company, which is determined based on whether the objectives set out in the annual business plan have been achieved or exceeded. The Management Board is also entitled to participate in the Company's profit, at the discretion of the Supervisory Board. The remuneration received by the Management Board is presented in Intereuropa d.d.'s financial report.

Management Board members in 2016:

Ernest Gortan, MSc,
President of the Management Board:

- Year of birth: 1968;
- bachelor's degree in electrical engineering and master's degree in management (Bled School of Management);
- performed executive and senior management functions in the areas of marketing and logistics at Luka Koper d.d. and Secom, d.o.o., and served as President of the Management Board of BTC Terminal Sežana, d.d.;
- term of office: from 11 June 2014 to 11 June 2019;
- responsible for human resources and general affairs, quality assurance, legal affairs, internal auditing and public relations.

Tatjana Vošinek Pucer, MSc,
Deputy President of the Management Board:

- Year of birth: 1964;
- bachelor's and master's degrees in economics (University of Ljubljana, Faculty of Economics);
- performed executive and senior management functions in the areas of sales and investment at Iplas, n.sol.o., R&P Express d.o.o. and Vipta d.o.o., and crisis management tasks at Preskrba, d.d., Sežana and Emona Obala, d.d., Koper;
- term of office: from 25 May 2015 to 30 April 2017;
- responsible for finance, accounting, controlling, risk management, investments and real estate, and IT support.

Marko Cegnar, **MSc**,
member of the Management Board:

- Year of birth: 1973;
- master's degree in management;
- performed executive and senior management functions in the areas of sales, marketing, purchasing and logistics at DHL Express d.o.o., ISS SERVISYSTEM d.o.o., ITG Tobačna Grosist d.o.o., Orbico d.o.o. and DHL logistika d.o.o.;
- term of office: from 19 March 2016 to 18 March 2020;
- responsible for forwarding and logistics, sales and marketing.

1.7.4 DESCRIPTION OF THE DIVERSITY POLICY IN CONNECTION WITH REPRESENTATION ON THE COMPANY'S MANAGEMENT AND SUPERVISORY BODIES

The Corporate Governance Policy and Code of Ethics set out the Company's commitment to preventing discrimination, which states that Intereuropa guarantees equal opportunities to all its employees regardless of gender, race, skin colour, age, state of health, religious, political or other beliefs, membership in unions, sexual orientation or other personal circumstance. The Company has not yet adopted a stand-alone policy in connection with representation on the Company's management and supervisory bodies. The Company's diversity policy is being formulated and will set out the target level of diversity that will be pursued in connection with representation on the Supervisory Board and Management Board, in terms of age, education, gender and the other personal traits of members.

1.7.5 MANAGEMENT AND GOVERNANCE OF GROUP COMPANIES

The controlling company and its subsidiaries make up the Intereuropa Group, which is centrally managed by the Management Board of Intereuropa d.d. The policy governing links between the controlling company and its subsidiaries is set out in the Corporate Governance Policy of Intereuropa d.d. An effective system for managing and governing subsidiaries is an important factor in the successful achievement of the Group's business objectives and in the transparency of its operations.

Governance principles for subsidiaries

The controlling company strives for global efficiency in the governance of Group companies, while promoting a rapid response to the needs of local markets. At the forefront of the governance of subsidiaries are cooperation between Group companies and the sharing of know-how and best practices within the Group.

The governance of Group companies is based on a combination of control and coordination mechanisms. Centralised decision-making through supervisory bodies ensures the uniformity of strategic policies and important business, HR-related and technical decisions. Control over financial results remains a core element of supervision. In addition to the appointed supervisory bodies of individual subsidiaries, controlling and internal audit departments also play an important role in supervision.

The management bodies of the controlling company and subsidiaries communicate regularly with the aim of creating a standard culture within the Group, ensuring the transfer of know-how and best practices, and exploiting various synergies. Of key importance are cooperation and mutual communication at the market-operational level of specific product categories and products between all Group companies.

The effectiveness of the Group at multiple operational levels is achieved through consistent periodic communication and the necessary measures to enhance the exploitation of synergies between Group companies, particularly in the following areas:

- a coordinated and uniform market approach, with an emphasis on common logistics products and core product categories;
- the coordinated management of strategic and key customers;
- the development and optimisation of common logistics products;
- the development of standard IT support at all subsidiaries and for all logistics products;
- the transfer of best practices in the optimisation of processes and preventive measures aimed at managing risks; and
- employee development, with an emphasis on the acquisition and development of knowledge and competences relating to core product categories and key logistics products.

The operations and work of Intereuropa Group companies are in line with local legislation, resolutions adopted by the management bodies of the controlling company and subsidiaries, cooperation agreements entered into between the controlling company and individual subsidiaries, and the applicable internal rules of procedure and other rules adopted by the Management Board of the controlling company.

Proactive monitoring and supervision of operations

The involvement of Management Board members and the executive staff of Intereuropa d.d. on the supervisory boards, boards of directors and management boards of subsidiaries ensures increased coordination in the implementation of strategic decisions, more comprehensive supervision over the operations of subsidiaries and the improved flow of information.

The operations and the achievement of planned objectives of subsidiaries are monitored regularly through monthly reporting and quarterly business projections that facilitate a more rapid response to fluctuations in demand through the implementation of proactive measures. There was continuous communication between the controlling company's Management Board and the senior management of subsidiaries, either by electronic means or in person. The executive and management staff of all Group companies met in October at Intereuropa's annual conference, where they presented the activities carried out to achieve planned objectives for 2017.

1.7.6 CORPORATE INTEGRITY

Intereuropa d.d. signed the Slovenian Corporate Integrity Guidelines in 2014. Those guidelines were drafted by the Slovenian Directors' Association, the Managers' Association of Slovenia, the Chamber of Commerce and Industry of Slovenia and the Faculty of Economics at the University of Ljubljana.

In 2012 the Company adopted the Code of Ethics of the Intereuropa Group, which includes fundamental ethical values, and defines relations with employees, customers, suppliers, business partners, investors and society as a whole. All employees at all Intereuropa Group companies must comply with the Code of Ethics. If employees or third parties identify conduct that is contrary to the provisions of the aforementioned code, they may file a report with the Ethics Board, which was appointed on the basis of the adopted Code of Ethics. No reports were addressed to the Ethics Board during the 2016 financial year.

The Company's Management Board appointed a corporate integrity officer in 2016 and began to implement activities aimed at improving the Intereuropa Group's corporate integrity system.

1.7.7 AUDITING

External auditing

The Company's General Meeting of Shareholders appointed the audit firm KPMG Slovenija, podjetje za revidiranje, d.o.o. to audit the financial statements of Intereuropa d.d. and the Intereuropa Group for the 2016 financial year.

The transactions of Intereuropa d.d. and its subsidiaries with audit firms are presented in the Company's financial report as part of the notes to financial statements of the Company and Group.

Internal auditing

In organisational terms, the Internal Audit Department functions as an autonomous and independent support service at the controlling company, and reports organisationally to the Management Board and functionally to the Supervisory Board's Audit Committee.

The bases for its work are set out in the Internal Audit Department's charter and Rules of Procedure. In addition to the aforementioned underlying documents, the work of internal auditors is also in line with the International Standards for the Professional Practice of Internal Auditing, the Professional Code of Ethics of Internal Auditors, the Code of Internal Auditing Principles, applicable laws and other regulations, and the internal acts of the Company.

Internal auditing is carried out in accordance with the Internal Audit Department's strategic and annual plan. The Internal Audit Department's work plan for the 2016 financial year was adopted by the Company's Management Board and discussed by the Audit Committee of the Supervisory Board, which also gave its consent to the aforementioned plan.

The core objective of the Internal Audit Department is to help the senior management of the Intereuropa Group improve corporate governance and risk management, and improve performance and the efficiency of operations in the scope of the Group's adopted development strategy, and business and financial plans.
During the 2016 financial year, internal auditors performed internal audits of operations in 2015 and other internal audit tasks in accordance with the work plan for 2016. Internal audits were performed at the controlling company and at four Intereuropa Group subsidiaries. The objective of audits was to assess the risk management approach and the functioning of internal controls associated with business and support processes, particularly in terms of the compliance of those processes with legal and internal regulations. Audit reports included recommendations for improvement.

The Internal Audit Department regularly monitors the implementation of issued recommendations. Verification of the implementation of recommendations was carried out in line with planned activities. The Internal Audit Department assesses that the implementation of recommendations was very successful during the 2016 financial year. Verification of the implementation of recommendations issued in the scope of audits will continue in 2017.

In addition to internal audit tasks, the Internal Audit Department also performed advisory tasks in 2016. Several advisory tasks were performed, mostly at the controlling company.

The Internal Audit Department also dedicated some time during the 2016 financial year to enhancing the expertise of its employees and to improving the quality of its work by upgrading internal audit methodologies. An external assessment of the quality of internal audit work was performed in 2015. Based on that assessment, the Internal Audit Department received an opinion that it functions in accordance with the International Standards for the Professional Practice of Internal Auditing.

The Internal Audit Department reports regularly to the Management Board and Audit Committee regarding its work. Periodic reports on the work of the Internal Audit Department during the 2016 financial year were discussed by the Company's Management Board, Supervisory Board and the latter's Audit Committee.

1.7.8 DESCRIPTION OF THE MAIN FEATURES OF INTERNAL CONTROLS AND RISK MANAGEMENT AT THE COMPANY IN RELATION TO THE FINANCIAL REPORTING PROCESS

The purpose of internal controls is to ensure the reliability of financial reporting and compliance with valid laws, and other external and internal regulations. Accounting controls are employed to manage the risks associated with the following:
- the credibility of accounting data: of primary importance are bookkeeping documents, as evidence of the existence of business events, that clearly show the content and value of such transactions;
- the completeness of financial data: this is ensured through precisely defined record-keeping procedures in internal acts, and through control over the functioning of such procedures;
- the accuracy of financial data: this is ensured by comparing data in the information system with data in the underlying bookkeeping documents; and
- the segregation of responsibilities in business processes and authorisations for work in the information system: the precise and consistent definition of tasks and responsibilities of those involved in a specific business event.

When compiling the financial statements of the Group and the notes thereto, risks are mitigated primarily through:
- the transparent organisational structure of the controlling company and Group;
- the consistent application of accounting principles and policies;
- the observation of the timetable for the compilation of the financial statements and the notes thereto.

The information system, with its built-in controls, also plays an important role. The authorisation system ensures that users only perform those business processes for which they are authorised.

1.7.9 INFORMATION REGARDING DIRECT AND INDIRECT HOLDINGS OF THE COMPANY'S SECURITIES IN TERMS OF ACHIEVING A QUALIFYING HOLDING, SPECIAL CONTROLLING RIGHTS AND RESTRICTED VOTING RIGHTS

Major direct and indirect holdings of the Company's securities in terms of achieving a qualifying holding

Information regarding the achievement of a qualifying holding, as set out in the Takeovers Act, is continuously published in the Ljubljana Stock Exchange's electronic information system (SEOnet) and forwarded to the Securities Market Agency.

Direct holders of significant participating interests in Intereuropa as the issuer in excess of 5% of voting rights as at 31 December 2016, pursuant to Article 105 of the Financial Instruments Market Act:

SID banka d.d.	18.0% of voting rights (4,942,072 IEKN* shares)
NLB d.d.	17.4% of voting rights (240,000 IEKG + 4,530,601 IEKN* shares)
Gorenjska banka d.d.	11.2% of voting rights (3,068,990 IEKG shares)
KBS banka d.d.**	10.4% of voting rights (2,850,752 IEKG shares)
SKB d.d.	8.2% of voting rights (2,254,980 IEKG shares)

* Voting rights acquired on the basis of Article 315 of the ZGD-1.
** Raiffeisen banka d.d. until 30 June 2016.

On 3 January 2017 KBS banka d.d. was merged with Nova KBM d.d., resulting in the transfer of all of its obligations and rights to Nova KBM d.d. In addition to 1,185,292 preference shares (IEKN), Nova KBM d.d. thus became the owner of an additional 2,850,752 ordinary shares (IEKG), bringing its total participating interest in the capital of Intereuropa d.d. to 14.7%.

Explanations regarding each holder of securities that provide special controlling rights

Individual shareholders who hold ordinary shares do not have any special controlling rights based on the ownership of the Company's shares. There are no restrictions on the exercising of voting rights.

Explanations regarding all restrictions on voting rights and regarding treasury shares

The Company's share capital is divided into 27,488,803 shares as follows: 16,830,838 ordinary registered freely transferable no-par-value shares and 10,657,965 preference shares.

The holders of Intereuropa d.d.'s ordinary shares are not subject to any restriction on voting rights. The Company has no voting rights arising from its treasury shares in accordance with Article 249 of the Companies Act (ZGD-1). Intereuropa d.d. held 18,135 treasury shares (IEKG) with a carrying amount of EUR 180,000 as at 31 December 2016, representing 0.1077% of ordinary shares and 0.0660% of all shares. Intereuropa d.d. did not purchase or sell treasury shares in 2016.

Pursuant to the second paragraph of Article 315 of the ZGD-1, the holders of Intereuropa d.d.'s preference shares had voting rights at the 29th General Meeting of Shareholders held on 8 July 2016. Thus, 27,470,668 shares out of a total of 27,488,803 shares had voting rights at the General Meeting of Shareholders, representing 99.9340% of the Company's total shares.

1.7.10 STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Management Board and Supervisory Board of Intereuropa, Globalni logistični servis, d.d., Koper verified the compliance of the Company's governance with the Corporate Governance Code, and hereby declare that the work and operations of the Company are in line with the Corporate Governance Code, which was applied from 1 January 2010 until 31 December 2016.

On 7 November 2016 the Ljubljana Stock Exchange and the Slovenian Directors' Association published a revised Corporate Governance Code, which entered into force on 1 January 2017. The Company will comply with the recommendations of the revised code in its work and operations during the 2017 financial year, and will explain any deviations in its statement of compliance for the aforementioned period.

The Corporate Governance Code is accessible in Slovene and English on the websites of the Ljubljana Stock Exchange (www.ljse.si) and the Slovenian Directors' Association (www.zdruzenje-ns.si).
The statement of compliance with the Corporate Governance Code is an integral part of the 2016 annual report and is published on the Company's website at www.intereuropa.si.

Intereuropa d.d., Koper

Koper, 9 March 2017

Ernest Gortan, MSc,
President of the Management Board

Klemen Boštjančič,
Chairman of the Supervisory Board

REACHING DESTINATIONS RELIABLY FOR 70 YEARS

One of the first Intereuropa's trucks (1952).

02

BUSINESS REPORT

For seventy years we have paved many ways to success. Our inner compass reliably points us to the right direction – the horizon of new opportunities that we will seize with courage and innovation in all fields of our operation.

02 BUSINESS REPORT

2.1 DEVELOPMENT STRATEGY OF THE INTEREUROPA GROUP

The long-term development of the Intereuropa Group is based on its outlined vision, mission and values. We strive for the development and specialisation of logistic products, and to strengthen our business network on existing markets. We strive for the optimisation of processes and the exploitation of the synergistic effects of coordinated operations. We implement comprehensive logistics projects tailored to the demands of our customers.

Vision

Our vision is to be a superior provider of comprehensive logistics solutions.

Mission

The Intereuropa Group's mission is to satisfy needs for logistics services and ensure the optimal functioning of supply chains to the complete satisfaction of our customers, while creating added value for owners, employees and other stakeholders in a socially responsible manner.

Values

Integrity. We respect the highest ethical principles and best business practices. We operate in full compliance with applicable legislation, guidelines and recommendations, and the Company's internal regulations.

Excellence. Our services are geared towards the superior satisfaction of every customer's needs for logistics services, and are based on our advanced logistics know-how.

Adaptability and flexibility. Our services are prompt and tailored to our customers' needs. We achieve this by applying innovative approaches and ensuring a lean organisation.

Responsibility. We are distinguished by a high level of responsibility for the obligations we undertake, the agreements we conclude, and the social and natural environments in which we live.

Teamwork and a respectful approach to employees. The quality of our services is the result of the work of individuals and top-notch expert teams. We value diverse types of knowledge, experiences and different views.

The pursuit of our vision relies on a strategy comprising four key pillars: the development and segmentation of logistics products, customer management, geographical coverage and effective governance of the Group.

FIGURE 1: FOUR KEY PILLARS OF THE GROUP'S STRATEGY

The Group's strategic policies derive from the four pillars of our developmental and operational strategy:
- the consolidation and strengthening of our position as the leading market provider of comprehensive logistics solutions in the countries of the former Yugoslavia;
- the optimisation of business processes with the help of innovative IT solutions;
- the development of the culture of an innovative organisation, susceptible to change, and centred around motivated employees and effective teamwork; and
- the maintenance of financial stability through divestment, deleveraging and the effective management of working capital.

The strategic plan of the Intereuropa Group sets the following objectives for 2019:

1. Sales revenue	€ 166.0 mio
2. EBITDA	€ 15.8 mio
3. Operating Profit or Loss (EBIT)	€ 7.8 mio
4. Investments (CAPEX)	depreciation at 66% on average in 5 years total € 24.5 mio
5. Number of employees at year-end	1.405
6. Debt management	Net debt/EBITDA: 3.4

2.1.1 IMPLEMENTATION OF STRATEGIC DEVELOPMENT OBJECTIVES AND PLANS IN 2016

The situation faced by the Group in the internal and external business environment and forecasts of future market developments served as the basis for the planning of strategic objectives and policies for the period 2015 to 2019.

The pursuit of our vision relies on a strategy comprising four key pillars:

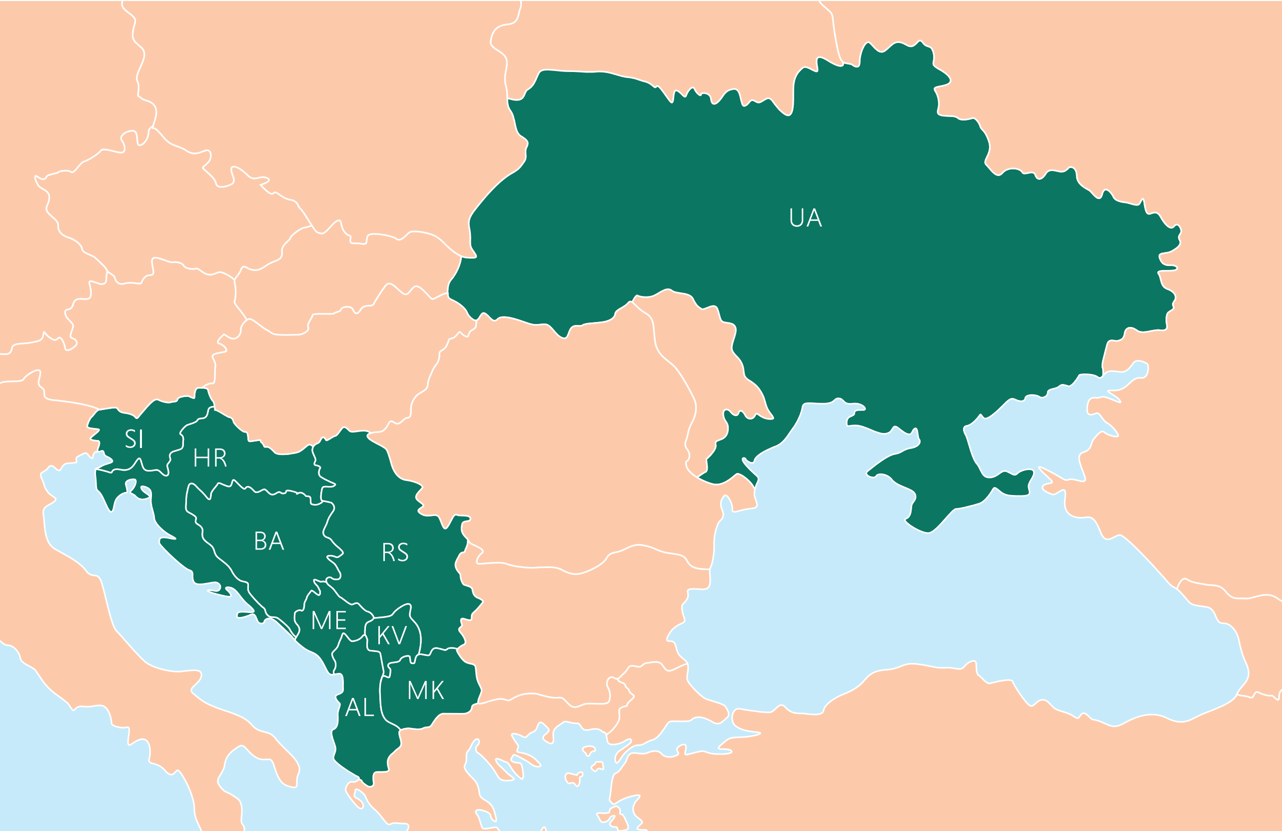
The development and segmentation of logistics products will continue to be based on the development of our three core business lines, with a focus on products and transactions that will yield higher value added and ensure E2E (end-to-end) operations along the entire supply chain.

Customer management will continue to receive special attention. We are developing a market-based approach that will rely on a new marketing strategy, and the monitoring of its implementation and incentives, through which we will establish a more effective network marketing model with a focus on a predefined industry, and a horizontal approach to the marketing of individual products with higher value added.

Geographically, our subsidiaries will continue to cover the markets of the former Yugoslavia, as well as Albania. We will be ready for expansion to south-eastern Europe if the needs of our key customers and opportunities for further development on that market arise.

The **effective governance of Group companies** is based on a combination of control and coordination mechanisms, where control over financial results remains the basic element of overall control. The objective of increasing the efficiency of the Group as a whole on multiple operational levels will be achieved through consistent periodic communication and appropriate measures aimed at enhancing synergies between Group companies, particularly in the following areas:
- a coordinated and uniform market approach, with an emphasis on core product categories;
- the coordinated management of strategic and key customers;
- the development and optimisation of common logistics products;
- the development of uniform IT support at subsidiaries;
- the transfer of best practices in the optimisation of processes and in preventive measures to manage risks; and
- employee development, with an emphasis on the acquisition and development of knowledge and competences relating to core product categories and key logistics products.

FIGURE2: NETWORK OF INTEREUROPA GROUP COMPANIES, WITH SUBSIDIARIES IN SLOVENIA, CROATIA, BOSNIA AND HERZEGOVINA, SERBIA, MONTENEGRO, KOSOVO, MACEDONIA, ALBANIA AND THE UKRAINE



Implementation of business plan in 2016

The following key objectives were set for 2016:

- to exceed revenues generated in 2015 while maintaining or increasing profitability, by changing our market approach, strengthening cooperation with customers that require integrated logistics solutions across the entire supply chain in the region, and by securing new transactions and increasing the number of strategic customers;
- to retain and motivate our best employees, to upgrade the incentive-based employee remuneration system and to maintain flexible forms of employment, all with the aim of transforming the organisational culture into a dynamic organisation, susceptible to changes dictated by the business environment;
- to actively manage the costs of services through improved purchasing terms, to ensure the optimal use and cost-effectiveness of support functions for the performance of logistics processes;
- to continue the development of an integrated IT solution to support the logistics processes of the core business activity at the controlling company and at selected subsidiaries, to implement an SAP IT solution in Serbia, Bosnia and Herzegovina and Montenegro, and to digitalise invoices in Zagreb;
- to standardise the capture of data regarding operations, by standardising IT solutions and connecting subsidiaries to the information system in Koper;
- to effectively manage working capital;
- to invest in projects that generate long-term strategic benefits and short-term returns, and that support the needs of our customers, that are indispensable for preserving the value of assets or that are dictated by the law; and
- to intensify activities to sell real estate, with priority given to land and other real estate that generate a negative cash flow, and real estate that generates a cash flow that is lower than the interest expense on the associated financial liabilities.

The sales revenue generated in 2016 exceeded the amount achieved in 2015 by 1% or EUR 1 million. Revenues were up at all Group companies, except at Intereuropa d.d., the subsidiary in Albania and at Interagent d.o.o. An additional member responsible for sales was appointed to the Management Board in February 2016. A sales department was established at the controlling company with the aim of increasing our focus on sales. We made changes to the organisational structure of the sales function and the customer management system, and increased incentives for sales staff at the controlling company for the securing of major transactions. In accordance with the sales strategy, we increased the number of strategic customers with the help of marketing activities, as well as the proportion of complex third-party logistics transactions, which was reflected in part in increased sales margins.

We did not achieve all financial objectives set out in the business plan for the 2016 financial year. The most significant deviation was recorded in the sales plan, where we were down EUR 1.5 million or 1% on planned targets. The largest lag in absolute terms was recorded in Slovenia, where the loss of certain transactions in the road transport segment had the most significant impact. The Group also lagged behind planned sales in Croatia and Albania.

A comparison of planned sales by business line indicates that the majority of the lag relates to road transport within the land transport segment, where we were down 7% on planned sales, despite an increase in the number of orders processed. We also lagged behind planned targets in the intercontinental transport segment, primarily in the car logistics services segment as a result of the lower volume of GM vehicles and the discontinuation of business with the Short-Sea shipping company. The logistics solutions segment exceeded planned sales targets, with the increased turnover of goods in warehouses and new transactions having a significant impact in that regard.

Despite immense price pressures exerted by suppliers, we increased our sales margin, in part due to changes in the structure of the sales portfolio. Please refer to the section Marketing and sales for a more detailed overview and analysis of sales results by business line and service category, and by individual market of the Intereuropa Group.

Despite lagging behind sales targets by 1%, the Intereuropa Group exceeded its planned operating profit. Lower costs of services and materials, unplanned gains on the sale of assets and a drop in planned expenses for employee profit-sharing at the controlling company were significant factors in that regard.
We generated a loss from financing activities in the amount of EUR 2.6 million in 2016, which was EUR 0.3 million better than planned. The aforementioned deviation from the plan was primarily the result of gains on the sale of financial assets (+ EUR 0.2 million) and lower interest expense on loans raised (- EUR 0.2 million).

We continued to place special emphasis on the computerisation of operations in 2016 with the aim of established a uniform information system across the Group. We thus introduced the WexVS IT solution to support the operations of the subsidiary Interagent d.o.o., Koper and the subsidiary in Kosovo, and continued with preparatory activities to introduce the same solution at subsidiaries in Belgrade, Sarajevo and Podgorica. We continued with activities aimed at IT support for groupage and domestic transport services at the Croatian subsidiary and for sea freight services at the controlling company. At the beginning of the year, we successfully completed a project to implement the SAP IT solution at the companies in Serbia, Bosnia and Herzegovina and Montenegro, and upgraded the authorisation system of rights and access to the SAP IT solution at the controlling company during the second half of the year.

We ensured the effective management of working capital, primarily through the active management of trade receivables, the verification of customers' credit ratings and the continuous monitoring of exposure to individual customers. We regularly settled all due liabilities to suppliers and creditor banks, and fulfilled all commitments set out in the financial restructuring agreement.

In accordance with the Group's strategic guidelines, investments in training and education in 2016 focused on the following areas: IT and automation, and the acquisition of new knowledge relating to the sale of logistics services, occupational health, foreign languages, management and motivation. A great deal of emphasis was also placed on enhancing employee affiliation and loyalty. With the aim of retaining and motivating the best employees, we enhanced annual performance reviews in 2016 and developed an IT solution to support that process. We also assessed the stage of development of employees' managerial competences. We continued with activities at Slovenian Group companies in the scope of our 'Occupational Health Care Promotion Plan', in which we focused on measures to improve the physical health of employees and prevent respiratory diseases and various forms of cancer. Despite all of our activities aimed ensuring employee health, we were unable to maintain the sick leave rate below the target value at the controlling company and the subsidiary in Croatia.

The Intereuropa Group invested EUR 3.7 million in 2016. Of that amount, EUR 0.9 million was invested in real estate and EUR 2.8 million in equipment and intangible assets. We sold assets not required for business purposes in the amount of EUR 7.9 million. A significant portion of investment funds was earmarked to improve logistics capacities for goods requiring specific storage regimes.

The achievement of established financial objectives is shown in the following table. Because expenses for deferred taxes (primarily due to the reversal of deferred tax assets as the result of a tax loss at the controlling company) had a significant impact on the Group's net operating result in 2016, the table below also illustrates the adjusted net operating result.

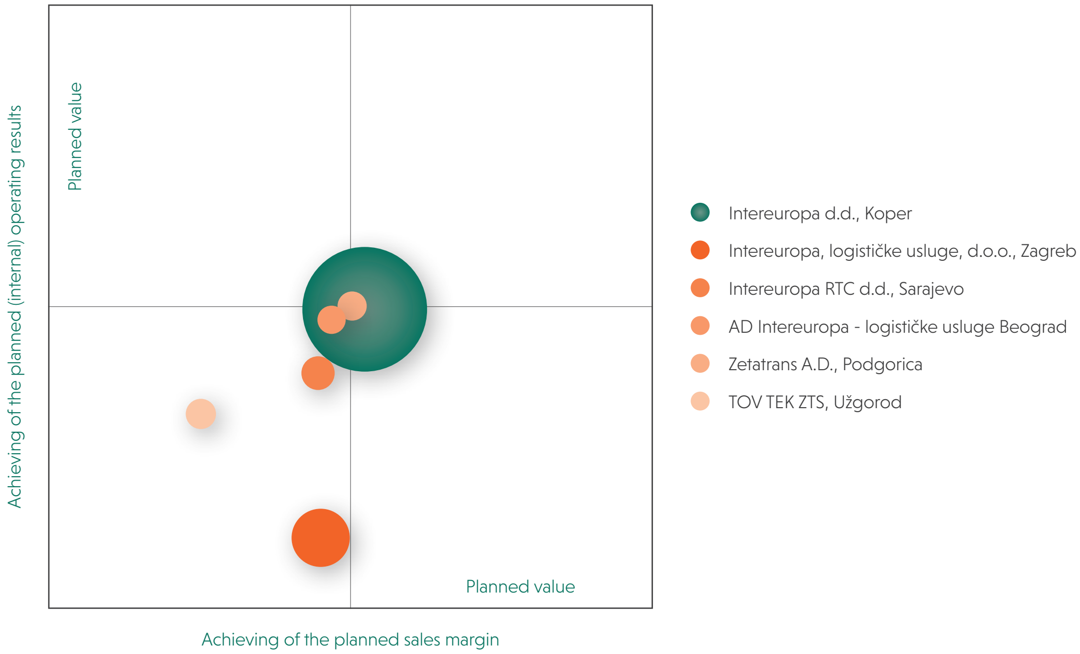
TABLE 8: ACHIEVEMENT OF ESTABLISHED FINANCIAL OBJECTIVES FOR 2016

Index/Ratio	Target value	Achieved value
Sales revenues (€ million)	137.1	135.6
EBITDA (€ million)	13.1	13.3
Operating profit or Loss (€ million)	6.3	6.7
Net profit (€ million)	2.9	-1.6
Adjusted Net profit (€ million) *	3.0	3.7
Investments (€ million)	4.5	3.7
No. of employees at the year-end	1,441	1,374

* Excluding deferred taxes.

The success of individual subsidiaries in the achievement of planned results varied. The graph below illustrates the achievement of target sales margins and (internally determined) operating results at major Group companies.

GRAPH 3: ACHIEVEMENT OF FINANCIAL AND BUSINESS OBJECTIVES BY MAJOR GROUP COMPANIES IN 2016



Note: The size of circles corresponds to the value of sales achieved by companies in 2016.

2.1.2 OBJECTIVES AND BUSINESS PLANS FOR 2017

Points of departure of the business plan

While drafting the business plan for 2017, we took into account the starting position of the Intereuropa Group at the end of 2016 and the strategic policies for 2017 that derive from the Strategic Plan of the Intereuropa Group for the period 2015–2019, as well as trends in the logistics sector and forecasts of economic trends on the Group's key markets.

TABLE 9: FORECASTS OF ECONOMIC TRENDS ON KEY MARKETS (IN %)

Country	GDP Growth		Inflation		Growth in Merchandise Exports		Growth in Merchandise Imports	
	2016	2017	2016	2017	2016	2017	2016	2017
EU	**1.9**	**1.6**	**0.7**	**1.3**	**2.8***	**3.4***	**3.6***	**3.7***
Slovenia	2.3	2.9	1.1	1.4	5.9	5.8	5.8	6.2
Croatia	1.9	2.1	-0.1	1.2	9.4	8.5	8.8	8.9
BiH	3.0	3.2	-0.3	0.7	4.8	5.4	5.9	6.7
Serbia	2.5	2.8	2.0	3.5	9.9	8.8	6.9	6.2
Kosovo	4.1	3.3	0.5	1.7	3.1	11.4	5.5	6.7
Montenegro	5.1	3.6	1.0	1.4	2.6	1.8	15.0	4.1
Macedonia	2.2	3.5	0.5	1.0	6.5	10.2	6.4	7.8
Albania	3.4	3.7	1.8	2.3	-6.6	1.0	4.8	3.1
Ukraine	1.5	2.5	13.0	8.5	-4.1	3.7	-1.8	4.0

* Data for the euro area.
Source: World Economic Outlook, IMF, October 2016,
Autumn forecast of economic trends in 2016, IMAD, September 2016.

Business and financial objectives

Based on the aforementioned points of departure, the following business and financial objectives were set for the Intereuropa Group in 2017:

Key objective:
- To achieve growth in revenues on all markets, except in the Ukraine, and in all business segments of the core activity; to strengthen cooperation with customers that require integrated logistics solutions through the entire supply chain in the region; and to attract new, profitable clients and strategic customers for the Group.

Other objectives:
- To retain and motivate key and promising personnel; to train personnel from the area of sales and marketing and develop services at all Group companies; to introduce a new system for the remuneration of sales and management teams; and to maintain flexible forms of employment.
- To actively manage the costs of services by securing more favourable purchasing terms; to ensure the optimal use and the cost-effectiveness of support functions; and to centralise certain procurement functions.
- To effectively manage working capital; and to fulfil the commitments set out in the financial restructuring agreement.
- To continue the development of integrated IT solutions that support the logistics processes of the core business activity at the controlling company and at selected subsidiaries; and to introduce a platform for business decision-making and a CRM system.
- To invest in projects that generate a short-term return, and that support the needs of our customers, that are indispensable for preserving the value of assets or that are dictated by law.
- To sell assets that are not sufficiently utilised in economic terms.

Key financial objectives:
- Sales revenue: EUR 142.4 million
- EBITDA: EUR 13.7 million
- Operating profit (EBIT): EUR 6.8 million
- Investments: EUR 5.9 million
- Number of employees at the end of the year: 1,421

2.2 ECONOMIC CONDITIONS IN 2016 AND FORECASTS FOR 2017

The recovery on individual markets and the gradual strengthening of merchandise flows stimulated growth on the logistics market in 2016.

According to the estimates of the International Monetary Fund (IMF), global economic growth was 3.1% in 2016. Forecasts of global economic growth for this year and next remain unchanged, at 3.4% in 2017 and 3.6% in 2018. The economies of developed countries are expected to grow by 1.9% in 2017 and by 2% in 2018. On the contrary, the forecast of economic growth in emerging countries for 2017 has been cut slightly, to 4.5%. Forecasts for 2018 remain unchanged, with GDP growth of 4.8% expected in those countries.

The price of Brent crude reached its highest level of 2016 in December. The prices of other commodities have also started to rise. The decision of the Organisation of Petroleum Exporting Countries (OPEC) to cut production affected the average US dollar price of oil, which rose by 19% in December and was up by 74% relative to the beginning of the year. The prices of other primary commodities were also up, in particular metal prices, which was a reflection of increased Chinese demand and US forecasts of an increase in infrastructure investments. The euro fell to a 12-year low against the US dollar at the end of 2016.

Various sentiment indicators in the international environment point to a high degree of political uncertainty, which international institutions are linking to geopolitical tensions, Brexit, migration flows, upcoming elections in certain European countries, and the possibility of significant shifts in US economic policy.

Relatively favourable economic trends continued in the euro area at the beginning of the final quarter of 2016. Revenues in retail trade recorded the highest growth in the context of strengthening private consumption, which contributed most to the 1.9% economic growth recorded in the euro area over the first three quarters of 2016. Improved conditions on the labour market in the euro area contributed to the strengthening of private consumption. The unemployment rate, which has been falling since 2013, reached its lowest level since 2009 in October 2016. The outlook for the beginning of 2017 also remains favourable, as sentiment indicators continued to improve in the economy as a whole and among consumers. Economic growth is forecast at 1.7% in 2017.

Favourable trends in economic activity also continued in Slovenia, where economic growth stood at 2.3% in 2016. Growth in exports and manufacturing output strengthened further as the result of an increase in foreign demand and improvements in export competitiveness. Domestic consumption also had a positive effect. Growth in private consumption contributed significantly to growth in revenues in the retail sector. The strengthening of activities in the majority of the private sector contributed to growth in the workforce in employment and average wages. Strengthening employment contributed to a further decrease in the number of unemployed and the unemployment rate. Short-term outlooks for economic activity and employment remain favourable, as sentiment indicators at the end of the year reached their highest levels since the outbreak of the crisis. The economy is expected to continue to strengthen in 2017 and 2018, primarily due to favourable labour market trends, and the strengthening of private consumption and exports, which are expected to maintain relatively high growth.

TABLE 10: ECONOMIC TRENDS ON GEOGRAPHIC MARKETS OF THE INTEREUROPA GROUP IN 2016 (IN %)

	GDP growth (estimates)	Inflation	Export of goods growth	Import of goods growth
EU	**1.9**	**0.7**	**2.8***	**3.6***
Slovenia	2.3	1.1	5.9	5.8
Croatia	1.9	-0.1	9.4	8.8
BiH	3.0	-0.3	4.8	5.9
Serbia	2.5	2.0	9.9	6.9
Kosovo	4.1	0.5	3.1	5.5
Montenegro	5.1	1.0	2.6	15.0
Macedonia	2.2	0.5	6.5	6.4
Albania	3.4	1.8	-6.6	4.8
Ukraine	1.5	13.0	-4.1	-1.8

* Data for the euro area.

The Croatian economy was successfully driven by the tourism sector and strong private consumption in 2016, which was supported by a declining unemployment rate and growth in real wages. Positive economic effects also continued at the end of 2016, when industrial production and retail sales recorded growth. Political uncertainty eased in the aforementioned country following the formation of a coalition government, while the estimated general government deficit was down as the result of higher-than-planned revenues and a contraction in government spending. Economic growth is expected to rise slightly in 2017, primarily on account of increased domestic demand, lower unemployment and an increase in investments. The greatest risks are posed by the introduction of reforms aimed at improving public-sector efficiency, and the liberalisation of trade and the labour market.

The Serbian economy maintained its positive drive over the last quarter of 2016, as GDP strengthened once again. Macroeconomic stability and the improved business environment in 2016 were supported by private investments, with domestic consumption growing at a slower pace, particularly in the second half of the year. Conditions on the labour market have improved, although the country has a high unemployment rate that exceeds the average of the region. Economic forecasts for 2017 are positive. Domestic demand, in particular private consumption, is expected to benefit most from the government's expansionary policy. Exports are expected to rise on the back of increased foreign demand.

The most recent economic indicators show that economic activity has strengthened in Montenegro, particularly during the final quarter of 2016. While the industrial production index contracted during the final quarter, retail sales and the number of tourist arrivals rose significantly in year-on-year terms. Foreign trade was also up in year-on-year terms. Economic growth will be driven in 2017 by ongoing infrastructure projects, and investments in the areas of tourism and energy. The country's fiscal position represents a risk to economic growth.

Successful growth in the agricultural sector and electricity production were the key drivers of economic growth in Bosnia and Herzegovina, particularly in the third quarter of 2016. The positive trend continued until the end of the year, which stimulated growth in industrial production. Exports also strengthened slightly during the final two months of the year. The freezing of EUR 550 million in loans by the IMF at the beginning of the year could have a negative effect on economic growth in 2017. That freeze was the result of the government's delay in the implementation of key reforms in Bosnia and Herzegovina. The strengthening of private consumption and continuous growth in gross fixed capital formation are expected to stimulate economic growth in 2017.
The political situation in Macedonia remains unstable, even after December's elections, which has a negative impact on economic growth, which was lower in year-on-year terms in the third quarter. The results of December's elections did not ease the political uncertainty in the aforementioned country, which hinders the introduction of crucial reforms and deters investments in the Macedonian economy.

The economy in Kosovo received a new boost during the second half of 2016 as the result of accelerated growth in private consumption, primarily due to higher real disposable income and improved access to loans. Foreign trade had a somewhat negative effective on economic growth in 2016. The most significant drivers of growth were the construction and transportation sectors, with that trend expected to continue in 2017. Macedonia also secured loans from the EBRD and the World Bank in January 2017. Those funds will be earmarked for improving the country's infrastructure.

The Albanian economy was driven by domestic and public spending in 2016, and by growth in private sector investments, which was stimulated by the central bank's flexible monetary policy. Economic growth in 2017 is expected to be driven by a gradual improvement in domestic demand and reduced household savings.

The recovery of the Ukrainian economy was most evident in the third quarter of the year, when GDP growth was the highest it has been over the last three years. A slight improvement in business sentiment and increased domestic demand contributed to an increase in infrastructure investments. In December the government introduced socioeconomic reforms for the period 2017 to 2020 with the aim of improving the business environment, eliminating corruption and stabilising the financial sector. The country did not receive expected loans from the IMF at the end of the year, which could have a negative impact on already modest economic growth. In addition, violence erupted again in the eastern part of the Ukraine, the country's industrial centre.

TABLE 11: FORECAST GDP GROWTH IN 2017 AND 2018 ON THE GROUP'S GEOGRAPHICAL MARKETS (IN %)

	2017	2018
EU	**1.7**	**1.8**
Slovenia	2.9	2.6
Croatia	2.1	2.2
BiH	3.2	3.7
Serbia	2.8	3.5
Kosovo	3.3	3.6
Montenegro	3.6	2.4
Macedonia	3.5	3.5
Albania	3.7	4.1
Ukraine	2.5	3.0

The sources for the section Economic conditions in 2016 and forecasts for 2017 include:
- Institute of Macroeconomic Analysis and Development, Slovenian Economic Mirror No 1/2017, January 2017;
- Institute of Macroeconomic Analysis and Development, Overview of the autumn forecast of economic trends in 2016, February 2017;
- International Monetary Fund, World Economic Outlook Data, October 2016;
- International Monetary Fund, World Economic Outlook Update, "Subdued Demand, Diminished Prospects", January 2017; and
- Focus Economics, February 2017

2.3 MARKETING AND SALES

Total sales of the Group in 2016

The economic recovery continued in 2016. The positive effects of the recovery were also seen in demand for logistics and transport services.

The Intereuropa Group generated EUR 135.6 million in revenues from the sales of its services in 2016, an increase of 1% on the results achieved in 2015. Growth was achieved by all Intereuropa Group companies, except for the controlling company Intereuropa d.d., the subsidiary in Albania and Interagent d.o.o., Koper.

The highest growth was achieved in logistics services, where sales were up 12% relative to 2015. We also exceeded planned targets on account of new transactions and the increased turnover over of goods in warehouses in Slovenia, which represents our key market in the aforementioned area of operations. We also increased the utilisation of our warehouse capacities in Croatia during the course of the year, while the utilisation of warehouse capacities on the Group's other markets is at a satisfactory level.

The Group exceeded the results achieved last year in the intercontinental transport business segment. Results from the previous year were exceeded by the highest margin (37%) in the RO-RO transport segment, where sales were also 62% higher than planned, primarily on account of growth in project cargo. Planned targets were also exceeded in the air freight segment, primarily in Slovenia and Serbia, and in the container transport segment, mostly on account of an increase in certain transactions at Group companies in Slovenia. We failed to meet sales targets for conventional sea freight, shipping agency and car logistics services. The sea freight and air freight industries were subject to immense price pressures, which was reflected in the volatility of air freight terms and sea freight rates. Sea freight space was at full capacity, which led to problems in ensuring the timely delivery of sea freight shipments, on both the import and export side.

The highest proportion of the Group's total sales revenue is accounted for by the land transport segment, where revenues were down 2% relative to 2015. The main factor in that decline was a decrease in revenues generated by road transport services at the controlling company in Slovenia, where the highest proportion of revenues from this business line are generated. A decline in sales was recorded on the Slovenian market again in 2016, despite an increase in the physical number of orders processed for certain land transport services. Pressures from customers to reduce the costs of logistics services and sales margins have not eased, resulting in a lag in sales results. Other Group companies outside of Slovenia surpassed last year's results, except in Albania. We exceeded the sales revenue generated last year in the groupage, domestic transport and railway freight segments, but did not exceed the sales revenue generated in the road transport and customs clearance services segments.

GRAPH 4: STRUCTURE OF SALES REVENUE BY BUSINESS LINE IN 2016

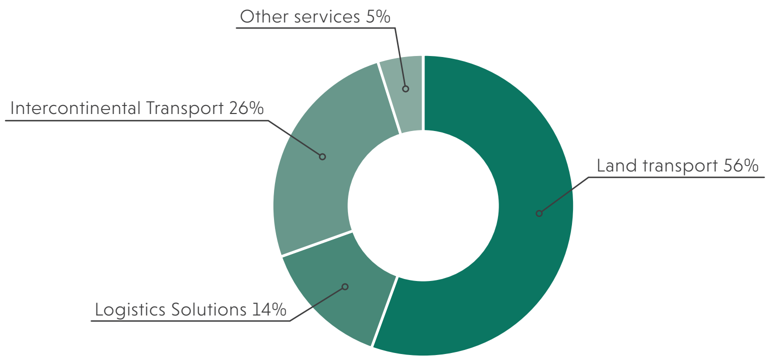


TABLE 12: SALES REVENUE OF THE INTEREUROPA GROUP IN 2016 BY BUSINESS LINE (IN EUR THOUSAND)

	Business area	Jan.-dec. 2016	Structure	Index 2016/plan	Index 2016/2015
1	Land Transport	75,333	56%	97	98
2	Logistics Solutions	18,942	14%	102	112
3	Intercontinental Transport	34,721	26%	100	100
4	Other services	6,600	5%	104	102
	Total Sales Revenue	**135,596**	**100%**	**99**	**101**

Companies in Slovenia generated slightly less than two thirds of the Group's total sales revenue. Total revenues generated by Slovenian companies were down 1% on the previous year, while the revenues generated by companies in other countries were up (except at the company in Albania). The proportion of revenues generated by companies with a head office outside the EU was up by 5 percentage points relative to the previous year, with the Ukrainian company recording the largest increase.

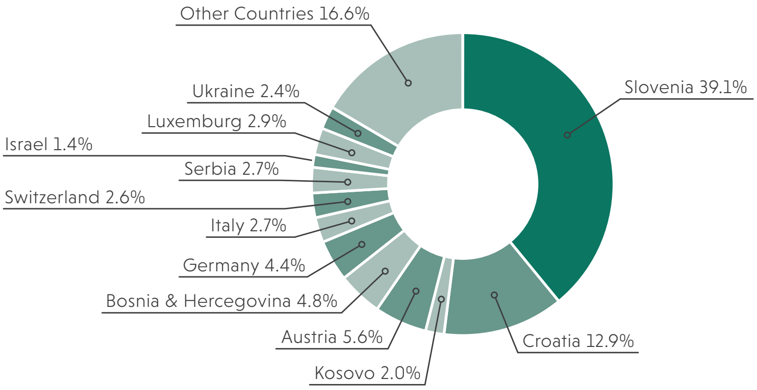
TABLE 13: SALES REVENUE OF THE INTEREUROPA GROUP IN 2016 BY COUNTRY (IN EUR THOUSAND)*

	Business area	Jan.-dec. 2016	Structure	Index 2016/plan	Index 2016/2015
1	Slovenia	88,718	65%	98	99
2	Croatia	20,559	15%	97	101
3	Bosnia & Hercegovina	6,602	5%	106	107
4	Serbia	4,189	3%	97	102
5	Macedonia	1,398	1%	99	100
6	Kosovo	2,823	2%	114	108
7	Montenegro	5,396	4%	103	106
8	Albania	422	0%	67	70
9	Ukraine	5,489	4%	108	109
	EU countries	109,277	81%	98	100
	Non EU countries	26,318	19%	104	105
	TOTAL:	**135,596**	**100%**	**99**	**101**

* Sales revenue by country is presented with respect to a Group company's head office.

In terms of size, sector and geographical coverage, the structure of Intereuropa's customers is very diverse, particularly in the EU and the Balkans. More than three quarters of our customers in 2016 were from EU countries (76%), with the majority of those from Slovenia (39%) and Croatia (12.9%). A total of 14% of customers were from the countries of the former Yugoslavia (excluding Slovenia and Croatia).

GRAPH 5: STRUCTURE OF SALES REVENUE IN 2016 WITH RESPECT TO A CUSTOMER'S HEAD OFFICE



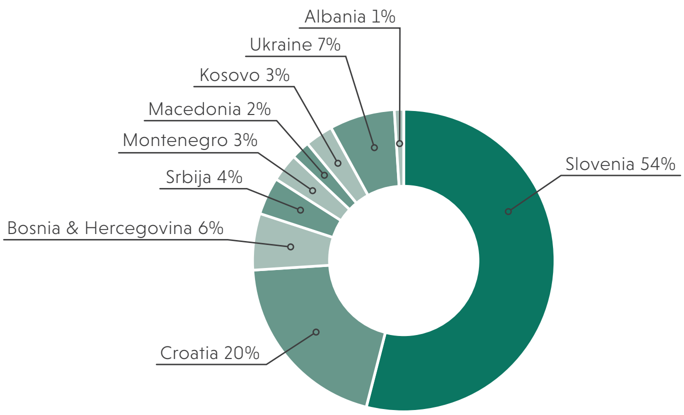
2.3.1 LAND TRANSPORT

Land transport accounts for the highest proportion of the Group's total sales. We generated sales revenue of EUR 75.3 million through land transport services in 2016, with that amount representing 56% of the total sales revenue of the Intereuropa Group. The highest proportion or 54% of sales revenue from land transport was generated by the controlling company in Slovenia.

Sales revenue in this area was down 2% on the amount achieved in 2015 at the Group level. The main factor in that decline was a decrease in revenues generated by road transport services at the controlling company in Slovenia. Given that the aforementioned company generates the highest proportion of total revenues, that decline was reflected in the results of the entire business segment. Other Group companies outside of Slovenia surpassed last year's results, except in Albania. After several years of declining revenues, the Ukrainian subsidiary recorded growth and increased its sales revenue in the railway freight segment. That increase was recorded during the first half of the year, while a decline in operating revenues was seen again during the second half of the year relative to the same period in 2015. A breakdown of sales revenue by product indicates that we exceeded the sales revenues generated last year in the groupage, domestic transport and railway freight segments, but did not exceed the sales revenue generated in the road transport and customs clearance services segments, while we lagged behind planned sales targets by 3%, most of that shortfall being recorded in Slovenia and attributed to the road transport segment. The Albanian subsidiary also failed to achieve planned sales targets. All other Group companies exceeded their sales targets.

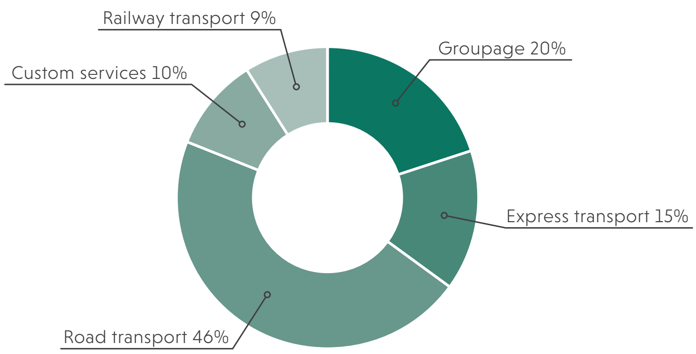
We witnessed an increase in market demand for transport and logistics services, the positive results of which were reflected in the physical scope of operations. Financial results, however, did not track the increase in demand. Customers are continuously exerting pressure to reduce costs, both via tenders and the daily verification of market prices. Logistics providers fight for each shipment, with some even resorting to dumping, which in turn slashes sales margins. We must also be very cautious when securing new transactions and in operations with existing customers due to a lack of financial discipline on the markets where we are present. The economic and political situation in the countries and on the markets where we operate has a significant impact on results, particularly in Europe. The situation in the Ukraine and thus the financial results of the subsidiary in that country have been reflected to a great degree in the results generated by the land transport segment in recent years. Fuel prices, which were up sharply in 2016, also have a significant impact on results. This requires continuous adaptations, to both the management of costs and to our pricing policy.

GRAPH 6: STRUCTURE OF SALES REVENUE BY COUNTRY IN THE LAND TRANSPORT SEGMENT



The proportion of total revenues accounted for by the controlling company fell from 56% to 54% in 2016. Slovenia was characterised by growth in the physical volume of processed orders for groupage, road transport and customs clearance services. Despite a 3% increase in the number of processed orders for road transport, we recorded a decline in revenues in this segment, as the result of the loss of certain transactions and price pressures.

GRAPH 7: STRUCTURE OF SALES REVENUES BY INDIVIDUAL PRODUCT



Road transport

Road transport accounts for the largest proportion (26%) of total sales revenue among the services provided by the Intereuropa Group, and also accounts for 46% of all land transport services.

We recorded a 5% decline in sales revenue relative to 2015 and were 7% below the sales target. The results of the company in Slovenia, which at 70% still generates the highest proportion of total sales revenue from road transport services, were down on the results achieved in 2015 and failed to achieve planned targets. Results were also down in Serbia, Kosovo, Macedonia and the Ukraine, while growth was recorded in Croatia, Bosnia and Herzegovina and Montenegro. The subsidiary Intereuropa, logističke usluge, d.o.o., Zagreb, which upgraded its vehicle fleet through the purchase of nine new freight vehicles at the end of 2015 and beginning of 2016, increased its sales revenue by 6% in 2016, but lagged behind set sales targets by 1%.

Continuous pressure from customers with regard to prices on the one hand and growth in costs (fuel and tolls) on the other require constant control over direct costs and measures to optimise operations.

Key objectives for 2017:

- To intensify commercial activities in the international road transport segment within the Group, to identify potential opportunities and to seek synergies.
- To centralise the procurement department with the aim of facilitating the management of suppliers and improving control over direct costs.
- To provide IT support for mutual processes with suppliers, i.e. carriers for Intereuropa d.d.
- To train staff on the objective of managing risks associated with international road transport and to transfer knowledge within the Group.

Groupage services

Sales revenue from groupage services was up 2% in 2016 relative to 2015. Nearly three quarters of the Group's total revenues are still generated in Slovenia, where the number of shipments was up by 3%, while sales revenue was up slightly on the previous year. Growth in operating revenues was recorded by all companies, except the subsidiaries in Croatia, Macedonia and Albania. The Serbian subsidiary, which exceeded both last year's results (by 17%) and its sales targets (by 25%), recorded the highest growth. By establishing the line between Turkey and Serbia, the role of the Belgrade-based subsidiary was enhanced as an important hub within the Group. Intereuropa d.d. established the electronic exchange of collection requests and the statuses thereof with one foreign partner. The results will serve as the groundwork for introducing this solution at other partners. The WexVS IT solution was introduced at the subsidiary in Kosovo in this segment.

Key objectives for 2017:
- To maintain and strengthen our role as the leading provider of groupage services in Slovenia, Croatia, Bosnia and Herzegovina and Serbia, and to increase market shares in all other countries where the Intereuropa Group is present through its subsidiaries.
- To intensify commercial activities on the domestic market and through partnerships abroad.
- To promote the use of sales leads as an important sales tool (within the Group and with foreign partners).
- To begin using the new WexVS IT solution in the groupage segment at the company in Croatia.
- To further increase the scope of electronic data exchange with foreign partners, in particular the exchange of orders and the provision of shipment tracking statuses.
- To continuously optimise processes with the aim of shortening transit times, increasing frequency and reducing the cost of groupage deliveries.
- To improve the quality of service through measures based on the relevant quality indicators.

Domestic transport

Sales revenue in the domestic transport segment was up by 6% in 2016,
and was 7% higher than planned, primarily due to the exceeding of planned targets in Croatia. Sales revenue in Slovenia was at the same level achieved in 2015. All Group companies that provide such services recorded growth. The company in Croatia still accounts for the highest proportion (57%) of sales revenue in this segment, followed by the company in Slovenia (24%), the subsidiary in Bosnia and Herzegovina (14%), and the subsidiaries in Serbia (4%) and Montenegro (1%). Domestic transport is an important support service for other segments. As a stand-alone product, it faces extremely tough price competition on local markets. All Group companies carry out continuous activities aimed at the optimisation of processes, the control of costs and the search for the optimal implementation solutions that will preserve the quality of services at the highest level and reduce implementation costs. The controlling company replaced traditional on-board computers (OBC) in 2016 with an IT solution that functions on mobile phones with the Android operating system.

Key objectives for 2017:
- To centralise product management and/or certain product functions.
- To continuously develop distribution services in countries where Intereuropa is present via its subsidiaries, with the aim of providing the appropriate support for other products and selected product categories and adapting to market requirements.
- To introduce the WexVS IT solution in the domestic transport segment in Croatia and to exploit the advantages that the aforementioned solution provides.

Customs clearance services

Customs clearance services represent an important element of support for the Group's other services. Sales revenue was down 6% on the results achieved the previous year. The largest lag was recorded in Bosnia and Herzegovina, while the company in Montenegro also recorded lower revenues. All other companies recorded growth in revenues relative to 2015 and exceeded planned targets. The highest proportion of sales revenue in this segment in 2016 was recorded by the company in Slovenia (38%), followed by the companies in Montenegro (19%) and Croatia (18%). Amendments to tax legislation governing merchandise imports from third countries (non-EU member states) entered into effect on 1 July 2016. In accordance with the amended act, value-added tax is no longer paid on merchandise imports as an import duty, but will be based on self-taxation, provided certain conditions are met. This led to a certain decrease in revenues for Intereuropa d.d. We began using the WexVS IT solution at Intereuropa Kosovo L.L.C. to support customs clearance services.

Key objectives for 2017:
- To complete the project aimed at the exchange of export customs declarations between Group companies.
- To educate employees on a regular basis with the aim of maintaining knowledge at the highest level and providing support to predefined core product categories.
- To continuously reduce the costs associated with operational errors through procedures aimed at managing reclamations and eliminating instances of non-compliance in the work process.
- To continuously monitor legislative changes and to transfer knowledge between employees.

Railway freight

The results of railway freight services were 3% lower than planned in 2016, but exceeded the results achieved in 2015 by 1%. The main factor in the results generated by this segment was the improved situation at our subsidiary TOV TEK ZTS in Uzhhorod, where sales revenue from railway freight more than doubled during the first six months of the year, but then fell sharply. Our Ukrainian subsidiary generated 69% of the total sales revenue in the railway freight segment. The results generated by the controlling company in Slovenia were down 18% on the results achieved in 2015 and below sales targets. This was due to changes to transport routes (transition from railway to road transport) and changes in purchase parity at two key customers.

Key objectives for 2017:
- Railway freight is an important link in multimodal transport chains and is crucial in the provision of logistics solutions in certain product categories. Sufficient knowledge and experience among employees must therefore be ensured.
- To train employees and ensure the internal transfer of knowledge in areas where such knowledge is lacking.

The aim of the computerisation of operations is to optimise processes and ensure the traceability that our customers expect from us in all segments of land transport. We introduced an IT solution at our subsidiary in Kosovo in July 2016 for three segments: road transport, customs clearance services and groupage. The introduction and use of an IT solution in the groupage and domestic transport segments in Croatia is planned in the first quarter of 2017. The WexVS IT solution has been used since 2015 in two of the land transport segments: road transport and customs clearance services. Preparatory activities are also underway for the introduction of that IT solution at other Group companies. The solution will facilitate improved control over the provision of services which, in combination with the enhanced traceability of shipments, will further raise the quality of our services.

Very ambitious objectives have been set for 2017 in the land transport segment. We are committed to maintaining the high quality of our services at all times, as this is a prerequisite for market success. Our activities will focus on ensuring cost-effectiveness and the streamlining of operations, and above all on intensified commercial activities at all Group companies, with a special emphasis on Slovenia.

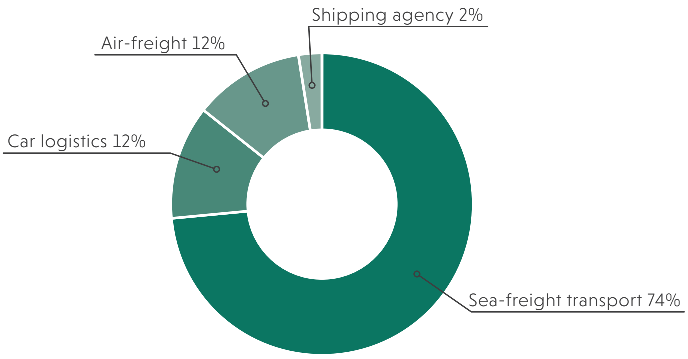
2.3.2 INTERCONTINENTAL TRANSPORT

Revenues from the sale of intercontinental transport services amounted to EUR 34.7 million in 2016, in line with the results achieved the previous year. The sales recorded by the container transport, RO-RO transport and the air freight segments were higher than planned. We failed to meet sales targets for conventional sea freight, shipping agency and car logistics services. Revenues generated by the intercontinental transport segment accounted for 26% of the Group's total revenues.

The sea freight and air freight industries were subject to immense price pressures throughout the year, which was reflected in the volatility of sea freight rates and air freight terms. Sea freight rates more than doubled in the second half of the year, with this increase most notable during the final quarter. The utilisation of shipping companies' freight space was very high, which led to basic problems in ensuring the timely delivery of sea freight shipments, on both the import and export side.

Sales targets and growth in the volume of transport relative to 2015 were exceeded by the highest margin in the RO-RO transport segment (62% above the plan) and air freight segment (13% above the plan). Planned sales in the container transport segment were exceeded by 3% overall and by 9% on the Group's main market of Slovenia.

GRAPH 8: STRUCTURE OF SALES REVENUE IN THE INTERCONTINENTAL TRANSPORT SEGMENT



Sea freight

The sea freight segment comprises full container load (FCL) and less than container load (LCL) services, the transport of conventional cargoes and RO-RO (ferry transport) services. Sea freight services also include shipping agency services, which are provided in Slovenia by the subsidiary Interagent d.o.o. and at the Group level by the responsible departments of subsidiaries.

The sea freight segment (including shipping agency services) generated sales revenue of EUR 26.4 million in 2016. Planned sales targets were thus met. Planned sales revenue was exceeded by EUR 0.45 million on the key Slovenian market.

Among sea freight products, our container transport segment generated the highest sales, reaching EUR 13.9 million in 2016 and exceeding sales targets by 3%. Significant growth was recorded in Slovenia in steel industry export deals, refractory bricks and hazardous materials, and in imports of containers with plant protection products and fertilisers earmarked for Central European markets. Higher sales revenue was also recorded for intermodal dispatches from the Port of Koper. Good business results in the container transport segment are also reflected in the high utilisation rate of warehouse facilities in Koper and in the extremely good performance of these warehouses.

The conventional sea freight segment achieved sales of EUR 10.5 million, which was lower than expected. The most significant deviation from planned sales was recorded in imports of fresh fruit and vegetables, which was also seen at the Port of Koper. Certain customers shipped reduced cargo volumes in 2016 via the Port of Koper. This was linked to the refitting of factories in the region and a decline in operations. We recorded multiple shipments of bulk and liquid cargo (petroleum products). We attracted a new major customer in this segment of operations in 2016. We also resumed with the organisation of transport services for liquid cargo to hinterland markets.

The RO-RO segment exceeded planned sales by 62%. These good results are a reflection of the higher volume of project goods via the Port of Koper, on both the import and export side. We secured new transactions in the export of specific-purpose vehicles and equipment (mechanisation) via Koper destined for the markets of the Mediterranean and the Middle East.

The results generated by shipping agency services were below expectations, as two Chinese container shipping conglomerates COSCO and CSCL were merged during the year, resulting in the loss of the agency services of the container shipping companies in Koper and Rijeka in September. Actual sales revenue was 8% lower than the planned figure at the end of the year. Growth was recorded in the agency services of shipping companies for the carriage of cars. Multiple calls by the fleet of a Japanese shipping company were tied to major export volumes of Daimler-Benz vehicles destined for the Middle East.

The development of the intercontinental transport segment is primarily dependent on growth in sea freight transport, where the key element is the competitiveness of the process of securing purchase terms. Meetings were thus held with our partner network throughout the year to ensure the competitiveness of purchase terms in this segment. We took part in several sales and commercial events in Slovenia and abroad, and strengthened our sales presence on key markets.

The development of the sea freight segment also depends on IT support for key operational and commercial processes. The Group carried out activities aimed at the development of the WexVS IT solution, with an emphasis on implementation in Slovenia and Kosovo. The IT solution to support shipping agency activities was introduced at the subsidiary Interagent d.o.o., while the introduction of the WexVS solution in Slovenia is planned in 2017.

The sea freight segment maintained its 19% share of the Group's total sales revenue in 2016. Revenues from the organisation of container transport continue to rise, with the majority of those revenues generated by services via the Port of Koper. The development of cargo handling activities and investments in the Port of Koper will continue to serve as a solid basis for the development of all sea freight products.

Car logistics

In terms of finished vehicle logistics, we recorded growth in the physical volume of vehicles dispatched through the Port of Koper and our car terminals in 2016. We are exploiting the positive trend in the automotive industry, in particular growth in exports of new vehicles produced in Europe.

Revenues in the amount of EUR 4.2 million were generated by this segment in 2016. We exceeded the sales revenue generated in 2015 by 4%. Performance improved over the second half of the year, as the number of cars shipped via the port and our terminals was up during that period.

Growth in sales revenue was the result of a higher number of vehicles handled via the port. We achieved 30% growth in the number of vehicles handled relative to the previous year. That growth was associated with the development of operations for Daimler-Mercedes vehicles, and with some traditional customers that increased the number of vehicles on the markets of Slovenia and SE Europe. We recorded growth in the number of vehicles stored at our car terminals in Slovenia and Serbia, which in the context of the favourable turnover of goods contributed significantly to the level of sales revenue in 2016. We finalised a deal for the storage of French-made vehicles with a new customer in Serbia.

The car logistics segment remains one of the core products of the intercontinental transport segment and the Group as a whole. Based on positive trends in the automotive industry, growth in revenues in this segment is also forecast in 2017. Our key customers are forecasting growth in the volume of vehicles shipped via the port and our car terminals.

Air freight

Sales revenue from air freight services rose in 2016, and exceeded planned sales revenue by 13%. We generated sales revenue of EUR 4.1 million in this segment. This segment performed better than expected on all of the Group's markets, except in Croatia and Kosovo. We exceeded sales targets by 16% on the key Slovenian market.

On the Serbian market, air freight deliveries to Middle East markets were carried out via charter flights from the Niš and Belgrade airports. We agreed on a GSA (General Sales Agent) for the Turkish carrier Pegasus Airlines, the representation of which is showing signs of promising development on the Serbian market. Planned sales targets for Serbia were exceeded by 40%.

The development of air freight is closely linked to cooperation with and the continued development of the global partner network, which is a crucial precondition for achieving cost competitiveness and providing comprehensive logistics services at the beginning or end of the logistics process. We attended several meetings with our partner network to build closer relationships with our partners. We concluded and extended agency contracts for the representation of non-vessel operating common carrier (NVOCC) partners in the Balkans.

An active sales presence on the Group's local markets and the introduction of the WexVS IT solution at Group subsidiaries remain core objectives. The WexVS solution was introduced in Croatia and Kosovo in 2016.

We achieved 13% growth in sales revenue in the air freight segment, while growth is expected again in 2017 on all of the Group's key markets. We will continue to give special attention to strengthening partnerships and ensuring an active sales presence at customers.

Plans for 2017

Ambitious plans have been set for 2017, as we are expecting significant growth in sales revenue from all intercontinental transport products. Significant activities to achieve planned revenue targets are as follows:

- the active development of the direct marketing of sea freight products at the Group's shipping agency offices along the east coast of the Adriatic Sea, with an emphasis on the management of more comprehensive supply chains in the region and in Central Europe;
- the organisation of project cargoes in the RO-RO segment via the Port of Koper;
- the securing of the agency services of a container ship operator with service through ports on the Adriatic Sea, with a special emphasis on the development of services through the northern Adriatic Sea ports of Koper and Rijeka;
- the search for agency synergies among intermodal operators in the car logistics segment via the Port of Koper, with the aim of securing new vehicle transport transactions through the aforementioned port;
- the continued development of terminal activities and the achievement of high utilisation rates at our car terminals in Slovenia, Serbia, etc., and growth in the scope of transport service via our base of contracted transporters;
- support for project air freight and/or cargo via airports in the Balkans in the context of chartered air freight services;
- the development of the agency services of an air freight carrier in the region;
- active cooperation with overseas partner networks in the search for new transactions and joint agreements for competitive purchasing terms;
- the development and introduction of IT support for the Group's sea freight products; and
- the further development of IT support for the operations of the air freight branches of Group companies.

2.3.3 LOGISTICS SOLUTIONS

There was a significant improvement in the business climate on the markets of Slovenia, Montenegro and Serbia in 2016 in terms of demand for logistics services, while this has not yet been seen on the other markets on which Intereuropa operates. Particularly in Croatia and on smaller markets, the scope of operations and the merchandise inventories of our customers remain at relatively low levels. We have also faced pressures on the prices of logistics services and the exchange of logistics concepts.

We recorded growth in sales of logistics services in 2016, when results were 2% higher than planned and 12% above the results achieved in 2015. The logistics solutions segment generated EUR 18.9 million in sales revenue or 14% of the Group's total sales.

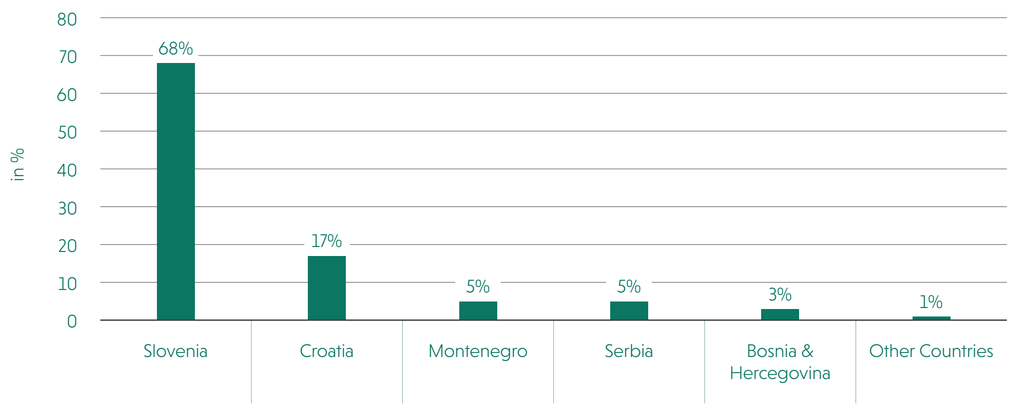
In Slovenia, as the largest key market accounting for 68% of sales of logistics services, we exceeded planned targets by 6% and last year's results by 16%, primarily on account of an increase in turnover of goods in the Logatec warehouse, and new transactions in our warehouses in Jesenice, Maribor and Koper.

The second largest market for logistics services is Croatia, which accounts for 17% of sales in this business line. Actual sales were 9% lower than planed and down 1% on the results achieved in 2015, as the result of the loss of a customer in Varaždin, which purchased its own warehouse facilities at the beginning of the year. Through intensive marketing activities over the course of the year, we were able to secure some new transactions and offset the loss of revenues and increase the utilisation rate of warehouses.

We exceeded planned targets for logistics solutions in Serbia (by 2%), Montenegro (by 8%) and Macedonia (by 9%). In addition to Croatia, we lagged behind planned targets in other countries: in Bosnia and Herzegovina by 7% and in Kosovo by 14%.

Numerous activities were carried out, particularly at companies in Slovenia and Croatia, to utilise warehouse capacities and secure new transactions with higher value added. The results of those activities in Slovenia were increased sales and thus the increased profitability of warehouses. We also continued improvements to business processes with the aim of optimising and launching a new integrated IT solution that supports warehouse processes.

GRAPH 9: STRUCTURE OF SALES REVENUE BY COUNTRY IN THE LOGISTICS SOLUTIONS SEGMENT



We also invested a great deal of energy during 2016 in the standardisation and optimisation of logistics processes. We established EDI connections with some of our key customers. In technological terms, we continued to implement integrated IT support for warehousing operations in Slovenia, Croatia and Kosovo. In Slovenia we constructed new cold store capacities in Celje for fresh meat storage, while in Maribor we completed the construction of a new cooling facility for sub-cooled goods with a capacity of 2,500 pallets and purchased 18 forklifts. In Serbia we completed the renovation of 1.500 m2 of warehouse space for the storage of hazardous materials and goods requiring a special temperature regime.

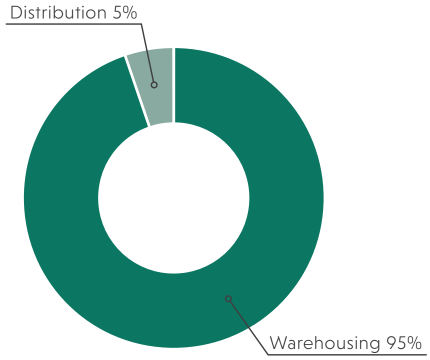
Warehousing and storage

We generated EUR 17.9 million in revenues from the sale of warehousing and storage services in 2016, which translates to 13% of the Group's sales and 94% of sales revenue from the logistics solutions segment. We recorded 15% growth in sales revenue in this segment relative to 2015, while planned targets were exceeded by 9%. We exceeded the previous year's sales and planned targets on both key markets for logistics solutions: we achieved 18% growth in sales in Slovenia relative to the previous period and exceeded planned sales by 13%, while we recorded 6% growth in sales in Croatia and exceeded planned sales by 1%.

Distribution

We generated EUR 1.0 million in revenues from the sale of distribution services in 2016, which represents around 1% of the Intereuropa Group's total sales revenue and 6% of sales revenue from logistics services. We lagged behind planned sales targets by 50% during the accounting period, while results were down 23% on those achieved in 2015.

GRAPH 10: STRUCTURE OF SALES REVENUE BY PRODUCT



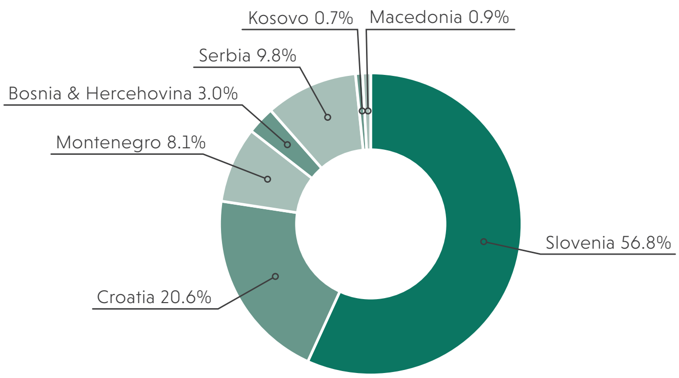
Logistics projects

As an experienced logistics service provider, we ensure that the individual needs of our customers are met with the help of technical analyses, process planning and control procedures. Our tailor-made services for customers include various products offered by the Group, such as warehousing and storage, groupage services, distribution, sea and air freight services, and customs clearance services. These types of logistics services are very complex, and require a high level of expertise and a project-based approach. A partnership is established with the customer at the beginning of a project. The project team typically includes the customer's own specialists and our experts. During the implementation of logistics projects, we facilitate the computer-aided tracking of goods, while ensuring full control over the location and status of goods through the computer-aided exchange of data.

Warehousing and storage capacities

As at 31 December 2016, the Group had 242,126 m² of warehousing and storage capacities at its disposal. Of that amount, capacities totalling 232,445 m² were owned by the Group and capacities of 9,681 m² were leased.

GRAPH 11: STRUCTURE OF LOGISTICS TERMINAL AREA BY COUNTRY OF GROUP COMPANY



Plans for 2017

Key activities for the logistics solutions segment in 2017 include:

- the development of partnerships and enhanced cooperation with current customers;
- the securing of new logistics projects, primarily aimed at utilising free storage capacities in Slovenia and Croatia;
- the completion of the introduction of IT support for the needs of logistics solutions in Slovenia and Croatia;
- the improvement of energy efficiency (the introduction of LED lighting and the replacement of the propulsion source for forklifts, from natural gas to electricity); and
- the continued specialisation and optimisation of logistic processes by product category.

2.4 ANALYSIS OF OPERATIONS

2.4.1 BUSINESS PERFORMANCE OF THE GROUP

Favourable economic trends continued on the majority of Intereuropa's geographical markets in 2016. An important factor in that regard is the strengthening of private consumption, primarily as the result of improving conditions on the labour market. Contributing further to favourable trends are growth in exports and industrial production in Slovenia and the tourism sector in Croatia and Montenegro. Merchandise flows have strengthened in the region. This is not, however, true in the Ukraine, where the economic recovery remains modest and uncertain. Uncertain economic conditions also persist in Macedonia due to the unstable political situation.

A high level of political uncertainty was characteristic of the international environment in 2016, which international institutions are linking to geopolitical tensions, Brexit, migration flows, upcoming elections in certain European countries, the possibility of significant shifts in US economic policy, and rising prices of oil and other commodities.

With the exception of Slovenia and Albania, the Group was able to exploit the favourable economic conditions in 2016, which is reflected in growth in sales revenue relative to 2015. In the context of the successful control of operating costs, we also increased our operating profit and EBITDA, both at the Group level and at the controlling company.

We generated significantly better results from financing activities than in 2015, when the fall in the Ukrainian currency had a significant impact on negative exchange rate differences. Lower interest expense and higher gains from the sale of financial assets were also significant factors in 2016.

The Group generated a profit from ordinary operations of EUR 4.1 million in 2016, which was reduced by current income tax in the amount of EUR 0.4 million and deferred taxes in the amount of EUR 5.3 million (the reversal of deferred taxes assets from the controlling company's tax losses in the amount of EUR 4.9 million had the largest impact on deferred taxes). The Group disclosed a net loss of EUR 1.6 million for the financial year as a result.

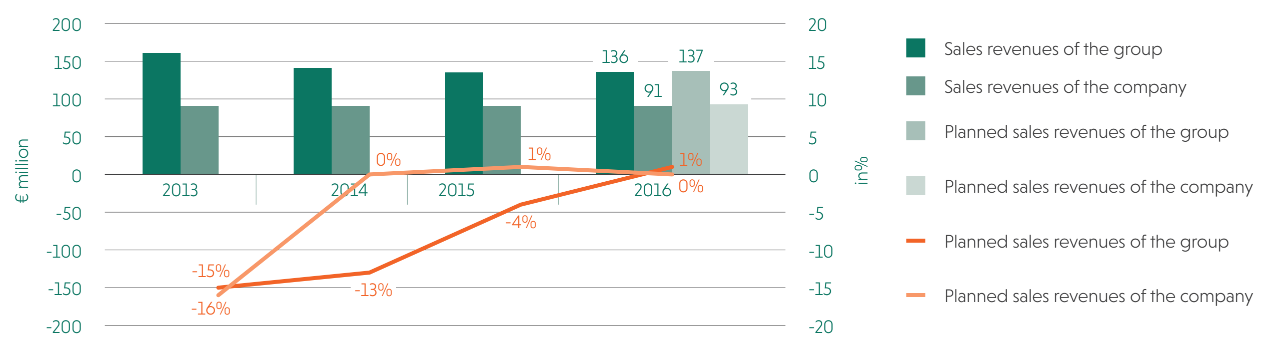
Sales were up by 1% or EUR 1.0 million in 2016. The highest growth was recorded in the Ukraine (+ EUR 0.5 million) and Bosnia and Herzegovina (+ EUR 0.4 million), while a decline in sales was recorded in Slovenia (- EUR 0.5 million) and Albania (- EUR 0.3 million).

The most significant progress was recorded in the sale of logistics solutions, as the result of new transactions and an increase in the turnover of goods at the controlling company's warehouses in Slovenia. We also recorded growth in domestic transport, groupage, air freight and car logistics services. Following a sharp decline in sales of railway freight services in recent years, minimal growth in sales was recorded in 2016 primarily due to growth in sales in the Ukraine during the first half of the year.

The sharpest decline in sales was recorded in the road transport segment in Slovenia, primarily due to the loss of certain transactions, which we were unable to compensate for in financial terms, despite an increased number of processed orders.

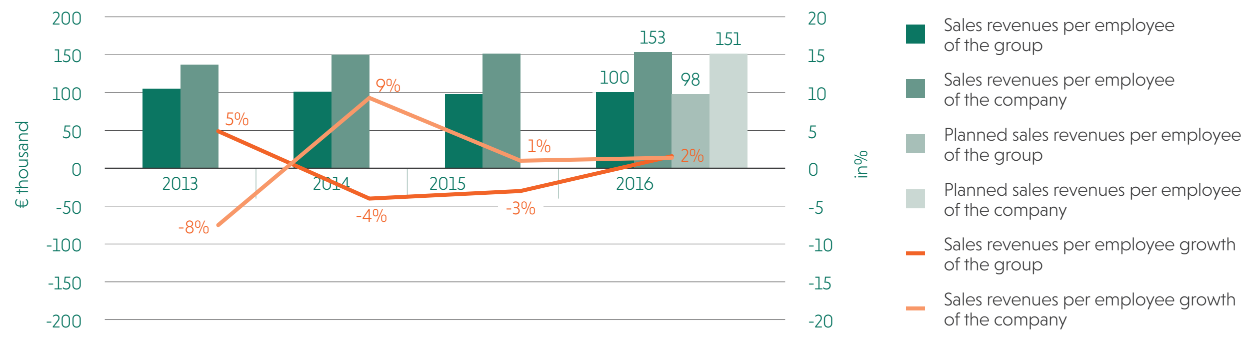
Please refer to the section Marketing and sales for a more detailed overview and analysis of sales results by business line and service category, and by individual market of the Intereuropa Group.

GRAPH 12: CHANGES IN THE SALES REVENUE OF THE GROUP AND CONTROLLING COMPANY IN THE PERIOD 2013 TO 2016



We increased sales and improved sales productivity at the Group level in 2016, and improved sales productivity at the controlling company, despite the fact that the latter did not record growth in sales.

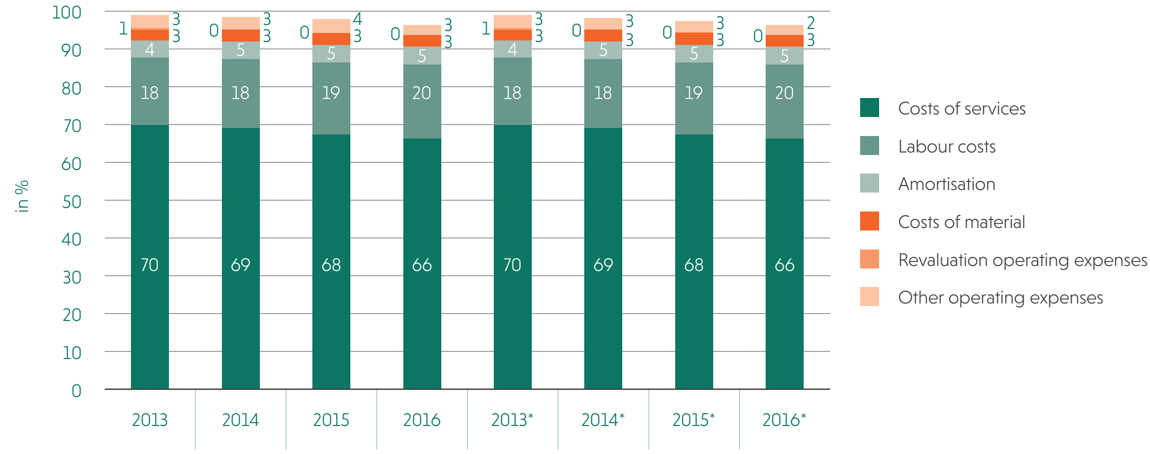
GRAPH 13: CHANGES IN SALES REVENUE PER EMPLOYEE AT THE GROUP LEVEL AND AT THE CONTROLLING COMPANY IN THE PERIOD 2013 TO 2016



Operating expenses, EBITDA, and operating profit or loss

The structure of operating expenses was relatively stable during the reporting period, and was accompanied by a notable decline in the proportion of total expenses accounted for by the costs of services and an increase in the proportion accounted for by labour costs. The aforementioned categories of costs account for the majority of operating expenses. Most important among the cost of services are direct costs, which in 2016 accounted for 89% of total costs of services, the same as the previous year. The increased proportion of labour costs was the result of higher labour costs per employee.

GRAPH 14: OPERATING EXPENSES AS A PROPORTION OF THE GROUP'S TOTAL SALES REVENUES IN THE PERIOD 2013 TO 2016



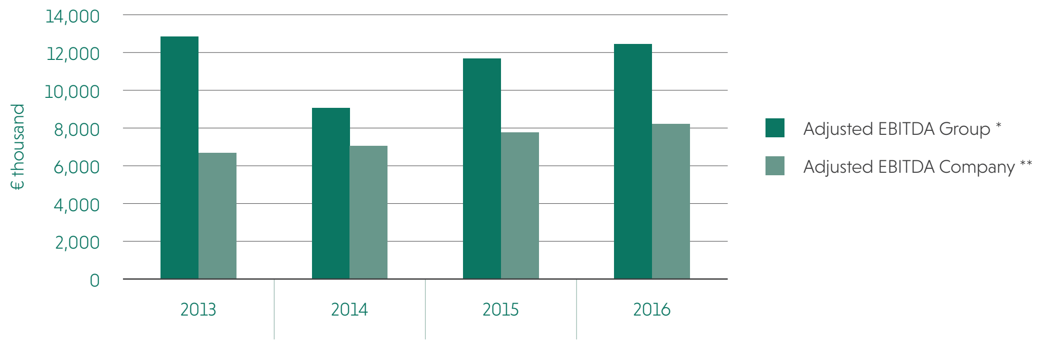
* Excluding other operating expenses from provisions for litigation.

We recorded an increase in the proportion of other operating expenses in 2016 relative to the previous year, solely as the result of expenses from provisions for litigation involving the controlling company and the subsidiary in Croatia. For easier comparison, the right side of Graph 3 also illustrates the structure of operating expenses excluding other operating expenses from provisions for litigation. The proportion of other operating expenses has stagnated at between 2% and 3%.

We continued with the rationalisation of operations again in 2016, which is reflected in lower costs of materials and services, and in a drop in operating expenses as a proportion of sales by 3 percentage points in 2016 relative to 2013.

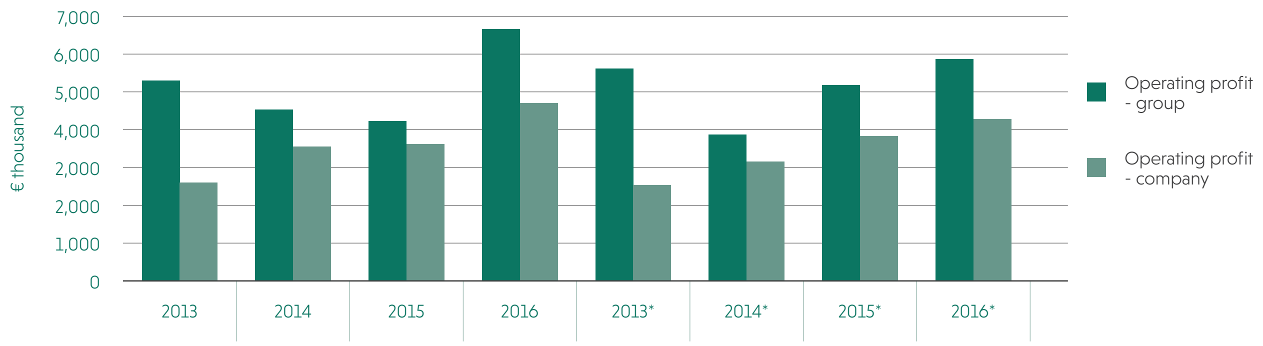
The trend of declining operating profit and EBITDA at the Group level over the last two years was halted in 2016, when operating profit and EBITDA exceeded the results from the previous year by 24% and 58% respectively, while the controlling company's operating profit and EBITDA were up for the fourth consecutive year. Gains on the sale of fixed assets had a significant impact on that growth both at the Group level and at the controlling company in 2016. It is evident from changes in the adjusted EBITDA and adjusted operating profit of the Group and the controlling company (illustrated in Graphs 15 and 16) that the trend of growth in the two aforementioned indicators continued in 2016 at both the Group level and at the controlling company.

GRAPH 15: CHANGES IN ADJUSTED EBITDA OF THE GROUP AND CONTROLLING COMPANY IN THE PERIOD 2013 TO 2016



* Excluding other operating revenues, other operating expenses from provisions for litigation and expenses from adjustments to the value of receivable.
** Excluding other operating revenues, other operating expenses from provisions for litigation, other operating expenses in connection with subsidiaries and expenses from adjustments to the value of receivables.

GRAPH 16: CHANGES IN OPERATING PROFIT OR LOSS OF THE GROUP AND CONTROLLING COMPANY IN THE PERIOD 2013 TO 2016



* Group: excluding other operating revenues, revaluation operating expenses for intangible assets and property, plant and equipment, other operating expenses from provisions for litigation and expenses from adjustments to the value and write-offs of receivables.
Controlling company: excluding other operating revenues, revaluation operating expenses for intangible assets and property, plant and equipment, other operating expenses from provisions for litigation, expenses from adjustments to the value and write-offs of receivables, and other operating expenses arising from transactions with subsidiaries.

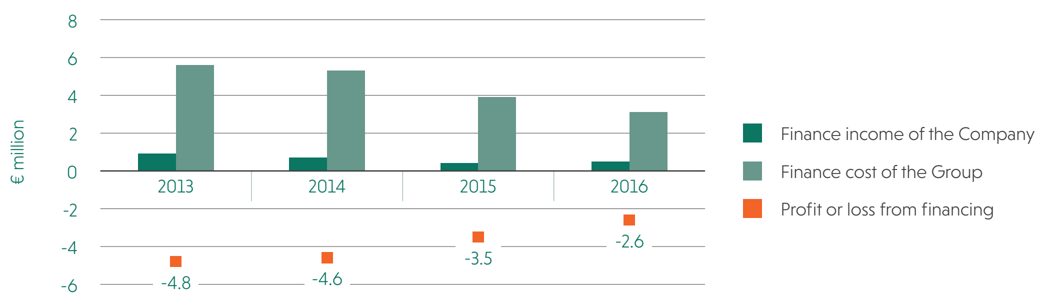
Finance income and costs

The financial management of the Group is concentrated at the controlling company to the greatest extent possible, as it is the most indebted. A loss from financing activities was recorded across the entire period observed, but improved each year, i.e. was less negative.

The majority of finance income is accounted for by interest on operating receivables and cash deposits, followed by gains on the sale of financial assets, while interest paid on raised loans accounts for the majority of finance costs.

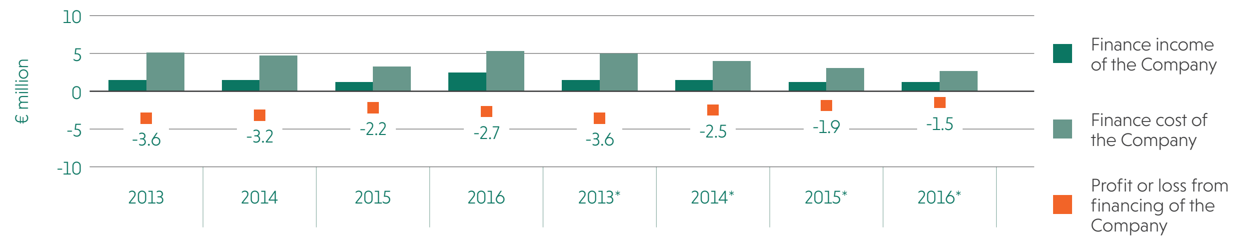
Significant changes relative to 2015 include a decrease in negative foreign exchange differences and a decrease in interest on loans (each by EUR 0.4 million), and an increase in gains from the sale of financial assets (by EUR 0.2 million) on the income side.

GRAPH 17: PROFIT OR LOSS FROM FINANCING ACTIVITIES OF THE GROUP IN THE PERIOD 2013 TO 2016



Expenses from the impairment of investments in and receivables from subsidiaries had a major impact on finance costs at the controlling company in 2014 and 2016. We are therefore disclosing the above-mentioned expenses separately for easier comparison.

GRAPH 18: PROFIT OR LOSS FROM FINANCING ACTIVITIES OF THE CONTROLLING COMPANY IN THE PERIOD 2013 TO 2016



* Excluding revaluation expenses/revenues from the impairment/reversal of the impairment of investments in and receivables from subsidiaries.

If we ignore revaluation expenses/revenues from the impairment/reversal of the impairment of investments in and receivables from subsidiaries, we see that the loss from financing activities at the controlling company improved by EUR 0.4 million in 2016 relative to 2015. Similar to the Group as a whole, the controlling company recorded a decrease in interest expense on loans raised.

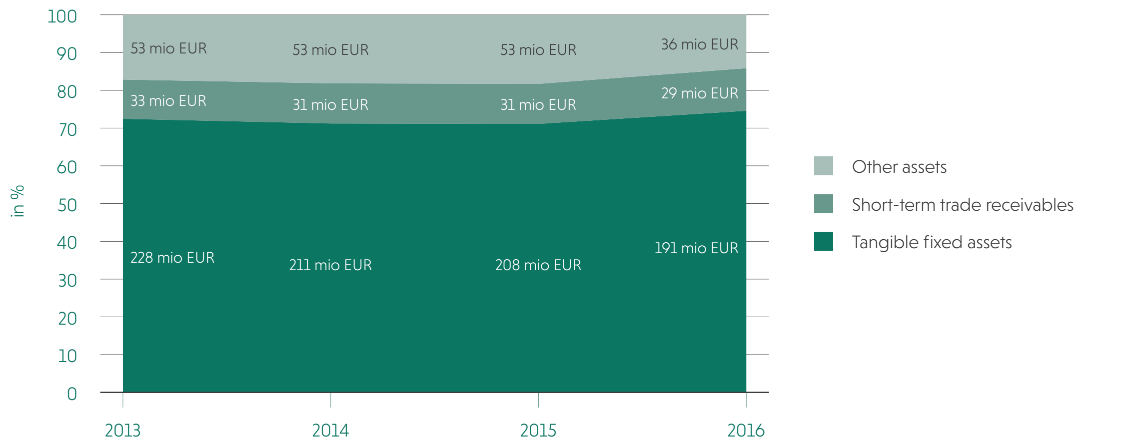
Structure of the statement of financial position of the Group

Total assets were down for the seven consecutive year. The decline in the period 2013 to 2015 was primarily on account of amortisation/depreciation and the revaluation of land, while total assets contracted further in 2016 due to the sale of assets by the controlling company. The sharpest decrease among liabilities in 2016 was recorded by non-current financial liabilities, which is a reflection of successful deleveraging efforts by the Group. The structure of assets and liabilities at the end of 2016 was very similar to the structure at the end of 2015, with the most significant change recorded in the proportion of total equity and liabilities accounted for by equity on account of non-current financial liabilities.

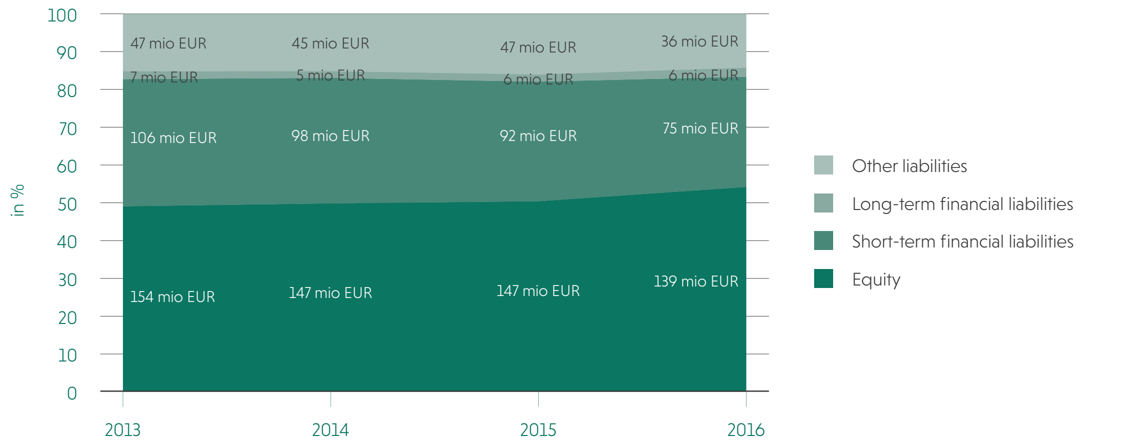
TABLE 14: ITEMS FROM THE STATEMENT OF FINANCIAL POSITION OF THE GROUP IN THE PERIOD 2013 TO 2016, IN ABSOLUTE TERMS

€ thousand	2013	2014	2015	2016
ASSETS	**313,419**	**295,228**	**291,893**	**255,730**
A. NON-CURRENT ASSETS, of which	**259,370**	**247,038**	**242,639**	**218,614**
Property, plant and equipment	227,642	210,748	208,066	191,173
Long-term investments	2,031	1,744	698	674
B. CURRENT ASSETS, of which	**54,049**	**48,190**	**49,254**	**37,116**
Short-term operating receivables and other current assets	32,610	31,442	30,985	28,804
Cash	7,126	6,757	11,107	5,294
EQUITY AND LIABILITIES	**313,419**	**295,228**	**291,893**	**255,730**
A. EQUITY	**153,763**	**147,110**	**147,137**	**138,562**
B. NON-CURRENT LIABILITIES, of which	**126,117**	**117,517**	**112,878**	**88,475**
Non-current financial liabilities	105,611	98,196	92,499	74,736
C. CURRENT LIABILITIES, of which	**33,539**	**30,601**	**31,878**	**28,693**
Current financial liabilities	6,652	5,359	5,648	6,201
Short-term operating liabilities	26,887	25,242	26,229	22,487

GRAPH 19: STRUCTURE OF THE GROUP'S ASSETS IN THE PERIOD 2013 TO 2016



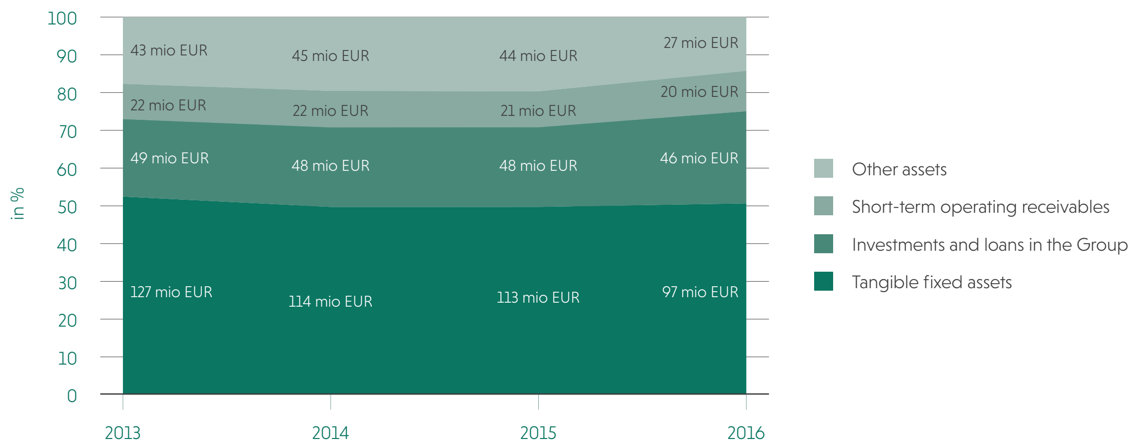
GRAPH 20: STRUCTURE OF THE GROUP'S EQUITY AND LIABILITIES IN THE PERIOD 2013 TO 2016



Structure of the statement of financial position of the controlling company

The most significant decrease in 2016 on the asset side of the controlling company's statement of financial position relative to 2015 was recorded in property, plant and equipment, in part because depreciation costs outstripped new investments and in part due to the sale of assets, followed by decreases in cash and cash equivalents and deferred tax assets. The most significant decrease on the liability side was recorded in non-current financial liabilities, as a result of the repayment of bank loans, and in equity, primarily due to the revaluation of land and the Company's net operating loss.

GRAPH 21: STRUCTURE OF THE CONTROLLING COMPANY'S ASSETS IN THE PERIOD 2013 TO 2016



GRAPH 22: STRUCTURE OF THE CONTROLLING COMPANY'S EQUITY AND LIABILITIES IN THE PERIOD 2013 TO 2016

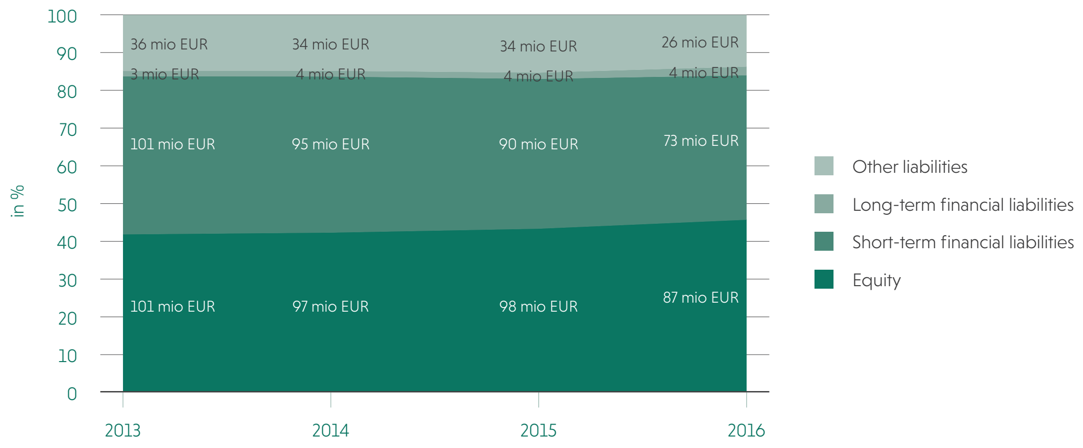


TABLE 15: ITEMS FROM THE STATEMENT OF FINANCIAL POSITION OF THE CONTROLLING COMPANY IN THE PERIOD 2013 TO 2016, IN ABSOLUTE TERMS

€ thousand	2013	2014	2015	2016
ASSETS	**240,974**	**228,976**	**226,292**	**190,731**
A. NON-CURRENT ASSETS, of which	**203,886**	**194,820**	**191,139**	**166,635**
Tangible fixed assets	126,652	114,056	112,747	96,812
Long-term financial investments, of which	50,136	48,851	47,036	45,739
Investments in subsidiaries	47,347	46,669	46,453	45,169
B. CURRENT ASSETS, of which	**37,088**	**34,156**	**35,153**	**24,096**
Short-term operating receivables and other current assets	22,350	21,985	21,406	20,290
Current financial investments	11,101	7,510	5,529	1,593
LIABILITIES IN BROADER SENSE	**240,974**	**228,976**	**226,292**	**190,731**
A. EQUITY, of which	**100,712**	**96,753**	**97,976**	**87,118**
Share capital	27,489	27,489	27,489	27,489
Equity reserves	18,455	18,455	18,455	18,455
Revaluation surplus	52,815	48,755	48,659	34,929
B. NON-CURRENT LIABILITIES, of which	**117,871**	**110,486**	**106,270**	**82,855**
Long-term financial liabilities	101,202	94,944	90,109	73,175
C. CURRENT LIABILITIES, of which	**22,391**	**21,737**	**22,046**	**20,758**
Short-term financial liabilities	3,397	3,529	3,752	4,412
Short-term operating liabilities	18,994	18,208	18,294	15,849

Significant operating indicators in the period 2013 to 2016

TABLE 16: OPERATING INDICATORS FOR THE PERIOD 2013 TO 2016

€ thousand	Group				Parent Company			
	2013	2014*	2015*	2016	2013	2014*	2015*	2016
Sales revenues	161,061	140,769	134,613	135,596	90,994	90,723	91,492	91,052
EBITDA	13,755	11,258	10,759	13,339	6,760	7,516	7,578	8,722
Share in sales (in %)	8.5	8.0	8.0	9.8	7.4	8.3	8.3	9.6
adjusted EBITDA**	12,856	10,520	11,684	12,456	6,678	7,045	7,753	8,207
share in sales (in %)	8.0	7.5	8.7	9.2	6.5	7.1	8.5	9.0
EBIT	5,301	4,524	4,224	6,661	2,602	3,547	3,624	4,708
share in sales (in %)	3.3	3.2	3.1	4.9	2.9	3.9	4.0	5.2
adjusted EBIT***	5,612	3,865	5,182	5,860	2,535	3,153	3,831	4,273
share in sales (in %)	3.5	2.7	3.8	4.3	2.8	3.5	4.2	4.7
Net profit or loss	2,152	-199	288	-1,603	1,000	339	1,229	-3,455
share in sales (in %)	1.3	-0.1	0.2	-1.2	1.1	0.4	1.3	-3.8
Assets	313,419	295,228	291,893	255,730	240,974	228,976	226,292	190,731
ROA (in %)	0.7	-0.1	0.1	-0.6	0.4	0.1	0.5	-1.7
Equity	153,763	147,110	147,137	138,562	100,712	96,753	97,976	87,118
ROE (in %)	1.4	-0.1	0.2	-1.1	1.0	0.3	1.3	-3.7
Investment in fixed assets	2,180	2,450	3,962	3,741	824	1,510	2,153	2,325
No. of employees at the end of the year	1,464	1,425	1,417	1,374	644	618	623	606

* Data for the previous year were recalculated due to the correction of a material error. Changes are explained in detail on page 111.

** Group: excluding other operating revenues, other operating expenses from provisions for litigation and expenses from adjustments to the value of receivables. Company: excluding other operating revenues, other operating expenses from provisions for litigation, other operating expenses in connection with subsidiaries and expenses from adjustments to the value of receivables.

*** Group: excluding other operating revenues, revaluation operating expenses for intangible assets and property, plant and equipment, other operating expenses from provisions for litigation and expenses from adjustments to the value and write-offs of receivables. Company: excluding other operating revenues, revaluation operating expenses for intangible assets and property, plant and equipment, other operating expenses from provisions for litigation, expenses from adjustments to the value and write-offs of receivables, and other operating expenses arising from transactions with subsidiaries.

Cash flow analysis

The Group generated a positive net cash flow from operating activities of EUR 5.6 million in 2016, a decrease of 57% or EUR 7.5 million relative to 2015. A positive net cash flow from investment activities of EUR 9.4 million was also recorded at the Group level in 2016. Following the coverage of the negative net cash from financing activities in the amount of EUR 20.7 million, Group companies had cash and cash equivalents of EUR 5.3 million at the end of 2016, or EUR 10.1 million less than at the end of 2015. Because the controlling company is so much bigger than other subsidiaries in relative terms, changes in the Group's cash flows generally track those of the controlling company, as explained in the next paragraph.

The controlling company generated a positive net cash flow from operating activities of EUR 2.1 million in 2016, a decrease of 77% or EUR 6.9 million relative to 2015. The majority of that difference derives from the use of provisions created at the end of 2012 when the subsidiary in Moscow was sold. The net cash flow from investment activities at the controlling company was positive last year and up significantly relative to 2015. That difference was EUR 8.6 million. The reason lies in a major sale of real estate in Koper at the end of the previous financial year, and in a decrease in deposits that were placed at the end of 2012 when the subsidiary in Moscow was sold, at the same time the above-mentioned provisions were created, as collateral against the fulfilment of contractual obligations. The net cash flow from financing activities was sharply negative in 2016, at EUR 19.4 million, due to accelerated repayments of financial liabilities, representing a decrease of EUR 11.7 million relative to 2015. The controlling company had cash and cash equivalents of EUR 1.8 million at the end of 2016, or EUR 6.3 million less than at the end of 2015.

TABLE 17: CASH FLOWS IN THE PERIOD 2013 TO 2016 (IN EUR THOUSAND)

€ thousand	Group				Parent Company			
	2013	2014	2015	2016	2013	2014	2015	2016
Cash flow from operating activities	12,503	9,851	13,055	5,550	7,162	6,709	8,981	2,102
Cash flow from investing activities	-2,294	2,416	295	9,401	1,240	3,979	2,304	10,932
Casf flow from financing activities	-11,467	-12,650	-8,985	-20,749	-8,445	-9,500	-7,710	-19,381
Exchange differences in cash assets	-6	14	-15	-15	0	0	0	0
Cash flow in the period	-1,264	-369	4,350	-5,798	-43	1,188	3,575	-6,347

2.5 SHARES AND OWNERSHIP STRUCTURE

Improvement in general economic trends in 2016 could not halt the decline in total turnover in shares on the Ljubljana Stock Exchange. The market value of listed Slovenian companies was lower, while the SBI TOP index gained 3.1%. Given the amount of turnover in IEKG shares, the price of which fluctuated at around EUR 1.00, Intereuropa's shares were more attractive to investors than the previous year. The share price rose during the year and stood at EUR 1.18 in December.

Shares of Intereuropa d.d.

Shares of Intereuropa d.d. (designated IEKG) were listed on the prime market in 2005, and have been traded on the Ljubljana Stock Exchange since 1998.

The Company's share capital was unchanged in 2016, at EUR 27,488,803. It is divided into 16,830,838 ordinary registered freely transferable no-par-value shares and 10,657,965 preference shares.

Ordinary IEKG shares are listed on the prime market of the Ljubljana Stock Exchange, while preference shares are not traded on the regulated securities market.

TABLE 18: KEY DATA REGARDING SHARES

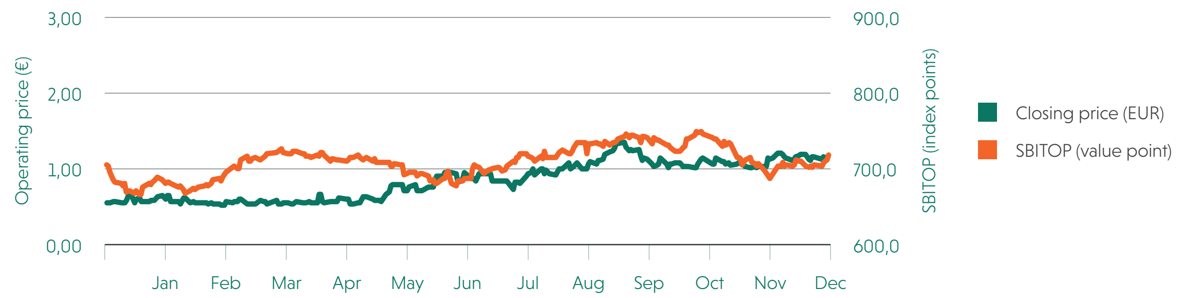
	2013	2014	2015	2016
Number of shares	27,488,803	27,488,803	27,488,803	27,488,803
Number of preference shares IEKN	10,657,965	10,657,965	10,657,965	10,657,965
Number of ordinary shares IEKG	16,830,838	16,830,838	16,830,838	16,830,838
- of which no. of treasury shares	18,135	18,135	18,135	18,135
Share book value in € (31 December)	3,67	3,52	3,57	3,17
Data on trading				
Closing price in € (31 December)	0,44	1,18	0,53	1,18
Weighted average price	0,50	1,39	1,17	1,08
Highest price in €	0,85	1,78	1,27	1,36
Lowest price in €	0,32	0,44	0,50	0,50
Market capitalisation in € thousand	7,406	19,911	8,920	19,860
Turnover in € thousand	938	2,113	538	783
Indicators				
Earnings per share in €	0,05	0,01	0,04	-0,13
Cash flow per share in €	0,19	0,15	0,19	0,02
Gross dividend per share in €	0,00	0,00	0,00	0,00
P/BV	0,12	0,34	0,15	0,37
P/CF	2,32	7,87	2,79	67,81
P/E	8,80	118,00	13,25	-9,08
Capital gain	-20.0%	168.9%	-55.2%	122.6%
Dividend yield	0.0%	0.0%	0.0%	0.0%
Total return	-20.0%	168.9%	-55.2%	122.6%

Notes:
Book value per share = equity / (number of total shares – number of treasury shares).
Market capitalisation = closing price at the end of year * number of shares listed on the stock exchange.
Earnings per share = net profit/ (number of total shares – number of treasury shares).
Cash flow per share = (net profit – dividends + amortisation/depreciation) / (number of total shares – number of treasury shares).
P/BV = closing price at the end of the year / book value per share.
P/CF = closing price at the end of the year / cash flow per share.
P/E = closing price at the end of the year / earnings per share.
Capital yield = growth in share price over one year-period.
Dividend yield = gross dividend / closing price at the end of the year.

Trading in IEKG shares

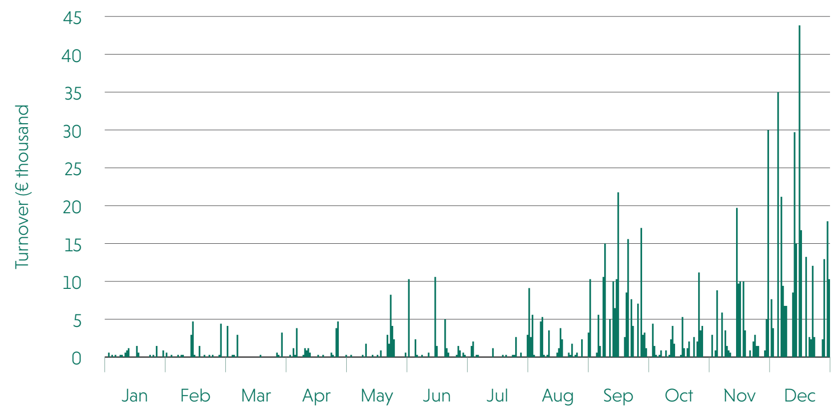
Trading in IEKG shares was very modest during the first six months of 2016, with the volume of trading picking up significantly during the second half of the year. The volume of share trading was EUR 783 thousand during the year, an increase of 45% on 2015. The improved business results of the Company and Group led to a slight increase in investors' confidence in Intereuropa, while the volume of trading towards the end of the year was also affected by the abolishment of registry accounts managed by the Central Securities Clearing Corporation, which encouraged non-active shareholders to compare their yields with the costs of share ownership. The market price of IEKG shares fluctuated between EUR 0.50 and EUR 1.36 per share in 2016. The share price fluctuated below EUR 1.00 until August, and later exceeded that threshold and continued rising. It reached EUR 1.18 by the end of the year. IEKG shares were up 122.6% during the year, while the Ljubljana Stock Exchange's SBITOP index recorded a 3.1% increase. The market capitalisation of IEKG shares amounted to EUR 19.9 million at the end of 2016, accounting for 0.4% of the market capitalisation of all shares on the Ljubljana Stock Exchange.

GRAPH 23: CHANGES IN THE CLOSING PRICE OF INTEREUROPA'S SHARES AND THE SBITOP INDEX IN 2016



The ownership of 758,129 IEKG shares changed hands in 1,552 transactions during 2016. Average daily turnover was EUR 3.1 thousand during the year, while total turnover in IEKG shares amounted to EUR 783 thousand.

GRAPH 24: TURNOVER IN INTEREUROPA SHARES IN 2016



Ownership structure of the company

There have been no significant changes in the ownership structure in recent years. There were 4,394 shareholders entered in Intereuropa d.d.'s register of shareholders at the end of 2016, a decrease of 13% on the end of the previous year. This was primarily the result of a decrease in the number of minority shareholders, i.e. natural persons who decided to withdraw from the ownership structure due to the disproportionate costs of maintaining their portfolio. Despite a decline in their number, the aforementioned shareholders still held a 12% stake in the Company's capital at the end of 2016. The proportion of shares held by foreign investors stood at 0.5% at the end of the year.

There were no changes in Intereuropa d.d.'s top ten shareholders, which similar to the previous year included seven banks, Luka Koper, d.d. (together with its subsidiary Luka Koper INPO d.o.o.) and Kapitalska družba, d.d. Together, the top ten shareholders held an 81.9% stake in Intereuropa's capital as at 31 December 2016.

TABLE 19: TOP TEN SHAREHOLDERS AS AT 31 DECEMBER 2016

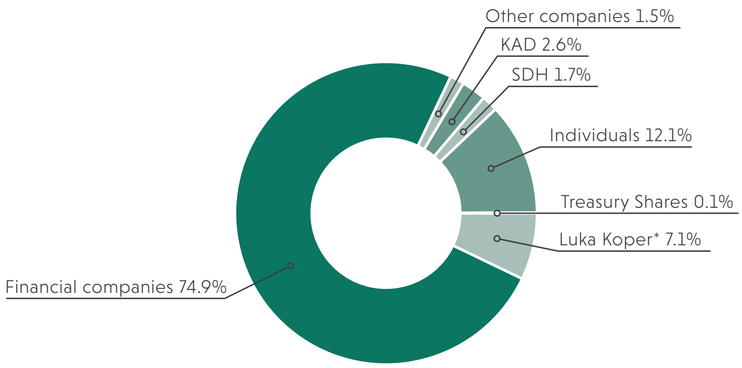
No.	Shareholder	No. of Shares 31. 12. 2016	Share in % 31. 12. 2016
1.	SID banka d.d.	4,942,072	18.0%
2.	NLB d.d.	4,770,601	17.4%
3.	Gorenjska banka d.d., Kranj	3,068,990	11.2%
4.	KBS banka d.d.*	2,850,752	10.4%
5.	SKB d.d.	2,254,980	8.2%
6.	Luka Koper d.d.	1,344,783	4.9%
7.	NKBM d.d.	1,185,292	4.3%
8.	Banka Koper d.d.**	753,703	2.7%
9.	Kapitalska družba d.d.	719,797	2.6%
10.	Luka Koper INPO d.o.o.	615,730	2.2%

* The bank was named Raiffeisen banka d.d. until 30 June 2016.
** The bank's name was changed to Banka Intesa Sanpaolo d.d., effective 16 January 2017.

On 3 January 2017 KBS banka d.d. was merged with Nova KBM d.d., resulting in the transfer of all of its obligations and rights to Nova KBM d.d. In addition to 1,185,292 preference shares (IEKN), Nova KBM d.d. thus became the owner of an additional 2,850,752 ordinary shares (IEKG), bringing its total participating interest in the capital of Intereuropa d.d. to 14.7%.

Three shareholders exercised their voting rights at July's General Meeting of Shareholders based on preference shares. Out of the total of 27,488,803 shares, 27,470,668 shares had voting rights at the General Meeting of Shareholders, representing 99.93% of all shares. Only treasury shares had no voting rights.

GRAPH 25: OWNERSHIP STRUCTURE OF ALL INTEREUROPA SHARES AS AT 31 DECEMBER 2016



* Including Luka Koper d.d. and its 100% owned subsidiary Luka Koper INPO d.o.o.

Shares held by members of the Management Board and Supervisory Board

There were no changes in the shares held by members of the Management Board and Supervisory Board. The members of the Management Board did not hold shares of Intereuropa d.d.

The number of shares held by Supervisory Board members is presented in the table below..

TABLE 20: NUMBER OF IEKG SHARES HELD BY SUPERVISORY BOARD MEMBERS AS AT 31 DECEMBER 2016

	No. of shares	Share in %
Nevija Pečar	4,185	0.053
Maša Čertalič, MSc.	99	0.001

Authorised capital
Intereuropa d.d. had no authorised capital as at 31 December 2016.

Dividend policy
The Company did not pay dividends in 2016.

Communication with the financial public
The principles of communication with the financial public are set out in Intereuropa d.d.'s Corporate Governance Policy, which is accessible on the Company's website at www.intereuropa.si. We strive to achieve regular, honest and accurate communication with Intereuropa d.d.'s current shareholders, which we believe is of fundamental importance for building successful operations. We also place emphasis on appropriate communication with analysts and potential investors, and provide correct and prompt information to creditor banks.

We continued to meet with investors, analysts and bankers with the aim of strengthening our relations with investors. We consistently complied with the Ljubljana Stock Exchange's information disclosure rules, and strove to achieve the best corporate communications possible. The following communication tools and activities were used for that purpose:
- the regular General Meetings of Shareholders;
- presentations by the Company at conferences for investors in financial centres;
- the regular publication of business results and other price-sensitive information;
- regular communication via the SEOnet electronic system;
- regular communication with the media; and
- the regular publication of information regarding operations on the Company's website.

We also welcome the direct opinions and recommendations of shareholders, which we collect via the following e-mail address: info@intereuropa.si.

Financial calendar of publications for 2017

Date of publication	Publication of event
7. 2. 2017 – 8. 3. 2017	No-communication period
9. 3. 2017 Thursday	Publication of the unaudited business report of Intereuropa d.d. and the Intereuropa Group for 2016
20. 4. 2017 Thursday	Publication of the audited Annual Report for 2016
1. 5. 2017 – 23. 5. 2017	No-communication period
24. 5. 2017 Wednesday	Publication of the unaudited business report of Intereuropa d.d. and the Intereuropa Group for the first quarter of 2017
30. 6. 2017 Friday	Publication of resolutions of the 30th Annual General Meeting
9. 8. 2017 – 23. 8. 2017	No-communication period
24. 8. 2017 Thursday	Publication of the unaudited business report of Intereuropa d.d. and the Intereuropa Group for the first half of 2017
1. 11. 2017 – 15. 11. 2017	No-communication period
16. 11. 2017 Thursday	Publication of the unaudited business report of Intereuropa d.d. and the Intereuropa Group for the first three quarters of 2017
14. 12. 2017 Thursday	Presentation of plans of Intereuropa d.d. and the Intereuropa Group for 2018

The scheduled dates of publications are given. Any change to those dates will be published on the Company's website at http://www.intereuropa.si.

Intereuropa d.d. does not publish information regarding its operations during quiet periods. Scheduled periodic announcements and other controlled information will be published on the Ljubljana Stock Exchange's website via the SEOnet system at http://seonet.ljse.si and on the Company's website at http://www.intereuropa.si.

2.6 RISK MANAGEMENT

Effective risk management and a rapid response to changes mitigate exposure to specific risks and contribute significantly to the achievement of business objectives. We define risk as uncertainty in connection with future business events that could result in damage or reduce the likelihood of achieving established objectives and thus have a negative impact on performance.

We pursue the following objectives in the development of the risk management process:
- the effective management of risks that could prevent the achievement of strategic and annual business objectives;
- the monitoring of risks, with special attention given to those risks where the level of potential damage and the likelihood of damage occurring are highest;
- the integration of the risk management process at Group companies;
- the development and adaptation of the risk management process to match the Group's needs and mode of operations; and
- the spread of awareness and the risk management culture among Group employees.

We upgraded the risk management system in 2016 by expanding the criteria regarding risk exposure to a four-level assessment, and by updating the criteria for assessing risk levels, which serve as the basis for implementing and monitoring measures, taking into account the acceptability of a particular risk.

The risk management methodology is appropriate and in line with the structure, complexity and risks associated with the Company's operations. The Company's Management Board appointed the Risk Management Committee. The members of the Risk Management Committee are the executives of key business lines and support services whose activities are most closely related to the risks associated with a particular business line or support service for which those persons are responsible and who have the most qualified staff to address such risks. Competences and responsibilities in the area of risk management are assigned to the members of the aforementioned committee, who monitor the risks in their own areas of operations. All identified risks are recorded in a risk register.

Identified risks are assessed quarterly. Exposure to risk is measured in two ways: through qualitative assessment using qualifying attributes to describe the gravity of potential consequences (e.g. low, medium, high and very high), or through quantitative assessment using an assessment scale with numerical values representing the probability and consequences of an event occurring (e.g. expressed in euros and percentages).

The level of exposure to and the method for managing a particular risk are determined based on the measurement of the level of exposure to that risk and the opinion of a specialist from the relevant area.

Measures implemented to address exposure to a particular risk are aimed at one of the following activities:
- risk avoidance – the Company's senior management decides not to begin or to discontinue an activity that increases risk;
- risk acceptance;
- the elimination or mitigation of the causes of risk; and
- the sharing or transfer of risk.

The implementation of the risk management process is supervised by the Company's senior management, members of the Risk Management Committee and the Internal Audit Department.

While updating the list of risks, we identified 33 risks at the Group level and classified them to the following three categories:
- financial risks,
- business risks, and
- operational risks.

TABLE 21: CLASSIFICATION OF RISKS BY CATEGORY AND AREA

Risk Group	No. of risks	Type of risk
Financial risks	2	Credit risks
	1	Interest rate risks
	1	Currency risks
	1	Liquidity risks
Business risks	4	Business risks associated with LAND TRANSPORT segment
	4	Business risks associated with INTERCONTINENTAL TRANSPORT segment
	4	Business risks associated with LOGISTICS SOLUTIONS segment
Operational risks	3	Strategic risks
	3	Risks associated with information-communication technology
	3	Employee-related risks
	4	Risks associated with legislation and litigation
	1	Risks associated with the management and protection of assets
	1	Risks associated with environmental protection
	1	Risks associated with ensuring the quality of logistics services
Total	**33**	

2.6.1 FINANCIAL RISKS

The active management of financial risks with the aim of maintaining the financial stability of companies and their cash flows is one of the mainstays of our operations. Once again the objective in the previous period was to achieve the lowest possible level of exposure to a specific type of financial risk. To that end, we implemented numerous activities as an important element of the financial function. Financial risks are also described in the financial report.

FINANCIAL RISKS

Type of risk	PROBABILITY	IMPACT	Degree of risk
Credit risk: deterioration in payment habits of all customers	2	1	2
Credit risk: bankruptcy and similar proceedings against major customers	1	2	2
Interest-rate risk: increase in EURIBOR reference interest rate	1	2	2
Currency risk: change in exchange rates	1	2	2
Liquidity risk: short-term and long-term insolvency	1	3	3

Credit risk

Credit risk is primarily seen in the risk of failure on the part of customers to pay for services rendered. The management of credit is a part of our daily activities. Given the conditions on the markets where we operate, credit risk is present at all times, but is more or less evident depending on the economic cycle. It is therefore given a great deal of attention. Credit risk is managed primarily by analysing credit rating reports about customers, by setting the appropriate credit limits, by collateralising high-risk receivables and through the continuous active monitoring of outstanding receivables.

On account of the aforementioned activities and the extremely high dispersion of receivables between numerous customers from different sectors and geographical regions, we assess the Intereuropa Group's exposure to credit risk as low. Despite the fact that it is highly likely that credit risk will be realised, we assess that the aforementioned risk has a moderate impact on our operations.

Currency risk

Exposure to currency risk, as the risk of fluctuating exchange rates expressed in unexpected losses, is low at Group companies in Slovenia, Montenegro and Kosovo, as nearly all of those companies' cash flows are in euros. Currency risk is more evident at Group companies that operate outside the euro area. Worthy of particular note is the risk of a change in the value of the Ukrainian hryvnia, Serbian dinar and Croatian kuna. Cash flows are quite effectively hedged in terms of currency risk by matching inflows and outflows in individual currencies in terms of timing and amounts, to achieve so-called natural hedging. However, subsidiaries that have raised loans in euros have open foreign exchange positions in their statements of financial position. We therefore assess that a major fluctuation in the exchange rate of the national currency vis-à-vis the euro would have a significant impact on the operations of those companies.

Due to the varying degrees of currency risk to which Group members operating within and outside the euro area are exposed, currency risk is assessed as moderate at the Group level, with a moderate impact on operations.
Please refer to the financial report for more information regarding exposure to currency risk.

Interest-rate risk

Interest-rate risk is the risk of the negative effect of a change in market interest rates reflected in higher financing costs.
The costs of financing associated with the majority of the Intereuropa Group's financial liabilities are linked to the variable EURIBOR interest rate. Because we do not hedge against a change in that rate, we are exposed to interest-rate risk. In the context of the continuous fall in the EURIBOR in 2016 and taking into account forecast trends in 2017, we assess exposure to interest-rate risk as low, with a moderate impact on operations.

The effect of changes in the variable EURIBOR interest rate on the income statement is presented in the financial report.

Liquidity risk

Liquidity or solvency risk is the risk of failure on the part of Group companies to secure sufficient liquid funds to settle all of their liabilities at maturity.

This risk is managed through the planning and active management of Group companies' cash flows. Liquidity risk was mitigated at the Group level through the financial restructuring of the controlling company at the end of 2012, which ensured a sound basis for the financial stability of all Group companies. We were able to maintain liquidity at an appropriate level at all Group companies in 2016, with the exception of companies in the Ukraine, where the adverse economic conditions are reflected in part in the poor liquidity situation of companies. With the exception of Ukrainian companies, we assess the risk of the emergence of liquidity problems as low, with a significant impact on the Group's operations.

2.6.2 BUSINESS RISKS

Business risks are broken down into different areas of risk, as follows:
- land transport,
- intercontinental transport, and
- logistics solutions.

Land transport

BUSINESS RISKS ASSOCIATED WITH LAND TRANSPORT SEGMENT

Type of risk	PROBABILITY	IMPACT	Degree of risk
Risk of increased input costs of suppliers	2	3	6
Risk of rising fuel prices	2	4	8
Risk of declining sales prices	2	4	8
Risk of loss of customs terminal status	3	3	9

The providers of transport services face stiff price competition on the logistics market, while customers are striving to reduce all operating costs, including the costs of logistics. The transport services segment is subject to stiff competition, as both logistics operators and transport service providers of varying size operate in this segment, as well as various providers of internet platforms and public tender processes. This helps to maintain transport prices at minimal levels.

In addition to pressures on the sales side, we are also exposed to the risk of an increase in suppliers' input costs in our operations. Here we should mention the ever increasing costs of tolls in Europe and rising costs due to increased road safety in certain countries and tighter environmental standards.
An additional risk is presented by rising fuel prices, as the cost of fuel accounts for nearly one third of the transport price. Many factors affect the dynamics of fuel prices, making those prices impossible to predict. The fluctuation of prices also represents a significant risk in the drafting of long-term offers, and requires a great deal of attention in the management of both sales and purchasing policies. We have no influence over fluctuations in market energy prices. The only way to mitigate that risk is thus through effective supplier relationship management and the appropriate adjustment of selling prices.

Risks on the sales side are mitigated by establishing partnerships with customers, enforcing contractual clauses imposing a surcharge on fuel, and offering customers additional services and thus establishing closer links. We attempt to strengthen our position vis-à-vis suppliers on the cost side with the aim of passing on at least a portion of falling margins to them. Key measures for managing risks on the cost side remain reducing direct costs and managing suppliers via a centralised purchasing function. Other measures include monitoring legislation and developments on the markets where we operate.
The status of a customs terminal represents an important competitive advantage in the operations of some subsidiaries. We thus encounter interest from competitors aiming to secure the same status. This risk is mitigated by fulfilling legal and contractual commitments, and through continuous lobbying at the competent institutions.

Risks in the land transport segment are managed by the head of the aforementioned business line, in cooperation with the heads of individual organisational units and/or companies.

Interkontinentalni promet

BUSINESS RISKS ASSOCIATED WITH INTERCONTINENTAL TRANSPORT SEGMENT

Type of risk	PROBABILITY	IMPACT	Degree of risk
Risk of declining sales of intermodal transport via Koper	2	1	2
Risk of a drop in air freight turnover	2	1	2
Risks associated with the execution of LCL transactions	2	1	2
Risks associated with ensuring competitive FCL sea freight rates	2	1	2

Business risks in the intercontinental transport segment relate to operational risks vis-à-vis customers on the sales side and to cooperation with the partner network on the purchasing side, in terms of expanding the logistics network to every continent. The partner network ensures us competitive purchasing terms for imported consignments via sea and air freight, as well as local services at the beginning or end of the logistics process.

In 2016 this risk was seen at certain customers who reduced quantities of delivered cargo due to a change in the functioning of supply chains and the situation in a specific industry. This was felt most with the users of general sea freight services. We are expecting to be exposed to risks again in 2017, primarily with regard to transactions with customers, the functioning of the partner network and in securing favourable purchasing terms. The probability of risks arising in the intercontinental transport segment is assessed as moderate.

The risk arising from transactions with customers remains one of the key risks in the operations of the intercontinental transport segment. Similar to 2016, we are expecting difficulties in operations on key markets to continue in 2017, as the financial discipline of certain customers has failed to improve. Two risks associated with the provision of intermodal transport services via the Port of Koper have been identified among risks arising from transactions with customers. First, we generate a significant number of transactions with business partners who are increasingly inclined to a different form of mutual cooperation or even the establishment of their own office or branch in Koper. The latter could have an impact on the scope of operations in 2017.

The second risk arising from transactions with customers relates to the air freight segment, where we have entered into short-term agreements at the Group level on the export of specific-purpose equipment. The potential termination of cooperation could have a significant impact on the operating revenues generated by this segment. The two aforementioned risks are assessed as moderate.

The risks associated with transactions with suppliers and the network of partners and agents were assessed as moderate in 2016. We encountered major problems during the second half of the year, when there was a sharp rise in freight rates for both imports and exports, and a lack of cargo space.
We adjusted purchasing terms in cooperation with the partner network, the functioning of which was stable in 2016.

We have identified two significant risks for 2017 in connection with transactions with suppliers and with the partner-agency network that could have a moderate impact on operations. These risks involve cooperation and the development of the LCL product on markets where the Group is dependent on the operations and development of a business partner. The development of the aforementioned product is largely dependent on the functioning of the overseas branches and offices of the partner network and the network of land transport agents in Europe. That development and the potential termination of cooperation could affect the level of revenues generated by the container transport segment.

The development of the container transport segment will be affected by the ability to secure favourable sea freight rates on both imports and exports. As a regional logistics provider, we encounter problems in securing competitive purchasing terms with large and international customers. Competitive logistics companies leverage their greater economies of scale to agree on more favourable purchase terms. We assess this risk as moderate, with a moderate impact on the Company's operations.

We manage the risks described above through a prudent approach to managing purchasing terms for sea and air freight transport on a daily or monthly basis, and through the partner network. Risk management at the Group level is guided and monitored by product managers, who coordinate activities on a monthly basis.

Logistics solutions

BUSINESS RISKS ASSOCIATED WITH LOGISTICS SOLUTIONS SEGMENT

Type of risk	PROBABILITY	IMPACT	Degree of risk
Risk of a drop in sales due to warehouse fire	1	1	1
Risk of the termination of lease agreement for cold store	2	1	2
Risk of insufficient insurance for goods in warehouses – in adequate insured sums	3	2	6
Risk of insufficient utilisation of warehouse capacities	1	3	3

Logistics solutions represent an important element of Intereuropa's operations. The implementation of those solutions is linked to the management of warehouse capacities. Characteristic of this segment are transactions with high fixed costs that are linked to the costs of energy, security, the workforce, maintenance, fees, amortisation and depreciation, and other costs. It is therefore important for successful operations and the achievement of appropriate returns that warehouse capacities are sufficiently utilised through complex transactions that generate the adequate revenues.

Given that Intereuropa owns a great deal of warehouse capacities at different locations, there is a risk that those capacities will not be sufficiently utilised. We assess that this risk is likely to arise in 2017, primarily in Croatia and only partly in Slovenia, where there is still room to raise utilisation rates. This risk is low on other markets. We manage this risk through agreements with customers and the internal channelling of demand to the appropriate locations, and through the cost-manageability of other products.

In addition to our own capacities, we also manage leased warehouses. Most important for operations is the availability of additional capacities for the warehousing and storage of frozen goods, which we lease in Slovenia. We identified the possibility of the termination of the agreement for the aforementioned capacities, meaning we are also exposed to risk in this regard. We mitigate this risk through regular communication with all stakeholders of those capacities and by reacting appropriately to potential changes.

We assess the risk of a potential fire in warehouses and the resulting inability to provide services for a certain period of time as unlikely. We implement measures aimed at ensuring adequate fire safety in warehouses, the regular training of employees and the implementation of other operational measures. The appropriate insurance against risks also plays an important role, particularly given the fact that both the quantities and types of goods in warehouses change very quickly. We manage this risk by limiting the type of standard insurance in new offers/agreements taking into account the selling price of warehousing and storage services, and by analysing the average value of goods in inventory in warehouses quarterly and adjusting insurance coverage accordingly.

2.6.3 OPERATIONAL RISKS

Operational risks are associated with the implementation and supervision of business processes.

Significant operational risks include:
- strategic risks,
- risks associated with information-communication technologies,
- employee-related risks,
- risks associated with legislation and litigation,
- risks associated with the management and protection of assets,
- risks associated with environmental protection, and
- risks associated with ensuring the quality of logistics services.

Strategic risks

The management of risks associated with the achievement of established strategic objectives plays an important role in ensuring the continuing operations of the Group, as the failure to achieve financial objectives, in particular, could have fateful consequences for the Group's existence. The Company thus uses effective corporate governance as a way of exercising continuous control over the achievement of both financial and non-financial strategic objectives.

The Intereuropa Group operates in a highly competitive sector in which stiff competition is present in the form of local, regional and global companies under both private and direct and indirect government ownership. Competitive services are offered by specialists offering specific services and by the providers of comprehensive services. Significant changes are occurring on the market, in terms of the use of new technologies. The Intereuropa Group operates to a great extent on markets that experience indicates are politically unstable. As a result, the economic environment is subject to continuous and rapid changes, and to various impacts that further increase the complexity of operations and the need for the effective management of the aforementioned risks.

The loss of our reputation could result in the loss of our partners' trust, which is crucial for the normal functioning of the logistics sector. We manage the aforementioned risk by ensuring the application of quality standards, complying with applicable legislation and satisfying customers, and through corporate identity and effective communication with all stakeholders.

STRATEGIC RISKS

Type of risk	PROBABILITY	IMPACT	Degree of risk
Risks associated with achievement of established strategic objectives	2	3	6
Risks associated with external factors on the market where Group companies operate	1	2	2
Risk of a loss of reputation	1	1	1

Risks associated with information-communication technologies

The risks associated with information-communication technologies are deemed some of the most significant risks to which we are exposed due to the direct dependence of operations on the availability of IT solutions and the competitive advantages they bring, and due to the expansion of new IT solutions to support logistics processes. We have identified three areas in this regard. The first is unauthorised access to confidential information via IT solutions, where the associated risk is managed through strict access controls. The second area, which has a relatively major impact on the Company's operations, is the risk associated with the unavailability of the information system and the disruption of operations. The mitigation of this risk is linked to relatively high investment costs. We will therefore implement adopted measures, until the necessary investments are made, aimed at the purchase of new ICT equipment, agreements with suppliers on the timely provision of ICT services, the regular monitoring of the functioning of the information system and the implementation of preventive measures to reduce the probability of risk arising. The third area involves risks associated with delays in the implementation of IT projects, and the excessively slow development of IT services and electronic operations. We will reduce this risk and maintain it at an acceptable level through tightened control over the effective implementation of ICT projects, and through the accelerated development of electronic operations and the digitalisation of processes. Overall, the aforementioned risks are assessed as high, with the probability of an event occurring assessed as moderate.

RISKS ASSOCIATED WITH INFORMATION-COMMUNICATION TECHNOLOGY

Type of risk	PROBABILITY	IMPACT	Degree of risk
Risk of unauthorised access to confidential information via IT solutions	2	2	4
Risk associated with the unavailability of the information system and the disruption of operations	2	4	8
Risks associated with delays in the implementation of IT projects, and the excessively slow development of IT services and electronic operations	3	2	6

Employee-related risks

These risks are associated with the recruitment and retention of key and perspective employees, the development of the relevant employee competences, remuneration and motivation, and the safety and health of employees.

We pay particular attention to commitment and the effective development and demonstration of the key competences of employees, on which the competitiveness of our services is highly reliant.

Employees are managed through established systems for the following areas: planning and meeting staffing needs or addressing redundancies, education and training at all levels, remuneration and the assessment of work performance, identifying and managing key and perspective employees, internal communication, managing the organisational climate and culture, workers' participation in management and the implementation of the appropriate preventive measures in the area of occupational safety and health, investments to ensure an appropriate work environment and the promotion of occupational health. The stage of development of the aforementioned systems at Group companies varies. These systems thus require constant coordination with business objectives, development and maintenance. We assess that employee-related risks are acceptable. However, measures must be adopted for certain risks to ensure the safety of employees and to monitor their development.

EMPLOYEE-RELATED RISKS

Type of risk	PROBABILITY	IMPACT	Degree of risk
Risk of excessive turnover of key and perspective employees, or a lack of commitment	2	2	4
Risk of inappropriate qualifications and/or a lack of required competences	2	2	4
Risks associated with occupational safety and health (preventive)	1	2	2

Risks associated with legislation and litigation

Due to the sector in which it operates, Intereuropa is exposed to the risk of fraud and other criminal acts by customers, suppliers and third parties. Risks also exist due to vague legislation and differing interpretations, particularly of customs regulations. The measures we implement to address these risks primarily include: the education and training of employees, the observance of ethical values and the applicable code, the verification of early warning mechanisms aimed at identifying indicators of fraud and other criminal acts by those involved in the logistics process, the careful selection of customers and subcontractors, cooperation with customs and other authorities, etc. We assess the risks associated with legislation and litigation as acceptable. We have adopted specific measures for all risks and monitor the implementation thereof.

RISKS ASSOCIATED WITH LEGISLATION AND LITIGATION

Type of risk	PROBABILITY	IMPACT	Degree of risk
Risks associated with lawsuits against the Group	2	3	6
Risks associated with customs procedures	2	2	4
Risks associated with the protection of trade secrets and inside information	2	1	2
Risks associated with fraud and other criminal acts	2	2	4

Risks associated with the management and protection of assets

Intereuropa owns a great deal of real estate, as well as warehousing and other equipment that it requires to carry out logistics processes at the individual locations of Group companies. Intereuropa is exposed to this type of risk due to a potential increase in the variable and fixed costs associated with the functioning of the infrastructure and the potential loss of revenues due to the disruption of logistics processes. Intereuropa mitigates this risk through long-term agreements with suppliers on the supply of services, materials and equipment required for the functioning of the infrastructure and equipment, through the appropriate insurance and a range of alternative services, materials and equipment, through the sale of obsolete and economically unjustified elements of the infrastructure, and by leasing out unoccupied business premises.

RISKS ASSOCIATED WITH THE MANAGEMENT AND PROTECTION OF ASSETS

Type of risk	PROBABILITY	IMPACT	Degree of risk
Risk of a rise in infrastructure costs	1	2	2

Risks associated with environmental protection

Intereuropa operates in the transport sector, which is one of the major sources of environmental pollution. We mitigate our negative impacts by purchasing freight vehicles with more environmentally friendly motors, by selecting road transport service providers who primarily use vehicles with more environmentally friendly motors and by purchasing electric-powered forklifts.

We manage risks associated with the inappropriate handling of waste by pursuing our long-term objectives to reduce waste or separate it appropriately. We use special containers to separate non-hazardous waste (e.g. cardboard, paper, wood, metals, glass, rubber, plastic foils, etc.), while hazardous chemicals and waste oil are collected in dedicated warehouses. Organic waste of animal origin is removed by specialised contractors. We also collect computer monitors, printer cartridges, batteries and other computer equipment separately, and turn such waste over to a company authorised to transport it to an appropriate disposal site.

RISKS ASSOCIATED WITH ENVIRONMENTAL PROTECTION

Type of risk	PROBABILITY	IMPACT	Degree of risk
Risks associated with inappropriate waste management and environmental pollution	1	1	1

Risks associated with ensuring the quality of logistics services

Every damage to or loss of goods means a disruption to the normal process and the dissatisfaction of customers. The resolution of reclamations is thus important to the success of operations. This risk is managed by selecting reliable suppliers, only receiving correctly packaged shipments, by appropriately insuring shipments, through the effective resolution of claims for damages and by identifying the cause of damage and responsibility within the logistics chain.

RISKS ASSOCIATED WITH ENSURING THE QUALITY OF LOGISTICS SERVICES

Type of risk	PROBABILITY	IMPACT	Degree of risk
Risk of loss and damage to shipments/goods	3	1	3

We continuously monitored all significant risks in 2016, and defined additional measures to manage those risks in the event discrepancies were identified. Despite being the victim of fraud at one of our subsidiaries where significant damage was incurred (EUR 1,037 thousand), we believe that the measures we took and the activities we carried out in 2016 helped us to manage identified risks diligently and above all reduce our exposure to financial and business risks, which has a positive impact on the Group's operations.

2.7 DEVELOPMENT AND INVESTMENTS

2.7.1 DEVELOPMENT OF THE COMPUTERISATION OF OPERATIONS

We continued to place special emphasis on the computerisation of operations in 2016 with the aim of establishing a uniform information system across the Group. We thus supported the operations of two subsidiaries, Intereuropa Kosovo L.L.C. and Interagent, d.o.o., by implementing the WexVS IT solution.

We also continued preparatory activities to introduce the WexVS IT solution at the following other subsidiaries: AD Intereuropa logističke usluge in Serbia, Intereuropa RTC d.d. in Bosnia and Herzegovina and Zetatrans A.D. in Montenegro. Preparatory activities were also carried out to introduce the WexVS module to support groupage and domestic transport services at the Croatian subsidiary Intereuropa, logističke usluge, d.o.o., Zagreb. Further development of the WexVS IT solution was carried out for sea freight services at the controlling company.

As part of the upgrading of support for domestic transport services, we introduced a new solution for the performance of work processes in the field. The aforementioned solution works on mobile phones with the Android operating system. With the aforementioned step, we modernised and simplified operational work and replaced obsolete hand-held terminals.

With regard to the computerisation of the finance, accounting, controlling and human resource functions, we successfully completed a complex project to introduce an SAP IT solution for the computerisation of the finance and accounting functions at the subsidiaries in Serbia, Bosnia and Herzegovina and Montenegro at the beginning of 2016. By implementing the aforementioned project, we have ensured a uniform IT platform, and standardised and simplified finance and accounting processes. Following the completion of the project, we also updated the authorisation system of rights and access to the SAP IT solution. The upgrade carried out in 2016 included users of the SAP IT solution in Slovenia, while users at other subsidiaries will be included in this year's upgrade. In terms of the human resource function, we developed a solution to support annual performance reviews.

In addition to the introduction of the WexVS IT solution to support operational processes, we also launched a project aimed at the digitalisation of outgoing documentation at Interagent, d.o.o., Koper. We continued to expand the number of business partners who transact with us via e-invoices as part of the project to digitalise incoming documentation in the provision of operational services at the controlling company.

In terms of the infrastructure, we introduced procedures for the purchase of equipment to upgrade the communications infrastructure in both Slovenian and Croatia, and implemented a project at Intereuropa d.d. aimed at the optimisation and centralisation of document printing.

We successfully implemented a project at the end of the year aimed at the development and launch of a corporate portal for the entire Group. In the scope of that project, we standardised global corporate web pages and landing pages for certain countries, updated the visual concept of the website and standardised published texts, so that they provide a comprehensive presentation of the portfolios of all Group companies.

Plans for 2017

Development is planned in the following segments in 2017 as part of the computerisation of operations:
- the introduction of a new CRM system to support the sales function;
- the introduction of the WexVS module for TMS for the sea freight segment at Intereuropa d.d.;
- the introduction of the WexVS module at the Croatian subsidiary Intereuropa, logističke usluge, d.o.o. for the domestic transport, groupage and distribution segments;
- the continued introduction of a new IT support system for the logistics solutions segment, and the migration of customers to the new IT solution in Slovenia and Croatia;
- the continuation of preparatory activities for the introduction of the WexVS IT solution at the subsidiaries in Serbia, Bosnia and Herzegovina and Montenegro;
- the preparation of the DW (data warehouse) system project;
- the preparation of the BI (business intelligence decision-making platform) system project;
- the implementation of a project aimed at the upgrading of the authorisation system in the scope of the SAP IT solution at the subsidiaries in Croatia, Serbia, Bosnia and Herzegovina and Montenegro;
- the implementation of a project to upgrade the SAP IT solution; and
- the upgrading of the finance interface between the SAP IT solution and back-office systems.

In terms of the infrastructure, activities in 2017 will include the integration of the information-communications network in Slovenia and at other Group companies and the upgrading of the communications infrastructure, server system infrastructure and employees' computer equipment, as well as the upgrading of the secure data storage system.

2.7.2 PARTICIPATION IN EUROPEAN PROJECTS

In 2016 Intereuropa joined a strategic development-innovation partnership in priority areas relating to smart specialisation and mobility (advanced transport and logistics, and flexible services and business models), where it will be party to multi-year collaboration in the development of transport and logistics, which will be co-financed by the Ministry of Economic Development and Technology.

In connection with the aforementioned project and in the scope of a partnership in the area of logistics, we also submitted a bid in a public tender for renewed collaboration in the activities of the Competence Centre for the Development of Human Resources in the Area of Logistics.

2.7.3 INVESTMENTS IN FIXED ASSETS

Intereuropa Group

The Intereuropa Group invested EUR 3.7 million in fixed assets in 2016. Of that amount, EUR 901,000 was invested in real estate and EUR 2.8 million in equipment and intangible assets. A total of 83.4% of the annual investment plan was thus achieved.

The majority of funds were earmarked for the purchase of vehicles (EUR 765,000), cold store arrangements in Maribor (EUR 746,000), the purchase of forklifts (EUR 435,000), the development and upgrading of information technologies (EUR 540,000), cold store arrangements in Celje (EUR 245,000) and the renovation of the warehouse in Belgrade (EUR 127,000).

TABLE 22: IMPLEMENTATION OF THE INVESTMENT PLAN IN 2016* (IN EUR THOUSAND)

	Real property		Plant & Equipment		Total investments		
	Plan	Realization	Plan	Realization	Plan	Realization	Realization in %
Intereuropa d.d.	563	570	1,737	1,755	2,300	2,325	101.1
Subsidiaries	546	331	1,639	1,085	2,185	1,416	64.8
Total Group	**1,109**	**901**	**3,376**	**2,840**	**4,485**	**3,741**	**83.4**

* Breakdown by property, plant and equipment and intangible assets:
of the Group's total investments in the amount of EUR 3.741 million, EUR 3.581 million was invested in property, plant and equipment and EUR 160,000 was invested in intangible assets.

Investments at the controlling company Intereuropa d.d.

Major investments at the controlling company Intereuropa d.d. were as follows:

- the reorganisation of 2,359 m2 of warehouse space in Maribor for cold store needs;
- the purchase of 21 forklifts;
- the rearrangement of 595 m2 of warehouse space in Celje for cold store needs;
- investments in the development of an integrated IT solution to support logistics processes and the purchase of computer equipment (server and communications infrastructure, personal computers, printers and manual bar code readers);
- the renovation of office premises and the arrangement of handling areas in Koper and Ljubljana;
- the installation of a new heating and ventilation system, the replacement of flooring and the installation of protective barriers for the hazardous materials warehouse in Maribor; and
- anti-burglary and anti-fire systems, and lighting at the Vrtojba, Ljubljana and Koper locations.

Investments in subsidiaries

The following major investments were made in the subsidiaries of the Intereuropa Group:

- four tractor and semi-trailers units in Zagreb and 12 delivery vehicles at the companies in Sarajevo and Zagreb;
- investments in the development of an integrated IT solution to support logistics processes and the purchase of computer equipment (server and communications infrastructure, personal computers, printers and manual bar code readers);
- the renovation of the warehouse in Belgrade;
- the arrangement of cold store facilities at the warehouse in Podgorica; and
- warehouse equipment for various companies (forklifts, scales, warehouse shelves, doors, etc.).

Plans for 2017

Investments in the amount of EUR 5.857 million are planned at the Group level.

The controlling company Intereuropa d.d. is planning investments in the amount of EUR 3.639 million. The majority of funds will be invested in information technology, real estate, transport and delivery vehicles, warehouse equipment, the upgrading or installation of anti-burglary and video surveillance systems, and the replacement of existing lighting with an economically and technically more efficient solution. Similar to the previous year, we will draw up an additional economic justification analysis prior to every major investment in 2017.

Reaching destinations reliably for 70 YEARS

Reaching destinations reliably for 70 YEARS

The first container from the Port of Koper (1956).

03

SUSTAINABLE DEVELOPMENT

In seven decades of the navigation through business waters we have built an extensive and solid network of partners. We manage rough waters with know-how and years of experience, and skilfully navigate in the vastness of logistics.

03 SUSTAINABLE DEVELOPMENT

The Intereuropa Group demonstrates its corporate responsibility in all aspects of its operations. Particular attention is given to our responsibility to employees, and the social and natural environment in which we operate. We understand our inclination to sustainable development as an integral element of our operations.

We are guided by the following principles in our efforts to maintain and strengthen our good relations with the immediate and broader environment:

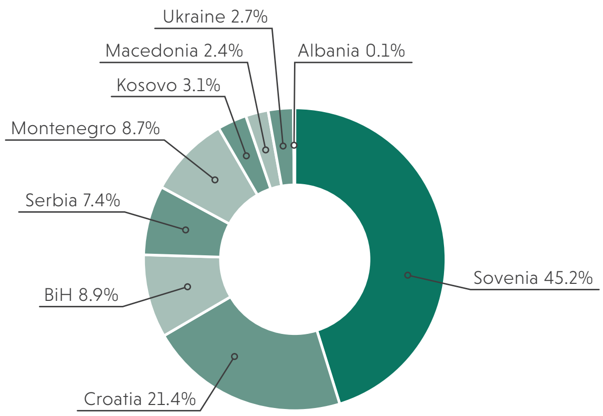
- ethical conduct with respect to employees, the natural environment, the local community and society as a whole;
- care for and attention to the needs of the environment;
- consistent compliance with legally prescribed rules; and
- the fulfilment of consumers' demands for higher-quality services, and compliance with high social and environmental standards.

3.1 EMPLOYEES

3.1.1 NUMBER OF EMPLOYEES

The Intereuropa Group had 1,374 employees on the final day of 2016, a decrease of 3% or 43 employees relative to the end of 2015. Slovenian Group companies accounted for 45% of the Group's employees, followed by Croatia at 21% and other foreign subsidiaries, which accounted for 34% of all employees.

GRAPH 26: PROPORTION OF EMPLOYEES BY COUNTRY IN WHICH INTEREUROPA GROUP COMPANIES ARE BASED



3.1.2 CHANGES IN THE NUMBER OF EMPLOYEES

- The Group hired 89 new employees in 2016, primarily to replace those who left and employees temporarily absent from work (63), and due to new transactions (19) and other reasons (7).
- The number of employees was down at the controlling company and at the majority of subsidiaries. The only increase in the number of employees was recorded at Intereuropa Kosovo L.L.C., Prishtina, where the number of employees rose by 14 on account of new transactions and the hiring of warehouse workers. The employment of a total of 132 workers was terminated.
- Temporary requirements for workers were met in part through other forms of employment (e.g. through employment agencies and student work services). An additional 11% of the workforce or 153 employees were hired in this manner as at 31 December 2016.
- At the end of 2016, a total of 91% of the Group's workers were employed on a permanent basis while 9% were employed on a temporary basis.

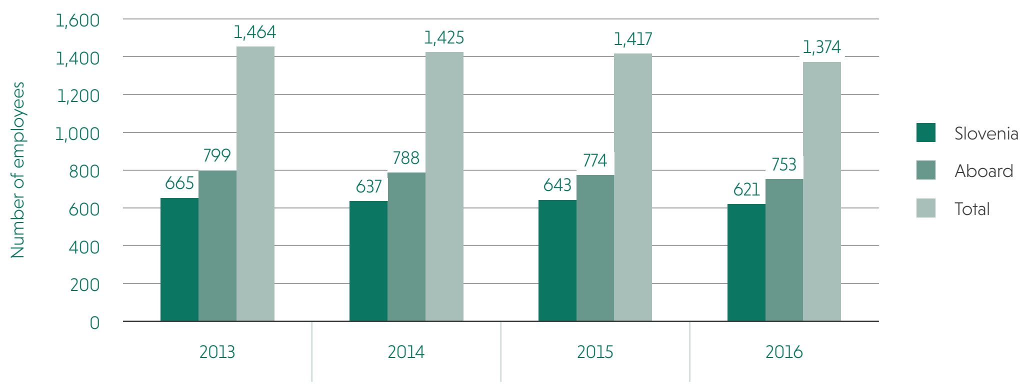
A comparison of the number of employees by Group company in 2015 and 2016 is given in the following table.

TABLE 23: COMPARISON OF THE NUMBER OF EMPLOYEES BY GROUP COMPANY

Company	31.12.2015	31.12.2016	Difference 16-15	Index 16/15
Intereuropa d.d., Koper	623	606	-17	97
Interagent, d.o.o., Koper	17	12	-5	71
Interzav, d.o.o., Koper	3	3	0	100
Slovenia	643	621	-22	97
Intereuropa, logističke usluge, d.o.o., Zagreb	302	287	-15	95
Intereuropa Sajam, d.o.o., Zagreb	7	7	0	100
Intereuropa RTC d.d. Sarajevo	130	122	-8	94
AD Intereuropa - logističke usluge Beograd	103	102	-1	99
Intereuropa Kosova L.C.C., Priština	29	43	14	148
Zetatrans A.D. Podgorica	127	120	-7	94
Intereuropa Skopje, DOO Skopje	33	33	0	100
TOV TEK ZTS, Užgorod	41	37	-4	90
Intereuropa Global Logistics Service Albania shpk, Durres	2	2	0	100
Other Countries	774	753	-21	97
Total	1,417	1,374	-43	97

* The subsidiary Intereuropa Transport d.o.o., Koper has been in liquidation since 17 January 2012.

GRAPH 27: CHANGES IN THE NUMBER OF EMPLOYEES IN THE PERIOD 2013 TO 2016

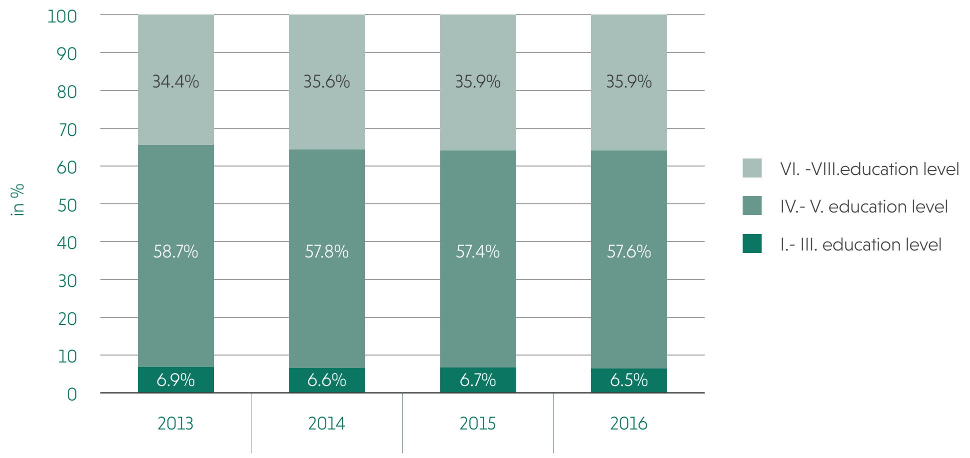


3.1.3 STRUCTURE OF EMPLOYEES

Qualification structure of employees

Only minor changes in the qualification structure were recorded in 2016 relative to the previous year. The proportion of employees with the lowest qualifications continues to decline, while the proportion of employees with vocational or secondary school qualifications was up slightly due to the employment of warehouse workers at a subsidiary. The proportion of employees with level 6 qualification or higher was at the same level as the previous year.

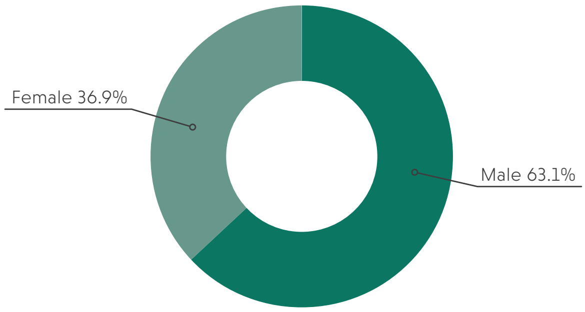
GRAPH 28: QUALIFICATION STRUCTURE OF EMPLOYEES AT THE INTEREUROPA GROUP IN THE PERIOD 2013 TO 2016



Employee structure by age and gender

A total of 63% of Intereuropa Group employees are men, while 37% of employees are women. Those proportions are 55% and 45% respectively at Slovenian Group companies. The average employee age at the controlling company rose to 47.2 years as the result of later retirement and a smaller number of new employees. The average employee age is also above 43 at other major Group companies.

GRAPH 29: STRUCTURE OF MANAGEMENT STAFF IN THE INTEREUROPA GROUP BY GENDER (EMPLOYEES ON INDIVIDUAL CONTRACTS) IN 2016

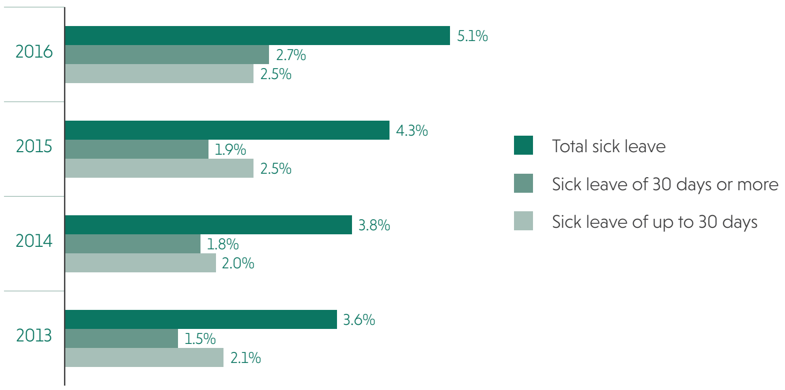


A total of 5% of Group employees are employed based on individual contracts.

3.1.4 UTILISATION OF WORKING HOURS AND SICK LEAVE RATE

The utilisation of working hours was 79.7% at the controlling company in 2016, a decrease of 1 percentage point relative to the previous year. The reason lies in the higher number of public holidays in 2016.

GRAPH 30: SICK LEAVE RATE AT INTEREUROPA D.D. IN THE PERIOD 2013 TO 2016



The objectives of measures to promote health at Slovenian Group companies include a reduction in sick leave, which has been on the rise at the controlling company in recent years. While sick leave of up to 30 days (which is charged to the employer) remained at a similar level as the previous year (2.5%), there was a notable increase in extended sick leave (from 1.9% in 2015 to 2.7% in 2016). This is linked to the higher average age of employees and thus medical problems requiring longer recovery periods.

3.1.5 EMPLOYEE TRAINING AND DEVELOPMENT

The Group earmarked a total of 10,486 hours or EUR 55 thousand for the acquisition of new knowledge and skills in 2016. In terms of projects aimed at the computerisation of processes, we invested a great deal of energy in education and training in the areas of IT and the automation of business processes at subsidiaries in Croatia and Kosovo, and at Slovenian Group companies. In addition to occupational safety and health training, we also dedicated a great deal of time to training in the areas of logistics (customs clearance and storage), sales and foreign languages, and to acquiring other specific professional knowledge in the areas of finances, taxes, real estate, etc.

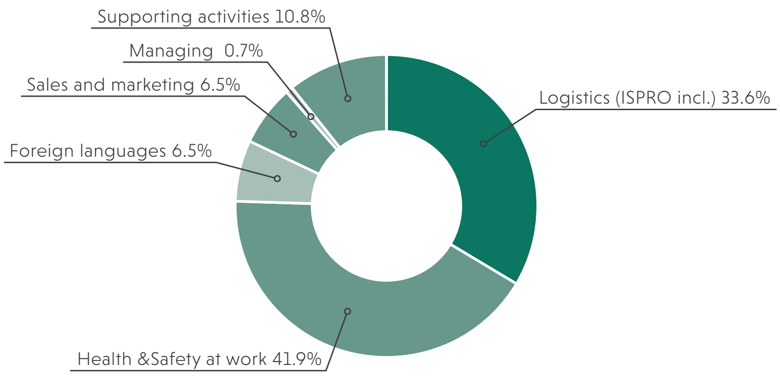
- At the Group level, employees received an average of eight hours of training (employees at Slovenian Group companies received an average of six hours of training, while those at our subsidiary in Croatia received an average of nine hours). Each employee received an average of nine hours in training programmes at subsidiaries abroad.
- The largest proportion of training in the Group was accounted for by occupational safety and health (42%), followed by additional logistics skills (34%), specific technical knowledge from the areas of finances, taxes, real estate management, etc. (11%), foreign languages (7%), sales skills (6%), and management (1%).
- Employees at our subsidiaries acquired knowledge in the areas of occupational safety and health (1,173 hours in Croatia and 1,528 hours in Serbia), sales skills in Bosnia and Herzegovina (640 hours), foreign language skills in Serbia (128 hours), Bosnia and Herzegovina (128 hours) and Montenegro (83 hours), and logistics skills in Kosovo (832 hours dedicated to WexVS training), Serbia (272 hours) and Bosnia and Herzegovina (66 hours).
- We included 70 managers from the controlling company in a project aimed at the development of managerial competences. The project included a review of their developed competences carried out through peer assessments. Individual conclusions will serve as the basis for preparing developmental and other activities to improve and eliminate deficiencies in key management areas. Those activities will include group-based and individual training courses, action and career plans, the drafting and monitoring of objectives, coaching and awareness raising.
- Internal lecturers conducted 42% of all forms of training during the reporting period. In addition to occupational safety and health training, employees acquired new knowledge and skills at internal workshops in the area of IT support for business processes: the electronic document management system (EBA) at the controlling company and WexVS at subsidiaries in Slovenia, Croatia and Kosovo.

TABLE 24: COMPARISON OF EDUCATION AND TRAINING AT THE GROUP LEVEL IN THE PERIOD 2013 TO 2016

	2013	2014	2015	2016
Hours of functional training (seminars, courses, technical meetings, etc.)	17.572	12.417	13.417	10.486
Number of hours of training per employee (internal education)	11.612	3.683	6.774	4.429
Number of participants	1.297	1.288	1.406	1.540
*Funds spent on education & training (total)	55,637.00	77,414.00	79,103.00	55,369.00
*Funds spent on education & training per employee	38.00	54.00	56.00	40.00

* Amount only includes tuition and participant fees (in EUR).

GRAPH 31: STRUCTURE OF EDUCATION AND TRAINING BY CONTENT



3.1.6 CONCERN FOR EMPLOYEES AND THE BROADER SOCIAL ENVIRONMENT

In the context of ensuring the optimal organisational structure, staffing and employee productivity, we also focus on the measures to strengthen the affiliation and loyalty of workers and a positive impact on the broader social environment.

We therefore offer employees the following additional benefits:

- The training of management staff and other employees in the area of 'soft skills' (relationships, communication and conflict resolution, etc.) with the aim of ensuring life-long learning and the permanent employability of workers.
- Presentations of the achievements and best practices of individual organisational units and employees on the intranet.
- Current employees and retirees are offered the use of Intereuropa's holiday facilities (at spas, on the seaside, in the mountains, etc.).
- Summaries of training courses attended by employees are published and thus available to all employees at a specific company.
- Employees are shown attention through congratulation from the President of Management Board to mark special birthdays.
- Slovenian Group companies gave 134 children a gift certificate for EUR 30 for a children's shop to mark the New Year.
- A total of 77 employees at Slovenian Group companies received jubilee awards to mark major work anniversaries.
- Employees are offered the possibility of part-time work to facilitate the balancing of work and family life. As at 31 December 2016 a total of seven workers at Slovenian Group companies had taken advantage of that possibility, resulting in a 100% return to work rate following maternity leave.
- Financial aid in the total amount of EUR 19 thousand at the Group level was given to 37 employees due to poor health, financial difficulties or the death of a family member.
- All permanent employees and temporary employees with more than one year of service at Slovenian Group companies are included in a pension plan (supplementary pension insurance) financed by the employer in the average amount of EUR 48.43 per month and employee.
- We remain associated with various educational institutions in the local and broader environment, as follows: we provided 22 secondary school and tertiary level students the opportunity to perform their mandatory internships. By agreement, we also offer mentoring by our experts in the drafting of seminar papers and diploma theses.
- We encourage employees to exercise with the aim of maintaining and strengthening their health, and organise team-building events within specific organisational units and between units (picnics, meetings, various celebrations, sports competitions, marathons, mountain hikes, etc.).
- Employees have the option of using eight paid hours of leave a month in the event of urgent medical treatment for themselves or a child, and for medical examinations and therapy that cannot be arranged for outside normal working hours.

3.1.7 OCCUPATIONAL SAFETY AND HEALTH

Intereuropa d.d. strives to provide for a safe and healthy work environment. Only in this way can we achieve and maintain high levels of the physical, mental and social welfare of employees in all of the Company's workplaces.

Promotion of occupational health

In accordance with the measures set out in our 'Occupational Health Care Promotion Plan', the focus in 2016 at Slovenian Group companies was on the implementation of measures to improve physical health (stress and depression), and prevent respiratory diseases and various forms of cancer:

- we held two workshops on the subject of managing health risks in these areas in Koper (50 hours of training attended by 25 participants);
- we organised e-learning on stress management for 20 employees;
- we held a presentation entitled 'Week for Vitality and Energy in the Workplace' with a promotional fruit offer; and
- we purchased four defibrillators and carried out training on their use.

The Statistical Office of the Republic of Slovenia (SORS) sent us an analysis of health diagnoses at Intereuropa d.d. for 2015, which indicates that osteomuscular diseases represent the biggest risk for employees. We therefore continuously encourage employees to participate in recreational activities, take active breaks for exercise, and get exercise at fitness centres and in swimming pools. We also organise mountain hikes, etc.

Employee healthcare

In cooperation with authorised physicians from specific areas of medicine, we referred 238 employees to preventive, preliminary, specific-purpose and periodic medical examinations in 2016. That number was 419 at the Group level. We organised flu vaccinations for Slovenian Group companies, with 58 employees taking part.

Workplace injuries

A total of 18 employees were injured in the workplace at the Group level, a decrease of five relative to 2015. A total of 10 permanently employed and two contracted workers were injured at Slovenian Group companies. One of these accidents resulted in severe injuries.

An analysis of the sources, causes and factors involved in accidents indicated that injuries occurred primarily due to personal factors associated with individuals: slips, falls, squeezing between pallets, etc. The main causes of accidents were carelessness, incorrect work methods, etc.

For this reason, a great deal of time and commitment is invested in the continuous raising of awareness and training of employees with regard to correct and healthy work methods, with an emphasis on the risks associated with workplace accidents.A total of 963 employees participated in such training activities at the Group level in 2016.

Examination and testing of work equipment

Certain risks associated with injuries and health impairments arise in the use of work equipment (forklifts, cranes, gas, electrical and lightning conductor installations, etc.). A total of 1,904 pieces of various work equipment at individual organisational units of Slovenian Group companies and a total of 1,990 pieces of equipment across the entire Group were examined and tested.

Fire safety

Employees participate in fire-safety training. Special attention was given to ensuring the management of fire risks and to fire-preventive measures. We carried out periodic inspections of facilities, and active and passive fire-fighting equipment (fire extinguishers and hydrants, fire detectors, domed smoke and heat vents, automatic fire-proof doors, etc.).

We carried out six evacuation drills in 2016 for employees and tenants of the premises in the commercial building in Koper, and at the Dravograd, Celje, Ljubljana and Logatec business units.

3.2 ENERGY EFFICIENCY AND RESPONSIBILITY FOR THE NATURAL ENVIRONMENT

We take into account prescribed legal norms and follow the guidelines set out in the Energy Act and in European environmental directives in our efforts to reduce hazardous emissions into the environment, limit the loss of energy and separate and recycle waste.

Energy efficiency and our responsible approach to the environment are integral parts of our work processes and business decisions. They relate to:
- the energy efficiency of buildings and devices,
- waste management, including waste computer equipment,
- procedures for handling hazardous cargoes,
- light pollution, and
- the monitoring of waste water.

Energy efficiency and separate waste collection

Energy efficiency is ensured through the following measures:
- the replacement of energy products with alternative heating sources;
- the periodic cleaning and servicing of furnaces, chimneys and air conditioning devices;
- the periodic servicing of work machinery and other equipment;
- the periodic replacement of worn-out air conditioning devices and work machinery;
- the regulation of heating devices and the additional regulation and control over the functioning of combustion plants, during operation and on down days; and
- the rehabilitation and additional thermal insulation of the roofs of warehouses and commercial buildings.

Existing lighting at the warehouse in Ljubljana was upgraded in 2016, while new lighting was installed in the cold stores in Maribor and Celje. Existing lighting was upgraded for one customer in the commercial building in Koper. In all cases, we used new, energy-saving LED lighting technology in accordance with the guidelines set out in European environmental directives. Above all, we can expect to achieve savings in electricity consumption.

We achieved savings in energy costs (extra-light heating oil or ELHO) at the office building in Koper in 2016, as the result of the measure to install two high-temperature heat pumps and upgrade the existing radiator heating system. At the end of 2016 we upgraded the heating system in warehouse A in Maribor for the needs of specific customers, while we upgraded the existing boiler at Intereuropa RTC d.d. Sarajevo with wood pellets as the boiler's new fuel. Savings from the aforementioned upgrade were seen already in 2016.

In accordance with the applicable regulations, we replaced the thermostatic heads on radiators in the commercial building in Ljubljana, where we expect savings due to the reduced need for supplied heat.

In line with the policy to reduce the costs of energy consumption associated with forklifts and to reduce maintenance costs, we purchased 14 electric-powered forklifts at the controlling company Intereuropa d.d. and another four forklifts at subsidiaries, accounting for close to 70% of all new purchases.
We renovated warehouse A in Maribor (1,500 m^2) in 2016 for the needs of customers dealing in hazardous materials, taking into account all legal norms in the area of environmental protection, including the installation of anti-flood gates for water retention purposes. We adapted and replaced roofing tiles in a similar manner at the ADR warehouse at Intereuropa AD, Belgrade and thus ensured normal working conditions and additional thermal insulation, which will lead to a reduction in heat loss.

We are installing standard oil catchers or collectors, as prescribed by the law, in the warehouses and terminals at all organisational units where cars and trucks are held.

We continued replacing worn out air conditioning devices in 2016, when we purchased 54 new units, which is contributing to a reduction in electricity consumption and improved working conditions in business premises.

Solar power plants functioned very well again in 2016, as there were more sunny days than the previous year. Six solar power plants are installed on the roofs of Intereuropa's warehouses, with a total power of 5,355 kWp, which is enough to supply electricity to 1,485 households. Our contribution to reducing CO2 emissions is 3,640 tonnes per year. The utilisation rate and electricity output of the aforementioned solar power plants are in line with investors' business plans. As the owner of the buildings on which the solar power plants are installed, Intereuropa is entitled to fees set out in easement agreements in the annual amount of EUR 100,000.

In terms of separate waste collection, we pursue our long-term objectives to reduce waste and benefit from the expected effects. We use special containers to separate non-hazardous waste (e.g. cardboard, paper, wood, metals, glass, rubber, plastic foils, etc.), while hazardous chemicals and waste oil are collected in dedicated warehouses. Organic waste of animal origin is removed by specialised contractors. We also collect computer monitors, printer cartridges, batteries and other computer equipment separately. In agreement with an authorised waste collector and in accordance with legal requirements, waste computer equipment is transported once a year to an appropriate disposal site.

Reduction of environmental impacts in transport and business processes

The transport activity is a major source of environmental pollution. One of the key criteria in our selection of road transport service providers is thus the number and proportion of a subcontractor's vehicles with more environmentally friendly motors.

In 2016 Intereuropa, logističke usluge, d.o.o. Zagreb purchased four freight vehicle units and six vehicles with more environmentally friendly motors, while together subsidiaries purchased a total of 12 delivery vehicles with more powerful, energy saving motors. We are planning the purchase of six delivery vehicle units and five delivery vehicles with more environmentally friendly motors in 2017.

We also followed energy efficiency guidelines in the purchase of forklifts in 2016. We replaced existing natural gas-powered forklifts with 18 electric-powered units. We expect to contribute in this way to a reduction in negative impacts on the environment and achieve savings in terms of energy consumption and maintenance costs. In accordance with the Strategic Business Plan and investment plan, we will purchase 21 new forklifts in 2017 to replace existing units.

We are also directly reducing negative impacts on the environment in other business processes, by reducing paper administration, through various energy-saving measures in warehouses and buildings, and by raising awareness about the contribution of each individual to the preservation of the environment.
The controlling company consumed 7,132,000 kWh of electricity in 2016, a 12% increase relative to 2015, solely due to new facilities in the cold store programme and an increase in work performed. On the other side, we recorded a significant reduction in the consumption of heating oil in 2016, when consumption was down 30% relative to 2015, as the result of prudent management and the installation of heat pumps for the heating and cooling needs of the office building in Koper. We also consumed close to 16% (or 34,000 m^3) less natural gas for heating purposes in Maribor, Dravograd and Logatec in 2016 which, in addition to the positive effect of the cogeneration heating system in Maribor and lower natural gas prices, led to an 8% reduction in total heating costs.

Our concern for the environment and energy efficiency is passed on to all employees via internal communications. Our aim is to contribute to the increased awareness of business partners with regard to environmental protection principles through a diversified range of services.

Objectives for 2017

We will continue to implement energy efficiency measures in 2017, and update existing energy and environmental management rules. We will follow a policy aimed at the gradual replacement of the existing fleet of trucks and cars, existing work machinery (forklifts), air conditioning devices and heating systems, and exterior and interior lighting, all with the objective of reducing energy and maintenance costs, increasing the productivity of machinery and improving working conditions for employees. We have earmarked EUR 1,325,000 for those purposes in our investment plan for 2017.

3.3 RESPONSIBILITY TO THE SOCIAL ENVIRONMENT

We are aware that the generation of good operating results must be accompanied by the creation of good conditions for employees and the population in the environment in which Intereuropa operates. We strive to ensure that the projects we support through our services form a link between Intereuropa's core activity and the local environment. That principle applies to all Group companies that contribute to a higher quality of life for the broader community through sponsorship funds and donations. Sponsorship activities are primarily aimed at opportunities that strengthen the reputation and recognition of the Intereuropa brand across Europe. The Intereuropa Group's socially responsible approach contributes to the improved competitiveness of the Company.

Funds for sponsorship activities and donations were maintained at the level recorded in 2015. We supported certain socially beneficial projects and strove for the equal treatment of all areas of society to the best of the Company's operational abilities.

3.4 QUALITY MANAGEMENT SYSTEM

Uresničevanje strategije na področju kakovosti

With regard to ensuring the quality of services, we implemented activities again in 2016 that related primarily to the maintenance of the quality management system. The year was marked by the successful completion of external assessments at three certified Group companies and by an increased number of external assessments of the quality management system by customers.

A total of 73.9% of all Group employees currently work at companies certified according to the ISO 9001:2008 quality management standard (Intereuropa d.d., Intereuropa, logističke usluge, d.o.o., Zagreb and Intereuropa RTC d.d., Sarajevo), which is half a percentage point less than the previous year.

Quality indicators

A logistics services customer associates the quality of service primarily with factors such as the safety and security of their goods, the speed at which services are rendered and the price paid.

The value of reclamations was up by 23% in 2016 relative to 2015 in the context of a 16% drop in the number of reclamations. The risks associated with ensuring the quality of logistics services are insured through our subsidiary Interzav d.o.o., Koper.

The speed of deliveries in the domestic transport segment deteriorated slightly, with the proportion of on-time deliveries falling from 97.06% to 96.75%.

Internal verification of the quality of services

Internal assessments were carried out at certified companies during the year. An internal assessment of customs clearance and sea freight processes was carried out at the controlling company, as was an assessment of land transport processes for part load and groupage services. The results of internal assessments were discussed during the review of the quality management system by senior management, and measures implemented as required.

Internal verification of the HACCP food safety management system

The controlling company's warehouses in Maribor, Dravograd, Celje, Ljubljana and Logatec have a food safety management system in place. HACCP verification of the aforementioned system was carried out in October and November, as was verification of compliance with best practices in the area of food safety at the warehouses in Vrtojba, Koper and Jesenice, and at the warehouse in Logatec. Five recommendations were issued in connection with the measurement of temperatures, the cleanliness of premises and record keeping.

External verification of the quality of services

TABLE 25: OVERVIEW OF EXTERNAL VERIFICATION ACTIVITIES

Company	Standard	Certification body	Month of external audit	Non-compliance	Recommendations
Intereuropa d.d., Koper	ISO 9001:2008	SIQ	March	0	18
Intereuropa, logističke usluge, d.o.o., Zagreb	ISO 9001:2008	SIQ	June	1	4
Intereuropi RTC d.d., Sarajevo	ISO 9001:2008	SIQ	October	0	6

As is evident from the data in the table, external assessors identified only one case of non-compliance and issued several recommendations for improvement.

In addition to verification of the quality management system by certification authorities, we were also subject to two assessments under the 'third-party principle', one at the warehouse in Maribor and one at the Kranj branch office. The quality of operations was assessed by a customer. Both assessments related to warehousing and distribution, or the transport of hazardous materials. We received a total of 11 recommendations.

External verification of the storage system for organic products imported from third countries

For the tenth consecutive year, the Koper branch office passed an external assessment of the compliance of warehousing of organic products imported from third countries, as set out in Regulation (EC) No 834/2007 and Regulation (EC) No 889/2008. The assessor did not identify any instances of non-compliance or issue any recommendations.

Plans

Given that the three-year deadline for transitioning to the latest standard expires at the end of September 2018 and thus the validity of the certificate according to the old ISO 9001:2008 standard, all three companies will upgrade their quality management systems next year in accordance with the new ISO 9001:2015 standard.

3.5 RESPONSIBILITY TO SUPPLIERS

The integrated supplier relationship management system is defined in the Rules of Procedure on Quality Management, in organisational regulations, work instructions and the Group's other rules. In order to ensure a smooth work process, we strive to maintain professional, sound, reciprocal and fair relationships with our key suppliers and other suppliers of important resources.

Suppliers are categorised according to their importance and abilities as:
- partner suppliers with whom Intereuropa has entered into long-term cooperation agreements;
- authorised suppliers assessed as capable and reliable;
- unapproved suppliers that do not meet selection criteria; and
- other suppliers, including suppliers used in one-off and minor purchases.

Suppliers for major business lines are assessed annually and placed on the appropriate list (e.g. authorised or unapproved) based on a standard methodology and predefined criteria, such as the prices of services and payment terms, quality and deadlines/delivery terms, mutual cooperation, supplier references and experience from past cooperation, credit ratings and other area-specific criteria). We inform suppliers of achieved results, and encourage their comments, recommendations and wishes with the aim of improving and strengthening relations.

To ensure the equal position of suppliers and optimal solutions, selections are made from at least two suppliers, taking into account the applicable regulations and the relevant supplier list. Selections are made by a selection committee or other responsible person, in cooperation with experts from the relevant area. The appropriateness and quality of services rendered or materials supplied are controlled regularly, and timely measures are implemented to ensure the satisfaction of end-users. Of increasing importance in the supplier selection process is the possibility of mutual cooperation, the aim of which is to offer our services to a supplier and thus simultaneously net mutual payments.

We consistently followed policies and implemented recommendations relating to supplier management in all areas and at all Group companies in 2016.

Objectives for 2017

The core objective of supplier management remains the timely supply of the work process with services and materials of the requisite quality at the most affordable price. Emphasis is placed on establishing and maintaining long-term business relationships with selected suppliers through the strengthening of mutual cooperation.

3.6 COMMUNICATION WITH KEY PUBLICS

The Public Relations Department is responsible for internal and external communication with various publics. It is responsible for communicating consistent messages and the competent interpretation of the operations of the entire Company. Special care is given to ensuring consistent and precise communication with all stakeholders, particularly with the Company's strategic publics: the media, employees, customers and investors. The aforementioned department is also responsible for the flow of information and internal control over price-sensitive information.

We focus on communication with all publics that establish relations with Intereuropa: investors, customers, suppliers, employees, the media and the social environment. To that end, we strive to cultivate lasting relationships. We strengthen their confidence in us through open dialogue, and improve the recognition of Intereuropa and its reputation on all markets where the Group is present.

The most important achievements and latest developments in the operations of the Intereuropa Group represent the main element of the Company's communication activities. We also respond to current conditions and the needs of the market. Intereuropa operates in a transparent manner, and thus provides the environment all information regarding the Company's operations.

Communication with the financial public

In addition to achieving performance-related objectives, we are dedicating an increasing amount of attention to improving the transparency of operations, to developing corporate governance and to implementing activities in the area of investor relations. Intereuropa d.d. is listed on the Ljubljana Stock Exchange. An entire section of the annual report is thus dedicated to the Company's shares and ownership structure. The guiding principle in relations with investors is regular, open and precise communication. Particular attention is given to consistent and open communication with shareholders, as they have a decisive impact on strategic decisions and policies regarding the operations of the controlling company and Group. To that end, we consistently comply with the information disclosure rules to which we are bound as a public limited company listed on the prime market of the Ljubljana Stock Exchange. Information regarding the Company is available to current and potential investors and to analysts on our website.

Communication with the media

We provide the media reports about the operations and work of the Company, and respond to journalists' questions. Our core principles are consistent communication, the competent interpretation of the Group's areas of operations, and thus comprehensive and active communication with all publics associated with the Intereuropa Group. In this way, our customers, employees, shareholders, investors and other target publics formulate the image of the Intereuropa Group via media articles. We are committed to correct and balanced two-way communication, and thus responsible, open dialogue with the environment in which we operate. We communicated with the media through press releases and responded promptly to all journalists' questions with the most exhaustive information possible.

Communication with the media

Communication with employees is an important element of our activities. Communication flows for the most part in person and via the intranet, where we provide employees information about developments at the Company. We organise periodic visits to organisational units, while employees are also informed regularly about recent developments through the Works Council, which invites the Company's senior management to its sessions, and thus provides current information and ensures mutual dialogue about open issues.

Communication with customers

An important function of communication with customers is our concern for the satisfaction of the users of our logistics services. The Public Relations Department functions as a support tool for marketing activities with customers, and thus actively contributes to the successful positioning of the corporate brand. In our customer relations, we advocate for mutual communication and genuine bonds that form through regular and successful cooperation. We therefore foster and strengthen such relations through regular contacts and visits. These bonds serve as confirmation of the confidence of our customers and pave the way for closer cooperation. We cultivated our regular contacts in 2016 through meetings at professional consultations and events.

REACHING DESTINATIONS RELIABLY FOR 70 YEARS

In the 1960s Intereuropa was one of the leading freight forwarders in the former Yugoslavia.

04

FINANCIAL REPORT

Every decade is an important cargo of history which has been stored for the future development. We have walked a long way to become a modern, internationally recognised company for the provision of integral logistic services for different types of cargo.

04 FINANCIAL REPORT
OF THE INTEREUROPA GROUP AND THE CONTROLLING COMPANY INTEREUROPA D.D. FOR THE 2016 FINANCIAL YEAR

INTRODUCTORY NOTES

The Intereuropa Group comprises the controlling company Intereuropa d.d., Koper and its subsidiaries. Intereuropa d.d. (hereinafter: the Company) is a company established in Slovenia, with its registered office at Vojkovo nabrežje 32, 6000 Koper. It is deemed a large company according to the criteria set out in the Companies Act. The Company's securities are traded on the regulated market, meaning the Company is subject to audit. As the controlling company, it is also obliged to compile consolidated financial statements.

The Intereuropa Group provides comprehensive logistics services in the areas of land, sea and air freight transport, and also provides all terminal, customs and other logistics services required for the unhindered flow of goods from the manufacturer to the buyer.

The financial section of the annual report includes financial statements with the accompanying notes for the controlling company, and financial statements with accompanying notes for the Intereuropa Group. All financial statements are compiled in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU. The audit firm KPMG Slovenija, d.o.o. audited each part of the report separately, and issued two separate independent auditor's reports.

4.1 FINANCIAL REPORT OF THE INTEREUROPA GROUP

Financial statements of the Intereuropa Group with explanatory notes

TABLE 1: CONSOLIDATED INCOME STATEMENT OF THE INTEREUROPA GROUP FOR 2016

in EUR thousand

	Notes	January–December 2016	January–December 2015 (adjusted)*
Sales revenue	**1**	**135,596**	**134,613**
Other operating revenues	2	1,755	1,614
Costs of goods, materials and services	3	-94,048	-95,053
Labour costs	4	-26,565	-25,576
Amortisation/depreciation	5	-6,596	-6,502
Other operating expenses	6	-3,481	-4,871
Operating profit or loss		**6,661**	**4,224**
Finance income		459	366
Finance costs		-3,067	-3,861
Profit or loss from financing activities	**7**	**-2,608**	**-3,495**
Investment result recognised according to the equity method	8	39	34
Profit or loss from ordinary operations		**4,092**	**762**
Corporate income tax (including deferred taxes)	9	-5,695	-474
Net profit or loss for the accounting period		**-1,603**	**288**
Net profit or loss pertaining to controlling interests		-1,955	173
Net profit or loss pertaining to non-controlling interests	21	352	115

* Adjustments are disclosed in point V: Correction of material error and reclassifications.

The notes are a constituent part of the financial statements and must be read in connection with them.

TABLE 2: CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME OF THE INTEREUROPA GROUP FOR 2016 in EUR thousand

	Note	January–December 2016	January–December 2015 (adjusted)*
Net profit or loss for the accounting period		**-1,603**	**288**
Other comprehensive Income		**-6,391**	**-16**
Items that will be reclassified to profit or loss		**419**	**-9**
Change in the fair value of available-for-sale financial assets	16	47	-9
Transfer of revaluation surplus for available-for-sale financial assets to profit or loss		0	0
Change in deferred taxes in the revaluation surplus for available-for-sale financial assets	9	-11	2
Attributable changes in equity of associates and joint ventures	15	-1	0
Foreign currency translation differences		384	-2
Items that will not be reclassified to profit or loss		**-6,810**	**-7**
Change in fair value of land	10	-8,283	0
Transfer of revaluation surplus for land to net profit or loss brought forward		-7,267	0
Change in deferred taxes		2,015	0
Change in net profit or loss brought forward from the transfer of the revaluation surplus for land		7,267	0
Corporate income tax on net profit or loss brought forward	9	-363	0
Actuarial net gains and losses for severance pay at retirement		-179	0
Other changes in retained earnings		0	-7
Total comprehensive income		**-7,994**	**272**
Total comprehensive income pertaining to controlling interests		-8,314	178
Total comprehensive income pertaining to non-controlling interests		320	94

* Adjustments are disclosed in point V: Correction of material error and reclassifications.

The notes are a constituent part of the financial statements and must be read in connection with them.

TABLE 3: CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE INTEREUROPA GROUP AS AT 31 DECEMBER 2016 in EUR thousand

	Notes	31 December 2016	31 December 2015 (adjusted)*	1 January 2015 (adjusted)*
ASSETS				
Property, plant and equipment	10	191,173	208,066	210,748
Investment property	11	9,840	11,278	11,565
Intangible assets	12	5,486	5,825	5,939
Other non-current assets	13	49	62	105
Non-current operating receivables		0	44	0
Deferred tax assets	9	11,392	16,666	16,937
Long-term loans granted and deposits	14	30	45	44
Investment in joint venture	15	102	135	141
Other non-current financial assets	16	542	518	1,559
TOTAL NON-CURRENT ASSETS		**218,614**	**242,639**	**247,038**
Available-for-sale assets		323	0	0
Inventories		134	137	249
Short-term loans granted and deposits	14	2,124	6,604	9,180
Current operating receivables	17	28,804	30,985	31,380
Current receivables from corporate income tax		60	57	191
Other current assets	18	377	364	433
Cash and cash equivalents	19	5,294	11,107	6,757
TOTAL CURRENT ASSETS		**37,116**	**49,254**	**48,190**
TOTAL ASSETS		**255,730**	**291,893**	**295,228**
EQUITY				
Equity pertaining to controlling interests		**129,496**	**138,236**	**138,057**
Share capital		27,489	27,489	27,489
Share premium account		18,455	18,455	18,455
Profit reserves		5,277	5,029	4,302
Fair value reserves		50,575	64,089	64,272
Foreign currency translation differences		-7,486	-7,902	-7,917
Net profit brought forward		33,686	31,597	32,088
Net profit or loss		1,500	-521	-632
Equity pertaining to non-controlling interests	**21**	**9,066**	**8,901**	**9,053**
TOTAL EQUITY	**20**	**138,562**	**147,137**	**147,110**
LIABILITIES				
Provisions	22	1,847	6,163	5,339
Non-current deferred income		104	119	132
Non-current financial liabilities	23	74,736	92,499	98,196
Non-current operating liabilities		329	691	454
Deferred tax liabilities	9	11,459	13,406	13,396
TOTAL NON-CURRENT LIABILITIES		**88,475**	**112,878**	**117,517**
Current financial liabilities	23	6,201	5,648	5,359
Current operating liabilities	24	21,885	26,116	25,108
Current corporate income tax liabilities		602	113	134
Current deferred income		5	0	0
TOTAL CURRENT LIABILITIES		**28,693**	**31,878**	**30,601**
TOTAL LIABILITIES		**117,168**	**144,756**	**148,118**
TOTAL EQUITY AND LIABILITIES		**255,730**	**291,893**	**295,228**

* Adjustments are disclosed in point V: Correction of material error and reclassifications.

The notes are a constituent part of the financial statements and must be read in connection with them.

TABLE 4: CONSOLIDATED STATEMENT OF CASH FLOWS OF THE INTEREUROPA GROUP FOR 2016

in EUR thousand

	Note	January–December 2016	January–December 2015 (adjusted)*
Cash flows from operating activities			
Net profit or loss for the accounting period		-1,603	288
Adjustments for:			
- amortisation and depreciation	5	6,596	6,502
- impairments and write-offs of property, plant and equipment and intangible assets	6	81	21
- gains on the sale of property, plant and equipment and investment property	2	-704	-192
- losses from the sale of property, plant and equipment and investment property		1	12
- impairments and write-offs of receivables and inventories	6	806	1,648
- finance income	7	-459	-365
- recognised result for joint venture according to the equity method	8	-39	-34
- finance costs	7	3,067	3,861
- corporate income tax (including deferred taxes)	9	5,695	474
Operating profit before changes in net working capital and taxes		13,440	12,215
Changes in net working capital and provisions			
Changes in receivables	17	1,392	-1,378
Changes in inventories		-5	63
Changes in other current assets		-33	97
Changes in operating liabilities	24	-4,482	1,321
Changes in provisions	19	-4,496	830
Changes in non-current deferred income		-15	-13
Corporate income tax		-251	-80
Net cash flow from operating activities		**5,550**	**13,055**
Changes in net working capital and provisions			
Interest received		272	385
Dividends received and shares in profit		43	49
Inflows from the sale of property, plant and equipment	10	8,119	306
Inflows from long-term loans granted		1	2
Inflows from long-term deposits placed		20	52
Net cash flow from short-term deposits placed	14	4,499	2,567
Inflows from the sale of other financial assets		256	1,000
Outflows for the acquisition of property, plant and equipment	10	-3,650	-3,605
Outflows for the acquisition of intangible assets		-143	-420
Outflows for long-term deposits placed		-16	-30
Outflows from the increase in short-term loans granted		0	-11
Net cash flow from investing activities		**9,401**	**295**
Cash flows from investing activities			
Inflows from long-term loans and finance leases received		618	756
Inflows from the increase in short-term loans		9	448
Interest paid	7	-2,959	-3,335
Outflows for the repayment of long-term loans and finance leases	23	-18,263	-6,608
Dividends paid		-154	-246
Net cash flow from financing activities		**-20,749**	**-8,985**
Opening balance of cash and cash equivalents		**11,107**	**6,757**
Exchange rate differences relating to cash		-15	-15
Net cash flow for the period from ordinary operations		**-5,798**	**4,365**
Closing balance of cash and cash equivalents	**19**	**5,294**	**11,107**

* Adjustments are disclosed in point V: Correction of material error and reclassifications.

The notes are a constituent part of the financial statements and must be read in connection with them.

TABLE 5: CONSOLIDATED STATEMENT OF CHANGES IN EQUITY OF THE INTEREUROPA GROUP FOR 2016

in EUR thousand

	Note	Share capital	Share premium account	PROFIT RESERVES					Fair value reserves	Foreign currency translation differences	RETAINED EARNINGS		Equity pertaining to controlling interests	Equity pertaining to non-controlling interests	Total equity
				Legal reserves	Reserves for treasury shares	Treasury shares (as deduction item)	Reserves under the articles of association	Other reserves			Net profit or loss brought forward	Net profit or loss for the accounting period			
Reported as at 31 December 2015		**27,489**	**18,455**	**4,691**	**180**	**-180**	**338**	**0**	**64,089**	**-7,902**	**31,962**	**-168**	**138,954**	**9,220**	**148,174**
Correction of error*		0	0	0	0	0	0	0	0	0	-365	-353	-718	-319	-1,037
Reported as at 31 December 2015 after correction of error		**27,489**	**18,455**	**4,691**	**180**	**-180**	**338**	**0**	**64,089**	**-7,902**	**31,597**	**-521**	**138,236**	**8,901**	**147,137**
Total comprehensive income		**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-13,514**	**416**	**6,739**	**-1,955**	**-8,314**	**320**	**-7,994**
Net profit or loss for the financial year		0	0	0	0	0	0	0	0	0	0	-1,955	-1,955	352	-1,603
Other comprehensive income		0	0	0	0	0	0	0	-13,514	416	6,739	0	-6,359	-32	-6,391
Transactions with owners															
Transfer of net profit or loss from the previous year to net profit or loss brought forward		0	0	0	0	0	0	0	0	0	-521	521	0	0	0
Dividends and shares in profit		0	0	0	0	0	0	0	0	0	-426	0	-426	-155	-581
Transfer of retained earnings to reserves		0	0	0	0	0		248	0	0	-248	0	0	0	0
Settlement of net losses		0	0	0	0	0	0	0	0	0	-3,455	3,455	0	0	0
Other changes		0	0	-38	0	0	-323	361	0	0	0	0	0	0	0
Closing balance as at 31 December 2016	**20**	**27,489**	**18,455**	**4,653**	**180**	**-180**	**15**	**609**	**50,575**	**-7,486**	**33,686**	**1,500**	**129,496**	**9,066**	**138,562**

* Adjustments are disclosed in point V: Correction of material error and reclassifications.

The notes are a constituent part of the financial statements and must be read in connection with them.

TABLE 6: CONSOLIDATED STATEMENT OF CHANGES IN EQUITY OF THE INTEREUROPA GROUP FOR 2015

in EUR thousand

	Note	Share capital	Share premium account	PROFIT RESERVES				Fair value reserves	Foreign currency translation differences	RETAINED EARNINGS		Equity pertaining to controlling interests	Equity pertaining to non-controlling interests	Total equity
				Legal reserves	Reserves for treasury shares	Treasury shares (as deduction item)	Reserves under the articles of association			Net profit or loss brought forward	Net profit or loss for the accounting period			
Reported as at 31 December 2014		**27,489**	**18,455**	**3,976**	**180**	**-180**	**326**	**64,272**	**-7,917**	**32,088**	**-267**	**138,422**	**9,216**	**147,638**
Correction of error*		0	0	0	0	0	0	0	0	0	-365	-365	-163	-528
Reported as at 31 December 2014 after correction of error		**27,489**	**18,455**	**3,976**	**180**	**-180**	**326**	**64,272**	**-7,917**	**32,088**	**-632**	**138,057**	**9,053**	**147,110**
Total comprehensive income		**0**	**0**	**0**	**0**	**0**	**0**	**-7**	**15**	**-3**	**173**	**178**	**94**	**272**
Net profit or loss for the financial year		0	0	0	0	0	0	0	0	0	173	173	115	288
Other comprehensive income		0	0	0	0	0	0	-7	15	-3	0	5	-21	-16
Transactions with owners														
Transfer of net profit or loss from the previous year to net profit or loss brought forward		0	0	0	0	0	0	0	0	-632	632	0	0	0
Payment of dividends and shares in profit		0	0	0	0	0	0	0	0	0	0	0	-246	-246
Transfer of retained earnings to reserves		0	0	714	0	0	12	0	0	-32	-694	0	0	0
Other changes		0	0	1	0	0	0	-176	0	176	0	1	0	1
Closing balance as at 31 December 2015	**20**	**27,489**	**18,455**	**4,691**	**180**	**-180**	**338**	**64,089**	**-7,902**	**31,597**	**-521**	**138,236**	**8,901**	**147,137**

* Adjustments are disclosed in point V: Correction of material error and reclassifications.

The notes are a constituent part of the financial statements and must be read in connection with them.

Notes to the consolidated financial statements

I. BASIS FOR COMPILATION

Statement of compliance

The financial statements of the Intereuropa Group have been compiled in accordance with the International Financial Reporting Standards, as adopted by the European Union, and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), as adopted by the European Union (hereinafter: the EU IFRS). They also include additional clarifications in accordance with the Companies Act.

The Management Board approved the consolidated financial statements on 1 March 2017.

Basis of measurement

The consolidated financial statements have been compiled on an historical cost basis, except for the items listed below, which are disclosed at fair value:

- available-for-sale financial assets at fair value whose fair value can be measured reliably, and
- land.

The methods used for measurement at fair value are described in point III.

The financial statements of the Intereuropa Group have been compiled on a going concern basis.

Functional and reporting currency

The attached consolidated financial statements are compiled in euros, which is the reporting currency of the Group. All financial information presented in euros is rounded to thousand units. Deviations of +1 or -1 in tables with disclosures are due to rounding.

Use of estimates and judgements

In compiling financial statements, the senior management regularly reviews and makes estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates. The effects of changes to estimates are recognised in the period in which they occurred.

Information regarding significant assessments of uncertainty and critical judgements drawn up by the senior management in the application of accounting policies that have the greatest impact on the amounts in the financial statements are presented below.

Significant assessments

- The recoverable amount of assets for the sake of comparison with the carrying amount to test for asset impairment.
  In performing the asset impairment test, the senior management compared the recoverable amount of assets with their carrying amount, and recognised impairments if the former exceeded the latter.

- The useful life of depreciable assets (Notes 10, 11 and 12).
  By no later than the end of the financial year, the senior management verifies the useful life of depreciable assets, taking into account the technical and economic obsolescence thereof.

- The residual value of depreciable assets (Notes 10, 11 and 12).
  When compiling the financial statements, the Group assessed that the residual value of depreciable assets was unchanged.

Significant judgements

- The value of doubtful receivables (Note 17).
  The Group creates adjustments to the value of receivables based on the creditworthiness of customers, taking into account previous experiences.

- The valuation of financial instruments and land at fair value (Notes 10, 16 and 27).
  The fair value of available-for-sale financial assets is assessed taking into account the bid price at the end of the reporting period. When measuring the fair value of land, the Group takes into account the ability of a market participant to generate economic benefits through the best use of an assets or its sale to another market participant.

- The creation of deferred tax assets and liabilities, and the possible use thereof (Note 24).
  The senior management assesses deferred taxes on the basis of past experiences and data from the business plan for 2017 and the strategic plan until 2019, and assuming a stable tax environment in which the Group operates.

- The creation of provisions (Note 22).
  Individual Group companies have created provisions for lawsuits. Provisions are recognised if, as a result of a past event, companies have a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. The management of companies regularly verifies whether it is likely that there will be an outflow of resources yielding economic benefits in the settlement of a liability. The present value of severance pay and jubilee benefits is recorded in defined-benefit post-employment commitments. The basis for recognition comprises actuarial calculations that take into account assumptions and estimates at the time of a calculation (e.g. discount rate, estimated employee turnover rate, mortality rate and wage growth). Defined-benefit commitments are sensitive to changes in the aforementioned estimates.

- The assessment of assumptions of control over subsidiaries and an associated (Notes 15 and 30).
  The Group regularly verifies whether a change in influence has occurred. The following are deemed evidence of investors' significant influence:
  - representation on the management board or other decision-making body of a company in which the Group invests; and
  - participation in significant decisions, including decisions regarding dividends.

Changes in accounting estimates

The management of companies has verified estimates, judgements and assumptions, and concluded that they were the same as those that applied at the time the financial statements as at 31 December 2015 were compiled, except amended depreciation rates for certain items of equipment where the rate was reduced from 20% to 15% (the effect of that change is lower depreciation by EUR 89 thousand).

Changes in accounting policies

All newly adopted or revised standards and interpretations that entered into force on 1 January 2016 were taken into account in the compilation of the consolidated financial statements for the financial year ending 31 December 2016. Amendments to standards did not affect the recognition and measurement of items in the financial statements for 2016, nor are they expected to have an impact in the future.

Cash flow statement

The Group's statement of cash flows presents changes in inflows and outflows of cash and cash equivalents during the accounting period, using the indirect method, and explains changes in the balance thereof. The statement of cash flows was compiled using data from the Group's consolidated income statement for 2016, items from the consolidated statements of financial position as at 31 December 2016 and 31 December 2015, and additional data required for the compilation of the aforementioned statement.

II. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis for consolidation

Subsidiaries

Subsidiaries are companies controlled by the controlling company. Control exists when:
- the investor exercises influence over the company in which it has invested;
- the investor is exposed to a variable return or has the right to a variable return from its participation in the company in which it has invested; and
- the investor is able to affect the amount of its return through its influence over that company.

Voting rights are equivalent to shares of control

The financial statements of subsidiaries are included in the consolidated financial statements from the date control is assumed until the date it ceases. They are compiled taking into account the standard accounting policies of the Group.

Joint ventures and associates

A portion of an investment in a joint venture was sold in 2016, resulting in that investment becoming an investment in an associate. We valued the investment in the associate, which is included in the consolidated financial statements according to the equity method, similar to the way the joint venture was valued.

Transactions eliminated on consolidation

Balances, and revenues and expenses deriving from transactions within the Group are excluded during the compilation of the consolidated financial statements.

(b) Foreign currency

Transactions in foreign currencies

Transactions denominated in a foreign currency are translated into the functional currency of Group companies at the applicable exchange rate on the transaction date. Monetary assets and liabilities denominated in a foreign currency at the end of the reporting period are translated into the functional currency at the applicable exchange rate at that time. Non-monetary assets and liabilities denominated in a foreign currency and measured at fair value are translated into the functional currency at the exchange rate applicable on the day which the fair value was determined. The reference exchange rate of the European Central Bank (ECB) is applied.

Exchange rate differences arising in the settlement of monetary items or in the translation of monetary items at exchange rates other than those at which they were translated upon initial recognition during the period in question or at which at which they were presented in previous financial statements are recognised in profit or loss (as revenues or expenses) in the period in which they arise.

Financial statements of companies abroad

When translating the financial statements of subsidiaries based abroad with a functional currency that differs from the reporting currency (EUR) for their inclusion in the consolidated financial statements, assets and liabilities are translated into the reporting currency of the consolidated financial statements at the exchange rate applicable on the reporting date, while revenues and expenses disclosed in the income statement and items disclosed in other comprehensive income are translated at the average exchange rate for the period in question, which we assess is an adequate approximation of the exchange rate on the transaction date. Any resulting exchange rate differences are recognised in other comprehensive income (foreign currency translation differences) until the disposal of a subsidiary, at which time exchange rate differences are transferred to the income statement.

(c) Financial instruments

Financial instruments comprise investments in equity and debt securities, operating and other receivables, cash and cash equivalents, loans received and granted, and operating and other liabilities.

Non-derivative financial instruments (assets)

These instruments are initially recognised at fair value. Ordinary purchases and sales of financial assets are recognised on the trading date, i.e. the date on which the Company undertakes to purchase or sell an asset. Any gain or loss resulting from the disposal of financial assets is also recognised on that date. Measurement following initial recognition is described below. The accounting of finance income and finance costs is described in the point regarding finance income and finance costs.

Cash and cash equivalents

Cash and cash equivalents comprises cash balances at banks and other financial institutions, cash in hand and readily convertible securities.

The Group's statement of cash flows presents changes in inflows and outflows of cash and cash equivalents during the accounting period, using the indirect method, and explains changes in the balance thereof. The statement of cash flows was compiled using data from the Group's consolidated income statement for 2016, items from the consolidated statements of financial position as at 31 December 2016 and 31 December 2015, and other required data.

Available-for-sale financial assets

Available-for-sale financial assets Following initial recognition, available-for-sale financial assets are measured at fair value (including costs directly attributable to their purchase), except investments in equity instruments that do not have a quoted market price on an active market and that are measured at historical cost because their fair value cannot be reliably measured. Changes in fair value are recognised in other comprehensive income (in equity).

When a financial asset is derecognised, accumulated gains and losses disclosed in other comprehensive income are transferred to profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments not traded on an active market. Loans comprise investments in the financial debts of other companies and the government, or the investments of other issuers. Receivables comprises rights arising from property and other relationships that entitle their holder to demand the payment of a debt, the delivery of goods or the rendering of services from a specific person. They are measured at amortised cost using the effective interest method.

Non-derivative financial liabilities

The Group recognises financial liabilities on the day they arise. Financial liabilities are initially recognised on the trading date, i.e. when the Group becomes a contractual party in connection with the instrument in question. The Group derecognises a financial liability when the obligations specified in the contract have been discharged, have been cancelled or have expired. After initial recognition, financial liabilities are measured at amortised cost using the effective interest rate method.

(d) Equity

Share capital

The controlling company's share capital is divided into 16,830,838 ordinary registered freely transferable no-par-value shares and 10,657,965 freely transferable no-par-value preference shares.

Share premium account

The share premium account comprises amounts from the simple reduction of the controlling company's share capital. The share premium account may be used under the conditions and for the purposes set out by law.

Legal reserves

Legal reserves comprise amounts retained from profits generated in previous years, and are primarily earmarked for the settlement of potential future losses.

Reserves under the articles of association and other reserves

Reserves under the articles of association and other reserves

Treasury shares

Treasury shares are disclosed in profit reserves (as a deduction item). Reserves for treasury shares are created in the amount paid for the acquisition thereof.

Fair value reserves
Fair value reserves relate to an increase in the carrying amount of assets according to the applicable revaluation model. They comprise the surplus from the revaluation of land and the surplus from the revaluation of financial assets.

Foreign currency translation differences
Foreign currency translation differences are the result of exchange rate differences that arise when the financial statements of subsidiaries are included in the consolidated financial statements.

Liabilities for dividends and other shares in profit
Liabilities for dividends and other shares in profit are recognised on the day the right to payment is exercised by a shareholder or owner.

(e) Property, plant and equipment

Property, plant and equipment are initially recognised at historical cost, which includes costs directly related to the purchase of the asset, as well as capitalised borrowing costs. After the initial recognition of property, plant and equipment, building and equipment are measured using the historical cost model, while a revaluation model is used for land. According to the historical cost model, property, plant and equipment are disclosed at historical cost, less accumulated depreciation and any accumulated impairment loss. According to the applied revaluation model, land is disclosed at fair value on the revaluation date, less accumulated depreciation and any accumulated impairment loss. The Group verifies the need for revaluation annually. Land is revalued every five years or more frequently if indications of impairment exist.

An increase in the carrying amount of land as a result of revaluation is recognised directly in equity as a revaluation surplus in the statement of other comprehensive income. A decrease in the carrying amount of land as a result of revaluation reduces the revaluation surplus for that land. However, if the decrease in the carrying amount exceeds the accumulated revaluation surplus for the same asset, the difference in the decrease is transferred to profit or loss as an expense. The revaluation surplus for land, which constitutes an integral part of other comprehensive income, is transferred directly to profit or loss brought forward when the asset in question is derecognised.

Accounting for borrowing costs
Borrowing costs that may be directly attributed to the acquisition, construction or manufacture of an asset under construction represent a part of the historical cost of that asset. Borrowing costs comprise interest expense and exchange rate differences arising from loans in a foreign currency, if they are treated as a recalculation of interest expense. Other borrowing costs are recognised in the income statement as an expense in the period in which they arose.

Subsequent costs
The cost of replacing some part of an item of property, plant and equipment is recognised in the carrying amount of the asset in question if it is probable that the future economic benefits embodied within the part will flow to the Group, and its historical cost can be measured reliably. All other costs are recognised in profit or loss as expenses as they arise.

Depreciation
Deprecation is charged on a straight-line basis over the useful life of each individual (component) item of property, plant and equipment. That method most precisely reflects the expected pattern of use of an asset. The estimated useful lives for the current and comparative periods are as follows:
- buildings 20–40 years,
- computer equipment 2– 4 years, and
- other plant and equipment 3–10 years.

Depreciation and useful lives are reviewed at the reporting date and adjusted as required.

(f) Intangible assets

Intangible assets comprise investments in industrial property rights (concessions, patents, licences, brands and similar rights) and other rights, the goodwill associated with an acquired company and other intangible assets. The period and method of amortisation of intangible assets with a finite useful life are reviewed, at a minimum, at the end of each financial year. Following initial recognition, intangible assets are disclosed using the historical cost model, i.e. at historical cost less accumulated amortisation and any accumulated impairment loss. The amortisation of intangible assets with a finite useful life is charged on a straight-line basis over the estimated useful life of each individual asset.

Goodwill

Any surplus of the historical cost of a business combination over the fair value of the acquired identifiable assets and liabilities is recognised as goodwill. Goodwill is not amortised. Instead, goodwill is tested annually for impairment by the acquiring party.

Acquisition of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with the owners of equity. Thus, no goodwill is recognised as the result of such transactions. Any difference is recognised directly in equity.

Subsequent measurement

Goodwill is disclosed at historical cost, less any accumulated impairment loss.

Other intangible assets

Intangible assets with a finite useful life acquired by the Group are disclosed using the historical cost model, less accumulated amortisation and any accumulated impairment loss.

Subsequent costs

Subsequent costs in connection with intangible assets are only capitalised when they increase the future economic benefits of the asset to which the costs relate. All other costs are recognised in profit or loss as expenses as they arise.

Amortisation

Amortisation is charged on the historical cost of the asset, or on another amount substituted for historical cost, less the residual value. Amortisation is recognised in profit or loss on a straight-line basis over the useful lives of intangible assets, other than goodwill, from the date that they are available for use. That method most precisely reflects the expected pattern of use of the future economic benefits embodied in an asset. The estimated useful lives for the current and comparative years are 3, 5, 10, 15 and 33 years. Amortisation methods, useful lives and residual values are verified at the end of each financial year and adjusted as required.

(g) Investment property

Investment property comprises real estate purchased to generate rental income, to increase the value of non-current assets, or both. An assessment is required to determine whether real estate is deemed investment property. The Intereuropa Group assesses that elements of real estate made available in part for operating leasing and used in part by Intereuropa d.d., Koper or another subsidiary cannot be sold separately (or made available separately for finance leasing). Such real estate is therefore classified as property, plant and equipment in use in the provision of services. Only real estate that is made available for leasing in its entirety is recognised as investment property.

Following initial recognition, investment property is disclosed using the historical cost model, i.e. at historical cost less accumulated depreciation and any accumulated impairment loss. Revalued investment property (land) is transferred from property, plant and equipment at the carrying amount on the transfer date, while the associated revaluation surplus remains in the equity and is transferred to the profit or loss brought forward upon disposal. The same depreciation rates used for real estate classified as property, plant and equipment are applied to investment property.

(h) Inventories

Inventories of material are valued at historical cost, which comprises the purchase price, import duties and the direct costs of procurement. The purchase price is reduced by any discounts received. The weighted average price method is applied in the use of materials.

(i) Impairment of assets

FINANCIAL ASSETS

Impairment of operating receivables

Operating receivables are impaired by creating a value adjustment in the amount of 100% of all receivables more than 180 days in arrears, and exceptionally (if supported by impartial evidence that the receivable in question will be repaid) by assessing the recoverability of individual receivables. When impairing receivables subject to legal actions, enforcement proceedings, bankruptcy, compulsory composition and similar proceedings, we take into account the estimated recoverability of those receivables (estimated future cash flows) by individual category. The amount of impairment loss is recognised as an expense in profit or loss.

Impairment of loans granted

If there is objective evidence that an impairment loss on loans disclosed at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the original effective interest rate. Impairments are also made based on an assessment by senior management regarding the recoverability of individual loans The amount of impairment loss is recognised as an expense in profit or loss.

Impairment of available-for-sale financial assets

Available-for-sale financial assets are impaired if the market price of an asset has fallen for more than one year or if a decrease exceeds 20% of an investment's historical cost. If the accumulated loss for such assets has been recognised in equity, that loss must be derecognised from equity and disclosed in profit or loss as an expense. The amount of such a loss is the difference between the historical cost and the current fair value of the financial asset in question, less impairment loss previously recognised in profit or loss. Financial assets for which fair value could not be reliably determined are disclosed at historical cost.

If there is objective evidence that an impairment loss on financial assets disclosed at historical cost has been incurred, impairments are created when the carrying amount of such an investment as at the balance-sheet date exceeds the proportionate part of the carrying amount of the total equity of the company in which the investment is held by more than 20%, as at the nearest possible date for which such data can be obtained.

NON-FINANCIAL ASSETS

The Group reviews the residual carrying amounts of its non-financial assets at each reporting date to determine whether there is any indications of impairment. If such indications exist, the recoverable amount of the asset is estimated. Goodwill and intangible assets with an infinite useful life that are not available for use are tested for impairment on each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less selling costs. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For impairment testing purposes, assets that cannot be tested individually are grouped into the smallest possible groups of assets that generate cash flows from continued use and that are largely independent of cash generated by other assets or groups of assets (cash-generating unit). In order to test goodwill for signs of impairment, cash-generating units to which goodwill is allocated are subject to special testing; cash-generating units to which goodwill is allocated are combined so that the level of testing for impairment reflects the lowest level at which goodwill is monitored for internal reporting purposes. The goodwill acquired in a business combination is allocated to the cash-generating units or group of units that are expected to benefit from the synergies of the combination. The Group's joint assets do not generate separate cash flows. If there is a sign of impairment of a joint asset, the recoverable amount of the cash-generating unit to which a joint asset belongs is determined.

The impairment of an asset or a cash-generating unit is recognised when its carrying amount exceeds its recoverable amount. That impairment is disclosed in the income statement. Impairment losses recognised in respect of a cash-generating unit are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit, and then to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis.

Losses owing to the impairment of goodwill are not reversed. In respect of other assets, the Group assesses impairment losses in prior periods at the end of the reporting period to establish whether the loss has decreased or no longer exists. Impairment losses are reversed if there has been a change in the estimates based on which the recoverable amount is determined. An impairment loss is reversed to the extent that the asset's increased carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised in previous years.

(j) Non-current assets held for sale

Non-current assets or a disposal group comprising assets and liabilities (applicable to investment property, intangible assets and non-current financial assets within non-current assets, and only applicable to land and buildings within property, plant and equipment on grounds of materiality) whose carrying amount is reasonably expected to be settled primarily through sale and not through further use are classified as assets held for sale, with that sale envisaged within the next twelve months, at the latest.

A sale is highly likely when the entire plan and active programme to find a buyer are in activated. An asset must also be actively marketed and efforts made to achieve a price that corresponds to its current fair value. An asset (or the constituent parts thereof or a disposal group) is remeasured in accordance with the Group's accounting policies immediately before its classification to assets held for sale. Accordingly, a non-current asset (or disposal group) is recognised at the lower of its carrying amount or fair value, less costs to sell.

The period for completion of a sale may be extended to more than one year due to special events and circumstances that are beyond the control of the Company and there is sufficient evidence that the Company is consistently pursuing its plans to dispose of the asset.
If an asset held for sale no longer meets the criteria for classification to the aforementioned category, it must be reclassified to another appropriate asset category, i.e. the category to which it was classified before being classified as an asset held for sale.

(k) Employee benefits

Short-term employee benefits
Short-term employee benefit obligations are measured on an undiscounted basis, and are disclosed as expenses as the service of the employee is provided in respect of the specific short-term benefit.

(l) Provisions

Provisions are recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Amounts recognised as provisions represent the best estimate of expenditure required for settlement as at the balance-sheet date. The risks and uncertainties inextricably associated with events and circumstances are taken into account to reach the best estimate of provisions. Where the effect of the time value of money is material, the amount of provisions represents the present value of expenditure expected to be required to settle an obligation.

Provisions are recognised by accruing the corresponding costs or expenses, and are reduced directly over time by the costs and/or expenses that they were created to cover, except actuarial gains and losses that are the result of increases or decreases in the present value of an obligation for certain employee benefits for severance pay at retirement due to changes in actuarial assumptions and experiential adjustments that are recognised in the revaluation surplus and transferred to profit or loss brought forward. Provisions are derecognised when the contingencies for which they were created no longer apply, or when they are no longer required. Revenues are recognised when provisions that were created by accruing the corresponding costs or expenses are derecognised. Provisions are adjusted at the end of the accounting period so that their value is equal to the present value of the expenditure expected to be required to settle the obligation in question.

Provisions for severance pay and jubilee benefits
In accordance with the applicable legislation, the collective agreement and internal rules, Group companies are obliged to pay jubilee benefits to employees and severance pay at retirement. Non-current provisions are created for that purpose. There are no other pension obligations. Provisions are created in the amount of the estimated future payments for severance pay and jubilee benefits, discounted as at the date of the actuarial calculation.

(m) Non-current deferred income

Deferred income that will cover projected expenses over a period of more than one year is disclosed under non-current deferred income. Donations and government grants received for the acquisition of property, plant and equipment are also classified to non-current deferred income. They are used by way of a transfer to operating revenues in the amount of depreciation costs for such assets. The Group classifies donations received for the acquisition of property, plant and equipment or for covering specific costs to non-current deferred income. They are earmarked to cover the costs of the depreciation of the aforementioned assets or to cover certain costs, and are used by way of a transfer to operating revenues.

(n) Revenues

Revenues are recognised when it is probable that future economic benefits will flow to the Company and those benefits can be measured reliably. To that end, all of the following criteria must be met:

1. the amount of revenues can be measured reliably;
2. it is probable that economic benefits associated with a transaction will flow to the Company;
3. the stage of completion of the transaction as at the balance-sheet date can be measured reliably; and
4. the costs incurred in connection with the transaction and the costs of the completion of the transaction can be measured reliably.

Revenues from services rendered

Revenues from services rendered are recognised in the income statement taking into account the stage of completion of the transaction at the end of reporting period. The stage of completion is assessed on the basis of a review of costs incurred (review of work performed).

Revenues from services rendered are measured at the selling prices of completed services stated in invoices or other documents, or at the prices of incomplete services taking into account the stage of completion thereof. In cases when a particular transaction is not completed as at the balance-sheet date, we believe that no reliable assessment can be made as to the outcome of such a transaction. Revenues are therefore only recognised up to the amount of direct costs incurred, and for which it can be expected that they will be covered.

Amounts collected on behalf of third parties, such as charged value-added tax and other levies (e.g. customs duties) are excluded from sales revenue.

Sales revenue is reduced at the time of a sale for granted discounts, which are evident from invoices or other relevant documents. Sales revenue is also reduced by the sales value of returned goods and subsequently approved discounts.

(o) Leases

Leases granted

Revenues from operating leases are recognised over the lease term.

Leases received

Leases in which the Group assumes all the material risks and rewards incidental to the ownership of an asset are treated as finance leases. Following initial recognition, a leased asset is disclosed at the lower of its fair value or the present value of minimum lease payments. Following initial recognition, assets under finance leases are depreciated in the same manner as other items of property, plant and equipment. Other leases are treated as operating leases. Leasing costs are recognised on a straight-lime basis in the income statement.

(p) Finance income and finance costs

Finance income primarily comprises interest income, income from dividends and other shares in profit, revenues from the disposal of available-for-sale financial assets, positive exchange rate differences and revenues from the reversal of the impairment of financial assets. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the day a shareholder's right to payment was exercised.

Finance costs primarily comprise interest expense and other borrowing costs (unless capitalised), negative exchange rate differences and losses due to the impairment of financial assets. Borrowing costs are recognised in the income statement in the period in which they arise using the effective interest rate method.

(q) Corporate income tax

Corporate income tax comprises current taxes and deferred taxes. Corporate income tax is disclosed in the income statement, except to the extent that it relates to items disclosed directly in other comprehensive income, in which case it is disclosed in the latter.

Current tax is assessed in accordance with the applicable tax legislation as at the balance-sheet date. The financial year is the same as the calendar year, which in turn is the same as the fiscal year.

Deferred tax is disclosed taking into account temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax reporting purposes. The following temporary differences are not taken into account: goodwill if it is not a deductible tax expense; the initial recognition of assets or liabilities that do not affect accounting or taxable profit; and differences relating to investments in subsidiaries and joint ventures to the extent that it is not likely that they will be reversed in the foreseeable future. Deferred tax is not recognised for the purpose of taxable temporary differences that arise upon the initial recognition of goodwill.

Deferred tax is disclosed in the amount that is expected to be paid when the temporary differences are reversed, based on the laws in force at the end of the reporting period.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the deferred tax asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer likely that the related tax benefit will be realised.

(r) New standards and interpretations

Changes to standards and interpretations

The accounting policies used in the compilation of the consolidated financial statements are the same as those applied in the compilation of the consolidated financial statements for the financial year ending 31 December 2015, with the exception of newly adopted or revised standards and interpretations that entered into force on 1 January 2016. Amendments to standards did not affect the financial statements for 2016.

Newly adopted standards and interpretations

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

On the day these financial statements were approved, the following new standards and amendments to existing standards had been issued by the IASB and adopted by the EU, but were not yet in force:

- IFRS 9 Financial Instruments, adopted by the EU on 22 November 2016 (applicable to annual periods beginning on or after 1 January 2018).

IFRS 9 includes requirements regarding recognition and measurement, impairment, derecognition and general hedge accounting.

Classification and Measurement – IFRS 9 introduces a new approach to the classification of financial assets, which depends on the characteristics of cash flows and the business model used to manage a specific financial instrument. This standard approach, which is based on a principle, replaces the existing requirements of IAS 39, which are based on rules. The new model also introduces a standard method for the impairment of all financial instruments.

Impairments – IFRS 9 brings a new impairment method with respect to expected loss, which requires the earlier identification of expected credit losses. The new standard requires companies to account for expected credit losses from the initial recognition of financial instruments and the earlier recognition of expected losses for an entire period.

Hedging – IFRS 9 introduces a significantly altered hedging model with the more specific disclosure of risk management activities. The new model represents a substantial overhaul of hedge accounting through the harmonisation of hedge accounting with risk management activities.

Own Credit Risk – IFRS 9 eliminates profit or loss volatility due to changes in credit risk arising from liabilities measured at fair value. This accounting changes means that gains from a reduction in own credit risk associated with such liabilities will no longer be recognised in profit or loss.

The Group will formulate a special working group to study the amendments to the aforementioned standard. The effects of those amendments cannot currently be assessed.

- IFRS 15 Revenues from Contracts with Customers and amendments to IFRS 15 Effective Date of IFRS 15, as adopted by the EU on 22 September 2016 (applicable to annual periods beginning on or after 1 January 2018).

IFRS 15 specifies how and when reporting companies recognise revenues, and requires such companies to provide the users of financial statements more informative and relevant disclosures. The aforementioned standard supersedes IAS 18 Revenues and IAS 11 Construction Contracts, and numerous other interpretations relating to revenues. Application of the standard is mandatory for all companies that report in accordance with the IFRS, and applies to nearly all contracts with customers, the main exceptions being contracts on leases, financial instruments and insurance. The core principle of the new standard is that the recognition of revenues depicts the transfer of goods or services to a customer in an amount that reflects the consideration (i.e. payment) that a company expects in exchange for those goods or services. The new standard also brings improved disclosures of revenues, instructions for transactions that were not previously addressed in full (e.g. revenues from services and amendments to contracts) and improved guidance for the recognition of agreements that contain several elements.

The Group will formulate a special working group to study the amendments to the aforementioned standard. The effects of those amendments cannot currently be assessed.

Standards and amendments to standards that the EU has not yet adopted

The IFRS as approved by the EU do not currently differ significantly from the regulations adopted by the International Accounting Standards Board (IASB), with the exception of the following new standards, revisions to existing standards and new interpretations, which as at the date of the publication of the financial statements had not been approved for application by the EU:

- IFRS 14 Regulatory Deferral Accounts (applicable to annual periods beginning on or after 1 January 2016). The European Commission opted not to begin proceedings to approve this interim standard, but will wait until the publication of the final version thereof.

The objective of the standard is to permit companies applying the IFRS for the first time who disclose regulatory deferral account balances in accordance with previous Generally Accepted Accounting Principles (GAAP) to continue such disclosure during their transition to the IFRS.

- IFRS 16 Leases (applicable to annual periods beginning on or after 1 January 2019).

In accordance with IFRS 16, lessees recognise the right to use a specific asset and lease liabilities. The right to use an asset is treated similarly to other non-financial assets and is thus depreciated accordingly. A lease liability is initially measured at the present value of lease payments payable over the lease term, discounted at the implicit interest rate if that can be readily determined. If that rate cannot be readily determined, the lessee must use the incremental borrowing rate. Similar to IAS 17, which IFRS 16 supersedes, the lessor classifies a lease as an operating lease or a finance lease, taking into account the nature of the lease. A lease is classified as a finance lease if the lessor transfers substantially all of the risks and rewards incidental to ownership of an underlying asset. Otherwise a lease is classified as an operating lease. A lessor recognises finance income over the term of a finance lease, based on a pattern reflecting a constant periodic rate of return on the net investment. A lessor recognises operating lease payments as revenues on a straight-line basis or, if more representative of the pattern in which the benefit from use of the underlying asset is diminished, another systematic basis.

The Group will formulate a special working group to study the amendments to the aforementioned standard. The effects of those amendments cannot currently be assessed.

- IFRS 2 Share-Based Payments – Classification and Measurement of Share-Based Payment Transactions (applicable to annual periods beginning on or after 1 January 2018).

The amendments bring changes to accounting for: (a) the effects of vesting and non-vesting conditions on the measurement of a cash-settled share-based payment transaction; (b) share-based payment transactions with net settlement features for withholding tax liabilities; and (c) modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

- Amendments to IFRS 4 Insurance Contracts Financial Instruments – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (applicable to annual periods beginning on or after 1 January 2018 or when IFRS 9 Financial Instruments is applied for the first time).

The amendments relate to issues in connection with the introduction of the new standard for financial instruments (IFRS 9) prior to the introduction of this standard, which is being drafted for IFRS 4.

- Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures – Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture, and subsequent amendments (the date of application has been postponed indefinitely until the completion of the research project in connection with the equity method).

The amendments relate to discrepancies between the requirements of IAS 28 and IFRS 10, and clarify that the extent of recognition of gains and losses in a transaction with an associate or joint venture depends on whether the sold or contributed assets represent a business entity.

- Amendments to IFRS 15 Revenue from Contracts with Customers – Clarifications to IFRS 15 (applicable to annual periods beginning on or after 1 January 2018).

- Amendments to IAS 7 Statement of Cash Flows – Disclosure Initiative (applicable to annual periods beginning on or after 1 January 2017).

Disclosure initiative published by the IASB on 29 January 2016. The purpose of the amendments is to clarify IAS 7 with the aim of improving information regarding corporate financial activities for the needs of the users of financial statements. In accordance with these changes, a company must ensure that disclosures provided to the users of financial statements facilitate the assessment of changes in liabilities arising from financial activities. This includes changes in connection with cash flows and non-monetary changes.

- Amendments to IAS 12 Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses (applicable to annual periods beginning on or after 1 January 2017).

- Amendments to IAS 40 Investment Property – Transfers of Investment Property (applicable to annual periods beginning on or after 1 January 2018).

The changes state that a company must only transfer real estate to or from investment property if evidence regarding a change in its use exists. A change in use occurs if real estate meets the definition of investment property or if it no longer meets that criteria. A mere change in management's intentions regarding the use of real estate does not constitute evidence of a change in use. The changes also clarify that the list of evidence set out in paragraph 57 of the standard represents an inexhaustible list of cases of evidence compared with previous exhaustive lists.

- Amendments to various standards (Improvements to IFRS, 2014-2016 cycle) proceeding from the project of annual improvements to the IFRS (IFRS 1, IFRS 12 and IAS 28), primarily to eliminate discrepancies and to provide interpretations (the amendments to IFRS 12 apply to annual periods beginning on or after 1 January 2017, while the amendments to IFRS 1 and IAS 28 apply to annual periods beginning on or after 1 January 2018).

The amendments to various standards proceed from the project of annual improvements to the IFRS (IFRS 1, IFRS 12 and IAS 28), and their purpose is primarily to eliminate inconsistencies and to provide clarifications. The amendments include: (i) the deletion of the temporary exemptions from paragraphs E3–E7 of IFRS 1 because their purpose was achieved; (ii) an explanation of the scope of IFRS 12, i.e. that the disclosure requirements of IFRS 12, with the exception of those in paragraphs B10–B16, apply to the participating interests of a company that are stated in paragraph 5 and that are classified as assets held for sale or as discontinued operations in accordance with IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations; and (iii) an explanation that every individual investment in an associate or joint venture through a venture capital organisation or other appropriate organisation may be measured at fair value upon initial recognition.

- IFRIC 22 Foreign Currency Transactions and Advance Consideration (applicable to annual periods beginning on or after 1 January 2018).

The aforementioned interpretation states that the date of a transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment or deferred income liability. If there are multiple payments or receipts in advance, a transaction date is established for each payment or receipt.

The Group is still studying the amendments to standards and interpretations. The effects of those amendments cannot yet be assessed.

III. DETERMINATION OF FAIR VALUE

Given the Group's accounting policies and classification approach, the determination of the fair value of both financial and non-financial assets and liabilities is required in a number of cases. The fair values of individual groups of assets were determined for measurement and/or reporting purposes based on the methods described below. Where necessary, further clarifications regarding assumptions used to determine fair values are disclosed in the notes to individual asset or liability items.

Land

Following recognition, land is measured at a revalued amount equal to the fair value on the revaluation date (i.e. the price that would be received when selling an asset or paid when transferring a liability in an orderly transaction, on the principal (or most advantageous) market, between market participants at the measurement date under current market terms, regardless of whether the price can be directly observed or estimated using another valuation technique). Depending on the circumstances or situation, the fair value of land is measured using one or more valuation techniques. They are the market approach, cost approach and income approach. Land is revalued every five years or more frequently if indications of impairment exist.

Available-for-sale financial assets

The fair value of available-for-sale financial assets is determined taking into account the bid price at the end of the reporting period.

Operating receivables and liabilities

We assess that the disclosed value of operating receivables and liabilities reflects their fair value.

Financial liabilities

Fair value is calculated for reporting purposes based on the present value of future principal and interest payments, discounted using the market interest rate at the end of the reporting period.

IV. FINANCIAL RISK MANAGEMENT

The Group is exposed to the following risks in the use of financial instruments:

- credit risk,
- liquidity risk,
- market risk, and
- business risk.

This point discusses the Group's exposure to the individual risks stated above, and our objectives, policies and procedures for measuring and managing risks, as well as the Group's management of capital. Other quantitative disclosures are included in Note 27 to the consolidated financial statements.

Risk management policies

The management of the Group is fully responsible for establishing the risk management framework. A committee responsible for the development and supervision of risk management policies adopted by the Group has been established. The tasks of the risk management committee include:

- the drafting of reports on the management of risks within the Intereuropa Group for the controlling company's Management Board and Supervisory Board;
- the definition of individual types of risk to which the Intereuropa Group is exposed;
- the continuous control and monitoring of key risks;
- the identification of new significant risks;
- the definition of a methodology for measuring exposure to individual types of risk;
- the assessment of exposure to individual types of risk;
- the definition and implementation of the risk management policy to address individual types of risk;
- the drafting of proposals to implement measures for hedging individual types of risk;
- the adoption of changes and amendments to risk management rules and other relevant organisational regulations and instructions associated with risks; and
- the implementation of other tasks and activities aimed at managing the risks to which the Intereuropa Group is exposed.

Risk management rules for the entire Intereuropa Group were also adopted. Risk management policies are formulated with the aim of identifying and analysing the risks that the Group faces. This in turn serves as the basis for establishing the appropriate limits and controls, and for the monitoring of risks and compliance with the aforementioned limits.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises primarily in connection with Group's trade receivables.

The Group's exposure to credit risk depends primarily on the characteristics of each customer. However, senior management also takes into account the demographic background of its customers and the solvency risk associated with the sector and country in which a customer operates, as these factors may affect credit risk, particularly in the current adverse economic situation. The relevant policies require an analysis of the creditworthiness of each major new customer, before the Group offers its standard payment and delivery terms. The Group's review includes external assessments, if available.

The Group creates impairments that represent its estimated losses from operating and other receivables and investments. The main elements of such a value adjustment are the specific part of the loss relating to individual significant risks and the common part of the loss formed for groups of similar assets due to losses that have already been incurred but are not yet defined.

Liquidity risk

Liquidity risk is the risk that the Group will be unable settle its financial liabilities using cash or other financial assets. The Group ensures liquidity by always having sufficient liquid assets to settle its liabilities at maturity, in both normal and high-stress situations, without incurring unacceptable losses or risking damage to its reputation. The costs of services are monitored by core business activity, which helps in the planning of cash-flow needs and optimising returns on investments. The Group also ensures it has sufficient amounts of cash or credit lines available to cover operating expenses for the respective period. This also applies to the servicing of its financial debt, but does not include potential consequences from exceptional circumstance that cannot be foreseen, such as natural disasters.

The Group also provides financial guarantees required for the performance of operational business activities vis-à-vis customs authorities.

Market risk

Market risk is the risk that changes in market prices, such as exchange rates, interest rates and equity instruments, would affect the revenues of the Group or the value of financial instruments. The objectives of market risk management are to manage and control exposure to market risks within reasonable limits, while optimising returns.

In the context of falling variable interest rates last year, the Group did not enter into any interest swaps or other derivative contracts to hedge against fluctuations or a rise in variable interest rates. The effect of changes in the variable EURIBOR interest rate on the income statement is presented in the table Analysis of the effect of changes in interest rates on pre-tax profit (Note 27).

Currency risk

Subsidiaries operating outside the euro area are particularly exposed to currency risk, which primarily involves the risk of changes in the exchange rates of the Serbian dinar, Croatian kuna and Ukrainian hryvnia vis-à-vis the euro. With regard to cash flows from operating activities, the aforementioned subsidiaries use a natural hedge against the risk of changes in the exchange rate of their national currency vis-à-vis the euro, meaning that they match inflows with outflows in individual currencies in terms of timing and amount, and do not use foreign exchange futures. However, subsidiaries that have raised loans in euros have open foreign exchange positions in their statements of financial position. It is highly likely that a change in the exchange rate of the national currency vis-à-vis the euro would have a significant impact on the operations of those companies. The companies in Ukraine are most exposed to currency risk.

On the contrary, exposure to currency risk is low for Group companies that operate in countries of the euro area, as cash flows at those companies are almost exclusively in euros. The effect on their operations is thus minor.

Business risk

Business risk is the risk of incurring a direct or indirect loss due to a wide range of reasons associated with processes within the Group, staff, technology and the infrastructure, and as the result of external factors not related to credit, market and liquidity risks. These include risks arising from legal and regulatory requirements, and generally accepted corporate standards. Business risks derive from the overall operations of the Group. The Group's objective is to manage business risks with the aim of establishing a balance between avoiding financial losses and damage to the Group's reputation and overall cost efficiency, and avoiding such control procedures that would hinder or limit self-initiative and creativity. Primary responsibility for developing and introducing controls for managing business risks is borne by the head of each organisational unit.

Compliance with the Group's standards is supported by a programme of audits by the Internal Audit Department. The Internal Audit Department discusses the results of internal audits with the heads of audited business units, while a summary is submitted to the senior management of the controlling company and the audit committee.

V. CORRECTION OF MATERIAL ERROR AND RECLASSIFICATIONS

a. Correction of material error

We recalculated the comparable data in the financial statements of the Intereuropa Group for 2015 due to the identification of a material error. The error relates to the effect of an extraordinary event as a result of fraud in connection with storage at the subsidiary AD Zetatrans A.D., Podgorica (in the amount of EUR 1,037 thousand).

In accordance with these findings, we recalculated financial data as indicated in the tables below.

TABLE 7: EFFECT OF THE ERROR ON ITEMS REPORTED IN THE STATEMENT OF FINANCIAL POSITION AS AT 1 JANUARY 2015 in EUR thousand

Effect on the Group's statement of financial position	Reporting as at 1.1.2015 after correction of error	Correction of error	Reporting as at 1.1.2015
Equity	147,110	-528	147,638
Current operating liabilities	25,108	510	24,598
Current operating receivables	31,442	-18	31,460

TABLE 8: EFFECT OF THE ERROR ON ITEMS REPORTED IN THE STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015 in EUR thousand

Effect on the Group's statement of financial position	Reporting as at 31.12.2015 after correction of error	Correction of error	Reporting as at 31.12.2015
Equity	147,137	-1,037	148,174
Current operating liabilities	26,116	510	25,606
Current operating receivables	31,075	-527	31,602

TABLE 9: EFFECT OF ERROR ON ITEMS REPORTED IN THE INCOME STATEMENT FOR THE 2015 in EUR thousand

Effect on the Group's income statement	Reporting for 2015 after correction of error	Correction of error	Reporting for 2015
Expenses from value adjustments (impairments) and write-offs of receivables	1,648	509	1,139
Net profit or loss	288	-509	797

b. Reclassification of items in the financial statements of the Intereuropa Group

The following reclassifications of comparable data were made in the income statement with the aim of more appropriate presentation:
- items that were disclosed under "write-downs" (EUR 7,728 thousand) were reclassified to the following two items: amortisation (EUR 6,502 thousand), while other items (revaluation operating expenses for intangible assets and property, plant and equipment and expenses from impairments and write-offs of receivables and inventories) were disclosed under "other operating expenses" (EUR 1,226 thousand) for a more appropriate presentation in the statement;
- the amount of EUR 653 thousand was reclassified from the item "costs of goods, materials and services" to the item "other operating expenses" because the aforementioned amount relates to duties; and
- the amount of EUR 363 thousand was reclassified from "other operating expenses" to the item "labour costs" because the aforementioned amount relates to labour costs (from costs related to employee profit-sharing).

The following reclassifications of comparable data were made in the statement of financial position with the aim of more appropriate presentation:
- an amount from real estate rights (right of superficies) was reclassified from the item "intangible assets" to the item "property, plant and equipment" (EUR 759 thousand as at 1 January 2015 and EUR 728 thousand as at 31 December 2015); and
- an amount that relates to current deferred costs was reclassified from the item "current operating receivables" to the item "other current assets" (EUR 62 thousand as at 1 January 2015 and EUR 90 thousand as at 31 December 2015).

The following reclassifications of comparable data were made in the statement of cash flows with the aim of more appropriate presentation:
- an amount was reclassified from the item "non-cash expenses" (EUR 1,308 thousand) to the item "change in provisions" (EUR 945 thousand) and to the item "changes in operating liabilities" (EUR 363 thousand); and
- an amount was reclassified from the item "non-cash revenues" (EUR 186 thousand) to the item "change in provisions" (EUR 105 thousand) and to the item "change in operating liabilities" (EUR 81 thousand).

VI. BUSINESS SEGMENTS

A business segment is an integral part of a company:
- that engages in business activities from which it generates revenues and incurs expenses (including revenues and expenses relating to transactions with other integral parts of the same company);
- whose operating results are reviewed regularly by an employee in a management position, who makes decisions regarding the allocation of resources to a specific segment and who assesses the latter's performance; and
- for which separate financial data are available.

Disclosures by geographic business segment are based on an internal reporting system used by senior management in the decision-making process.

TABLE 10: INFORMATION BY GEOGRAPHICAL SEGMENT

in EUR thousand

	Slovenia		Croatia		Bosnia and Herzegovina		Serbia		Montenegro	
	Jan–Dec 2016	Jan–Dec 2015	Jan–Dec 2016	Jan–Dec 2015	Jan–Dec 2016	Jan–Dec 2015	Jan–Dec 2016	Jan–Dec 2015	Jan–Dec 2016	Jan–Dec 2016
Revenues from external customers	88,734	89,264	20,559	20,399	6,602	6,145	4,189	4,108	5,396	5,069
Revenues from transactions with other segments	3,209	3,144	539	423	383	433	870	648	144	131
Total revenues	91,944	92,408	21,098	20,822	6,986	6,579	5,059	4,756	5,540	5,200
Depreciation and amortisation	3,938	3,946	1,563	1,481	354	328	183	193	439	430
Operating profit or loss	4,832	3,682	-43	-712	281	358	574	558	688	-30
Interest income	224	295	25	42	0	0	5	7	38	52
Interest expense	2,670	3,041	70	48	12	14	77	99	1	0
Profit or loss from ordinary operations	2,097	1,580	-70	-698	267	344	482	436	725	22
Revenues from investments valued according to the equity method	34	41	0	0	0	0	0	0	0	0
Corporate income tax	5,436	279	36	10	30	38	77	71	90	43
Assets	192,299	228,289	58,364	59,006	16,860	17,072	9,476	9,553	21,338	21,675
Non-current assets	166,661	191,170	52,777	53,157	15,629	15,737	8,463	8,577	17,821	18,080
Operating liabilities	16,943	20,077	2,918	3,456	888	987	618	605	616	1,326
Financial liabilities	77,587	95,184	1,628	2,125	213	268	1,150	1,519	404	409
Investments according to the equity method	39	75	0	0	0	0	0	0	0	0

	Ukraine		Others		Total		Adjustments (including eliminations)*		Group	
	Jan–Dec 2016	Jan–Dec 2015	Jan–Dec 2016	Jan–Dec 2015	Jan–Dec 2016	Jan–Dec 2015	Jan–Dec 2016	Jan–Dec 2015	Jan–dec 2016	Jan–Dec 2016
Revenues from external customers	5,489	5,025	4,642	4,617	135,612	134,628	-16	-16	135,596	134,613
Revenues from transactions with other segments	1	1	667	743	5,814	5,523	-5,814	-5,523	0	0
Total revenues	5,490	5,026	5,310	5,360	141,426	140,152	-5,830	-5,539	135,596	134,613
Depreciation and amortisation	50	60	68	63	6,596	6,502	0	0	6,596	6,502
Operating profit or loss	108	162	249	225	6,688	4,753	-27	-529	6,661	4,224
Interest income	2	8	0	2	295	406	-61	-65	234	340
Interest expense	172	131	0	1	3,002	3,335	-61	-65	2,942	3,270
Profit or loss from ordinary operations	-200	-509	246	206	3,549	1,891	543	-1,129	4,092	762
Revenues from investments valued according to the equity method	0	0	0	0	34	41	5	-7	39	34
Corporate income tax	0	0	26	32	5,695	474	0	0	5,695	474
Assets	1,914	2,186	3,278	3,086	303,528	341,394	-47,798	-49,501	255,730	291,893
Non-current assets	1,247	1,388	1,080	1,106	263,678	289,214	-45,064	-46,574	218,614	242,640
Operating liabilities	851	940	842	761	23,675	27,643	-1,460	-836	22,216	26,807
Financial liabilities	1,309	1,304	0	0	81,865	100,809	-928	-2,662	80,937	98,148
Investments according to the equity method	0	0	0	0	39	75	63	60	102	135

* All adjustments are subject to consolidation procedures.

VII. NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: Sales revenue

TABLE 11: SALES REVENUE BY BUSINESS LINE

in EUR thousand

	Land transport		Logistics solutions		Intercontinental transport		Other services		Group	
	Jan-Dec 2016	Jan-Dec 2015	Jan-Dec 2016	Jan-Dec 2015	Jan-Dec 2016	Jan-Dec 2015	Jan-Dec 2016	Jan-Dec 2015	Jan-Dec 2016	Jan-Dec 2015
Revenues from sales to third parties	75,333	76,564	18,942	16,983	34,721	34,626	6,600	6,440	135,596	134,613

The Group provides logistics services through three business lines: land transport (groupage, domestic transport, road transport, railway freight and customs clearance services), intercontinental transport (air freight, sea freight, shipping agency and car logistics services) and logistic solutions (warehousing and distribution).

Other services provided by the Group include the leasing of real estate and insurance brokerage services.

NOTE 2: Other operating revenues

TABLE 12: OTHER OPERATING REVENUES

in EUR thousand

	January–December 2016	January–December 2015
Gains on the sale of property, plant and equipment	704	192
Revenues from the reversal of provisions	22	40
Government grants received	79	213
Revenues from the reversal of adjustments to the value of receivables and from collected written-off receivables	714	935
Other operating revenues	235	233
Total	**1,755**	**1,614**

NOTE 3: Costs of goods, materials and services

TABLE 13: COSTS OF GOODS, MATERIALS AND SERVICES

in EUR thousand

	January–December 2016	January–December 2015
Historical cost of goods and materials sold and cost of materials used	4,037	4,168
Costs of services	90,011	90,885
direct costs	79,813	80,565
costs of telecommunication services	460	427
maintenance costs	2,270	2,390
insurance premiums	763	735
other costs of services	6,705	6,770
Total	**94,048**	**95,053**

Direct costs primarily comprise the costs of subcontractors (transportation, port-related services, etc.) that are directly related to the provision of our services. Other costs of services primarily comprise the reimbursement of work-related costs to employees, the costs of intellectual services, education and training costs, the costs of municipal services, security, hired workers and rents, and the costs of payment transactions.

NOTE 4: Labour costs

TABLE 14: LABOUR COSTS

in EUR thousand

	January–December 2016	January–December 2015
Costs of wages and salaries	19,232	18,608
Social security costs	3,929	3,761
Other labour costs:	3,404	3,207
annual leave allowance	816	603
transportation and meal allowances	2,033	2,065
other labour costs	531	176
expenses for employee participation in profits	24	363
Total	**26,565**	**25,576**

TABLE 15: EMPLOYEES BY EDUCATIONAL LEVEL

in EUR thousand

Categories of educational qualifications	Beginning of 2016	End of 2016	Changes in 2016	Average number of employees by educational qualification in 2016*	Average number of employees by educational qualification in 2015*
Qualification levels I to III	95	89	-6	92	95
Qualification levels IV to V	814	791	-23	803	819
Qualification levels VI to IX	508	494	-14	501	508
Total	**1,417**	**1,374**	**-43**	**1,396**	**1,421**

* The average number of employees is calculated using the balance of employees at the beginning and end of the year.

NOTE 5: Amortisation

TABLE 16: AMORTISATION/DEPRECIATION

in EUR thousand

	January–December 2016	January–December 2015
Amortisation of intangible assets	500	548
Depreciation of property, plant and equipment and investment property	6,096	5,954
Total	**6,596**	**6,502**

NOTE 6: Other operating expenses

TABLE 17: OTHER OPERATING EXPENSES

in EUR thousand

	January–December 2016	January–December 2015
Building land use fee and similar expenses	1,606	1,552
Expenses from impairments and write-offs of property, plant and equipment	82	33
Expenses from value adjustments (impairments) and write-offs of receivables	798	1,648
Expenses from value adjustments (impairments) and write-offs of inventories	8	54
Costs of creation of provisions	251	891
Other operating expenses	736	694
Total	**3,481**	**4,871**

Other operating expenses in 2016 comprised the costs of the settlement of a lawsuit (EUR 204 thousand) that exceeded the amount of previously created and used non-current provisions for that purpose, while EUR 532 thousand relates to municipal and levies, membership fees, damages paid and similar expenses.

NOTE 7: Finance income and costs

TABLE 18: FINANCE INCOME AND COSTS

in EUR thousand

	January–December 2016	January–December 2015
Interest income	234	340
Income from dividends and other shares in profit	9	8
Revenues from the reversal of impairments of loans	216	18
Total finance income	**459**	**366**
Interest expense	-2,942	-3,270
Expenses from the disposal of financial assets	-1	0
Finance costs from impairments and write-offs of financial assets	-9	-38
Net exchange rate differences	-115	-553
Total finance costs	**-3,067**	**-3,861**
Profit or loss from financing activities	**-2,608**	**-3,495**

Interest income and expenses are calculated using the effective interest rate method.

NOTE 8: Result recognised according to the equity method

A portion of the investment in the joint venture Intereuropa-FLG, d.o.o., Ljubljana was sold in 2016, resulting in that investment becoming an investment in an associate. Nevertheless, the Group maintained a 50% share of net profit in the amount of EUR 39 thousand in 2016 in the aforementioned associate, in which it held a 26% participating interest as at the reporting date.

NOTE 9: Corporate income tax (current and deferred tax)

TABLE 19: RECONCILIATION OF PROFIT FOR ACCOUNTING AND TAX PURPOSES

in EUR thousand

	2016	2015
Current tax	372	193
Deferred tax	5,323	281
Tax	**5,695**	**474**
Pre-tax profit	4,092	1,271
Tax calculated according to prescribed rate	640	248
Tax from unrecognised expenses	290	194
Tax from revenues deducted from taxable base	-79	-39
Tax from expenses deducted from taxable base	-62	-33
Tax from tax relief	-69	-6
Tax from other items	55	111
Tax from the reversal of deferred tax assets from tax losses	4,921	0
Tax	**5,695**	**474**

The reversal of deferred tax assets from tax losses of the controlling company from previous years (in the amount of EUR 4,921 thousand) had the most significant impact on deferred tax, based on management's estimate, which in turn is based on the adopted plan for 2017 and data from Intereuropa d.d.'s strategy for 2018 and 2019. The following assumptions were taken into account in that regard:

- the utilisation of tax losses until 2019, taking into account valid tax rates;
- the exclusion of 95% of dividends;
- deferred tax liabilities from the revaluation of land are taken into account as a source for netting; and
- completion of the liquidation proceedings against a subsidiary during the accounting period.

The average weighted tax rate for 2016 was 13.97%, compared with 10.92% in 2015.

Unused tax losses amounted to EUR 81,018 thousand as at 31 December 2016. Deferred tax assets were recognised for unused tax losses in the amount of EUR 45,504 thousand, while no deferred amount was created for the remainder of EUR 35,514 thousand. Unused tax credits for which the Group has not recognised deferred tax assets amounted to EUR 662 thousand as at the reporting date.

Unrecognised deferred liabilities from the undistributed net profits of subsidiaries amounted to EUR 401 thousand.

TABLE 20: CURRENT AND DEFERRED TAX RELATING TO EQUITY ITEMS — in EUR thousand

	2016	2015
Current tax	-363	0
Deferred tax	2,004	2
Total	**1,641**	**2**

TABLE 21: CHANGES IN DEFERRED TAX ASSETS AND LIABILITIES THAT WERE NOT NETTED IN 2016 — in EUR thousand

Deferred tax assets	Balance as at 1 January 2016	Change in profit or loss	Change in other comprehensive income	Exchange rate differences	Balance as at 31 December 2016
Property, plant and equipment	16	0	0	0	16
Revaluation of receivables owing to value adjustments	7	0	0	0	7
Revaluation of financial assets	2,088	493	0	1	2,582
Provisions	107	7	14	0	128
Tax loss	14,445	-5,792	0	2	8,655
Other	3	2	0	0	5
Total	**16,666**	**-5,290**	**14**	**2**	**11,392**
Deferred tax liabilities	**Balance as at 1 January 2016**	**Change in profit or loss**	**Change in other comprehensive income**	**Exchange rate differences**	**Balance as at 31 December 2016**
Revaluation of land	13,131	0	-2,001	29	11,159
Other property, plant and equipment	266	13	0	1	280
Revaluation of financial assets	9	0	10	0	20
Total	**13,406**	**13**	**-1,991**	**30**	**11,459**
Effect		**-5,303**	**2,005**		

The total effect of changes in tax rates in the income statement was EUR 196 thousand, broken down as follows: EUR 217 thousand in revenues in Slovenia (change in the tax rate from 17% to 19%) and EUR 21 thousand in expenses in Croatia (change in the tax rate from 20% to 18%).

The total effect of changes in tax rates in the statement of other comprehensive income was EUR 647 thousand in Slovenia, as the result in the reduction in fair value reserves (change in the tax rate from 17% to 19%).

TABLE 22: CHANGES IN DEFERRED TAX ASSETS AND LIABILITIES THAT WERE NOT NETTED IN 2015 | in EUR thousand

Deferred tax assets	Balance as at 1 January 2015	Change in profit or loss	Change in other comprehensive income	Exchange rate differences	Balance as at 31 December 2015
Property, plant and equipment	40	-24	0	0	16
Revaluation of receivables owing to value adjustments	7	0	0	0	7
Revaluation of financial assets	2,346	-258	0	0	2,088
Provisions	108	-1	0	0	107
Tax loss	14,433	11	0	1	14,445
Other	3	0	0	0	3
Total	**16,937**	**-272**	**0**	**1**	**16,666**
Deferred tax liabilities	**Balance as at 1 January 2015**	**Change in profit or loss**	**Change in other comprehensive income**	**Exchange rate differences**	**Balance as at 31 December 2015**
Revaluation of land	13,129	0	0	2	13,131
Other property, plant and equipment	256	10	0	0	266
Revaluation of financial assets	11	0	-2	0	9
Total	**13,396**	**10**	**-2**	**2**	**13,406**
Effect		**-282**	**2**		

NOTE 10: Property, plant and equipment

TABLE 23: CHANGES IN PROPERTY, PLANT AND EQUIPMENT IN 2016

in EUR thousand

	Land	Buildings	Other plant and equipment	Equipment under finance leases	Property, plant and equipment under construction	Total
HISTORICAL COST						
Balance as at 1 January 2016	**107,954**	**176,311**	**34,173**	**1,454**	**320**	**320,212**
Acquisitions	0	0	0	0	3,569	3,569
Activations	0	753	2,241	476	-3,470	0
Sales	-7,405	0	-1,740	0	0	-9,145
Write-downs	0	-50	-355	0	0	-405
Transfer to available-for-sale assets	-321	0	0	0	0	-321
Revaluation to fair value	-7,103	0	0	0	0	-7,103
Other	0	0	16	0	0	16
Exchange rate differences	-83	347	-2	14	0	276
Balance as at 31 December 2016	**93,042**	**177,361**	**34,333**	**1,944**	**420**	**307,099**
VALUE ADJUSTMENT						
Balance as at 1 January 2016	**-5,127**	**-76,762**	**-29,827**	**-430**	**0**	**-112,146**
Amortisation/depreciation	0	-4,363	-1,234	-232	0	-5,829
Sales	5	0	1,721	0	0	1,726
Write-downs	0	40	354	0	0	394
Impairments	-69	0	0	0	0	-69
Other	0	-2	-15	0	0	-17
Exchange rate differences	137	-108	-10	-4	0	15
Balance as at 31 December 2016	**-5,054**	**-81,195**	**-29,011**	**-666**	**0**	**-115,926**
CARRYING AMOUNT						
Balance as at 1 January 2016	102,827	99,549	4,346	1,024	320	208,066
Balance as at 31 December 2016	**87,988**	**96,166**	**5,322**	**1,278**	**420**	**191,173**

Based on the verification of the existence of indicators of impairment, senior management assesses that the impairment of other assets is not required. The carrying amount of land would be equal to EUR 29,665 thousand as at 31 December 2016 if the historical cost model was used. The Group revalued land in Slovenia based on a valuation drawn up by a certified real estate valuer as at 31 December 2016 using the direct sales comparison method. Land was broken down in the aforementioned valuation with regard to location. A detailed analysis was performed for each lot of land using transactions involving comparable land in the direct vicinity of the real estate subject to valuation. Adjustments were also made to approximate the indicative price of comparable land. Those adjustments relate to surface area, location and other functional characteristics of real estate subject to valuation, taking into account other comparable sold or advertised real estate.

The Group sold real estate within the confines of the Port of Koper in accordance with its adopted strategy. The full amount of consideration was earmarked for the reduction of liabilities from bank loans.

As at the balance-sheet date, the Intereuropa Group had property, plant and equipment pledged as loan collateral in the amount of EUR 78,826 thousand, and for contingent liabilities in the amount of EUR 30,539 thousand. There were no other legal restrictions on the disposal of assets. The carrying amount of mortgaged real estate was EUR 132,488 thousand as at the reporting date (compared with EUR 148,556 thousand as at 31 December 2015).

The Group had commitments to purchase property, plant and equipment in the amount of EUR 604 thousand as at the reporting date.

TABLE 24: CHANGES IN PROPERTY, PLANT AND EQUIPMENT IN 2015

in EUR thousand

	Land	Buildings	Other plant and equipment	Equipment under finance leases	Property, plant and equipment under construction	Total
HISTORICAL COST						
Balance as at 1 January 2015	**109,166**	**175,101**	**34,580**	**1,600**	**815**	**321,262**
Acquisitions	0	0	0	0	3,555	3,555
Activations	0	1,330	2,110	610	-4,048	0
Disposals	0	-38	-959	-264	0	-1,261
Write-downs	0	-91	-1,837	0	0	-1,928
Transfer between items	0	-21	515	-494	0	0
Other	0	-1	6	0	0	5
Exchange rate differences	-1,212	30	-242	2	-2	-1,424
Balance as at 31 December 2015	**107,954**	**176,311**	**34,173**	**1,454**	**320**	**320,212**
HISTORICAL COST						
Balance as at 1 January 2015	**-6,003**	**-72,526**	**-31,001**	**-985**	**0**	**-110,514**
Amortisation/depreciation	0	-4,321	-1,232	-165	0	-5,718
Disposals	0	6	928	231	0	1,165
Write-downs	0	72	1,834	0	0	1,906
Transfer between items	0	15	-504	489	0	0
Other	0	1	-5	0	0	-4
Exchange rate differences	876	-8	154	-1	0	1,021
Balance as at 31 December 2015	**-5,127**	**-76,762**	**-29,827**	**-430**	**0**	**-112,146**
HISTORICAL COST						
Balance as at 1 January 2015	103,163	102,575	3,579	615	815	210,748
Balance as at 31 December 2015	**102,827**	**99,550**	**4,346**	**1,024**	**319**	**208,066**

NOTE 11: Investment property

TABLE 25: CHANGES IN INVESTMENT PROPERTY

in EUR thousand

	2016	2015
HISTORICAL COST		
Balance as at 1 January	**15,594**	**15,638**
Increase	11	0
Disposals	-3	-44
Impairments	-1,181	0
Balance as at 31 December	**14,421**	**15,594**
HISTORICAL COST		
Balance as at 1 January	**-4,316**	**-4,073**
Amortisation/depreciation	-266	-267
Disposals	1	24
Balance as at 31 December	**-4,581**	**-4,316**
HISTORICAL COST		
Balance as at 1 January	11,278	11,565
Balance as at 31 December	**9,840**	**11,278**

The carrying amount of mortgaged investment property was EUR 8,719 thousand as at the reporting date (compared with EUR 9,887 thousand as at 31 December 2015). That amount represents additional collateral for liabilities for which the underlying collateral comprises pledged items of property, plant and equipment.

TABLE 26: REVENUES AND EXPENSES FROM INVESTMENT PROPERTY

in EUR thousand

	2016	2015
Rental income from investment property	1,253	1,505
Direct operating expenses from investment property	-491	-498
Total	**762**	**1,007**

The market values of investment property in Slovenia in 2016 were lower than the carrying amount of investment property as at 31 December 2016. Impairments were thus created based on the existence of the relevant indicators. The impairment of investment property located in Slovenia in the amount of EUR 1,181 thousand is the result of a management estimate based on the average of the direct capitalisation method (discount rate of 8.5%) and a cash-flow multiplier (10). That estimate is based on income from the lease of business premises and costs that include depreciation costs charged during the financial year.

Senior management assesses that the fair value of investment property is EUR 10,044 thousand, EUR 9,019 thousand of which relates to investment property located in Slovenia and EUR 1,025 thousand of which relates to investment property located in Bosnia and Herzegovina.

NOTE 12: Intangible assets

TABLE 27: CHANGES IN INTANGIBLE ASSETS IN 2016

in EUR thousand

	Long-term property rights	Other intangible assets	Goodwill	Intangible assets under construction	Total
HISTORICAL COST					
Balance as at 1 January 2016	**5,709**	**4,307**	**1,275**	**319**	**11,610**
Acquisitions	0	0	0	161	161
Activations	63	21	0	-84	0
Exchange rate differences	10	0	0	-2	8
Balance as at 31 December 2016	**5,782**	**4,328**	**1,275**	**394**	**11,779**
HISTORICAL COST					
Balance as at 1 January 2016	**-4,837**	**-948**	**0**	**0**	**-5,785**
Amortisation/depreciation	-210	-290	0	0	-500
Other	3	0	0	0	3
Exchange rate differences	-12	0	0	0	-12
Balance as at 31 December 2016	**-5,056**	**-1,238**	**0**	**0**	**-6,293**
HISTORICAL COST					
Balance as at 1 January 2016	872	0	1,275	319	5,825
Balance as at 31 December 2016	**726**	**3,090**	**1,275**	**394**	**5,486**

The majority of long-term property rights comprises rights associated with computer software.

Nearly the entire amount of goodwill comprises goodwill from the purchase of the subsidiary Intereuropa RTC d. d., Sarajevo. The aforementioned company was deemed a cash-generating unit. We performed a test for the impairment of goodwill as at 31 December 2016. The basis for that calculation was the planned value of sales in the period 2016–2018, during which time we estimated average annual sales growth of 1.8%. We applied a 14.53% percent discount rate in the calculation, representing the weighted average cost of capital. Based on discounted cash flows, we found that the recoverable amount of the cash-generating unit exceeded its carrying amount, including goodwill. There was thus no need for the impairment of goodwill as at 31 December 2016. No asset impairment is required, even in the event of a change in the discount rate of +/- 10 percentage points.

Other intangible assets comprise software to support comprehensive logistics services.

The Group had commitments to purchase intangible assets in the amount of EUR 88 thousand as at the reporting date.

TABLE 28: CHANGES IN INTANGIBLE ASSETS IN 2015

in EUR thousand

	Long-term property rights	Other intangible assets	Goodwill	Non-current deferred development costs	Intangible assets under construction	Total
HISTORICAL COST						
Balance as at 1 January 2015	**5,664**	**0**	**1,275**	**4,075**	**241**	**11,255**
Acquisitions	98	204	0	0	105	407
Write-downs	-49	0	0	0	0	-49
Transfer of advances	0	27	0	0	-27	0
Transfer between items	0	4,075	0	-4,075	0	0
Exchange rate differences	-4	1	0	0	0	-3
Balance as at 31 December 2015	**5,709**	**4,307**	**1,275**	**0**	**319**	**11,610**
HISTORICAL COST						
Balance as at 1 January 2015	**-4,642**	**0**	**0**	**-673**	**0**	**-5,315**
Amortisation/depreciation	-242	-275	0	0	0	-517
Write-downs	49	0	0	0	0	49
Transfer between items	0	-673	0	673	0	0
Exchange rate differences	-2	0	0	0	0	-2
Balance as at 31 December 2015	**-4,837**	**-948**	**0**	**0**	**0**	**-5,785**
HISTORICAL COST						
Balance as at 1 January 2015	1,021	0	1,275	3,402	241	5,939
Balance as at 31 December 2015	**872**	**3,359**	**1,275**	**0**	**319**	**5,825**

NOTE 13: Other non-current assets

Other non-current assets in the amount of EUR 49 thousand (EUR 62 thousand as at 31 December 2015) comprise non-current deferred costs and expenses.

NOTE 14: Loans granted and deposits

TABLE 29: COMPOSITION OF LOANS AND DEPOSITS

in EUR thousand

	31 December 2016	31 December 2015
Long-term loans and deposits	**30**	**45**
- loans granted	6	7
- deposits	24	38
Short-term loans and deposits	**2,124**	**6,604**
- loans granted	78	79
- deposits	2,046	6,525
Total	**2,153**	**6,649**

A guarantee in the form of a deposit in the amount of EUR 4,160 thousand was redeemed in 2016. The guarantee was provided by Intereuropa d.d. when the subsidiary in Russia was sold. Provisions in the full amount had already been created.

As at the balance-sheet date, the Intereuropa Group had pledged long-term deposits in the amount of EUR 24 thousand (EUR 30 thousand as at 31 December 2015) as collateral for contingent liabilities in the same amount.

As at the balance-sheet date, the Intereuropa Group had pledged short-term deposits in the amount of EUR 54 thousand for contingent liabilities in the same amount.

NOTE 15: Investment in associate and joint venture

This item comprises an investment in the associate Intereuropa-FLG, d.o.o., Ljubljana, in which Intereuropa d.d. held a 26% participating interest as at 31 December 2016. As at 31 December 2015, Intereuropa d.d. held a 50% participating interest the aforementioned company, which was treated as a joint venture. A 24% participating interest was sold in 2016, meaning the company became an associate.

TABLE 30: CHANGE IN INVESTMENT IN ASSOCIATE AND JOINT VENTURE

in EUR thousand

	31 December 2016	31 December 2015
Balance at beginning of accounting period	135	141
Profit according to the equity method	39	34
Distribution of profit	-34	-41
Sales	-36	0
Attributable changes in equity	-1	0
Balance at end of accounting period	**102**	**135**

TABLE 31: ASSETS, LIABILITIES, REVENUES AND EXPENSES OF THE COMPANY

in EUR thousand

	31 December 2016	31 December 2015
ASSETS	**1,973**	**2,034**
Non-current assets	16	29
Current assets	1,957	2,005
LIABILITIES	**1,734**	**1,802**
Non-current liabilities	17	16
Current liabilities	1,717	1,786
Revenues	9,680	11,228
Expenses (including corporate income tax)	9,603	11,161
Profit or loss from ordinary operations	95	85
Other comprehensive income	-2	-1
Total comprehensive income	75	67

NOTE 16: Other non-current financial assets

Available-for-sale financial assets

TABLE 32: CHANGES IN AVAILABLE-FOR-SALE FINANCIAL ASSETS

in EUR thousand

	31 December 2016	31 December 2015
Balance at beginning of accounting period	519	1,559
Sales	-19	-1,000
Impairments	-5	-29
Revaluation to fair value	48	-12
Balance at end of accounting period	**542**	**518**

Available-for-sale financial assets measured at historical cost (in the amount of EUR 80 thousand) comprise investments in equity instruments that do not have a quoted market price on an active market and whose fair value cannot be reliably measured.

NOTE 17: Current operating receivables

TABLE 33: CURRENT OPERATING RECEIVABLES in EUR thousand

	31 December 2016	31 December 2015
Current trade receivables	26,618	28,169
Current operating receivables from others	2,186	2,816
Total	**28,804**	**30,985**

Of the total trade receivables as at 31 December 2016 in the amount of EUR 28,696 thousand, EUR 720 thousand relate to receivables for services in progress.

Changes in value adjustments to trade and other receivables

TABLE 34: CHANGES IN VALUE ADJUSTMENTS TO TRADE AND OTHER RECEIVABLES in EUR thousand

	2016	2015
Adjustments to the value of receivables as at 1 January	6,038	6,313
- written-off receivables	-1,078	-873
- recovered receivables	-663	-910
+ additional increase in adjustments to value	766	1,486
- exchange rate differences	9	22
Closing balance of adjustments to the value of trade receivables as at 31 December	**5,073**	**6,038**
Adjustments to the value of other current receivables as at 1 January	1,358	1,267
- written-off receivables	0	0
- recovered receivables	-8	-2
+ additional increase in adjustments to value	3	92
Closing balance of adjustments to the value of other current receivables as at 31 December	**1,353**	**1,358**

TABLE 35: STRUCTURE OF CURRENT RECEIVABLES BY MATURITY in EUR thousand

	Gross value as at 31 December 2016	Value adjustments as at 31 December 2016	Gross value as at 31 December 2015	Value adjustments as at 31 December 2015
Current trade receivables				
Non-past-due	19,184	2	20,269	0
0 to 30 days past due	4,300	1	4,855	1
31 to 90 days past due	1,877	6	2,229	9
91 to 180 days past due	936	9	770	13
More than 180 days past due	5,394	5,055	6,084	6,015
Current trade receivables	**31,691**	**5,073**	**34,207**	**6,038**
Other current operating receivables				
Non-past-due	2,111	0	2,692	0
0 to 30 days past due	53	0	181	0
31 to 90 days past due	2	0	16	0
91 to 180 days past due	0	0	6	0
More than 180 days past due	1,372	1,353	1,369	1,358
Other current operating receivables	**3,538**	**1,353**	**4,264**	**1,358**

Court proceedings (enforcement, lawsuits, bankruptcy and compulsory composition) have been initiated for the majority of receivables more than 181 days in arrears. Exposure to various types of risks arising from trade receivables is managed by using an internal credit rating system for domestic customers and by verifying the credit ratings obtained from specialised companies for foreign customers. Based on information obtained, customers with lower credit ratings are required to supply collateral instruments to secure payments (e.g. bills of exchange, pledges of movable property and sureties). Operating receivables are not secured via insurance companies.

The Intereuropa Group had trade receivables with a carrying amount of EUR 10,000 thousand pledged as collateral as at the balance-sheet date (the same as at 31 December 2015). That amount represents additional collateral for contingent liabilities in the amount of EUR 14,600 thousand (EUR 12,600 thousand as at 31 December 2015) for which the underlying collateral comprises pledged items of property, plant and equipment.

NOTE 18: Other current assets

Other current assets amounting to EUR 377 thousand comprise current deferred costs.

NOTE 19: Cash and cash equivalents

Cash and cash equivalents amounted to EUR 5,294 thousand, and comprise cash held in bank accounts, call deposits and cash in hand. The reasons for increases and decreases in cash and cash equivalents during 2016 are presented in the statement of cash flows.

NOTE 20: Equity

Share capital

Intereuropa d.d.'s share capital amounted to EUR 27,488,803 as at 31 December 2016, and is divided into 16,830,838 ordinary registered freely transferable no-par-value shares and 10,657,965 freely transferable no-par-value preference shares. Ordinary shares provide their holders the right to participate in the management of the Company (voting right), the right to a share in profits and the right to a corresponding portion of residual assets after liquidation or bankruptcy of the Company. The number of shares did not change relative to 31 December 2015. Net earnings per share is explained in the financial report of Intereuropa d.d.

Preference shares provide their holders the right to a share in profits and the right to a corresponding portion of residual assets after liquidation or bankruptcy of the Company. Preference shares give their holders priority in the sharing of profits in the amount of EUR 0.01 (preferential amount) per share. The preferential amount is paid out in addition to the share in profits received by the holders of ordinary shares, in accordance with the relevant resolution on the use of distributable profit. Associated liabilities in the amount of EUR 426 thousand were disclosed as at 31 December 2016.

Share premium account

The share premium account comprises amounts from the simple reduction of the controlling company's share capital. The share premium account may be used under the conditions and for the purposes set out by law.

Treasury shares

The controlling held 18,135 treasury shares as at the reporting date. The number of treasury shares has not changed since 31 December 2015. The Company holds no rights arising from treasury shares. Other group companies do not hold own shares. Reserves for treasury shares were created in 2008 in an amount equal to their historical cost of EUR 180 thousand.

Fair value reserves

Fair value reserves primarily relate to the revaluation of land in the amount of EUR 50,536 thousand and available-for-sale financial assets in the amount of EUR 38 thousand. Changes during the financial year are disclosed in the statement of comprehensive income.

Foreign currency translation differences

Foreign currency translation losses were down by EUR 416 thousand relative to 2015 owing to the effect of foreign exchange rate differences arising from the recalculation of equity items in the financial statements of subsidiaries abroad from local currency into the reporting currency.

NOTE 21: Non-controlling interests in equity

TABLE 36: NON-CONTROLLING INTERESTS

in EUR thousand

	Country in which company is registered	Non-controlling interests		Equity pertaining to non-controlling interests		Net profit pertaining to non-controlling interests	
		31. 12. 2016	31. 12. 2015	31. 12. 2016	31. 12. 2015	31. 12. 2016	31. 12. 2015
Interzav, d.o.o., Koper	Slovenia	28.72%	28.72%	19	17	11	8
Intereuropa, logističke usluge, d.o.o., Zagreb	Croatia	0.04%	0.04%	20	20	-	-
Intereuropa sajam, d.o.o., Zagreb	Croatia	49.00%	49.00%	326	325	26	15
Intereuropa Skopje DOO, Skopje	Macedonia	0.44%	0.44%	8	8	-	-
Intereuropa RTC d.d., Sarajevo	Bosnia and Herzegovina	4.23%	4.23%	647	648	10	13
AD Intereuropa logističke usluge, Belgrade	Serbia	26.38%	26.38%	1,876	1,805	107	96
TOV TEK ZTS, Uzhhorod	Ukraine	10.07%	10.07%	-1	10	-10	-20
Intereuropa Kosova L.L.C., Prishtina	Kosovo	10.00%	10.00%	53	45	13	9
Zetatrans A.D., Podgorica	Montenegro	30.73%	30.73%	6,118	6,342	195	-6
Total				**9,066**	**9,220**	**352**	**115**

TABLE 37: SUMMARY OF ACCOUNTING INFORMATION FOR NON-CONTROLLING INTERESTS

in EUR thousand

Non-controlling interests	28.72%		0.04%		49.00%	
Company name	Interzav, d.o.o., Koper		Intereuropa, Logističke usluge, d.o.o., Zagreb		Intereuropa sajam, d.o.o., Zagreb	
	2016	2015	2016	2015	2016	2015
Non-current assets	0	0	52,260	52,625	517	531
Current assets	87	76	5,335	5,650	253	247
Equity and non-current liabilities	71	60	54,005	53,978	736	736
Current liabilities	16	16	3,590	4,250	34	43
Revenues	176	160	21,189	20,811	490	448
Profit or loss from ordinary operations	46	35	-136	-736	67	38

Non-controlling interests	0.44%		4.23%		26.38%	
Company name	Intereuropa Skopje, d.o.o., Skopje		Intereuropa RTC, d.d., Sarajevo		A.D. Intereuropa logističke usluge, Beograd	
	2016	2015	2016	2015	2016	2015
Non-current assets	1,005	1,022	15,629	15,737	8,463	8,577
Current assets	1,130	1,053	1,231	1,335	1,012	977
Equity and non-current liabilities	1,837	1,791	15,868	15,978	8,171	8,281
Current liabilities	298	284	992	1,094	992	1,272
Revenues	1,739	1,730	7,023	6,701	5,115	4,773
Profit or loss from ordinary operations	93	86	267	343	482	436

Non-controlling interests	10.07%		10.00%		30.73%	
Company name	TEK ZTS d.o.o., Užgorod		Intereuropa Kosova L.L.C.		Zetatrans A.D. Podgorica	
	2016	2015	2016	2015	2016	2015
Non-current assets	460	546	83	83	17,821	18,080
Current assets	665	789	960	781	3,517	3,596
Equity and non-current liabilities	3	365	530	445	20,269	19,908
Current liabilities	1,123	971	513	419	1,068	2,075
Revenues	5,492	5,034	3,077	2,876	5,938	5,723
Profit or loss from ordinary operations	-101	-196	153	103	725	22

NOTE 22: Provisions

TABLE 38: PROVISIONS

in EUR thousand

	Balance as at 1 January 2016	Drawn down (used)	Reversed	Additional creation of provisions charged to expenses	Additional creation of provisions charged to equity	Exchange rate differences	Balance at 31 December 2016
Provisions for severance pay at retirement and jubilee benefits	1,072	-135	-14	177	184	1	1,285
Provisions for lawsuits	918	-413	-21	74	0	4	562
Other non-current provisions	4,172	-4,160	-12	0	0	0	0
Total	**6,162**	**-4,708**	**-47**	**251**	**184**	**5**	**1,847**

TABLE 39: CHANGES IN PROVISIONS FOR SEVERANCE PAY AND JUBILEE BENEFITS

in EUR thousand

	Balance as at 1 January 2016	Interest expense	Payments	Increase in current year	Actuarial gains or losses	Total as at 31 December 2016
Provisions	**4,763**	**216**	**-631**	**392**	**681**	**5,421**
Jubilee benefits	1,578	73	-466	176	562	1,923
Severance pay	3,185	143	-165	216	119	3,498

The calculation of provisions for severance pay at retirement and jubilee benefits is based on an actuarial calculation as at 31 December 2016, in which the following assumptions were taken into account:

- the number of employees, their gender, age, total length of service, length of service with the Company and the relevant basis for calculation;
- the method for calculating severance pay at retirement under national legislation;
- growth in average wages in specific countries;
- age-based employee turnover, prerequisites for retirement in accordance with the minimum conditions for exercising the right to an old-age pension; and

the application of the following discount rates: 2.075% in Slovenia, 5.265% in Serbia, 4.265% in Montenegro, 5.275% in Bosnia and Herzegovina, and 4.455% percent in Croatia.

The decrease in provisions for lawsuits (EUR 396 thousand) was primarily the result of the settlement of a lawsuit by the controlling company in connection with a claim for damages in the total amount of EUR 600 thousand; the amount exceeding created provisions (EUR 204 thousand) is disclosed in other operating expenses.

The recognition of provisions for a lawsuit in the amount of EUR 562 thousand primarily relates to a dispute regarding utilities fees and a claim for damages in Croatia, while the remainder relates to legal proceedings in other countries.

The decrease in other provisions was a result of the redemption of a guarantee in the form of a deposit in the amount of EUR 4,160 thousand that was issued by Intereuropa d.d. when the subsidiary in Russia was sold. We do not expect any more claims in this regard.

NOTE 23: Financial liabilities

TABLE 40: STRUCTURE OF LONG-TERM LOANS AND FINANCE LEASES RECEIVED — in EUR thousand

	31 December 2016	31 December 2015
Long-term loans from banks	73,793	91,733
Finance leases	943	766
Total	**74,736**	**92,499**

TABLE 41: CHANGES IN LONG-TERM LOANS AND FINANCE LEASES — in EUR thousand

	31 December 2016	31 December 2015
Balance as at 1 January	**92,499**	**98,196**
New finance leases	618	756
Repayments	-13,205	-1,400
Transfer to current liabilities	-5,175	-5,042
Exchange rate differences	-1	-11
Closing balance	**74,736**	**92,499**

TABLE 42: LONG-TERM LOANS AND FINANCE LEASES BY MATURITY — in EUR thousand

	31 December 2016	31 December 2015
Maturity of 1 to 2 years	5,040	5,194
Maturity of 2 to 3 years	69,666	4,797
Maturity of 3 to 4 years	15	82,157
Maturity of 4 to 5 years	14	352
Total	**74,736**	**92,499**

TABLE 43: LONG-TERM LOANS AND FINANCE LEASES WITH RESPECT TO COLLATERAL — in EUR thousand

	31 December 2016	31 December 2015
Secured	74,598	92,266
liens on real estate and securities	74,104	91,399
bills of exchange, corporate guarantees	493	867
Unsecured	138	234
Total	**74,736**	**92,499**

TABLE 44: STRUCTURE OF SHORT-TERM LOANS AND FINANCE LEASES — in EUR thousand

	31 December 2016	31 December 2015
Short-term loans and finance leases received	5,187	5,121
Finance leases	171	111
Liabilities for dividends and other shares in profit	843	416
Total	**6,201**	**5,648**

TABLE 45: SHORT-TERM LOANS AND FINANCE LEASES WITH RESPECT TO COLLATERAL

in EUR thousand

	31 December 2016	31 December 2015
Secured	5,296	5,169
liens on real estate and securities	4,685	4,587
bills of exchange	580	562
other	30	20
Unsecured	62	63
Total	**5,358**	**5,232**

The Group had no overdue unpaid liabilities under loan agreements as at the reporting date.

During the 2016 financial year, we worked towards the fulfilment of financial objectives and commitments agreed with banks, as set out in the financial restructuring agreement concluded in 2012. We thus fulfilled all commitments set out in the aforementioned agreement, both at the level of the controlling company and at the Group level.

NOTE 24: Current operating liabilities

TABLE 46: CURRENT OPERATING LIABILITIES

in EUR thousand

	31 December 2016	31 December 2015
Current trade payables	18,050	22,163
Current operating liabilities based on advances	525	680
Other current operating liabilities	3,310	3,273
Total	**21,885**	**26,116**

Of the total current operating liabilities as at 31 December 2016, EUR 2,339 thousand related to liabilities for costs for which suppliers' invoices were not yet received (EUR 2,353 thousand as at 31 December 2015). Except for customs liabilities, we do not issue collateral instruments to secure payments to our suppliers. Current operating liabilities comprised liabilities to employees for wages and wage compensation, liabilities for contributions and taxes, and other liabilities.

NOTE 25: Contingent liabilities

Contingent liabilities comprise potential liabilities not disclosed in the statement of financial position and for which we assess that an outflow of economic benefits will not be likely in the settlement of those liabilities.

TABLE 47: CONTINGENT LIABILITIES

in EUR thousand

	31 December 2016	31 December 2015
Contingent liabilities from bank guarantees and guarantees given to others	18,967	15,027
Contingent liabilities from lawsuits	1,614	1,140
Contingent liabilities to D.S.U., družba za svetovanje in upravljanje, d.o.o.	250	250
Other contingent liabilities	105	105
Total contingent liabilities	**20,936**	**16,522**

Guarantees and warranties primarily comprise contingent liabilities arising from guarantees for potential customs liabilities that might arise from transit procedures, the verification of origin, and various analyses and controls of goods.

NOTE 26: Fair value

Available-for-sale securities

The fair value of available-for-sale securities that are listed on a stock exchange is equal to the published closing price of these shares as at the balance-sheet date. The fair value of shares and participating interests in companies not quoted on stock markets is assessed as their carrying amount.

Loans granted and received

The fair value of loans granted and received is assessed to be equal to their carrying amount.

Receivables and liabilities

We assess that the nominal amount of receivables and liabilities with a maturity of less than one year is a proper reflection of their fair value.

TABLE 48: FAIR VALUE OF FINANCIAL INSTRUMENTS

in EUR thousand

	31 December 2016		31 December 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Available-for-sale financial assets	542	542	518	518
- measured at fair value	462	462	407	407
- measured at historical cost	80	80	112	112
Loans and deposits	2,153	2,153	6,649	6,649
Trade receivables	26,618	26,618	28,696	28,696
Cash and cash equivalents	5,294	5,294	11,107	11,107
Total	**34,607**	**34,607**	**46,970**	**46,970**
Financial liabilities				
Loans and finance leases	80,094	80,094	97,731	97,731
- at fixed interest rates	245	245	316	316
- at variable interest rates	79,849	79,849	97,415	97,415
Other current financial liabilities	843	843	416	416
Trade payables	18,051	18,051	21,653	21,653
Total	**98,988**	**98,988**	**119,800**	**119,800**

Fair value hierarchy of instruments

The table illustrates the classification of land and financial instruments with respect to the calculation of their fair value. They are classified to the following three levels:

- level 1 includes the unadjusted price quoted on an active market on the date of measurement;
- level 2 includes inputs other than the quoted prices included in Level 1 that can be directly or indirectly observed for assets or liabilities; and
- level 3 includes unobservable inputs for an asset or liability.

The Group assumes that the disclosed fair value of current financial assets and liabilities is a sufficiently precise approximation of actual fair value.

TABLE 49: FAIR VALUE HIERARCHY

in EUR thousand

Fair value hierarchy	31 December 2016			
	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Land	0	0	87,988	87,988
Available-for-sale financial assets	462	0	80	542
Assets for which fair value is disclosed				
Loans and deposits	0	2,154	0	2,154
Liabilities for which fair value is disclosed				
Loans and finance leases	0	80,093	0	80,093
Other current financial liabilities	0	843	0	843
Fair value hierarchy	**31 December 2015**			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets measured at fair value				
Land	0	0	102,827	102,827
Available-for-sale financial assets	407	0	112	519
Assets for which fair value is disclosed				
Loans and deposits	0	6,649	0	6,649
Liabilities for which fair value is disclosed				
Loans and finance leases	0	97,731	0	97,731
Other current financial liabilities	0	416	0	416

NOTE 27: Financial risks

Liquidity risk

Liquidity risk is managed through the active management of cash and includes:

- the monitoring and planning of cash flows;
- regular collection activities and daily contact with major customers;
- short-term borrowing within the Group; and
- the option of using short-term credit lines via banks.

The table illustrates estimated undiscounted cash flows, including future interest.

TABLE 50: LIQUIDITY RISK AS AT 31 DECEMBER 2016

in EUR thousand

31 December 2016	Carrying amount	Contractual cash flows	6 months or less	6 to 12 months	1 to 2 years	2 to 5 years	More than 5 years
Loans from banks and others	78,978	84,337	3,813	3,420	6,641	70,462	0
Loans received on the basis of finance leases	1,114	1,229	93	123	481	532	0
Trade payables	18,357	18,357	17,882	168	119	72	116
Liabilities based on advances	525	525	324	68	3	129	0
Other operating liabilities excluding advances	3,936	3,936	3,889	7	18	22	0
Total	**102,910**	**108,384**	**26,001**	**3,786**	**7,262**	**71,217**	**116**

The Group estimates a time span of between 6 months and 5 years for guarantees issued in the amount of EUR 18,967 thousand.

TABLE 51: LIQUIDITY RISK AS AT 31 DECEMBER 2015

in EUR thousand

31 December 2015	Carrying amount	Contractual cash flows	6 months or less	6 to 12 months	1 to 2 years	2 to 5 years	More than 5 years
Loans from banks and others	96,854	106,314	3,826	3,988	7,558	90,942	0
Loans received on the basis of finance leases	877	986	63	83	438	401	0
Trade payables	21,984	21,984	21,494	20	119	119	137
Liabilities based on advances	680	680	525	0	0	155	0
Other operating liabilities excluding advances	3,633	3,633	3,273	0	352	0	0
Total	**124,028**	**133,597**	**29,181**	**4,091**	**8,468**	**91,618**	**137**

TABLE 51: LIQUIDITY RISK AS AT 31 DECEMBER 2015

in EUR thousand

2016	Change in basis points	6 months or less	6 to 12 months	1 to 2 years	2 to 5 years	More than 5 years	Total
EURIBOR	+50	-195	-192	-363	-256	0	-1,007
EURIBOR	+25	-98	-96	-182	-128	0	-503
EURIBOR	-25	98	96	182	128	0	503
EURIBOR	-50	195	192	363	256	0	1,007

TABLE 53: INTEREST-RATE RISK

in EUR thousand

2015	Change in basis points	6 months or less	6 to 12 months	1 to 2 years	2 to 5 years	More than 5 years	Total
EURIBOR	+50	-242	-238	-453	-734	0	-1,667
EURIBOR	+25	-121	-119	-226	-367	0	-833
EURIBOR	-25	121	119	226	367	0	833
EURIBOR	-50	242	238	453	734	0	1,667

The table presents a sensitivity analysis and the impact on profit or loss from ordinary operations.

TABLE 54: APPLIED EXCHANGE RATES

in EUR thousand

Country	Functional currency	2016		2015	
		Year-end exchange rate in EUR*	Average exchange rate in EUR*	Year-end exchange rate in EUR*	Average exchange rate in EUR*
Montenegro and Kosovo	EUR	-	-	-	-
Croatia	HRK	7.560	7.533	7.638	7.614
Macedonia	MKD	61.800	61.616	61.555	61.510
Bosnia and Herzegovina	BAM	1.956	1.956	1.956	1.956
Serbia	RSD	123.600	122.900	121.230	120.560
Ukraine	UAH	27.170	28.176	25.390	23.811
Albania	ALL	136.190	137.400	138.110	139.750

* ECB reference exchange rates taken into account.

TABLE 55: CURRENCY RISK AS AT 31 DECEMBER 2016

in EUR thousand

31 December 2016	EUR	HRK	RSD	Others	Total
Operating receivables	22,556	3,261	523	2,405	**28,745**
Receivables for advances	39	0	20	0	**59**
Long-term loans granted and deposits	24	0	0	6	**30**
Short-term loans granted and deposits	1,506	165	0	453	**2,124**
Long-term loans received	-73,654	-929	0	-152	**-74,736**
Short-term loans received	-5,331	-141	-197	-105	**-5,774**
Current operating liabilities	-17,418	-2,561	-478	-1,429	**-21,886**
Gross exposure disclosed in statement of financial position	**-72,278**	**-205**	**-132**	**1,178**	**-71,438**

TABLE 56: CURRENCY RISK AS AT 31 DECEMBER 2015

in EUR thousand

31 December 2015	EUR	HRK	RSD	Others	Total
Operating receivables	24,430	3,775	580	2,651	**31,436**
Receivables for advances	116	0	7	41	**165**
Long-term loans granted and deposits	38	1	0	7	**46**
Short-term loans granted and deposits	6,469	91	0	44	**6,604**
Long-term loans received	-91,534	-732	0	-234	**-92,499**
Short-term loans received	-4,881	-91	-177	-81	**-5,231**
Current operating liabilities	-20,669	-3,000	-427	-1,556	**-25,652**
Gross exposure disclosed in statement of financial position	**-86,031**	**45**	**-17**	**873**	**-85,131**

Credit risk

TABLE 57: CREDIT RISK

in EUR thousand

	31 December 2016	31 December 2015
Loans granted and deposits	2,154	6,649
Operating and other receivables	29,241	31,450
of which trade receivables	26,618	28,169
Cash and cash equivalents	5,294	11,107
Total	**63,307**	**77,375**

TABLE 58: CAPITAL MANAGEMENT

in EUR thousand

	2016	2015
Non-current financial liabilities	74,736	92,499
Current financial liabilities	6,201	5,648
Total financial liabilities	80,937	98,147
Equity	138,562	147,137
Debt/equity	**0.58**	**0.67**
Current financial assets	2,124	6,604
Cash and cash equivalents	5,294	11,107
Net financial liabilities	73,519	80,436
Net debt/equity	**0.53**	**0.55**
Total assets	255,730	291,893
Equity to total assets	**0.54**	**0.50**

The main purpose of capital management is to ensure capital adequacy, the highest possible level of financial stability and long-term solvency for the needs of financing operations, and the maximisation of value for shareholders. The Group's debt-to-equity ratio was lower at the end of 2016. The Group pursued its strategic policy to reduce financial debt throughout 2016.

NOTE 28: Costs of auditing services

TABLE 59: COSTS OF AUDITING SERVICES

in EUR thousand

	2016	2015
Auditing of the annual report	77	57
Other auditing services	0	0
Total costs of auditing services	**77**	**57**

NOTE 29: Intereuropa Group companies

TABLE 60: COMPOSITION OF THE INTEREUROPA GROUP AS AT 31 DECEMBER 2016

in EUR thousand

Composition of the Group	Ownership stake 31 December 2016	Ownership stake 31 December 2015	Value of equity as at 31 December 2016	Value of equity as at 31 December 2015
Controlling company				
Intereuropa d.d., Koper			87,543	97,975
Subsidiaries				
Intereuropa Transport, d.o.o., Koper (in liquidation)	100.00%	100.00%	40	-1,280
Interagent, d.o.o., Koper	100.00%	100.00%	635	688
Interzav, d.o.o., Koper	71.28%	71.28%	68	60
Intereuropa, logističke usluge, d.o.o., Zagreb	99.96%	99.96%	50,531	49,968
Intereuropa sajam, d.o.o., Zagreb	51.00%	51.00%	664	664
Intereuropa Skopje DOO, Skopje	99.56%	99.56%	1,820	1,791
Intereuropa RTC d.d., Sarajevo	95.77%	95.77%	15,285	15,326
AD Intereuropa logističke usluge, Belgrade	73.62%	73.62%	7,111	6,842
TOV TEK ZTS d.o.o., Uzhhorod	89.93%	89.93%	-12	100
Intereuropa Kosova L.L.C., Prishtina	90.00%	90.00%	530	445
Zetatrans A.D., Podgorica	69.27%	69.27%	19,908	20,637
TOV Intereuropa – Kiev, Ukraine	100.00%	100.00%	-235	-158
Intereuropa Albania, Durrës	100.00%	100.00%	84	84

The proportion of voting rights is equal to the ownership stake.

NOTE 30: Transactions with related parties

TABLE 61: REMUNERATION OF KEY MANAGEMENT PERSONNEL

in EUR thousand

	2016	2015
Current remuneration (gross wages, annual leave and sick leave, shares in profit, non-monetary earnings (fringe benefits))	848	768
Severance pay	32	2
Other earnings	54	3
Total	**934**	**773**

The Group did not approve loans to key management personnel in 2016.

TABLE 62: DISCLOSURE OF TRANSACTIONS WITH RELATED PARTIES

in EUR thousand

Revenues from the sale of services	January–December 2016	January–December 2015
Associate and joint venture	958	1,354
Costs of services	**January–December 2016**	**January–December 2015**
Associate and joint venture	3,768	4,304
Balance of operating receivables	**January–December 2016**	**January–December 2015**
Associate and joint venture	130	91
Balance of operating liabilities	**January–December 2016**	**January–December 2015**
Associate and joint venture	504	555

NOTE 31: Events after the balance-sheet date

Intereuropa d.d. received notification from Nova KBM d.d., Maribor on 20 January 2017 regarding a change in the latter's significant participating interest. The shareholder Nova KBM d.d., Maribor is the owner of a total of 2,850,752 shares or 14.68% of the Company's voting rights.

The associate Intereuropa-FLG, d.o.o., Ljubljana was renamed Rail Cargo Logistics d.o.o. on 3 February 2017.

Independent auditor's report for the Intereuropa Group

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Independent Auditor's Report

To the owners of Intereuropa d.d.

Opinion

We have audited the consolidated financial statements of the Intereuropa d.d., Koper and its subsidiaries (»the Group«), which comprise the consolidated statement of financial position as of 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of cash flows, and the consolidated statement of changes in equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union ("IFRS as adopted by the EU").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibility for the Audit of consolidated Financial Statements* section of our report. We are independent of the Group in accordance with both the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the consolidated financial statements in Slovenia and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KPMG Slovenija, podjetje za revidiranje, d.o.o., slovenska družba z omejeno odgovornostjo in članica KPMG mreže neodvisnih družb članic, ki so povezane s švicarskim združenjem KPMG International Cooperative ("KPMG International")

TRR: SI 56 2900 0000 1851 102
vpis v sodni register: Okrožno sodišče v Ljubljani
št. reg. vl.: 061/12062100
osnovni kapital: 54.892,00 EUR
ID za DDV: SI20437145
matična št.: 5648556

KPMG

Recoverability of deferred tax assets	
Deferred tax assets as at 31 December 2016: EUR 11.392 thousand (2015: 16.666 thousand). *We refer to the financial statements: Note I. Significant judgments (basis for compilation), Note VII. 9: Corporate income tax (current and deferred tax) (notes to the financial statements).*	
Key audit matter	**Our response**
As at 31 December 2016, the Group has deferred tax assets in respect of the future benefit of unutilised tax losses in the amount of EUR 8.655 thousand as well as deductible temporary differences, arising from impairment losses in the amount of EUR 2.582 thousand. While the Group reported an operating profit before taxation of EUR 6.661 thousand for the year ended 31 December 2016, we identified assessing the recoverability of recognised deferred tax assets as a key audit matter because the assessment by management is complex and requires the exercise of significant judgement in estimating future taxable profits and the timing of utilisation of the tax losses and temporary differences. The risk is exacerbated by the fact that the Group's financial performance has historically been difficult to predict and was significantly affected by the effects of non-recurring events that inherently involve a higher level of prediction uncertainty.	Our audit procedures included, among others: • Challenging the Group's assessment of the recoverability of deferred tax assets by assessing its ability to generate sufficient future taxable income to utilise the available tax losses and temporary differences, which included: - challenging the period over which management expects the loss carry-forwards to be utilised; - comparing key assumptions in the forecasts of taxable income, including, among others, projected growth rates, to our own expectation of those assumptions and to those used in the Group's cash flow forecast approved by the supervisory board and investigating any inconsistencies; - critically assessing the effects of future contemplated transactions and of the future reversal of taxable temporary differences, such as future sales of land plots, on the Group's projections of taxable profits; - comparing the revenue and operating costs included in the prior year's forecast with the current year's actual results to assess the reliability of the Group's budgeting and forecasting processes, and investigating any significant differences; • Comparing the actual tax losses utilised during the current year with the prior year's forecast for tax loss utilisation and considering the nature of any significant variations identified; • Assessing the adequacy and appropriateness of the Group's disclosures related to assumptions used in the deferred tax assets calculation.

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Fair value of land lots	
Carrying amount of land as at 31 December 2016: EUR 87.988 thousand (2015: EUR 102.827 thousand); fair value reserve as at 31 December 2016: EUR 50.536 thousand (2015: EUR 64.086 thousand); total impairment loss through other comprehensive income in 2016: EUR 7.103 thousand. *We refer to the financial statements: Notes II (e) Property, plant and equipment and II (i) Impairment of assets (significant accounting policies), Notes VII. 10: Property, plant and equipment and 20: Equity (notes to the financial statements).*	
Key audit matter	**Our response**
The Group's property, plant and equipment includes land lots at various locations across countries where the Group operates, used to support its business operations, primarily in providing warehousing and storage services. The land's total carrying amount, stated at EUR 87.988 thousand as at 31 December 2016, is determined based on the revaluation model. Pursuant to the model, the carrying amount of the land is determined as its fair value at the date of most recent revaluation less any subsequent impairment losses. The Group estimates the fair values of its land lots with the assistance of contracted external appraisers, and by reference to the lots' market values, based on the prices observed in recent transactions with similar assets. Therefore, the determination of these fair values involves application of significant judgement and estimates by the management, including primarily those in respect of the selection of comparable lots and transactions and any adjustments to the those transaction prices to reflect the specific attributes of the Group's land lots, such as the size, location and restriction on use. In light of the above circumstances, we consider determination of the fair value of land to be a key audit matter.	Our audit procedures included, among others: • Assessing the competence and objectivity of the external experts engaged by the Group and considering whether there were any matters that might have limited the scope of their work. • Attending the year-end audit committee meeting where the valuation methodologies, key assumptions and results of the valuation were presented by the Group's external valuation specialists and corroborating our understanding of their work performed. • With the support of external valuation experts engaged by us, critically evaluating the judgements and assumptions used in the Group land valuations. This included, but was not limited to: – assessing the selection of comparable transactions and reasonableness of any related adjustments for size, location, type of transaction; – by reference to the respective land acquisition and ownership documents, evaluating, for each individual lot, the accuracy and relevance of the input data in the appraisers report; – inspecting the Group's recent land lot sales transactions to assess whether they resulted in significant profits or losses in order to assess the historical accuracy of fair value estimates. • Evaluating the appropriateness and sufficiency of the financial statements disclosures in respect of fair value measurements.

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Revenue recognition	
Revenue from sales recognised in 2016: EUR 135.596 thousand (2015: EUR 134.613 thousand). *We refer to the financial statements: Note II (n) Revenues (significant accounting policies), Note VII. 1: Sales revenue (notes to the financial statements).*	
Key audit matter	**Our response**
The Group's revenues come from a wide range of services: land transportation, seafreight, airfreight, customs services, automotive logistics and full undertaking of logistics functions. Revenue from these services is generally recognized by reference to their stage of completion at the reporting date. Assessment of the accuracy and timing of revenue recognition is one of the key judgemental areas for our audit, due to the multitude of revenue streams, as listed above, as well as the fact that services rendered are charged to customers in accordance with various types of service agreements. Also, the Group routinely sub-contracts its transportation services to external carriers. Significant judgment is required of management in assessing whether the Group acts as a principal or agent in performing those services, and consequently, whether or not the gross amounts received from customers in exchange for services rendered can be recognized as revenue. Assessing the reporting date stage of completion in respect of the sub-contracted services is also inherently complex.	Our procedures included, amongst others, • Testing of the design, implementation and operating effectiveness of controls over the revenue cycle. This included using our own IT specialists in evaluating the controls in the IT systems that support the recording of revenue; • Assessing the Group's policy for recognizing revenue, including considering whether the policy is in accordance with relevant financial reporting standards; • For a sample of contracts entered into during the year, from all key revenue streams, assessing whether they were appropriately captured within revenue and any accrued or deferred income at the year end. This included, among others: - challenging management's conclusions with regards to accounting for selected aspects of accounting for revenues, such as potential agency or lease relationships, and the timing of revenue recognition. We focused on evaluation of the risks and responsibilities taken by the Group; - critically evaluating the Group's estimates of the stage of completion of the services at the reporting date by inspecting of contracts and supporting documents, such as invoices received from the sub-contractors, customs documents, freight lists, and by reference to the Group's list of open orders as at 31 December 2016. • Inspecting a sample of credit notes issued after year-end in order to assess whether the revenue for the year is overstated; • Assessing the accuracy of accrued and deferred income balances by tracing a sample of such balances to invoices raised pre or post year end and recalculating the amount accrued or deferred based on contract terms and costs incurred in the period up to year end; • Inspecting manual journal entries posted to revenue accounts as well as the underlying documentation, with particular focus on the journal entries after the balance sheet date.

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Other Information

Management is responsible for other information. The other information comprises the Introduction, Business Report and Sustainability Report included in the Annual report, but does not include the consolidated financial statements and our auditor's report thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Business Report, we have considered whether the Business Report includes the disclosures required by the Company's Act (hereafter referred to as "the applicable legal requirements").

Based solely on the work required to be undertaken in the course of the audit of the consolidated financial statements and the procedures above, in our opinion:

- the information given in the Business Report for the financial year for which the consolidated financial statements are prepared, is consistent with the consolidated financial statements; and
- the Business Report has been prepared in accordance with the applicable legal requirements.

In addition, in light of the knowledge and understanding of the Group and its environment in which it operates, obtained in the course of our audit, we are required to report if we have identified material misstatements in the other information. We have nothing to report in this respect.

Responsibility of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibility for the Audit of Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

KPMG

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

On behalf of the auditing company

KPMG SLOVENIJA,
podjetje za revidiranje, d.o.o.

Andrej Scozzai
Certified auditor

Katarina Sitar Šuštar, MBA
Certified auditor
Partner

Ljubljana, 7 April 2017

KPMG Slovenija, d.o.o.
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4.2 FINANCIAL REPORT OF THE CONTROLLING COMPANY INTEREUROPA D.D.

Financial statements of the controlling company Intereuropa d.d., Koper with explanatory notes

Intereuropa d.d., Koper (hereinafter: the Company) is the controlling company of the Intereuropa Group and is established in Slovenia. The Company's registered office is located at Vojkovo nabrežje 32, 6000 Koper. The Company provides logistics services through a network of business units. Pursuant to the resolution adopted by the General Meeting on 15 July 2005, the controlling company Intereuropa d.d., Koper transitioned to the International Financial Reporting Standards (IFRS) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), as adopted by the European Union, for a period of five years beginning 1 January 2006, and applied the IFRS in the compilation and presentation of its separate financial statements. Pursuant to the General Meeting resolution adopted on 8 July 2011, the Company resolved to apply the IFRS for an indefinite period of time, but for no less than five years, effective 1 January 2011.

TABLE 1: INCOME STATEMENT OF INTEREUROPA D.D., KOPER FOR 2016 — in EUR thousand

	Notes	January–December 2016	January–December 2015 (adjusted)*
Sales revenue	**1**	**91,052**	**91,492**
Other operating revenues	2	743	583
Costs of goods, materials and services	3	-64,793	-66,469
Labour costs	4	-16,648	-16,103
Amortisation/depreciation	5	-3,933	-3,940
Other operating expenses	6	-1,713	-1,939
Operating profit or loss		**4,708**	**3,624**
Finance income		2,548	1,181
Finance costs		-5,298	-3,331
Profit or loss from financing activities	**7**	**-2,750**	**-2,150**
Profit or loss from ordinary operations		**1,958**	**1,474**
Corporate income tax (including deferred taxes)	8	-5,413	-245
Net profit or loss for the accounting period		**-3,455**	**1,229**
Basic and diluted earnings per ordinary share (in EUR)	18	-0.13	0.04

* Adjustments are disclosed in point V: Reclassification of items in the financial statements.

The notes are a constituent part of the financial statements and must be read in connection with them.

TABLE 2: STATEMENT OF OTHER COMPREHENSIVE INCOME OF INTEREUROPA D.D., KOPER FOR 2016

in EUR thousand

	Notes	January–December 2016	January–December 2015
Net profit or loss for the accounting period		**-3,455**	**1,229**
Other comprehensive Income		**-6,977**	**-7**
Items that will be reclassified to profit or loss		**37**	**-7**
Change in the fair value of available-for-sale financial assets	14	47	-9
Change in deferred taxes in the revaluation surplus for available-for-sale financial assets	8	-10	2
Items that will not be reclassified to profit or loss		**-7,014**	**0**
Change in fair value of land		-8,283	0
Transfer of revaluation surplus for land to net profit or loss brought forward		-7,267	0
Change in deferred taxes	8	1,798	0
Change in net profit or loss brought forward from the transfer of the revaluation surplus for land		7,267	0
Actuarial net gains and losses for severance pay at retirement	19	-166	0
Corporate income tax on net profit or loss brought forward		-363	0
Total comprehensive income		**-10,432**	**1,222**

The notes are a constituent part of the financial statements and must be read in connection with them.

TABLE 3: STATEMENT OF FINANCIAL POSITION OF INTEREUROPA D.D., KOPER AS AT 31 DECEMBER 2016 in EUR thousand

	Notes	31 December 2016	31 December 2015 (adjusted)*
ASSETS			
Property, plant and equipment	9	96,812	112,747
Investment property	10	8,903	10,308
Intangible assets	11	3,962	4,320
Other non-current assets	12	49	62
Deferred tax assets	8	11,160	16,413
Long-term loans granted and deposits	13	10	253
Other non-current financial assets	14	45,739	47,036
TOTAL NON-CURRENT ASSETS		**166,635**	**191,139**
Available-for-sale assets		323	0
Inventories		8	9
Short-term loans granted and deposits	13	1,343	5,279
Other current financial assets		250	250
Current operating receivables	15	20,290	21,406
Current receivables from corporate income tax		0	0
Other current assets	16	60	40
Cash and cash equivalents	17	1,822	8,169
TOTAL CURRENT ASSETS		**24,096**	**35,153**
TOTAL ASSETS		**190,731**	**226,292**
EQUITY			
Share capital		27,489	27,489
Share premium account		18,455	18,455
Profit reserves		2,749	2,749
Fair value reserves		34,929	48,659
Net profit or loss brought forward		3,496	89
Net profit or loss		0	535
TOTAL EQUITY	**18**	**87,118**	**97,976**
LIABILITIES			
Provisions	19	1,078	5,421
Non-current deferred income		103	118
Non-current financial liabilities	20	73,175	90,109
Non-current operating liabilities		306	656
Deferred tax liabilities	8	8,193	9,966
TOTAL NON-CURRENT LIABILITIES		**82,855**	**106,270**
Current financial liabilities	20	4,412	3,752
Current operating liabilities	21	15,849	18,294
Current corporate income tax liabilities		497	0
TOTAL CURRENT LIABILITIES		**20,758**	**22,046**
TOTAL LIABILITIES		**103,613**	**128,316**
TOTAL EQUITY AND LIABILITIES		**190,731**	**226,292**

* Adjustments are disclosed in point V: Reclassification of items in the financial statements.

The notes are a constituent part of the financial statements and must be read in connection with them.

TABLE 4: STATEMENT OF CASH FLOWS FOR INTEREUROPA D.D., KOPER FOR 2016

in EUR thousand

	Notes	January–December 2016	January–December 2015 (adjusted)*
Cash flows from operating activities			
Net profit or loss for the accounting period		**-3,455**	**1,229**
Adjustments for:			
- amortisation and depreciation	5	3,933	3,940
- impairments and write-offs of property, plant and equipment and intangible assets	6	80	9
- gains on the sale of property, plant and equipment	2	-463	-34
- losses from the sale of property, plant and equipment		0	5
- impairments and write-offs of receivables	6	228	291
- finance income	7	-2,548	-1,181
- finance costs	7	5,298	3,331
- corporate income tax (including deferred taxes)	8	5,413	245
Operating profit before changes in net working capital and taxes		**8,487**	**7,836**
Changes in net working capital and provisions			
Changes in receivables		897	274
Changes in inventories		1	19
Changes in other current assets		-22	-1
Changes in operating liabilities		-2,737	449
Changes in provisions		-4,509	417
Changes in non-current deferred income		-15	-13
Net cash flow from operating activities		**2,102**	**8,981**
Cash flows from investing activities			
Interest received		183	291
Dividends received and shares in profit		792	886
Inflows from the sale of property, plant and equipment		7,867	68
Inflows from long-term loans granted		20	240
Inflows from long-term deposits placed		0	50
Inflows from the sale of other non-current financial assets		256	1,000
Net cash flow from short-term loans granted		51	60
Net cash flow from short-term deposits placed	13	4,128	1,983
Outflows for the acquisition of property, plant and equipment		-2,250	-1,972
Outflows for the acquisition of intangible assets		-91	-241
Outflows for long-term deposits placed		-10	-30
Outflows for increase in capital of subsidiaries		-14	-31
Net cash flow from investing activities		**10,932**	**2,304**
Cash flows from financing activities			
Interest paid		-2,681	-3,099
Outflows for the repayment of long-term loans		-16,700	-4,611
Net cash flow from financing activities		**-19,381**	**-7,710**
Opening balance of cash and cash equivalents		**8,169**	**4,594**
Net cash flow for the period		**-6,347**	**3,575**
Closing balance of cash and cash equivalents	**17**	**1,822**	**8,169**

* Adjustments are disclosed in point V: Reclassification of items in the financial statements.

The notes are a constituent part of the financial statements and must be read in connection with them.

TABLE 5: STATEMENT OF CHANGES IN EQUITY FOR INTEREUROPA D.D., KOPER FOR 2016

in EUR thousand

				PROFIT RESERVES				RETAINED EARNINGS		
	Note	Share capital	Share premium account	Legal reserves	Reserves for treasury shares	Treasury shares (as deduction item)	Fair value reserves	Net profit or loss brought forward	Net profit or loss	Total equity
Opening balance as at 1 January 2016		**27,489**	**18,455**	**2,749**	**180**	**-180**	**48,659**	**89**	**535**	**97,976**
Total comprehensive income for the period		**0**	**0**	**0**	**0**	**0**	**-13,730**	**6,753**	**-3,455**	**-10,432**
Net profit or loss		0	0	0	0	0	0	0	-3,455	-3,455
Other comprehensive income		0	0	0	0	0	-13,730	6,753	0	-6,977
Transactions with owners										
Transfer of net profit or loss from the previous year to net profit or loss brought forward		0	0	0	0	0	0	535	-535	0
Dividends		0	0	0	0	0	0	-426	0	-426
Settlement of net losses		0	0	0	0	0	0	-3,455	3,455	0
Closing balance as at 31 December 2016	**18**	**27,489**	**18,455**	**2,749**	**180**	**-180**	**34,929**	**3,496**	**0**	**87,118**

The notes are a constituent part of the financial statements and must be read in connection with them.

TABLE 6: STATEMENT OF CHANGES IN EQUITY FOR INTEREUROPA D.D., KOPER FOR 2015

in EUR thousand

				PROFIT RESERVES				RETAINED EARNINGS		
	Note	Share capital	Share premium account	Legal reserves	Reserves for treasury shares	Treasury shares (as deduction item)	Fair value reserves	Net profit or loss brought forward	Net profit or loss	Total equity
Opening balance as at 1 January 2015		**27,489**	**18,455**	**2,054**	**180**	**-180**	**48,755**	**0**	**0**	**96,753**
Total comprehensive income for the period		**0**	**0**	**0**	**0**	**0**	**-7**	**0**	**1,229**	**1,222**
Net profit or loss		0	0	0	0	0	0	0	1,229	1,229
Other comprehensive income		0	0	0	0	0	-7	0	0	-7
Transactions with owners										
Other changes		0	0	1	0	0	-89	89	0	1
Transfer of net profit or loss to reserves		0	0	694	0	0	0	0	-694	0
Closing balance as at 31 December 2015	**18**	**27,489**	**18,455**	**2,749**	**180**	**-180**	**48,659**	**89**	**535**	**97,976**

The notes are a constituent part of the financial statements and must be read in connection with them.

Notes to the financial statements of Intereuropa d.d.

I. BASIS FOR COMPILATION OF THE FINANCIAL STATEMENTS

Statement of compliance

The financial statements of Intereuropa d.d. have been compiled in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union, and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), as adopted by the European Union. They also include additional clarifications in accordance with the Companies Act.

In terms of consolidating EU standards, there were no differences in the Company's accounting policies on the balance-sheet date between the IFRS as applied and the IFRS as adopted by the European Union.

The Management Board approved the Company's financial statements on 1 March 2017.

Basis of measurement

The financial statements have been compiled on an historical cost basis, except for land and available-for-sale financial assets which are disclosed at fair value, as the latter can be reliably measured. The methods used for measurement are described in point III.

The financial statements of the Intereuropa d.d. have been compiled on a going concern basis.

Functional and reporting currency

The financial statements were compiled in euros, the functional and presentation currency of Intereuropa d.d., Koper. All financial information is rounded to thousand units. Deviations of +1 or -1 in tables with disclosures are due to rounding.

Use of estimates and judgements

In compiling financial statements, the senior management must make estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Information regarding significant assessments of uncertainty and critical judgements drawn up by the senior management in the application of accounting policies that have the greatest impact on the amounts in the financial statements are presented below.

Significant assessments

- The recoverable amount of assets for the sake of comparison with the carrying amount to test for asset impairment.
  In performing the asset impairment test, the senior management compared the recoverable amount of assets with their carrying amount, and recognised impairments if the former exceeded the latter.

- The useful life of depreciable assets (Notes 9, 10 and 11).
  By no later than the end of the financial year, the senior management verifies the useful life of depreciable assets, taking into account the technical and economic obsolescence thereof.

- The residual value of depreciable assets (Notes 9, 10 and 11).

Significant judgements

- The valuation of financial instruments and land at fair value (Notes 14, 9 and 24).
  The fair value of available-for-sale financial assets is determined taking into account the bid price at the end of the reporting period. When measuring the fair value of land, the Company takes into the ability of a market participant to generate economic benefits through the best use of an assets or its sale to another market participant.

- The creation of deferred tax assets and liabilities, and the possible use thereof (Note 21).
  The senior management assesses deferred taxes on the basis of past experiences and data from the strategic plan until 2019, and assuming and stable tax environment in which the Company operates.

- The creation of provisions (Note 19).
  The Company has created impairments for lawsuits. Provisions are recognised if, as a result of a past event, present legal or constructive obligations arise that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle those obligation. The Company's senior management regularly verifies whether it is likely that there will be an outflow of resources yielding economic benefits in the settlement of a liability. The present value of severance pay and jubilee benefits is recorded in defined-benefit post-employment commitments. The basis for recognition comprises an actuarial calculation that takes into account assumptions and estimates at the time of the calculation (e.g. discount rate, estimated employee turnover rate, mortality rate and wage growth). Defined-benefit commitments are sensitive to changes in the aforementioned estimates.

- The assessment of assumptions of control over subsidiaries and a joint venture (Note 14).
  The Company regularly verifies whether a change in influence has occurred. The following are deemed evidence of investors' significant influence:
  - representation on the management board or other decision-making body of a company in which the Group invests; and
  - participation in significant decisions, including decisions regarding dividends.

Changes in accounting estimates

The senior management has verified estimates, judgements and assumptions, and concluded that they were the same as those that applied at the time the financial statements as at 31 December 2015 were compiled, except the amended depreciation rates for certain items of equipment where the rate was reduced from 20% to 15% (the effect of that change is lower depreciation by EUR 63 thousand).

Changes in accounting policies

All newly adopted or revised standards and interpretations that entered into force on 1 January 2016 were taken into account in the compilation of the consolidated financial statements for the financial year ending 31 December 2016. Amendments to standards did not affect the recognition and measurement of items in the financial statements for 2016, nor are they expected to have an impact in the future.

Cash flow statement

The Company's statement of cash flows presents changes in inflows and outflows of cash and cash equivalents during the accounting period, using the indirect method, and explains changes in the balance thereof. The statement of cash flows was compiled using data from the Group's consolidated income statement for 2016, items from the consolidated statements of financial position as at 31 December 2016 and 31 December 2015, and additional data required for the compilation of the aforementioned statement.

II. SIGNIFICANT ACCOUNTING POLICIES

The Company consistently applies the same accounting principles and policies from period to period. Those principles and policies are presented in the enclosed financial statements. Comparative information is harmonised with the presentation of information for the current financial year. Amendments to accounting policies are disclosed.

(a) Foreign currency

Transactions in foreign currencies

Business transactions denominated in a foreign currency are translated into the Company's functional currency at the applicable exchange rate on the transaction date. Monetary assets and liabilities denominated in a foreign currency are translated into the functional currency at the applicable exchange rate on the transaction date. Non-monetary assets and liabilities denominated in a foreign currency and measured at fair value are translated into the functional currency at the exchange rate applicable on the day which the fair value was determined. The reference exchange rate of the ECB is applied.

Exchange rate differences arising in the settlement of monetary items or in the translation of monetary items at exchange rates other than those at which they were translated upon initial recognition during the period in question or at which at which they were presented in previous financial statements are recognised in profit or loss (as revenues or expenses) in the period in which they arise.

(b) Financial instruments

Financial instruments comprise investments in equity and debt securities, operating and other receivables, cash and cash equivalents, loans received and granted, and operating and other liabilities.

These instruments are initially recognised at fair value. Ordinary purchases and sales of financial assets are recognised on the trading date, i.e. the date on which the Company undertakes to purchase or sell an asset. Any gain or loss resulting from disposal of financial assets is also recognised as at that date.

The accounting of finance income and finance costs is described in the point regarding finance income and finance costs.

Cash and cash equivalents comprises cash balances at banks and other financial institutions, cash in hand and readily convertible securities. The Company's statement of cash flows presents changes in inflows and outflows of cash and cash equivalents during the accounting period, using the indirect method, and explains changes in the balance thereof. The statement of cash flows was compiled using data from the income statement for 2016, items from the statements of financial position as at 31 December 2016 and 31 December 2015, and other required data.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in the other categories of financial asset referred to above. Following initial recognition they are measured at fair value, taking account of any changes thereto. Impairment losses are recognised in profit or loss, and disclosed in equity or the revaluation surplus. When a financial asset is derecognised, accumulated gains and losses disclosed in other comprehensive income are transferred to profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments not traded on an active market. Loans comprise investments in the financial debts of other companies, the government or other issuers. They also include financial investments in purchased bonds. Receivables comprises rights arising from property and other relationships that entitle their holder to demand the payment of a debt, the delivery of goods or the rendering of services from a specific person. They are measured at amortised cost using the effective interest method. Gains or losses are recognised in profit or loss if they are derecognised or impaired.

Investments in subsidiaries

Non-current financial investments in the equity of subsidiaries included in the consolidated financial statements are valued at historical cost. Dividend income and income from other shares in profit are recognised in the income statement on the day a shareholder's or owner's right to payment was exercised. If an investment is deemed impaired, an impairment loss is recognised.

Financial liabilities

The Company recognises financial liabilities on the day they arise. Financial liabilities are initially recognised on the trading date, i.e. when the Company becomes a contractual party in connection with the instrument in question. The company derecognises a financial liability when the commitments stipulated in the contract have been discharged, have been cancelled or have expired. After initial recognition, financial liabilities are measured at amortised cost using the effective interest rate method.

(c) Equity

Share capital

The controlling company's share capital is divided into 16,830,838 ordinary registered freely transferable no-par-value shares and 10,657,965 freely transferable no-par-value preference shares.

Share premium account

Intereuropa d.d.'s share premium account comprises amounts from the simple reduction of its share capital. The share premium account may be used under the conditions and for the purposes set out by law.

Legal reserves

Legal reserves comprise amounts retained from profits generated in previous years, and are primarily earmarked for the settlement of potential future losses.

Treasury shares
Treasury shares are disclosed in profit reserves (as a deduction item). Reserves for treasury shares are created in the amount paid for the acquisition thereof.

Fair value reserves
Fair value reserves relate to an increase in the carrying amount of assets according to the applicable revaluation model. They comprise the surplus from the revaluation of land and the surplus from the revaluation of financial assets.

Liabilities for dividends
Dividends are recognised as liabilities and are disclosed when the associated business event arises.

(d) Property, plant and equipment

Property, plant and equipment are initially recognised at historical cost, which includes costs directly related to the purchase of the asset, as well as capitalised borrowing costs. After the initial recognition of property, plant and equipment, building and equipment are measured using the historical cost model, while a revaluation model is used for land. According to the historical cost model, property, plant and equipment are disclosed at historical cost, less accumulated depreciation and any accumulated impairment loss. According to the applied revaluation model, land is disclosed at fair value on the revaluation date, less accumulated amortisation and any accumulated impairment loss. Land is revalued every five years or more frequently if indications of impairment exist.

An increase in the carrying amount of land as a result of revaluation is recognised directly in equity as a revaluation surplus in the statement of comprehensive income. A decrease in the carrying amount of land as a result of revaluation reduces the revaluation surplus for that land. However, if the decrease in the carrying amount exceeds the accumulated revaluation surplus for the same asset, the difference in the decrease is transferred to profit or loss as an expense. The revaluation surplus for land, which constitutes an integral part of equity, is transferred directly to profit or loss brought forward when the asset in questioned is derecognised.

Accounting for borrowing costs
Borrowing costs that may be directly attributed to the acquisition, construction or manufacture of an asset under construction represent a part of the historical cost of that asset. Borrowing costs comprise interest expense and exchange rate differences arising from loans in a foreign currency, if they are treated as a recalculation of interest expense. Other borrowing costs are recognised in the income statement as an expense in the period in which they arose.

Subsequent costs
The cost of replacing some part of an item of property, plant and equipment is recognised in the carrying amount of the asset in question if it is probable that the future economic benefits embodied within the part will flow to the Company, and its historical cost can be measured reliably. All other costs are recognised in profit or loss as expenses as they arise.

Amortisation
Deprecation is charged on a straight-line basis over the useful life of each individual (component) item of property, plant and equipment. That method most precisely reflects the expected pattern of use of an asset. Leased assets are depreciated taking into account the lease term and useful life of the asset in question. The estimated useful lives for the current and comparative periods are as follows:

- buildings 20–40 let;
- computer equipment 2–4 years; and
- other plant and equipment 3–10 years.

Depreciation and useful lives are reviewed once a year date and adjusted as required.

(e) Intangible assets

Intangible assets comprise investments in industrial property rights (concessions, patents, licences, brands and similar rights) and other rights, and other intangible assets. The period and method of amortisation of intangible assets with a finite useful life are reviewed, at a minimum, at the end of each financial year. Intangible assets are initially measured at historical cost. Following initial recognition, intangible assets are disclosed using the historical cost model, i.e. at historical cost less accumulated amortisation and any accumulated impairment loss. The amortisation of intangible assets with a finite useful life is charged on a straight-line basis over the estimated useful life of each individual asset.

Other intangible assets

Other intangible assets with a finite useful life are disclosed using the historical cost model, less accumulated amortisation and any accumulated impairment loss.

Subsequent costs

Subsequent costs in connection with intangible assets are only capitalised when they increase the future economic benefits of the asset to which the costs relate. All other costs are recognised in profit or loss as expenses as they arise.

Amortisation

Amortisation is charged on the historical cost of the asset, or on another amount substituted for historical cost, less the residual value. Amortisation is recognised in profit or loss on a straight-line basis over the useful lives of intangible assets, other than goodwill, from the date that they are available for use. That method is the most precise reflection of the expected pattern of use of the future economic benefits embodied in an asset. The estimated useful lives for the current and comparative years are 3, 5, 10, 15 and 15 years. Amortisation methods, useful lives and residual values are verified at the end of each financial year and adjusted as required.

(f) Investment property

Investment property comprises real estate purchased to generate rental income, to increase the value of non-current assets, or both. An assessment is required to determine whether real estate is deemed investment property. Intereuropa d.d. assesses that elements of real estate made available in part for operating leasing and used in part cannot be sold separately (or made available separately for finance leasing). Such real estate is therefore classified as property, plant and equipment in use in the provision of services. Only real estate that is made available for leasing in its entirety is recognised as investment property.

Following initial recognition, investment property is disclosed using the historical cost model, i.e. at historical cost less accumulated depreciation and any accumulated impairment loss. Revalued investment property (land) is transferred from property, plant and equipment at the carrying amount on the transfer date, while the associated revaluation surplus remains in the equity and transferred to the profit or loss brought forward upon disposal. The same depreciation rates used for real estate classified as property, plant and equipment are applied to investment property.

(g) Inventories

Inventories of material are valued at historical cost, which comprises the purchase price, import duties and the direct costs of procurement. The purchase price is reduced by any discounts received. The weighted average price method is applied in the use of materials.

(h) Impairment of assets

FINANCIAL ASSETS

The amount of impairment loss is recognised as an expense in profit or loss.

Investments in subsidiaries

We assess at the end of every financial year whether there is any indications of the impairment of investments. If such indications exist, we estimate the recoverable amount of investments in subsidiaries. The recoverable amount of an asset is the greater of its fair value less selling costs, or its value in use. The estimated value of an asset in use is equal to the present value of estimated future cash flows based on projections of operations for five or 10 years (typically estimated for subsequent years by extrapolating forecasts), and the estimated present value of the asset at disposal. If the carrying amount of a financial asset exceeds the recoverable amount, an investment in a subsidiary must be impaired.

Operating receivables

Operating receivables are impaired by creating a value adjustment in the amount of 100% of all receivables more than 180 days in arrears, and exceptionally (if supported by impartial evidence that the receivable in question will be repaid) by assessing the recoverability of individual receivables. When impairing receivables subject to legal actions, enforcement proceedings, bankruptcy, compulsory composition and similar proceedings, we take into account the estimated recoverability of those receivables (estimated future cash flows) by individual category.

Receivables are written off based on completed bankruptcy proceedings, confirmed compulsory composition proceedings and unsuccessful enforcement proceedings, and when receivables are deemed irrecoverable.

Loans granted

If there is objective evidence that an impairment loss on loans disclosed at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the original effective interest rate. Impairments are also made based on an assessment by senior management regarding the recoverability of individual loans.

Available-for-sale financial assets measured at fair value

Available-for-sale financial assets are impaired if the market price of an asset has fallen for more than one year or if a decrease exceeds 20% of an investment's historical cost. If the accumulated loss for such assets has been recognised in equity, that loss must be derecognised from equity and disclosed in profit or loss as an expense. The amount of such a loss is the difference between the historical cost and the current fair value of the financial asset in question, less impairment loss previously recognised in profit or loss.

Available-for-sale financial assets measured at historical cost

If there is objective evidence that an impairment loss on financial assets disclosed at historical cost has been incurred because fair value cannot be measured reliably, we recognise an impairment loss when the carrying amount of such financial assets as at the balance-sheet date exceeds the proportionate part of the carrying amount of the total equity of the company in which the investment is held by more than 20%, as at the nearest possible date for which such data can be obtained.

NON-FINANCIAL ASSETS

The Company reviews the residual carrying amount of property, plant and equipment and intangible assets at each reporting date to determine whether there is any indications of impairment. If such indications exist, the recoverable amount of the asset is estimated. Goodwill and intangible assets with an infinite useful life that are not available for use are tested for impairment on each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less selling costs. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For impairment testing purposes, assets that cannot be tested individually are grouped into the smallest possible groups of assets that generate cash flows from continued use and that are largely independent of cash generated by other assets or groups of assets (cash-generating unit).

The impairment of an asset or a cash-generating unit is recognised when its carrying amount exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates financial flows that are largely independent of the financial flows generated by other assets or groups of assets. That impairment is disclosed in the income statement.

An impairment loss is reversed to the extent that the asset's increased carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised in previous years.

(i) Non-current assets held for sale

Non-current assets or a disposal group comprising assets and liabilities (applicable to investment property, intangible assets and non-current financial assets within non-current assets, and only applicable to land and buildings within property, plant and equipment on grounds of materiality) whose carrying amount is reasonably expected to be settled primarily through sale and not through further use are classified as assets held for sale, with that sale envisaged within the next twelve months, at the latest. A sale is highly likely when the entire plan and active programme to find a buyer are in activated. An asset must also be actively marketed and efforts made to achieve a price that corresponds to its current fair value. An assets (or the constituent parts thereof or a disposal group) is remeasured immediately before its classification to assets held for sale. Accordingly, a non-current asset (or disposal group) is recognised at the lower of its carrying amount or fair value, less costs to sell.

The period for completion of a sale may be extended to more than one year due to special events and circumstances that are beyond the control of the Company and there is sufficient evidence that the Company is consistently pursuing its plans to dispose of the asset. If an asset held for sale no longer meets the criteria for classification to the aforementioned category, it must be reclassified to another appropriate asset category, i.e. the category to which it was classified before being classified as an asset held for sale.

(j) Employee benefits

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis, and are disclosed as expenses as the service of the employee is provided in respect of the specific short-term benefit.

(k) Provisions

Provisions are recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Amounts recognised as provisions represent the best estimate of expenditure required for settlement as at the balance-sheet date. The risks and uncertainties inextricably associated with events and circumstances are taken into account to reach the best estimate of provisions. Where the effect of the time value of money is material, the amount of provisions represents the present value of expenditure expected to be required to settle an obligation.

Provisions are recognised by accruing the corresponding costs or expenses, and are reduced directly over time by the costs and/or expenses that they were created to cover, except actuarial gains and losses from severance pay at retirement due to changes in actuarial assumptions and experiential adjustments that are recognised in the revaluation surplus and transferred in full to profit or loss brought forward immediately following recognition. Provisions are derecognised when the contingencies for which they were created no longer apply, or when they are no longer required. Revenues are recognised when provisions that were created by accruing the corresponding costs or expenses are derecognised. Provisions are adjusted at the end of the accounting period so that their value is equal to the present value of the expenditure expected to be required to settle the obligation in question.

Provisions for severance pay and jubilee benefits

In accordance with the applicable legislation, the collective agreement and internal rules, the Company is obliged to pay jubilee benefits to employees and severance pay at retirement. Non-current provisions are created for these purposes. There are no other pension obligations.

The aforementioned provisions are created in the amount of the estimated future payments for severance pay and jubilee benefits, discounted as at the date of the actuarial calculation. The calculation of provisions for severance pay at retirement was based on the assumptions specified in Note 19.

Interest expense and any increase during the current year are recognised in the income statement as labour costs, while interest is disclosed as a finance cost. Actuarial gains and losses from jubilee benefits are recognised in the income statement as labour costs, while actuarial gains and losses from severance pay at retirement are recognised in other comprehensive income in the revaluation surplus and transferred immediately following recognition to profit or loss brought forward. Provisions are used in an amount equal to the actual costs incurred costs for accrued severance pay at retirement and jubilee rewards.

(l) Non-current deferred income

The Company classifies donations received for the acquisition of property, plant and equipment or for covering specific costs to non-current deferred income. They are earmarked to cover the costs of the depreciation of the aforementioned assets or to cover certain costs, and are used by way of a transfer to operating revenues.

Deferred income that will cover projected expenses over a period of more than one year is disclosed under non-current deferred income. Donations and government grants received for the acquisition of property, plant and equipment are also classified to non-current deferred income. They are used by way of a transfer to operating revenues in the amount of depreciation costs for such assets.

(m) Revenues

Revenues are recognised when it is probable that future economic benefits will flow to the Company and those benefits can be measured reliably. To that end, all of the following criteria must be met:
1. the amount of revenues can be measured reliably;
2. it is probable that economic benefits associated with a transaction will flow to the Company;
3 the stage of completion of the transaction as at the balance-sheet date can be measured reliably; and
4. the costs incurred in connection with the transaction and the costs of the completion of the transaction can be measured reliably.

Revenues from services rendered
Revenues from services rendered are recognised in the income statement with regard to the stage of completion of the transaction at the end of reporting period. The stage of completion is assessed on the basis of a review of costs incurred (review of work performed). Revenues from services rendered are measured at the selling prices of completed services stated in invoices or other documents, or at the prices of incomplete services with regard to the stage of completion thereof. In cases when a particular transaction is not completed as at the balance-sheet date, we believe that no reliable assessment can be made as to the outcome of such a transaction. Revenues are therefore only recognised up to the amount of direct costs incurred, and for which it can be expected that they will be covered. Amounts collected on behalf of third parties, such as charged value-added tax and other levies are excluded from sales revenue. Sales revenue is reduced at the time of a sale for granted discounts, which are evident from invoices or other relevant documents. Sales revenue is also reduced by the sales value of returned goods and subsequently approved discounts.

(n) Leases

Leases granted
Revenues from operating leases are recognised over the lease term.

Leases received
Leases in which the Company assumes all the material risks and rewards incidental to the ownership of an asset are treated as finance leases. Following initial recognition, a leased asset is disclosed at the lower of its fair value or the present value of minimum lease payments. Following initial recognition, assets under finance leases are depreciated in the same manner as other items of property, plant and equipment. Other leases are treated as operating leases. Leasing costs are recognised on a straight-lime basis in the income statement.

(o) Finance income and finance costs

Finance income primarily comprises interest income from investments, income from dividends and other shares in profit, revenues from the disposal of available-for-sale financial assets, positive exchange rate differences and revenues from the reversal of the impairment of financial assets. Interest income is recognised as it accrues, using the effective interest method. Dividend income and income from other shares in profit are recognised in the income statement on the day a shareholder's or owner's right to payment was exercised.

Finance costs primarily comprise interest expense and other borrowing costs (unless capitalised), negative exchange rate differences and losses due to the impairment of financial assets. Borrowing costs are recognised in the income statement in the period in which they arise using the effective interest rate method.

(p) Corporate income tax

Corporate income tax comprises current taxes and deferred taxes. Corporate income tax is disclosed in the income statement, except to the extent that it relates to items disclosed directly in equity, in which case it is disclosed in other comprehensive income.

Current tax is assessed in accordance with the applicable tax legislation as at the reporting date. The financial year is the same as the calendar year, which in turn is the same as the fiscal year.

Deferred tax is disclosed taking into account temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax reporting purposes. The following temporary differences are not taken into account: goodwill if it is not a deductible tax expense; the initial recognition of assets or liabilities that do not affect accounting or taxable profit; and differences relating to investments in subsidiaries and joint ventures to the extent that it is not likely that they will be reversed in the foreseeable future. Deferred tax is not recognised for the purpose of taxable temporary differences that arise upon the initial recognition of goodwill.

Deferred tax is disclosed in the amount that is expected to be paid when the temporary differences are reversed, based on the laws in force at the end of the reporting period.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the deferred tax asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer likely that the related tax benefit will be realised.

(q) Net earnings per share

The Company discloses basic earnings per share and diluted earnings per share for its ordinary shares. Basic earnings per share are calculated by dividing the profit or loss pertaining to ordinary shareholders (net profit less the fixed and variable part pertaining to preferential shareholders) with the weighted average number of ordinary shares during the financial year.

Basic earnings per share serve as the basis for the calculation of diluted earnings per share such that the earnings pertaining to ordinary shares and the weighted average number of outstanding ordinary shares are adjusted to the effects of all potential ordinary shares. This means that the net earnings of ordinary shareholders in the numerator are increased by the dividends paid to holders of potential ordinary shares, while the denominator is increased by the weighted average number of potential ordinary shares. A potential ordinary share is a financial instrument that can give the holder the right to ordinary no-par-value shares.

(r) Amended standards and interpretations

Newly adopted standards and interpretations

The accounting policies used in the compilation of the Company's financial statements are the same as those applied in the compilation of the financial statements for the financial year ending 31 December 2016, with the exception of newly adopted or revised standards and interpretations that entered into force on 1 January 2016. Amendments to standards did not affect the financial statements for 2016.

Newly adopted standards and interpretations

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

On the day these financial statements were approved, the following new standards and amendments to existing standards had been issued by the IASB and adopted by the EU, but were not yet in force:

- IFRS 9 Financial Instruments, adopted by the EU on 22 November 2016 (applicable to annual periods beginning on or after 1 January 2018).

IFRS 9 includes requirements regarding recognition and measurement, impairment, derecognition and general hedge accounting.

Classification and Measurement – IFRS 9 introduces a new approach to the classification of financial assets, which depends on the characteristics of cash flows and the business model used to manage a specific financial instrument. This standard approach, which is based on a principle, replaces the existing requirements of IAS 39, which are based on rules. The new model also introduces a standard method for the impairment of all financial instruments.

Impairments – IFRS 9 brings a new impairment method with respect to expected loss, which requires the earlier identification of expected credit losses. The new standard requires companies to account for expected credit losses from the initial recognition of financial instruments and the earlier recognition of expected losses for an entire period.

Hedging – IFRS 9 introduces a significantly altered hedging model with the more specific disclosure of risk management activities. The new model represents a substantial overhaul of hedge accounting through the harmonisation of hedge accounting with risk management activities.

Own Credit Risk – IFRS 9 eliminates profit or loss volatility due to changes in credit risk arising from liabilities measured at fair value. This accounting changes means that gains from a reduction in own credit risk associated with such liabilities will no longer be recognised in profit or loss.

The Company will formulate a special working group to study the changes to the aforementioned standard. The effects of those amendments cannot currently be assessed.

- IFRS 15 Revenues from Contracts with Customers and amendments to IFRS 15 Effective Date of IFRS 15, as adopted by the EU on 22 September 2016 (applicable to annual periods beginning on or after 1 January 2018).

IFRS 15 specifies how and when reporting companies recognise revenues, and requires such companies to provide the users of financial statements more informative and relevant disclosures. The aforementioned standard supersedes IAS 18 Revenues and IAS 11 Construction Contracts, and numerous other interpretations relating to revenues. Application of the standard is mandatory for all companies that report in accordance with the IFRS, and applies to nearly all contracts with customers, the main exceptions being contracts on leases, financial instruments and insurance. The core principle of the new standard is that the recognition of revenues depicts the transfer of goods or services to a customer in an amount that reflects the consideration (i.e. payment) that a company expects in exchange for those goods or services. The new standard also brings improved disclosures of revenues, instructions for transactions that were not previously addressed in full (e.g. revenues from services and amendments to contracts) and improved guidance for the recognition of agreements that contain several elements.

The Company will formulate a special working group to study the changes to the aforementioned standard. The effects of those amendments cannot currently be assessed.

Standards and amendments to standards that the EU has not yet adopted

The IFRS as approved by the EU do not currently differ significantly from the regulations adopted by the International Accounting Standards Board (IASB), with the exception of the following new standards, revisions to existing standards and new interpretations, which as at the date of the publication of the financial statements had not been approved for application by the EU:

- IFRS 14 Regulatory Deferral Accounts (applicable to annual periods beginning on or after 1 January 2016). The European Commission opted not to begin proceedings to approve this interim standard, but will wait until the publication of the final version thereof.

- IFRS 16 Leases (applicable to annual periods beginning on or after 1 January 2019).

In accordance with IFRS 16, lessees recognise the right to use a specific asset and lease liabilities. The right to use an asset is treated similarly to other non-financial assets and is thus depreciated accordingly. A lease liability is initially measured at the present value of lease payments payable over the lease term, discounted at the implicit interest rate if that can be readily determined. If that rate cannot be readily determined, the lessee must use the incremental borrowing rate. Similar to IAS 17, which IFRS 16 supersedes, the lessor classifies a lease as an operating lease or a finance lease, taking into account the nature of the lease. A lease is classified as a finance lease if the lessor transfers substantially all of the risks and rewards incidental to ownership of an underlying asset. Otherwise a lease is classified as an operating lease. A lessor recognises finance income over the term of a finance lease, based on a pattern reflecting a constant periodic rate of return on the net investment. A lessor recognises operating lease payments as revenues on a straight-line basis or, if more representative of the pattern in which the benefit from use of the underlying asset is diminished, another systematic basis.

The Company will formulate a special working group to study the changes to the aforementioned standard. The effects of those amendments cannot currently be assessed.

- IFRS 2 Share-Based Payments – Classification and Measurement of Share-Based Payment Transactions (applicable to annual periods beginning on or after 1 January 2018).

The amendments bring changes to accounting for: (a) the effects of vesting and non-vesting conditions on the measurement of a cash-settled share-based payment transaction; (b) share-based payment transactions with net settlement features for withholding tax liabilities; and (c) modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

- Amendments to IFRS 4 Insurance Contracts Financial Instruments – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (applicable to annual periods beginning on or after 1 January 2018 or when IFRS 9 Financial Instruments is applied for the first time).

The amendments relate to issues in connection with the introduction of the new standard for financial instruments (IFRS 9) prior to the introduction of this standard, which is being drafted for IFRS 4.

- Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures – Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture, and subsequent amendments (the date of application has been postponed indefinitely until the completion of the research project in connection with the equity method).

The amendments relate to discrepancies between the requirements of IAS 28 and IFRS 10, and clarify that the extent of recognition of gains and losses in a transaction with an associate or joint venture depends on whether the sold or contributed assets represent a business entity.

- Amendments to IFRS 15 Revenue from Contracts with Customers – Clarifications to IFRS 15 (applicable to annual periods beginning on or after 1 January 2018).

- Amendments to IAS 7 Statement of Cash Flows – Disclosure Initiative (applicable to annual periods beginning on or after 1 January 2017).

Disclosure initiative published by the IASB on 29 January 2016. The purpose of the amendments is to clarify IAS 7 with the aim of improving information regarding corporate financial activities for the needs of the users of financial statements. In accordance with these changes, a company must ensure that disclosures provided to the users of financial statements facilitate the assessment of changes in liabilities arising from financial activities. This includes changes in connection with cash flows and non-monetary changes.

- Amendments to IAS 12 Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses (applicable to annual periods beginning on or after 1 January 2017).

- Amendments to IAS 40 Investment Property – Transfers of Investment Property (applicable to annual periods beginning on or after 1 January 2018).

- The changes state that a company must only transfer real estate to or from investment property if evidence regarding a change in its use exists. A change in use occurs if real estate meets the definition of investment property or if it no longer meets that criteria. A mere change in management's intentions regarding the use of real estate does not constitute evidence of a change in use. The changes also clarify that the list of evidence set out in paragraph 57 of the standard represents an inexhaustible list of cases of evidence compared with previous exhaustive lists.

- Amendments to various standards (Improvements to IFRS, 2014-2016 cycle) proceeding from the project of annual improvements to the IFRS (IFRS 1, IFRS 12 and IAS 28), primarily to eliminate discrepancies and to provide interpretations (the amendments to IFRS 12 apply to annual periods beginning on or after 1 January 2017, while the amendments to IFRS 1 and IAS 28 apply to annual periods beginning on or after 1 January 2018).

The amendments to various standards proceed from the project of annual improvements to the IFRS (IFRS 1, IFRS 12 and IAS 28), and their purpose is primarily to eliminate inconsistencies and to provide clarifications. The amendments include: (i) the deletion of the temporary exemptions from paragraphs E3–E7 of IFRS 1 because their purpose was achieved; (ii) an explanation of the scope of IFRS 12, i.e. that the disclosure requirements of IFRS 12, with the exception of those in paragraphs B10–B16, apply to the participating interests of a company that are stated in paragraph 5 and that are classified as assets held for sale or as discontinued operations in accordance with IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations; and (iii) an explanation that every individual investment in an associate or joint venture through a venture capital organisation or other appropriate organisation may be measured at fair value upon initial recognition.

- IFRIC 22 Foreign Currency Transactions and Advance Consideration (applicable to annual periods beginning on or after 1 January 2018).

The aforementioned interpretation states that the date of a transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment or deferred income liability. If there are multiple payments or receipts in advance, a transaction date is established for each payment or receipt.

The Company is still studying the amendments to standards and interpretations. The effect of amendments cannot yet be assessed.

III. DETERMINATION OF FAIR VALUE

Given the Company's accounting policies and classification approach, the determination of the fair value of both financial and non-financial and financial assets and liabilities is required in a number of cases. The fair values of individual groups of assets were determined for measurement and/or reporting purposes based on the methods described below. Where necessary, further clarifications regarding assumptions used to determine fair values are disclosed in the notes specific to that asset or liability.

Property, plant and equipment

A revaluation model is used for land. Following recognition, land is measured at a revalued amount equal to the fair value on the revaluation date. This is the price that would be received when selling an asset or paid when transferring a liability in an orderly transaction, on the principal (or most advantageous) market, between market participants at the measurement date under current market terms, regardless of whether the price can be directly observed or estimated using another valuation technique. Depending on the circumstances or situation, the fair value of land is measured using one or more valuation techniques. They are the market approach, cost approach and income approach. Land is revalued every five years or more frequently if indications of impairment exist.

Intangible assets

The fair value of patents and brands obtained in business combinations is based on the estimated discounted future value of royalties that will not have to be paid on account of patent or brand ownership.

Investments in equity and debt securities

The fair value of held-to-maturity and available-for-sale financial assets is determined taking into account the bid price at the end of the reporting period.

Operating receivables and liabilities

We assess that the disclosed value of operating receivables and liabilities reflects their fair value.

Underlying financial liabilities

Fair value is calculated for reporting purposes based on the present value of future principal and interest payments, discounted using the market interest rate at the end of the reporting period.

IV. FINANCIAL RISK MANAGEMENT

Senior management has adopted risk management guidelines as part of risk management rules. A committee responsible for the development and supervision of risk management policies has been established.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises primarily in connection with Company's trade receivables.

The Company's exposure to credit risk depends primarily on the characteristics of each customer. However, senior management also takes into account the demographic structure of customers and the solvency risk associated with the sector and country in which a customer operates, as these factors may affect credit risk, particularly in the current adverse economic situation.

The relevant policies require an analysis of the creditworthiness of each major new customer, before the Company offers its standard payment and delivery terms. The Company creates impairments that represent its estimated losses from operating and other receivables and investments. The main elements of such a value adjustment are the specific part of the loss relating to individual significant risks and the common part of the loss formed for groups of similar assets due to previously incurred but as yet undefined losses.

Liquidity risk

Liquidity risk is the risk that the Company will be unable settle its financial liabilities using cash or other financial assets.

The Company ensures liquidity by always having sufficient liquid assets to settle its liabilities at maturity, under both normal and high-stress situations, without incurring unacceptable losses or risking damage to its reputation.

The Company primarily provides guarantees for potential customs liabilities that might arise from transit procedures, the verification of origin, and various analyses and controls of goods that are required for the performance of operational business activities.

Market risk

Market risk is the risk that changes in market prices, such as exchange rates, interest rates and equity instruments, would affect the revenues of the Company or the value of financial instruments. The objectives of market risk management are to manage and control exposure to market risks within reasonable limits, while optimising returns. The Company trades in financial instruments and assumes financial liabilities, both with the aim of managing market risks.

Business risk

Business risk is the risk of incurring a direct or indirect loss due to a wide range of reasons associated with processes at the Company, staff, technology and the infrastructure, and as the result of external factors not related to credit, market and liquidity risks. These include risks arising from legal and regulatory requirements, and generally accepted corporate standards. Business risks derive from the overall operations of the Company. The Company's objective is to manage business risks with the aim of establishing a balance between avoiding financial losses and damage to the Company's reputation and overall cost efficiency, and avoiding such control procedures that would hinder or limit self-initiative and creativity. Primary responsibility for developing and introducing controls for managing business risks is borne by the head of each organisational unit.

A programme of internal audits is implemented by the Internal Audit Department, which discusses the results of internal audits with the heads of audited business units, while a summary is submitted to the Company's Management Board and the audit committee.

V. RECLASSIFICATION OF ITEMS IN THE FINANCIAL STATEMENTS

The following reclassifications of comparable data were made in the income statement with the aim of more appropriate presentation:

- items that were disclosed under "write-downs" (EUR 4,246 thousand) were reclassified to the following two items: amortisation (EUR 3,940 thousand), while other items (revaluation operating expenses for intangible assets and property, plant and equipment and expenses from impairments and write-offs of receivables) were disclosed under "other operating expenses" (EUR 306 thousand) for a more appropriate presentation in the statement; and
- the amount of EUR 325 thousand was reclassified from "other operating expenses" to the item "labour costs" because the aforementioned amount relates to labour costs (from costs related to employee profit-sharing).

The following reclassifications of comparable data were made in the statement of financial position with the aim of more appropriate presentation:

- an amount from real estate rights (right of superficies) was reclassified from the item "intangible assets" to the item "property, plant and equipment" (EUR 759 thousand as at 1 January 2015 and EUR 728 thousand as at 31 December 2015).

The following reclassifications of comparable data were made in the statement of cash flows with the aim of more appropriate presentation:

- an amount was reclassified from the item "non-cash expenses" (EUR 809 thousand) to the item "change in provisions and non-current deferred income" (EUR 484 thousand) and to the item "changes in operating liabilities" (EUR 325 thousand); and
- an amount was reclassified from the item "non-cash revenues" (EUR 144 thousand) to the item "change in provisions" (EUR 66 thousand) and to the item "change in operating liabilities" (EUR 78 thousand).

VI. NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: Sales revenue

Sales revenue in the amount of EUR 91,492 thousand comprises revenues from services rendered.

TABLE 7: SALES REVENUE — in EUR thousand

	January–December 2016	January–December 2015
Revenues from sales to companies in the Group	3,215	3,104
Revenues from sales to others	87,837	88,387
Total	**91,052**	**91,492**

The Company provides logistics services through three business lines: land transport (groupage, domestic transport, road transport, railway freight and customs clearance services), intercontinental transport (air freight, sea freight, shipping agency and car logistics services) and logistic solutions (warehousing and distribution). Other services provided by the Company include the leasing of commercial real estate.

TABLE 8: SALES REVENUE BY BUSINESS LINE — in EUR thousand

	Land transport		Logistic solutions		Intercontinental transport		Other services		Intereuropa d.d.	
	Jan-Dec 2016	Jan-Dec 2015	Jan-Dec 2016	Jan-Dec 2015	Jan-Dec 2016	Jan-Dec 2015	Jan-Dec 2016	Jan-Dec 2015	Jan-Dec 2016	Jan-Dec 2015
Sales revenue	43,006	45,414	12,949	11,192	30,711	30,393	4,386	4,494	91,052	91,492

NOTE 2: Other operating revenues

TABLE 9: OTHER OPERATING REVENUES — in EUR thousand

	January–December 2016	January–December 2015
Gains on the sale of property, plant and equipment	463	34
Government grants received	72	197
Revenues from the reversal of adjustments to the value of receivables and from collected written-off receivables	133	241
Other operating revenues	75	112
Total	**743**	**583**

NOTE 3: Cost of materials and services

TABLE 10: COSTS OF MATERIALS AND SERVICES

in EUR thousand

	January–December 2016	January–December 2015
Historical cost of goods and materials sold and cost of materials used	1,654	1,617
Cost of services in the Group	2,065	2,182
Cost of services (excluding the Group):	61,073	62,671
direct costs	55,346	57,161
costs of telecommunication services	165	119
maintenance costs	1,527	1,573
insurance premiums	454	456
other costs of services	3,580	3,362
Total	**64,793**	**66,469**

Direct costs primarily comprise the costs of subcontractors (transportation, port-related services, etc.) that are directly related to the provision of our services.

Other costs of services primarily comprise the reimbursement of work-related costs to employees, the costs of intellectual services, the costs of rents, municipal services, education and training costs, security and hired workers, and the costs of payment transactions.

NOTE 4: Labour costs

TABLE 11: LABOUR COSTS

in EUR thousand

	January–December 2016	January–December 2015
Costs of wages and salaries	11,923	11,427
Pension insurance costs	1,405	1,321
Other social security costs	863	826
Other labour costs:	2,457	2,528
annual leave allowance	688	492
transportation and meal allowances	1,580	1,619
other labour costs	188	92
expenses for employee participation in profits	0	325
Total	**16,648**	**16,103**

Labour costs include the accrued costs of annual leave allowance in the amount of EUR 117 thousand (EUR 74 thousand during the comparative period).

TABLE 12: EMPLOYEES BY EDUCATIONAL LEVEL

in EUR thousand

Categories of educational qualifications	Beginning of 2016	End of 2016	Changes in 2016	Average number of employees by educational qualification in 2016*	Average number of employees by educational qualification in 2015*
Qualification levels I to III	57	54	-3	56	85
Qualification levels IV to V	308	288	-20	298	305
Qualification levels VI to IX	258	264	6	261	260
Total	**623**	**606**	**-17**	**615**	**621**

* The average number of employees is calculated using the balance of employees at the beginning and end of the year.

NOTE 5: Amortisation

TABLE 13: AMORTISATION/DEPRECIATION

in EUR thousand

	January–December 2016	January–December 2015
Depreciation of property, plant and equipment and investment property	3,466	3,412
Amortisation of intangible assets	468	528
Total	**3,933**	**3,940**

NOTE 6: Other operating expenses

TABLE 14: OTHER OPERATING EXPENSES

in EUR thousand

	January–December 2016	January–December 2015
Building land use fee and similar expenses	1,097	1,051
Expenses from impairments and write-offs of property, plant and equipment	80	14
Expenses from value adjustments (impairments) and write-offs of receivables	228	291
Other operating expenses	308	583
Total	**1,713**	**1,939**

The majority of other operating expenses derive from the settlement of a lawsuit (EUR 204 thousand) that exceeded the amount of previously created and used non-current provisions for liabilities arising from lawsuits.

NOTE 7: Finance income and costs

TABLE 15: FINANCE INCOME AND COSTS

in EUR thousand

	January–December 2016	January–December 2015
Interest income from Group companies	61	64
Interest income from others	157	213
Income from dividends and other shares in profit from Group companies	750	838
Income from participating interest in joint venture	34	41
Income from dividends and other shares in profit from other companies	8	8
Revenues from the reversal of impairments of loans	1,336	18
Revenues from the sale of financial assets	202	0
Net exchange rate differences	1	0
Total finance income	**2,548**	**1,181**
Interest expense and other borrowing expenses	-2,669	-3,040
Expenses from impairments of investments in participating interests and shares in Group companies	-2,620	-247
Expenses from impairments of other financial assets	-8	-34
Expenses from the disposal of financial assets	-1	0
Net exchange rate differences	0	-10
Total finance costs	**-5,298**	**-3,331**
Profit or loss from financing activities	**-2,750**	**-2,150**

Interest income and expenses are calculated using the effective interest rate method.

Revenues from the reversal of loan impairments (EUR 1,322 thousand) were the result of the reversal of the impairment of the loan granted to the subsidiary Intereuropa Transport d.o.o. (in liquidation), through which that subsidiary's capital was increased in the form of a non-cash contribution. The non-current financial investment in a participating interest in that subsidiary was impaired in the same amount. In addition to the aforementioned impairment, an investment in a participating interest in the subsidiary TOV TEK ZTS, Uzhhorod (EUR 1,284 thousand) and an investment in a participating interest in the subsidiary TOV Intereuropa – Kiev, Ukraine (EUR 14 thousand) were also impaired.

NOTE 8: Corporate income tax (current and deferred tax)

TABLE 16: ADJUSTMENTS TO THE EFFECTIVE TAX RATE

in EUR thousand

	2016	2015
Current tax	143	0
Deferred tax	5,270	245
Tax	**5,413**	**245**
Pre-tax profit	1,957	1,474
Tax calculated according to prescribed rate	333	251
Non-deductible withholding tax paid abroad	0	0
Tax from unrecognised expenses	531	194
Tax from revenues deducted from taxable base	-300	-172
Tax from expenses deducted from taxable base	-31	-28
Tax from tax relief	-41	0
Tax from the reversal of deferred tax assets from tax losses	4,921	0
Tax	**5,413**	**245**
Effective rate in %	2.77	0.17

A tax rate of 17% was taken into account in the calculation of current corporate income tax (the same as in 2015), while a rate of 19% was taken into account in the calculation of deferred tax.

The reversal of deferred tax assets from tax losses from previous years (in the amount of EUR 4,921 thousand) had the most significant impact on deferred tax, based on management's estimate, which in turn is based on the adopted plan for 2017 and data from Intereuropa d.d.'s strategy for 2018 and 2019. The following assumptions were taken into account in that regard:

- the utilisation of tax losses until 2019, taking into account valid tax rates;
- the exclusion of 95% of dividends;
- deferred tax liabilities from the revaluation of land are taken into account as a source for netting; and
- completion of the liquidation proceedings against a subsidiary during the accounting period.

Unused tax losses amounted to EUR 78,773 thousand as at 31 December 2016. Deferred tax assets were recognised for unused tax losses in the amount of EUR 44,579 thousand, while no deferred amount was created for the remainder of EUR 34,194 thousand.

Unrecognised deferred liabilities from the undistributed net profits of subsidiaries amounted to EUR 401 thousand.

TABLE 17: CURRENT AND DEFERRED TAX RELATING TO EQUITY ITEMS

in EUR thousand

	2016	2015
Current tax	-363	0
Deferred tax	1,788	2
Total	**1,425**	**2**

TABLE 18: CHANGES IN DEFERRED TAX ASSETS AND LIABILITIES THAT WERE NOT NETTED IN 2016

in EUR thousand

Deferred tax assets	Balance as at 1 January 2016	Change in profit or loss	Change in other comprehensive income	Balance as at 31 December 2016
Revaluation of financial assets	2,089	493	0	2,582
Provisions	82	9	17	108
Tax loss	14,241	-5,771	0	8,470
Total	**16,412**	**-5,269**	**17**	**11,160**
Deferred tax liabilities	**Balance as at 1 January 2016**	**Change in profit or loss**	**Change in other comprehensive income**	**Balance as at 31 December 2016**
Revaluation of land	9,957	0	-1,783	8,173
Revaluation of financial assets	9	0	10	20
Total	**9,966**	**0**	**-1,773**	**8,193**
Effect		**-5,269**	**-1,756**	

The effect of changes in tax rates in the income statement was EUR 217 thousand (change in the tax rate from 17% to 19%). The total effect of changes in tax rates in the statement of other comprehensive income was EUR 864 thousand, as the result in the reduction in fair value reserves (change in the tax rate from 17% to 19%).

TABLE 19: CHANGES IN DEFERRED TAX ASSETS AND LIABILITIES THAT WERE NOT NETTED IN 2015

in EUR thousand

Deferred tax assets	Balance as at 1 January 2015	Change in profit or loss	Change in other comprehensive income	Balance as at 31 December 2015
Revaluation of financial assets	2,347	-258	0	2,089
Provisions	81	1	0	82
Tax loss	14,229	12	0	14,241
Total	**16,658**	**-245**	**0**	**16,413**
Deferred tax liabilities	**Balance as at 1 January 2015**	**Change in profit or loss**	**Change in other comprehensive income**	**Balance as at 31 December 2015**
Revaluation of land	9,957	0	0	9,957
Revaluation of financial assets	11	0	-2	9
Total	**9,968**	**0**	**-2**	**9,966**
Effect		**-245**	**-2**	

NOTE 9: Property, plant and equipment

TABLE 20: CHANGES IN PROPERTY, PLANT AND EQUIPMENT IN 2016

in EUR thousand

	Land	Buildings	Other plant and equipment	Property, plant and equipment under construction	Total
HISTORICAL COST					
Balance as at 1 January 2016	**65,292**	**100,633**	**22,920**	**119**	**188,964**
Acquisitions	0	0	0	2,206	2,206
Activations	0	485	1,593	-2,078	0
Disposals	-7,405	0	-998	0	-8,403
Write-downs	0	-47	-60	0	-107
Transfer to available-for-sale assets	-321	0	0	0	-321
Revaluation to fair value – increase	248	0	0	0	248
Revaluation to fair value – decrease	-7,351	0	0	0	-7,351
Other	0	0	5	0	5
Balance as at 31 December 2016	**50,463**	**101,071**	**23,460**	**247**	**175,241**
VALUE ADJUSTMENT					
Balance as at 1 January 2016	**-5**	**-56,251**	**-19,961**	**0**	**-76,217**
Depreciation	0	-2,463	-770	0	-3,233
Disposals	5	0	994	0	998
Write-downs	0	40	60	0	100
Impairments	-69	0	0	0	-69
Other	0	-3	-5	0	-8
Balance as at 31 December 2016	**-69**	**-58,677**	**-19,683**	**0**	**-78,429**
CARRYING AMOUNT					
Balance as at 1 January 2016	65,287	44,382	2,959	119	112,747
Balance as at 31 December 2016	**50,394**	**42,394**	**3,777**	**247**	**96,812**

Land is disclosed at fair value, while other items of property, plant and equipment are disclosed historical cost less depreciation. An independent certified real estate valuer carried out a valuation as at the reporting date. Land was revalued under the direct sales comparison method. Land was broken down in the aforementioned valuation with regard to location. A detailed analysis was performed for each lot of land using transactions involving comparable land in the direct vicinity of the real estate subject to valuation. Adjustments were also made to approximate the indicative price of comparable land. Those adjustments relate to surface area, location and other functional characteristics of real estate subject to valuation, taking into account other comparable sold or advertised real estate.

The Company sold real estate within the confines of the Port of Koper in accordance with its adopted strategy. The full amount of consideration was earmarked for the reduction of liabilities from bank loans.

The historical cost of property, plant and equipment whose carrying amount as at 31 December 2016 was 0 (zero) and are still in use was EUR 20,830 thousand. The carrying amount of land would be equal to EUR 10,675 thousand as at 31 December 2016 if the historical cost model was used. The Company had commitments to purchase property, plant and equipment in the amount of EUR 461 thousand as at the reporting date.

TABLE 21: CHANGES IN PROPERTY, PLANT AND EQUIPMENT IN 2015

in EUR thousand

	Land	Buildings	Other plant and equipment	Property, plant and equipment under construction	Total
HISTORICAL COST					
Balance as at 1 January 2015	**65,292**	**100,343**	**23,229**	**103**	**188,967**
Acquisitions	0	0	0	1,924	1,924
Activations	0	371	1,537	-1,908	0
Disposals	0	0	-488	0	-488
Write-downs	0	-56	-1,393	0	-1,449
Transfer between items	0	-25	25	0	0
Other	0	0	10	0	10
Balance as at 31 December 2015	**65,292**	**100,633**	**22,920**	**119**	**188,964**
VALUE ADJUSTMENT					
Balance as at 1 January 2015	**-5**	**-53,847**	**-21,059**	**0**	**-74,911**
Depreciation	0	-2,476	-733	0	-3,209
Disposals	0	0	469	0	469
Write-downs	0	47	1,392	0	1,439
Transfer between items	0	25	-25	0	0
Other	0	0	-5	0	-5
Balance as at 31 December 2015	**-5**	**-56,251**	**-19,961**	**0**	**-76,217**
CARRYING AMOUNT					
Balance as at 1 January 2015	65,287	46,496	2,170	103	114,056
Balance as at 31 December 2015	**65,287**	**44,382**	**2,959**	**119**	**112,747**

As of the balance-sheet date, the Company had property, plant and equipment pledged as loan collateral in the amount of EUR 77,161 thousand, and for contingent liabilities in the amount of EUR 16,022 thousand. There were no other legal restrictions on the disposal of assets.

The carrying amount of mortgaged real estate was EUR 84,639 thousand as at the reporting date (compared with EUR 99,979 thousand as at 31 December 2015).

NOTE 10: Investment property

TABLE 22: CHANGES IN INVESTMENT PROPERTY

in EUR thousand

	2016	2015
HISTORICAL COST		
Balance as at 1 January	**14,274**	**14,318**
Acquisitions	11	0
Disposals	-3	-44
Impairments	-1,181	0
Balance as at 31 December	**13,101**	**14,274**
VALUE ADJUSTMENT		
Balance as at 1 January	**-3,966**	**-3,756**
Depreciation	-233	-234
Disposals	1	24
Balance as at 31 December	**-4,198**	**-3,966**
CARRYING AMOUNT		
Balance as at 1 January	10,308	10,562
Balance as at 31 December	**8,903**	**10,308**

The carrying amount of mortgaged investment property was EUR 8,719 thousand as at the reporting date That amount represents additional collateral for liabilities for which the underlying collateral comprises pledged items of property, plant and equipment.

We verified the value of investment property at the end of 2016 and assessed based on comparable market rents and location that indications of impairment existed. The assets in question were therefore impaired.

Senior management estimates that the fair value of all investment property is EUR 9,019 thousand. That estimate was made based on the average of the direct capitalisation method (discount rate of 8.5%) and a cash-flow multiplier (10). It is based on income from the lease of business premises and costs that include depreciation costs charged during the financial year.

TABLE 23: REVENUES AND EXPENSES FROM INVESTMENT PROPERTY

in EUR thousand

	2016	2015
Rental income from investment property	1,091	1,219
Direct operating expenses from investment property	-456	-442
Total	**635**	**777**

The Company had no binding contracts to purchase investment property as at 31 December 2016.

NOTE 11: Intangible assets

TABLE 24: CHANGES IN INTANGIBLE ASSETS IN 2016

in EUR thousand

	Long-term property rights	Other intangible assets	Intangible assets under construction	Total
HISTORICAL COST				
Balance as at 1 January 2016	**3,972**	**4,305**	**223**	**8,500**
Acquisitions	0	0	108	108
Activations	4	16	-20	0
Balance as at 31 December 2016	**3,976**	**4,321**	**311**	**8,608**
VALUE ADJUSTMENT				
Balance as at 1 January 2016	**-3,232**	**-948**	**0**	**-4,180**
Amortisation	-178	-290	0	-468
Other	3	0	0	3
Balance as at 31 December 2016	**-3,407**	**-1,238**	**0**	**-4,645**
CARRYING AMOUNT				
Balance as at 1 January 2016	740	3,357	223	4,320
Balance as at 31 December 2016	**569**	**3,083**	**311**	**3,962**

The majority of long-term property rights comprises rights associated with computer software.

The historical cost of intangible assets whose carrying amount as at 31 December 2016 was 0 (zero) and are still in use was EUR 2,258 thousand. The Company had commitments to intangible assets in the amount of EUR 88 thousand as at the reporting date.

TABLE 25: CHANGES IN INTANGIBLE ASSETS IN 2015

in EUR thousand

	Long-term property rights	Other intangible assets	Non-current deferred development costs	Intangible assets under construction	Total
HISTORICAL COST					
Balance as at 1 January 2015	**4,000**	**0**	**4,074**	**241**	**8,315**
Acquisitions	16	204	0	9	229
Disposals	-44	0	0	0	-44
Transfer between items	0	4,101	-4,074	-27	0
Balance as at 31 December 2015	**3,972**	**4,305**	**0**	**223**	**8,500**
VALUE ADJUSTMENT					
Balance as at 1 January 2015	**-3,055**	**0**	**-672**	**0**	**-3,727**
Amortisation	-221	-276	0	0	-497
Disposals	44	-672	672	0	44
Balance as at 31 December 2015	**-3,232**	**-948**	**0**	**0**	**-4,180**
CARRYING AMOUNT					
Balance as at 1 January 2015	945	0	3,402	241	4,588
Balance as at 31 December 2015	**740**	**3,357**	**0**	**223**	**4,320**

NOTE 12: Other non-current assets

Other non-current assets in the amount of EUR 49 thousand (EUR 62 thousand as at 31 December 2015) comprise non-current deferred costs and expenses.

NOTE 13: Loans and deposits

TABLE 26: STRUCTURE OF LOANS AND DEPOSITS

in EUR thousand

	31 December 2016	31 December 2015
Long-term loans granted and deposits	**10**	**253**
- loans to subsidiaries	0	223
- deposits	10	30
Short-term loans granted and deposits	**1,343**	**5,279**
- loans to subsidiaries	1,293	1,070
- loans to others	0	11
- deposits	50	4,198
Total	**1,353**	**5,532**

Deposits were down by EUR 4,160 thousand as a result of the redemption of a guarantee in the form of a deposit that was issued by Intereuropa d.d. when the subsidiary in Russia was sold. Provisions were also reduced accordingly by the same amount. The matter has been closed and we do not expect any more claims in this regard.

As at the balance-sheet date, the Company had pledged long-term deposits in the amount of EUR 10 thousand as collateral for contingent liabilities in the same amount.

As at the balance-sheet date, the Company had pledged short-term deposits in the amount of EUR 50 thousand as collateral for contingent liabilities in the same amount.

TABLE 27: CHANGES IN LONG-TERM LOANS GRANTED AND DEPOSITS

in EUR thousand

	2016	2015
Balance as at 1 January	**253**	**563**
New deposits	10	30
Transfer to current portion	-253	-340
Balance as at 31 December	**10**	**253**

TABLE 28: LONG-TERM LOANS GRANTED AND DEPOSITS BY MATURITY

in EUR thousand

	31 December 2016	31 December 2015
Maturity from 1 to 2 years	10	253
Total	**10**	**253**

TABLE 29: LONG-TERM LOANS GRANTED WITH RESPECT TO COLLATERAL

in EUR thousand

	31 December 2016	31 December 2015
Secured (based on bills of exchange)	0	223
Unsecured	0	0
Total	**0**	**223**

As at the balance-sheet date, the Company had pledged long-term deposits in the amount of EUR 10 thousand as collateral for contingent liabilities in the same amount.

As at the balance-sheet date, the Company had pledged short-term deposits in the amount of EUR 50 thousand as collateral for contingent liabilities in the same amount.

TABLE 30: SHORT-TERM LOANS GRANTED WITH RESPECT TO COLLATERAL — in EUR thousand

	31 December 2016	31 December 2015
Secured	703	480
bills of exchange	703	480
Unsecured	590	601
Total	**1,293**	**1,081**

NOTE 14: Other non-current financial assets

TABLE 31: OTHER NON-CURRENT FINANCIAL ASSETS — in EUR thousand

	31 December 2016	31 December 2015
Non-current investments in shares and participating interests in subsidiaries	45,169	46,453
Non-current investments in participating interest in joint venture	39	75
Other non-current financial assets	531	508
Total	**45,739**	**47,036**

TABLE 32: INVESTMENTS IN SHARES AND PARTICIPATING INTERESTS IN SUBSIDIARIES — in EUR thousand

Sestava skupine	Ownership stake 31 December 2016/ 31 December 2015	Value of equity as at 31 December 2016	Value of equity as at 31 December 2015	Value of participating interest as at 31 December 2016	Value of participating interest as at 31 December 2015
Intereuropa Transport, d.o.o., Koper (in liquidation)*	100.00%	40	-1,280	0	0
Interagent, d.o.o., Koper	100.00%	635	688	430	430
Interzav, d.o.o., Koper	71.28%	68	60	48	48
Intereuropa, logističke usluge, d.o.o., Zagreb	99.96%	50,531	49,968	22,104	22,104
Intereuropa sajam, d.o.o., Zagreb	51.00%	664	664	32	32
Intereuropa Skopje DOO, Skopje	99.56%	1,820	1,791	855	855
Intereuropa RTC d.d., Sarajevo	95.77%	15,285	15,326	7,438	7,438
AD Intereuropa logističke usluge, Belgrade	73.62%	7,111	6,842	3,658	3,658
TOV TEK ZTS d.o.o., Uzhhorod	89.93%	-12	100	250	1,534
Intereuropa Kosova L.L.C., Prishtina	90.00%	530	445	137	137
Zetatrans A.D., Podgorica	69.27%	19,908	20,637	10,186	10,186
TOV Intereuropa – Kiev, Ukraine*	100.00%	-235	-158	0	0
Intereuropa Albania, Durrës	100.00%	84	84	30	30

* Value of investment has been impaired in full.

The carrying amount of pledged investments in shares and participating interests in subsidiaries was EUR 10,186 thousand as at the reporting date. That amount represents additional collateral for liabilities for which the underlying collateral comprises pledged items of property, plant and equipment.

TABLE 33: CHANGES IN INVESTMENTS IN SUBSIDIARIES

in EUR thousand

	31 December 2016	31 December 2015
Balance as at 1 January	**46,453**	**46,669**
Capital increase	1,337	31
Impairments	-2,620	-247
Closing balance	**45,169**	**46,453**

The capital of the subsidiary Intereuropa Transport d.o.o. (in liquidation) was increased in the form of a non-cash contribution (loan). The financial investment in a participating interest in that subsidiary was impaired in the same amount. In addition to the aforementioned impairment, an investment in a participating interest in the subsidiary TOV TEK ZTS, Uzhhorod (EUR 1,284 thousand) and an investment in a participating interest in the subsidiary TOV Intereuropa – Kiev, Ukraine (EUR 14 thousand) were also impaired. The verification of indications of the impairment of investments included a valuation based on data regarding past operations and assumptions regarding the future operations of companies, taking into account projections for the period 2017 to 2020. The aforementioned model applied a required after-tax yield of 14.50% and annual growth in residual cash flow of 2%. We verified the appropriateness of the book value of the dormant company against an assessment of its liquidation value.

Associate and joint venture

This item comprises an investment in the associate Intereuropa-FLG, d.o.o., Ljubljana, in which Intereuropa d.d. held a 26% participating interest as at 31 December 2016. As at 31 December 2015, Intereuropa d.d. held a 50% participating interest the aforementioned company, which was treated as a joint venture. A 24% participating interest was sold in 2016, meaning the company became an associate. The carrying amount of the aforementioned investment is EUR 30 thousand (EUR 75 thousand at the previous year's balance-sheet date).

Available-for-sale financial assets

TABLE 34: CHANGES IN AVAILABLE-FOR-SALE FINANCIAL ASSETS

in EUR thousand

	31 December 2016		31 December 2015	
	Available-for-sale financial assets at fair value	Available-for-sale financial assets at historical cost	Available-for-sale financial assets at fair value	Available-for-sale financial assets at historical cost
Balance as at 1 January	**404**	**104**	**1,412**	**132**
Revaluation to fair value	47	0	-9	0
Sales	0	-19	-1,000	0
Impairments	0	-5	0	-28
Closing balance	**451**	**80**	**404**	**104**

Available-for-sale financial assets measured at historical cost comprise investments in shares and participating interests in companies that do not have a quoted market price on an active market and whose actual value cannot be reliably measured.

As at 31 December 2016, the Company had no available-for-sale financial assets pledged as collateral or security for liabilities recognised in the statement of financial position or for contingent liabilities.

NOTE 15: Current operating receivables

TABLE 35: CURRENT OPERATING RECEIVABLES

in EUR thousand

	31 December 2016	31 December 2015
Current operating receivables from Group companies	577	571
Current operating receivables from Group companies for interest	216	172
Current trade receivables (excluding the Group)	18,551	20,011
Current operating receivables from others	945	652
Total	**20,290**	**21,406**

Of the total trade receivables (including trade receivables within the Group) as at 31 December 2016 in the amount of EUR 19,128 thousand, EUR 581 thousand relate to receivables for services in progress.

Current operating receivables in the amount of EUR 939 thousand were secured by enforcement drafts, guarantees and liens as at 31 December 2016.

TABLE 36: CHANGES IN ADJUSTMENTS TO THE VALUE OF CURRENT OPERATING RECEIVABLES

in EUR thousand

	31 December 2016	31 December 2015
Adjustments to value of trade receivables as at 1 January	**2,615**	**3,003**
- written-off receivables	-436	-372
- recovered receivables	-109	-220
+ additional increase in adjustments to value	196	205
Adjustments to value of trade receivables as at	**2,267**	**2,615**
Adjustments to the value of other current receivables as at 1 January	**1,263**	**1,263**
- recovered receivables	-7	0
Adjustments to the value of other current receivables as at	**1,256**	**1,263**

TABLE 37: STRUCTURE OF CURRENT TRADE RECEIVABLES BY MATURITY

in EUR thousand

	Gross value as at 31 December 2016	Value adjustment as at 31 December 2016	Gross value as at 31 December 2015	Value adjustment as at 31 December 2015
Current trade receivables				
Non-past-due	15,046	2	16,044	0
0 to 30 days past due	2,426	1	2,964	1
31 to 90 days past due	617	6	861	9
91 to 180 days past due	407	9	163	13
More than 180 days past due	2,322	2,249	2,594	2,593
Total current trade receivables	**20,818**	**2,267**	**22,626**	**2,615**
Other current operating receivables				
Non-past-due	945	0	647	0
91 to 180 days past due	0	0	5	0
More than 180 days past due	1,256	1,256	1,263	1,263
Total other current operating receivables	**2,201**	**1,256**	**1,915**	**1,263**

Court proceedings (enforcement, lawsuits, bankruptcy and compulsory composition) have been initiated for the majority of receivables more than 181 days in arrears. Exposure to various types of risks arising from trade receivables is managed by using an internal credit rating system for domestic customers and by verifying the credit ratings obtained from specialised companies for foreign customers. Based on information obtained, customers with lower credit ratings are required to supply collateral instruments to secure payments (e.g. bills of exchange, pledges of movable property and sureties).

The Company had trade receivables with a carrying amount of EUR 10,000 thousand pledged as collateral as at the balance-sheet date (the same as at 31 December 2015). That amount represents additional collateral for contingent liabilities in the amount of EUR 14,600 thousand for which the underlying collateral comprises pledged items of property, plant and equipment.

NOTE 16: Other current assets

Other current assets amounting to EUR 60 thousand comprise current deferred costs.

NOTE 17: Cash and cash equivalents

Cash and cash equivalents amounted to EUR 1,822 thousand as at 31 December 2016, and comprise cash held in bank accounts, call deposits and cash in hand. The reasons for increases and decreases in cash and cash equivalents during 2016 are presented in the statement of cash flows.

NOTE 18: Equity

Share capital

Intereuropa d.d.'s share capital amounted to EUR 27,488,803 as at 31 December 2016, and is divided into 16,830,838 ordinary registered freely transferable no-par-value shares and 10,657,965 freely transferable no-par-value preference shares. Ordinary shares provide their holders the right to participate in the management of the Company (voting right), the right to a share in profits and the right to a corresponding portion of residual assets after liquidation or bankruptcy of the Company. The number of shares did not change relative to 31 December 2015.

Preference shares provide their holders the right to a share in profits and the right to a corresponding portion of residual assets after liquidation or bankruptcy of the Company. Preference shares give their holders priority in the sharing of profits in the amount of EUR 0.01 (preferential amount) per share. The preferential amount is paid out in addition to the share in profits received by the holders of ordinary shares, in accordance with the relevant resolution on the use of distributable profit. Associated liabilities in the amount of EUR 426 thousand were disclosed as at 31 December 2016.

The controlling company did not issue any shares for authorised capital in 2016.

Share premium account

The share premium account may be used under the conditions and for the purposes set out by law. The share premium account is not distributable. No change was recorded in this item in 2016.

Profit reserves

Profit reserves comprise legal reserves, reserves for treasury shares and treasury shares as a deductible item.

Treasury shares

The Company holds 18,135 treasury shares. The historical cost of treasury shares was EUR 180 thousand. The Company holds no rights arising from treasury shares. Other group companies do not hold own shares.

Fair value reserves

Fair value reserves amounted to EUR 34,929 thousand. Of that amount, EUR 34,844 thousand relates to the revaluation of land, while EUR 85 thousand relates to available-for-sale financial assets. Changes during the financial year are disclosed in the statement of comprehensive income.

Net profit or loss brought forward

The Company's net profit brought forward amounted to EUR 3,496 thousand as at the reporting date Changes during the financial year are disclosed in the statement of comprehensive income and in the statement of changes in equity.

TABLE 38: BASIC EARNINGS PER SHARE

in EUR thousand

Basic earnings per share	2016	2015
Net profit or loss of ordinary shareholders (in EUR)	-2,179,822	686,794
Average number of ordinary shares (excluding treasury shares)	16,812,703	16,812,703
Basic earnings per share (in EUR)	-0.13	0.04

Basic earnings per share (EUR -0.13) is calculated as net profit or loss pertaining to the controlling company's ordinary shareholders divided by the weighted average number of ordinary shares.

TABLE 39: DILUTED EARNINGS PER SHARE

in EUR thousand

Diluted earnings per share	2016	2015
Net profit or loss (in EUR)	-3,455,083	1,228,750
Average number of total shares*	27,488,803	27,488,803
Diluted earnings per share (in EUR)	-0.13	0.04

* For the needs of calculating this indicator, we defined preference shares as potential ordinary shares that can be exchanged for ordinary shares. Because the principle of exchangeability has not been agreed with the holders of preference shares, the calculations in the table are of an informative nature and assume an exchange ratio of 1: 1.

Diluted earnings per ordinary share are equal to basic earnings per share because the controlling company does not hold any dilutive potential ordinary shares.

Dividends

Intereuropa d.d., Koper disclosed liabilities for preferred dividends in the amount of EUR 426 thousand in 2016.

NOTE 19: Provisions

TABLE 40: PROVISIONS

in EUR thousand

	Balance as at 31 December 2015	Drawn down (used)	Reversed	Additional creation of provisions charged to expenses	Additional creation of provisions charged to equity	Balance as at 31 December 2016
Provisions for severance pay at retirement and jubilee benefits	780	-99	0	146	166	993
Provisions for lawsuits	481	-396	0	0	0	85
Other non-current provisions	4,160	-4,160	0	0	0	0
TOTAL	**5,421**	**-4,655**	**0**	**146**	**166**	**1,078**

The calculation of provisions for severance pay at retirement and jubilee benefits is based on an actuarial calculation for 2016, in which the following assumptions were taken into account:

- the number of employees, their gender, age, total length of service, length of service with the Company and employees' gross wages for December 2016;
- the method for calculating severance pay at retirement (two average gross salaries of an employee or two average gross salaries in the Republic of Slovenia);
- wage growth (of 1%) comprising general wage growth (of 0.5%) and individual wage (of 0.5%);
- age-based employee turnover, prerequisites for retirement in accordance with the minimum conditions for exercising the right to an old-age pension;
- the mortality rate based on the latest available mortality tables for the local population; and
- an annual discount rate of 2.075%, which was the yield on investment-grade 15-year corporate bonds in the euro area.

The decrease in provisions for lawsuits (EUR 396 thousand) was the result of the settlement of a lawsuit by the controlling company in connection with a claim for damages in the total amount of EUR 600 thousand; the amount exceeding created provisions (EUR 204 thousand) is disclosed in other operating expenses.

The decrease in other provisions was a result of the redemption of a guarantee in the form of a deposit in the amount of EUR 4,160 thousand that was issued by Intereuropa d.d. when the subsidiary in Russia was sold. The matter has been closed and we do not expect any more claims in this regard.

TABLE 41: CHANGES IN PROVISIONS FOR SEVERANCE PAY AND JUBILEE BENEFITS

in EUR thousand

	Balance as at 1 January 2016	Interest expense	Payments	Increase in current year	Actuarial gains or losses	Total as at 31 December 2016
Provisions	**780**	**16**	**-99**	**61**	**235**	**993**
Jubilee benefits	210	4	-51	21	69	253
Severance pay	570	12	-48	40	166	740

TABLE 42: ANALYSIS OF SENSITIVITY TO TWO MAJOR ASSUMPTIONS

	Discount rate		Turnover	
Change in %	-1%	1%	-1%	1%
Effect on balance of liabilities in EUR thousand	90	-79	95	-84

With regard to provisions for lawsuits, there is a better than 50% probability that the court will rule in favour of the plaintiff's claim, which would result in the outflow of resources embodying economic benefits. Provisions were created on the basis of assessments by internal and external legal experts.

NOTE 20: Financial liabilities

The full amount of non-current financial liabilities (EUR 73,175 thousand) relates to long-term loans received.

TABLE 43: CURRENT FINANCIAL LIABILITIES

in EUR thousand

	31 December 2016	31 December 2015
Short-term loans received	3,986	3,752
Liabilities for dividends and other shares in profit	426	0
Total	**4,412**	**3,752**

Short-term loans received comprise the short-term portion of long-term loans.

Loans bear a variable interest rate. The Company had no overdue unpaid liabilities under loan agreements as at the reporting date.

TABLE 44: CHANGES IN LONG-TERM LOANS RECEIVED

in EUR thousand

	31 December 2016	31 December 2015
Balance as at 1 January	**90,109**	**94,944**
Transfer to current liabilities	-3,986	-3,752
Repayments	-12,948	-1,083
Balance as at 31 December	**73,175**	**90,109**

The Company had EUR 5,530 thousand in approved and undrawn revolving loans as at 31 December 2016.

During the 2016 financial year, we worked towards the fulfilment of financial objectives and commitments agreed with banks, as set out in the financial restructuring agreement concluded in 2012. We thus fulfilled all commitments set out in the aforementioned agreement, both at the level of the controlling company and at the Group level.

TABLE 45: MATURITY OF LONG-TERM BANK LOANS RECEIVED

in EUR thousand

	31 December 2016	31 December 2015
Maturity of 1 to 2 years	4,163	3,986
Maturity of 2 to 3 years	69,012	4,163
Maturity of 3 to 4 years	0	81,960
Total	**73,175**	**90,109**

TABLE 46: LONG-TERM BANK LOANS RECEIVED WITH RESPECT TO COLLATERAL

in EUR thousand

	31 December 2016	31 December 2015
Liens on real estate and securities	73,175	90,109
Total	**73,175**	**90,109**

TABLE 47: SHORT-TERM BANK LOANS RECEIVED WITH RESPECT TO COLLATERAL

in EUR thousand

	31 December 2016	31 December 2015
Liens on real estate and securities	3,986	3,752
Total	**3,986**	**3,752**

NOTE 21: Current operating liabilities

TABLE 48: STRUCTURE OF CURRENT OPERATING LIABILITIES

in EUR thousand

	31 December 2016	31 December 2015
Current operating liabilities to Group companies	358	347
Current trade payables	13,344	16,077
Current operating liabilities based on advances	59	81
Other current operating liabilities	2,087	1,789
Total	**15,849**	**18,294**

Of the total current operating liabilities as at 31 December 2016, EUR 1,950 thousand related to liabilities for costs for which suppliers' invoices were not yet received.

Only liabilities for customs duties amounting to EUR 2,547 thousand as at the balance-sheet date (compared with EUR 4,867 thousand as at the previous year's balance-sheet date) are secured by a bank guarantee. We do not issue collateral instruments to secure payments to other suppliers.

NOTE 22: Contingent liabilities

Contingent liabilities comprise potential liabilities not disclosed in the statement of financial position and for which we assess that an outflow of economic benefits will not be likely in the settlement of those liabilities. The Company's estimated contingent liabilities as at 31 December 2016 are shown in the table below.

TABLE 49: CONTINGENT LIABILITIES

in EUR thousand

	31 December 2016	31 December 2015
From bank guarantees and guarantees given to Group companies	1,786	2,922
From bank guarantees and guarantees given to others	10,155	7,801
From lawsuits	299	603
To D.S.U., družba za svetovanje in upravljanje, d.o.o.	250	250
Total	**12,490**	**11,576**

Guarantees and warranties for Group companies primarily comprise guarantees for raised loans and the customs guarantees of subsidiaries. Other guarantees and warranties mainly comprise contingent liabilities arising from guarantees for potential customs liabilities that might arise from transit procedures, the verification of origin, and various analyses and controls of goods.

With regard to contingent liabilities arising from lawsuits in the amount of EUR 299 thousand, there is a less than 50% probability that the court will rule in favour of the plaintiff's claim (which would result in the outflow of resources embodying economic benefits).

NOTE 23: Fair value

Available-for-sale securities

The fair value of available-for-sale securities that are listed on a stock exchange is equal to the published closing price of these shares as at the balance-sheet date. The fair value of shares and participating interests in companies not quoted on stock markets is assessed as their carrying amount.

Receivables and liabilities

We assess that the nominal amount of receivables with a maturity of less than one year is a proper reflection of their fair value.

TABLE 50: FAIR VALUE

in EUR thousand

	31 December 2016		31 December 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Available-for-sale financial assets	530	530	508	508
- measured at fair value	450	450	404	404
- measured at historical cost	80	80	104	104
Loans and deposits	1,353	1,353	5,532	5,532
Trade receivables	19,345	19,345	20,582	20,582
Cash and cash equivalents	1,822	1,822	8,169	8,169
Total	**23,050**	**23,050**	**34,791**	**34,791**
Financial liabilities				
Loans and finance leases	77,161	77,161	93,861	93,861
- at fixed interest rates	0	0	0	0
- at variable interest rates	77,161	77,161	93,861	93,861
Trade payables	13,705	13,705	16,424	16,424
Total	**90,866**	**90,866**	**110,285**	**110,285**

TABLE 51: FAIR VALUE HIERARCHY

in EUR thousand

Fair value hierarchy	31 December 2016			
	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Land	0	0	50,394	50,394
Available-for-sale financial assets	450	0	80	530
Assets for which fair value is disclosed				
Loans and deposits	0	1,353	0	1,353
Liabilities for which fair value is disclosed				
Loans	0	77,587	0	77,587
Fair value hierarchy	**31 December 2015**			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets measured at fair value				
Land	0	0	65,287	65,287
Available-for-sale financial assets	403	0	104	507
Assets for which fair value is disclosed				
Loans and deposits	0	5,532	0	5,532
Liabilities for which fair value is disclosed				
Loans and finance leases	0	93,861	0	93,861

The table illustrates the classification of non-financial and financial instruments with respect to the calculation of their fair value. They are classified to the following three levels:

- level 1 includes the unadjusted price quoted on an active market on the date of measurement;
- level 2 includes inputs other than the quoted prices included in Level 1 that can be directly or indirectly observed for assets or liabilities; and
- level 3 includes unobservable inputs for an asset or liability.

NOTE 24: Financial risks

Liquidity risk

Liquidity risk is managed through the active management of cash and includes:

- the monitoring and planning of cash flows;
- regular collection activities and daily contact with major customers;
- the option of using short-term credit lines via banks.

The table illustrates estimated undiscounted cash flows, including future interest.

TABLE 52: LIQUIDITY RISK AS AT 31 DECEMBER 2016

in EUR thousand

31 December 2016	Carrying amount	Contractual cash flows	6 months or less	6 to 12 months	1 to 2 years	2 to 5 years	More than 5 years
Loans received from others on the basis of loan agreements	77,161	82,519	3,022	3,012	6,100	70,385	0
Trade payables to suppliers in the Group	358	358	358	0	0	0	0
Trade payables (excluding the Group)	13,650	13,650	13,319	25	119	72	116
Liabilities based on advances	59	59	59	0	0	0	0
Other operating liabilities	2,086	2,086	2,086	0	0	0	0
Total	**93,314**	**98,672**	**18,844**	**3,036**	**6,219**	**70,457**	**116**

The Company estimates a time span of between 6 months and 5 years for guarantees issued in the amount of EUR 11,941 thousand.

TABLE 53: LIQUIDITY RISK AS AT 31 DECEMBER 2015

in EUR thousand

31 December 2015	Carrying amount	Contractual cash flows	6 months or less	6 to 12 months	1 to 2 years	2 to 5 years	More than 5 years
Loans received from others on the basis of loan agreements	93,861	103,315	3,226	3,213	6,553	90,323	0
Trade payables to suppliers in the Group	347	347	347	0	0	0	0
Trade payables (excluding the Group)	16,408	16,408	16,065	12	119	74	137
Liabilities based on advances	81	81	81	0	0	0	0
Other operating liabilities	2,114	2,114	1,789	0	325	0	0
Total	**112,811**	**122,265**	**21,508**	**3,226**	**6,997**	**90,397**	**137**

TABLE 54: CURRENCY RISK AS AT 31 DECEMBER 2016

in EUR thousand

31 December 2016	EUR	USD	Other	Total
Current operating receivables from Group companies	790	4	0	794
Current operating receivables from others	19,407	72	0	19,479
- of which trade receivables	18,479	72	0	18,551
Short-term loans to Group companies	1,293	0	0	1,293
Long-term deposits placed	10	0	0	10
Short-term loans granted and deposits placed with others	50	0	0	50
Long-term loans from others	-73,175	0	0	-73,175
Short-term loans from others	-3,986	0	0	-3,986
Current operating liabilities to Group companies	-358	0	0	-358
Current operating liabilities to others	-15,378	-90	-23	-15,491
- of which trade payables to others	-13,235	-89	-20	-13,344
Gross exposure disclosed in statement of financial position	**-71,347**	**-14**	**-23**	**-71,384**

TABLE 55: CURRENCY RISK AS AT 31 DECEMBER 2015

in EUR thousand

31 December 2015	EUR	USD	Other	Total
Current operating receivables from Group companies	743	0	0	743
Current operating receivables from others	20,581	81	1	20,663
- of which trade receivables (excluding the Group)	19,929	81	1	20,011
Long-term loans to Group companies	223	0	0	223
Short-term loans to Group companies	1,070	0	0	1,070
Long-term deposits placed	30	0	0	30
Short-term loans granted and deposits placed with others	4,209	0	0	4,209
Long-term loans from others	-90,109	0	0	-90,109
Short-term loans from others	-3,752	0	0	-3,752
Current operating liabilities to Group companies	-347	0	0	-347
Current operating liabilities to others	-17,863	-82	-3	-17,947
- of which trade payables (excluding the Group)	-15,993	-82	-3	-16,077
Gross exposure disclosed in statement of financial position	**-85,214**	**-1**	**-2**	**-85,217**

TABLE 56: CREDIT RISK

in EUR thousand

	31 December 2016	31 December 2015
Loans to Group companies	1,293	1,293
Loans granted and deposits placed with others	60	4,228
Operating receivables	20,290	21,406
- of which trade receivables within the Group	577	571
- of which trade receivables from others	18,551	20,011
Cash and cash equivalents	1,822	8,169
Total	**23,465**	**35,096**

The table presents an interest-rate sensitivity analysis and the impact on profit or loss from ordinary operations.

TABLE 57: INTEREST-RATE RISK

in EUR thousand

2016	Change in basis points	6 months or less	6 to 12 months	1 to 2 years	2 to 5 years	More than 5 years	Total
EURIBOR	+50	-192	-190	-361	-256	0	-999
EURIBOR	+25	-96	-95	-181	-128	0	-500
EURIBOR	-25	96	95	181	128	0	500
EURIBOR	-50	192	190	361	256	0	999

TABLE 58: INTEREST-RATE RISK

in EUR thousand

2015	Change in basis points	6 months or less	6 to 12 months	1 to 2 years	2 to 5 years	More than 5 years	Total
EURIBOR	+50	-235	-233	-448	-732	0	-1,648
EURIBOR	+25	-118	-117	-224	-366	0	-824
EURIBOR	-25	118	117	224	366	0	824
EURIBOR	-50	235	233	448	732	0	1,648

TABLE 59: CAPITAL MANAGEMENT

in EUR thousand

	2016	2015
Non-current financial liabilities	73,175	90,109
Current financial liabilities	4,412	3,752
Total financial liabilities	77,587	93,861
Equity	87,118	97,976
Debt/equity	**0.89**	**0.96**
Current financial assets	1,593	5,529
Cash and cash equivalents	1,822	8,169
Net financial liabilities	74,172	80,163
Net debt/equity	**0.85**	**0.82**
Total assets	190,731	226,292
Equity to total assets	**0.46**	**0.43**

The main purpose of capital management is to ensure capital adequacy, the highest possible level of financial stability and long-term solvency for the needs of financing operations, and the maximisation of value for shareholders. The Company's debt-to-equity ratio was lower at the end of 2016. The Company pursued its strategic policy to reduce financial debt throughout 2016.

NOTE 25: Other notes

TABLE 60 COSTS OF AUDITING SERVICES

in EUR thousand

	2016	2015
Auditing of the annual report	56	31
Other services	0	0
Total	**56**	**31**

Auditing services were provided by the audit firm KPMG Slovenija, d.o.o., Ljubljana. The aforementioned firm did not provide any other services during 2016. Audit costs for the 2016 annual report were recognised taking into the stage of completion of those services.

Related parties of Intereuropa d.d., Koper include:
- subsidiaries,
- an associate or joint venture, and
- the controlling company's key management personnel and their immediate family members, and
- members of the Supervisory Board and their family members.

Key management personnel at the controlling company are the members of the Management Board.

TABLE 61: DISCLOSURE OF TRANSACTIONS WITH RELATED PARTIES

in EUR thousand

Revenues from the sale of services	January–December 2016	January–December 2015
Subsidiaries	3,215	3,104
Associate and joint venture	647	726
Costs of services	**January–December 2016**	**January–December 2015**
Subsidiaries	2,065	2,182
Associate and joint venture	3,765	4,289
Interest income	**January–December 2016**	**January–December 2015**
Subsidiaries	61	64
Income from participating interests	**January–December 2016**	**January–December 2015**
Subsidiaries	750	838
Associate and joint venture	34	41
Balance of operating receivables	**31 December 2016**	**31 December 2015**
Subsidiaries	794	743
Associate and joint venture	130	79
Balance of operating liabilities	**31 December 2016**	**31 December 2015**
Subsidiaries	358	347
Associate and joint venture	500	551
Loans granted	**31 December 2016**	**31 December 2015**
Subsidiaries	1,293	1,293

None of the above listed liabilities are secured nor has any guarantee been issued or received in connection with them. Liabilities to the associate or joint venture are generally settled by remittances, assignment or mutual netting. Transactions with related parties were executed at market terms.

Remuneration of members of the Management Board, Supervisory Board and employees on individual contracts in 2016.

The Company did not approve any advances, loans or sureties to members of the Management Board and Supervisory Board, and employees on individual contracts.

TABLE 62: REMUNERATION OF MANAGEMENT BOARD MEMBERS IN 2016

in EUR

	Period (from – to)	Wages – fixed portion		Wages – variable portion		Fringe benefits and other remuneration		Total	
		Gross	Net	Gross	Net	Gross	Net	Gross	Net
Ernest Gortan	1 January–31 December 2016	137,502	67,694	0	0	3,985	5,866	141,487	73,560
Tatjana Vošinek Pucer	1 January–31 December 2016	119,863	59,079	0	0	14,481	13,459	134,344	72,538
Marko Cegnar	19 March–31 December 2016	88,111	44,416	0	0	6,307	6,270	94,418	50,686
Total		**345,475**	**171,189**	**0**	**0**	**24,773**	**25,595**	**370,248**	**196,784**

	Period (from – to)	Net fringe benefits and other remuneration						
		D&O insurance	Supplementary pension insurance	Other fringe benefits	Reimbursement of expenses	Share in profit	Other remuneration	TOTAL
Ernest Gortan	1 January–31 December 2016	0	1,691	844	1,285	0	2045	5,866
Tatjana Vošinek Pucer	1 January–31 December 2016	0	1,691	2,810	1,230	0	7728	13,459
Marko Cegnar	19 March–31 December 2016	0	1,128	1,543	912	0	2688	6,270
Total		**0**	**4,510**	**5,197**	**3,427**	**0**	**12,461**	**25,595**

TABLE 63: REMUNERATION OF SUPERVISORY BOARD MEMBERS IN 2016

in EUR

	Period (from – to)	Remuneration for function performed	Remuneration for work on committees	Session attendance fees	Reimbursement of expenses	Share in profit	Other fringe benefits	Total
Klemen Boštjančič	1 January–31 December 2016	12,500	660	2,475	871	0	0	16,506
Maša Čertalič	1 January–31 December 2016	13,750	660	2,475	114	0	0	16,999
Miro Medvešek	1 January–31 December 2016	12,500	2,420	2,475	1,415	0	0	18,810
Jure Fišer	1 January–31 December 2016	13,750	2,420	2,200	3,552	0	0	21,922
Ljubo Kobale	1 January–31 December 2016	12,604	660	2,200	1,914	0	0	17,379
Nevija Pečar	1 January–31 December 2016	13,613	2,420	2,475	798	0	0	19,305
Total		**78,717**	**9,240**	**14,300**	**8,664**	**0**	**0**	**110,921**

TABLE 64: REMUNERATION OF EMPLOYEES ON INDIVIDUAL CONTRACTS

in EUR

	Gross wages	Fringe benefits and other remuneration (annual leave allowance, reimbursement of work-related expenses, severance pay, jubilee benefits, etc.)	Total remuneration
Employees under individual contracts	1,560,870	196,253	1,757,123

NOTE 26: Distributable profit

Based on the resolution of its Management Board, Intereuropa d.d. covered the net loss generated in 2016 in the amount of EUR 3,455 thousand and recognised a liability for preferred dividends in the amount of EUR 426 thousand.

TABLE 65: DISTRIBUTABLE PROFIT

in EUR thousand

	2016	2015
Net profit or loss for the financial year	-3,455	1,229
Net profit or loss brought forward	6,951	89
Increase in legal reserves	0	-694
Total distributable profit	**3,496**	**624**

NOTE 27: Events after the balance-sheet date

Intereuropa d.d. received notification from Nova KBM d.d., Maribor on 20 January 2017 regarding a change in the latter's significant participating interest. The shareholder Nova KBM d.d., Maribor is the owner of a total of 2,850,752 shares or 14.68% of the Company's voting rights.

The associate Intereuropa-FLG, d.o.o., Ljubljana was renamed Rail Cargo Logistics d.o.o. on 3 February 2017.

Independent auditor's report for Intereuropa d.d.

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Independent Auditor's Report

To the owners of Intereuropa d.d.

Opinion

We have audited the separate financial statements of the Intereuropa d.d., Koper ("the Company"), which comprise the separate statement of financial position as of 31 December 2016, the separate statement of profit or loss and separate statement of comprehensive income, the separate statement of cash flows, and the separate statement of changes in equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements give true and fair view of the separate financial position of the Company as at 31 December 2016, and of its separate financial performance and its separate cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union ("IFRS as adopted by the EU").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibility for the Audit of separate Financial Statements* section of our report. We are independent of the Company in accordance with both the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the separate financial statements in Slovenia and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KPMG

Recoverability of deferred tax assets	
Deferred tax assets as at 31 December 2016: EUR 11.160 thousand (2015: EUR 16.413 thousand). *We refer to the financial statements: Note I. Significant judgments (basis for compilation of the financial statements), Note VI. 8: Corporate income tax (current and deferred) (notes to the financial statements).*	
Key audit matter	**Our response**
As at 31 December 2016, the Company has deferred tax assets in respect of the future benefit of unutilised tax losses in the amount of EUR 8.470 thousand as well as deductible temporary differences, arising from impairment losses, primarily of investments in non-strategic subsidiaries in the amount of EUR 2.582 thousand. While the Company reported an operating profit before taxation of EUR 4.708 thousand for the year ended 31 December 2016, we identified assessing the recoverability of recognised deferred tax assets as a key audit matter because the assessment by management is complex and requires the exercise of significant judgement in estimating future taxable profits and the timing of utilisation of the tax losses and temporary differences. The risk is exacerbated by the fact that the Company's financial performance has historically been difficult to predict and was significantly affected by the effects of non-recurring events that inherently involve a higher level of prediction uncertainty.	Our audit procedures included, among others: • Challenging the Company's assessment of the recoverability of deferred tax assets by assessing its ability to generate sufficient future taxable income to utilise the available tax losses and temporary differences, which included: - challenging the period over which management expects the loss carry-forwards to be utilised; - comparing key assumptions in the forecasts of taxable income, including, among others, projected growth rates, to our own expectation of those assumptions and to those used in the Company's cash flow forecast approved by the supervisory board and investigating any inconsistencies; - critically assessing the effects of future contemplated transactions and of the future reversal of taxable temporary differences, such as future sales of land plots, on the Company's projections of taxable profits; - comparing the revenue and operating costs included in the prior year's forecast with the current year's actual results to assess the reliability of the Company's budgeting and forecasting processes, and investigating any significant differences; • Comparing the actual tax losses utilised during the current year with the prior year's forecast for tax loss utilisation and considering the nature of any significant variations identified; • Assessing the adequacy and appropriateness of the Company's disclosures related to assumptions used in the deferred tax assets calculation.

KPMG

Fair value of land lots	
Carrying amount of land as at 31 December 2016: EUR 50.394 thousand (2015: EUR 65.287 thousand); fair value reserve as at 31 December 2016: EUR 34.844 thousand (2015: EUR 48.611 thousand); total impairment loss through other comprehensive income in 2016: EUR 7.103 thousand. *We refer to the financial statements: Notes II (d) Property, plant and equipment and II (h) Impairment of assets (significant accounting policies), Notes VI. 9: Property, plant and equipment and 18: Equity (notes to the financial statements).*	
Key audit matter	**Our response**
The Company's property, plant and equipment includes land lots at various locations across Slovenia used to support its business operations, primarily in providing warehousing and storage services. The land's total carrying amount, stated at EUR 50.394 thousand as at 31 December 2016, is determined based on the revaluation model. Pursuant to the model, the carrying amount of the land is determined as its fair value at the date of most recent revaluation less any subsequent impairment losses. The Company estimates the fair values of its land lots with the assistance of contracted external appraisers, and by reference to the lots' market values, based on the prices observed in recent transactions with similar assets. Therefore, the determination of these fair values involves application of significant judgement and estimates by the management, including primarily those in respect of the selection of comparable lots and transactions and any adjustments to the those transaction prices to reflect the specific attributes of the Company's land lots, such as the size, location and restriction on use. In light of the above circumstances, we consider determination of the fair value of land to be a key audit matter.	Our audit procedures included, among others: • Assessing the competence and objectivity of the external experts engaged by the Company and considering whether there were any matters that might have limited the scope of their work. • Attending the year-end audit committee meeting where the valuation methodologies, key assumptions and results of the valuation were presented by the Company's external valuation specialists and corroborating our understanding of their work performed. • With the support of external valuation experts engaged by us, critically evaluating the judgements and assumptions used in the Company land valuations. This included, but was not limited to: – Assessing the selection of comparable transactions and reasonableness of any related adjustments for size, location, type of transaction; – By reference to the respective land acquisition and ownership documents, evaluating, for each individual lot, the accuracy and relevance of the input data in the appraisers report; – Inspecting the Company's recent land lot sales transactions to assess whether they resulted in significant profits or losses in order to assess the historical accuracy of fair value estimates. • Evaluating the appropriateness and sufficiency of the financial statements disclosures in respect of fair value measurements.

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Revenue recognition	
Revenue from sales recognised in 2016: EUR 91.052 thousand (2015: EUR 91.492 thousand). *We refer to the financial statements: Note II (m) Revenues (significant accounting policies), Note VI. 1: Sales revenue (notes to the financial statements).*	
Key audit matter	**Our response**
The Company's revenues come from a wide range of services: land transportation, seafreight, airfreight, customs services, automotive logistics and full undertaking of logistics functions. Revenue from these services is generally recognized by reference to their stage of completion at the reporting date. Assessment of the accuracy and timing of revenue recognition is one of the key judgemental areas for our audit, due to the multitude of revenue streams, as listed above, as well as the fact that services rendered are charged to customers in accordance with various types of service agreements. Also, the Company routinely sub-contracts its transportation services to external carriers. Significant judgment is required of management in assessing whether the Company acts as a principal or agent in performing those services, and consequently, whether or not the gross amounts received from customers in exchange for services rendered can be recognized as revenue. Assessing the reporting date stage of completion in respect of the sub-contracted services is also inherently complex.	Our procedures included, amongst others, • Testing of the design, implementation and operating effectiveness of controls over the revenue cycle. This included using our own IT specialists in evaluating the controls in the IT systems that support the recording of revenue; • Assessing the Company's policy for recognizing revenue, including considering whether the policy is in accordance with relevant financial reporting standards; • For a sample of contracts entered into during the year, from all key revenue streams, assessing whether they were appropriately captured within revenue and any accrued or deferred income at the year end. This included, among others: - challenging management's conclusions with regards to accounting for selected aspects of accounting for revenues, such as potential agency or lease relationships, and the timing of revenue recognition. We focused on evaluation of the risks and responsibilities taken by the Company; - critically evaluating the Company's estimates of the stage of completion of the services at the reporting date by inspecting of contracts and supporting documents, such as invoices received from the sub-contractors, customs documents, freight lists, and by reference to the Company's list of open orders as at 31 December 2016. • Inspecting a sample of credit notes issued after year-end in order to assess whether the revenue for the year is overstated; • Assessing the accuracy of accrued and deferred income balances by tracing a sample of such balances to invoices raised pre or post year end and recalculating the amount accrued or deferred based on contract terms and costs incurred in the period up to year end; • Inspecting manual journal entries posted to revenue accounts as well as the underlying documentation, with particular focus on the journal entries after the balance sheet date.

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Impairment of investments in subsidiaries	
Investments in subsidiaries as at 31 December 2016: EUR 45.169 thousand (2015: EUR 46.453 thousand), impairment losses of investments in subsidiaries in 2016: EUR 2.620 thousand (2015: EUR 247 thousand). *We refer to the financial statements: Notes II. (b) Financial instruments and II. (h) Impairment of assets (significant accounting policies), Notes VI. 7: Finance income and costs and 14: Other non-current financial assets (notes to the financial statements).*	
Key audit matter	**Our response**
The Company has 13 subsidiaries in a number of European countries that provide the same services as the Company and support the Company in serving its clients throughout the region. In the separate financial statements, investments in these subsidiaries are measured at cost less any accumulated impairment losses. At the end of each reporting period, management assesses whether there is any indication that investments in subsidiaries may be impaired, such as, among others, significant current losses, negative equity or below-budget performance. The Company identified 5 subsidiaries which show signs of impairment. For the investments which show signs of impairment, the Company estimates their recoverable amounts by identifying the higher of value in use or fair value less cost to sell, using internal model. In the process of estimating recoverable amounts management uses significant judgements and estimates, such as growth rates, WACC, forecasted revenues as well as comparable transactions and liquidation discounts. The above estimation uncertainty was especially high in respect of investments in shares of TOV Intereuropa Kiev and TEK ZTS Užgorod, due to the fact that both of the subsidiaries operate in a country with an unstable political and economic situation. Due to the circumstances described we assessed the impairment of investments in subsidiaries to be a key audit matter.	Our procedures included, among others: • Obtaining an understanding of management's processes over the determination of recoverable amounts of the Company's investments; • Evaluating the reasonableness of the Company's judgments as to the existence of impairment indicators and consequently the requirement to perform related impairment tests, based on our understanding of the current market conditions and by independently assessing the investees' financial performance based on the analysis of their historical performance against past forecasts; • For investments with identified impairment indicators, with the assistance of our own valuation specialists assessing the Company's assumptions and estimates, applied to determine the assets' recoverable amounts. Our assessment covered, among other things: - evaluating the appropriateness of the impairment model used for the assets in question; - challenging the reasonableness of the assumptions applied by the external valuation experts, such as growth rates, WACC, liquidation discounts and appropriateness of comparable transactions; - evaluating the historic reliability of the Company's forecasts by comparing actual performance against previous forecasts. • With the assistance of our own valuation specialists we independently performed sensitivity analysis of impairment tests' results to changes in key assumptions, such as WACC and growth rate. • Considering the adequacy of the Company's disclosures related to the assumptions and significant judgements used at estimating recoverable amounts of investments in subsidiaries.

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Other Information

Management is responsible for other information. The other information comprises the Introduction, Business Report and Sustainability Report included in the Annual report, but does not include the separate financial statements and our auditor's report thereon.

In connection with our audit of the separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Business Report, we have considered whether the Business Report includes the disclosures required by the Company's Act (hereafter referred to as "the applicable legal requirements").

Based solely on the work required to be undertaken in the course of the audit of the separate financial statements and the procedures above, in our opinion:

- the information given in the Business Report for the financial year for which the separate financial statements are prepared, is consistent with the separate financial statements; and
- the [Business Report] has been prepared in accordance with the applicable legal requirements.

In addition, in light of the knowledge and understanding of the Company and its environment in which it operates, obtained in the course of our audit, we are required to report if we have identified material misstatements in the other information. We have nothing to report in this respect.

Responsibility of Management and Those Charged with Governance for the Separate Financial Statements

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

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

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibility for the Audit of Separate Financial Statements

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

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

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

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- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

On behalf of the auditing company

KPMG SLOVENIJA,
podjetje za revidiranje, d.o.o.

Andrej Scozzai
Certified auditor

Katarina Sitar Šuštar, MBA
Certified auditor
Partner

Ljubljana, 7 April 2017

KPMG Slovenija, d.o.o.

Reaching destinations reliably for 70 YEARS

Signing of the 2016 annual report and the constituent parts thereof

The Management Board of Intereuropa d.d., Koper has been briefed on the constituent parts of the annual report of the Company and the Intereuropa Group for 2016, and thus on the entire annual report of the Company and the Intereuropa Group for 2016. By signing below, we hereby agree with and confirm the annual report as stated above.

Management Board of Intereuropa d.d.

Ernest Gortan, MSc
President of the Management Board

Tatjana Vošinek Pucer, MSc
Deputy President of the Management Board

Marko Cegnar, MSc
Member of the Management Board

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