

THE COMPANY
RAISES THE
LEVEL OF
CORPORATE
INTEGRITY

MANAGEMENT REPORT

7 Corporate Governance Statement

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

CODES AND MANAGEMENT PRACTICE

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

1. Governance of Luka Koper, d.d.

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

- The remuneration of the Management Board members is paid in accordance with the Act Governing the Remuneration of Managers of Companies with Majority Ownership held by the Republic of Slovenia or Self-Governing Local Communities. Due to this fact the Supervisory Board of the company did not prepare any special proposal of the remuneration policy for the Management Board and submit it for the adoption by the General Meeting of Shareholders (derogation from the Corporate Governance Code of public limited companies, Items 5.7 and 8.10),
- When appointing committees the Supervisory Board does not determine the foreseen term of office, as the term of office in the committees of the Supervisory Board coincides with the term of office in the Supervisory Board. The functions of the Supervisory Board members in the committees end by the expiry of the term of office in the Supervisory Board. The framework competence of the Supervisory Board Committees is determined in the Rules of Conduct for the work of the Supervisory Board (derogation from the Corporate Governance Code of public limited companies, Item 13.2),
- The benefit for liability insurance of company bodies and managers is charged to the Supervisory Board members and it is considered the only benefit (derogation from the Corporate Governance Code for Companies with Capital Assets of the State, Item 6.9.3),
- In the remuneration policy of the management bodies the company strictly follows the provisions of the Act Governing the Remuneration of Managers of Companies with Majority Ownership held by the Republic of Slovenia or Self-Governing Local Communities. Due to this fact the Supervisory Board of the company did not prepare any special proposal of the remuneration policy in compliance with the Code (derogation from the Corporate Governance Code for Companies with Capital Assets of the State, Item 7.3),
- In case of delays in the implementation of the internal audit recommendations the reasons are to be stated and explained (derogation

from the Corporate Governance Code for Companies with Capital Assets of the State, Item 9.2.7),

- Luka Koper, d.d. prepares 5-year business plans. With respect to the compliance with the provisions of the Concession Agreement the company has to prepare a 5-year programme of port development and therefore it pursues the timing of both documents (derogation from the Recommendations and expectations of the Slovenian Sovereign Holding, Item 1.1.)
- As a rule, the company does not conclude any lump-sum agreements. Exceptions are only the agreements where such a method of cooperation is more economical due to the nature of the service performance (derogation from the Recommendations and expectations of the Slovenian Sovereign Holding, Item 3.7),
- With respect to the good operating results Luka Koper, d.d. paid out 13th salary in 2016 in line with the company's collective agreement in the amount of 100% of the average monthly salary of an employee (derogation from the Recommendations and expectations of the Slovenian Sovereign Holding, Item 4.2.2.)
- The company's collective agreement has not been made public as both parties to the agreement do not agree with the publicly available company's collective agreement (derogation from the Recommendations and expectations of the Slovenian Sovereign Holding, Item 4.4).
- The self-assessment process in line with the EFQM excellence model has been at the starting phase. In 2016, the company organised a presentation workshop for potential participants – employees in the self-assessment procedure - in cooperation with the Metrology institute of the Republic of Slovenia that was awarded by the Republic of Slovenia for business excellence in line with the EFQM model and the promotor of the model. In 2017, further activities will be carried out for the self-assessment in line with the EFQM excellence model (derogation from the Recommendations and expectations of the Slovenian Sovereign Holding, Item 5.1.)

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

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

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

2. Governance of the subsidiaries

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

- In the annual report the subsidiaries gave no statement on the governance compliance with the Code, which will be harmonised with the recommended practice in future (derogation from the Corporate Governance Code for Companies with Capital Assets of the State, Item 3.4).
- On the basis of the results achieved, in line with the Collective agreement and the conditions met for the payment of the 13th salary the subsidiaries Luka Koper INPO, d.o.o., Adria Terminali, d.o.o. and TOC, d.o.o. paid the 13th salary to the employees in the amount of the average salary (derogation from the

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

- The collective agreements of Luka Koper INPO, d.o.o. and Adria Terminali, d.o.o. have not been made public as both parties to the agreement do not agree with the publicly available company's collective agreement (derogation from the Recommendations and expectations of the Slovenian Sovereign Holding, Item 4.4).
- The subsidiaries did not conduct the self-assessment in line with the EFQM model as the re-introduction of this approach has been in progress at the level of the controlling company - Luka Koper, d.d. (derogation from the Recommendations and expectations of the Slovenian Sovereign Holding, Items 5.1 and 5.4).

INTERNAL CONTROLS AND RISK MANAGEMENT RELATED TO FINANCIAL REPORTING

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

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

The Luka Koper Group manages risks related to the consolidated financial statements also by the conduct of external audit of the consolidated financial

statements, audit of the financial statements of the controlling company and the subsidiary Luka Koper INPO, d.o.o. and the examination of the reporting package for the needs of the consolidation of subsidiaries Adria Terminali, d.o.o., Luka Koper Pristan, d.o.o., and TOC, d.o.o.

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

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

Structure of the company's share capital

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

Share transfer limitations

All company shares are freely transferrable.

Qualified shares in accordance with the Takeovers Act

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

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

Holders of securities granting special control rights

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

Employee share scheme

The company has no employee share scheme.

Limitation of voting rights

There is no limitation of voting rights.

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

The company has not been informed of any such agreements.

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

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

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

The President and members of the Management Board, except the Employee Director, shall have at least university education, a thorough knowledge of one world language, and minimally five years of work experience in decision-making

positions in large companies in accordance with the criteria stipulated by the act regulating companies. Detailed conditions and the criteria for the president and member of the Management Board are determined by the Supervisory Board. The conditions for the Employee Director are jointly determined by the Supervisory Board and the Workers' Council.

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

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

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

Company rules concerning changes in the Articles of Association

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

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

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

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

The company has not been informed of any such agreements.

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

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

MANAGEMENT SYSTEM

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

GENERAL MEETING OF SHAREHOLDERS

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

Convening the General Meeting of Shareholders

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

Participation and voting rights

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

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

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

Decisions of the General Meeting of Shareholders

In 2016, the shareholders had one General Meeting:

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

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

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

THE SUPERVISORY BOARD

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

Composition of the Supervisory Board

The Supervisory Board of Luka Koper, d.d. consists of nine members. Six are elected by the General Meeting of Shareholders, and three by the Workers' Council

of the Company. The Members of the Supervisory Board are elected for a 4-year term of office.

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

Representatives of shareholders:

Alenka Žnidaršič Kranjc, PhD, Chairperson of the Supervisory Board

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

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

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

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

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

Capt. Rado Antolović, MBA, Supervisory Board Member

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

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

Andrej Šercer, MSc, Supervisory Board Member

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

Žiga Škerjanec, Supervisory Board Member

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

Sabina Mozetič, Supervisory Board Member

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

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

Representatives of the employees:**Mladen Jovičič**, Supervisory Board Member

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

Marko Grabljevec, Supervisory Board Member

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

Rok Parovel, Supervisory Board Member

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

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

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

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

Work of the Supervisory Board

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

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

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

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

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

Committees of the Supervisory Board

The Supervisory Board has three committees:

- the HR Committee,
- the Audit Committee,
- the Committee for Infrastructure and Operations.

The committees perform specific tasks to help the Supervisory Board.

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

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

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

Remuneration of the Supervisory Board

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

THE MANAGEMENT BOARD OF THE COMPANY

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

Composition of the Management Board

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

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

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

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

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

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

After several years of service in the merchant navy, where he achieved the position of first officer, Mr Novak obtained the title of marine engineer at the Faculty of Maritime Studies and Transport in Portorož in 1995. Since 1995 Mr Novak has

occupied various managerial positions at Luka Koper, d.d. including director of the Dry Bulk Terminal and the General Cargo Terminals. In 2008, he completed specialist post-graduate studies at the Faculty of Maritime Studies and Transport. On 10 June 2014 he started his five-year term of office at the invitation of the Supervisory Board and based on the decision on the appointment of the President of the Management Board.

- **Irena Vincek**, born 1972

Member of the Management Board in charge of Finance and Accounting

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

- **Stojan Čepar**, born 1977

Employee Director

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

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

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

Work of the Management Board

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

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



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

Tasks of the President of the Management Board:

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

Tasks of the Member of the Management Board:

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

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

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

Tasks of the Member of the Management Board – Employee Director:

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

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



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

Remuneration of the Management Board

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

MANAGEMENT AND GOVERNANCE OF THE COMPANIES IN THE LUKA KOPER GROUP

Luka Koper, d.d. has established a corporate governance system which includes the controlling company and 21 companies – from single-person limited companies

to the companies with the shares lower than 1%. With respect to the method of management all investments are divided into four groups:

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

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

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

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

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

INTERNAL AUDIT

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

In 2016, the internal audit carried out internal audit engagements and other activities in accordance with the adopted annual plan of work. Eight engagements were planned, one engagement from the previous year was completed and three unplanned engagements were also conducted. In scope of the engagements the existence and operation of internal controls and risk control were examined and recommendations for their improvement were given in some areas. After-audit activities were performed on a quarterly basis in addition to the planned and unplanned auditing; they were intended for the review of implemented measures

for the improved control of the risks perceived during the internal audit work. Consulting was also performed in the field of purchasing and as the informal consulting activity it was primarily focused on the assistance in the development of the internal control system, and risk management.

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

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

EXTERNAL AUDIT

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

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



Dragomir Matić

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



Andraž Novak

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



Alenka Žnidaršič Kranjc, PhD

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