LUKA KOPER
Port of Koper

Bojan Brank, Management Board President

Greetings from Koper,

This latest issue of Notice, the electronic bulletin of Luka Koper, is primarily aimed at the investment community. As the operator of the Port of Koper, we remain acutely aware of the many special characteristics of the port sector; our enterprise is far from one of autonomous production and much of our business is dependent upon long logistics chains in which Luka Koper is but a single link. Indeed, these chains are themselves influenced by numerous external factors and economic forces.

This edition focuses on dredging, an issue which has caused much deliberation and debate over recent months. Most European ports have problems with channel depth in relation to their approaches, and undoubtedly few benefit from the existence of natural roads of sufficient depth in themselves to facilitate the safe navigation of today's largest vessels. At Koper we are relatively fortunate in that the seabed is covered with silt, thus the dredging process is relatively simple and does not require any extreme measures, such as mining. Less fortunately, however, we are very limited as to the disposal of dredged silt. In accordance with legislation, excavated silt must be disposed of in the close proximity of the port, where, due to legal complications, we have now run out of available land. In October 2012, the Constitutional Court RS proscribed silt disposal across all plots owned by Koper Municipality north of Rižana River, i.e. in the area of the new Ankaran Municipality which is in the process of constitution. With no "plan B" in place, Luka Koper was left with a huge problem literally overnight. The dredging of the approaches navigation channel – which is the responsibility of state authorities – was half completed, and the Port was faced with the absurd scenario of large container vessels being able to enter the basin but unable to dock due to insufficient draft at the Container Terminal berths.

Running out of options as a consequence of the legally imposed block, Luka Koper had to search for - and eventually found - non-standard solutions, such as the disposal of silt in the open sea outside of European Union waters. This is a more expensive solution, but compared to the lost cargo and the loss of trust in relation to an important segment of our clients - and shipowners in particular - it would be a sensible strategy in the long-term. Fortunately it now seems that recourse to such extreme solutions shall not be necessary. In collaboration with Slovenia's Ministry of Infrastructure and Spatial Planning, as well as other institutions, a solution was finally found: a plot of land at Bonifika (Ankaran) owned by the state and intended for disposal of excavated material in the construction of the second railway track has been made available.

A number of bureaucratic obligations still have to be fulfilled prior to the actual utilisation of this land as an alternative disposal site, one of which being an archaeological survey. If there are no complications, berths at the Container Terminal could be dredged to a sufficient depth by mid summer.

At Luka Koper we often find ourselves repeating the same things over and over again. But all of us - financial analysts and investors included - have to be fully aware as to the importance of infrastructure in the successful operation of the Port. The point being that 14 metres of depth at the Container Terminal quayside will allow the arrival of fully loaded vessels carrying up to 8,500 TEUs, which, henceforth, won't have to first call at Trieste as they do today, which in terms of time and logistics is extremely inconvenient impediment for our clients.

This is a high-priority project for the company's management. I will be pleased if my somewhat extended term at the helm of Luka Koper will conclude with good news in relation to dredging operations, and the resultant satisfaction of existing and new clients. The successful completion of this project will definitely contribute to the growth of cargo throughput, and consequently to the company's performance as a whole. Considering the general economic situation at home and abroad we might be relatively pleased with results to date, which doesn't mean that things couldn't be better. Luka Koper shall continue to invest all its efforts into the strive towards ongoing improvement.

Overview of cargo throughput and revenue by cargo type

Cargo throughput in tonnes	2012	2011	Index 12/11
General cargos	1,438,833	1,383,355	104
Containers	5,292,047	5,334,817	99
Cars	674,692	640,407	105
Liquid cargos	3,194,636	2,922,890	109
Dry bulk	7,280,490	6,769,845	108
Total	**17,880,697**	**17,051,314**	**105**

Cargo throughput in units	2012	2011	12/11
Containers (TEUs)	570,744	589,314	97
Cars (units)	479,820	446,743	107

Luka Koper d.d. operating revenues (in thousands euros)	2012	2011	Index 12/11
General cargos	31,307	31,575	99
Container freight	32,494	32,421	100
Cars	16,178	14,001	116
Liquid cargos	7,047	7,201	98
Dry bulk	33,504	34,549	97
Other operating revenues	14,108	14,679	96
Total operating revenues	**134,638**	**134,427**	**100**

* Incomplete and non-audited data.
** Operating revenues are composed of net sales revenues and other operating revenues with the exclusion of other revenues. In the 2011 interim reports, operating revenues also included other revenues. In order to allow direct comparison with January – December 2012, the value of other revenues are not included in the January – December 2011 operating revenues. Other revenues amounted to 386,000 euros in the January to December 2011 fiscal year, whereas year on (i.e. January to December 2012) they amounted to 504,000 euros.

Cargo throughput in 2012 was five percent ahead of 2011, whereas the operating revenues of the parent company - Luka Koper d.d. - remained unchanged. Differences in physical volumes and revenues per individual cargo categories are mainly attributable to storages fees, and indeed the more rapid turnover in cargo has generally resulted in a downturn of revenues from storage fees. The exception here is liquid cargos, where, as a consequence of existing long-term fixed commercial contracts, any differences in average storage times are not directly reflected in Terminal performance.

Adequate Draft as a Competitive Advantage

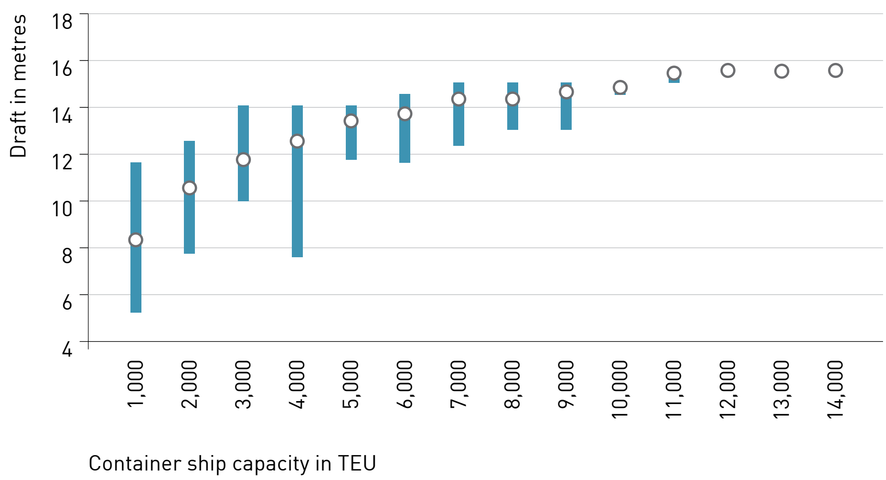
The maximum permissible draft of about seventy percent of the world's ports is ten metres or less[1], which is - in an era when the size of ships is being evermore determined by economies of scale - a surprisingly shallow depth. The Northern Adriatic is shallow, thus any increase in vessel size presents ever-more obvious problems as regards safe navigation.

Dredging operations in the approach channel to Basin I of the Port of Koper commenced in September 2012, and are due to be completed in mid-summer this year; as to the quantity of excavated materials dredging works are now about half way through. In conjunction with the scheme to deepen the navigation channel, which is the responsibility of the Maritime Administration of RS, Luka Koper also aims to deepen the berths at the Container Terminal quayside, which is its responsibility as port operator under the terms of its Concession Agreement with the state. This dredging work will facilitate the arrival of fully-loaded post-panamax container vessels which will be a competitive advantage to the Port of Koper going forward. At present, the only container terminal in the Northern Adriatic that can accommodate such fully-loaded ships is located at the 7th Pier of the neighbouring Port of Trieste. Due to the lack of dredging in Basin I at Koper, the Trieste facility is at present providing a one-day transit time advantage to clients. By way of comparison, the draft at Basin III of the Port of Koper (coal and ore operations) amounts to 18 metres.

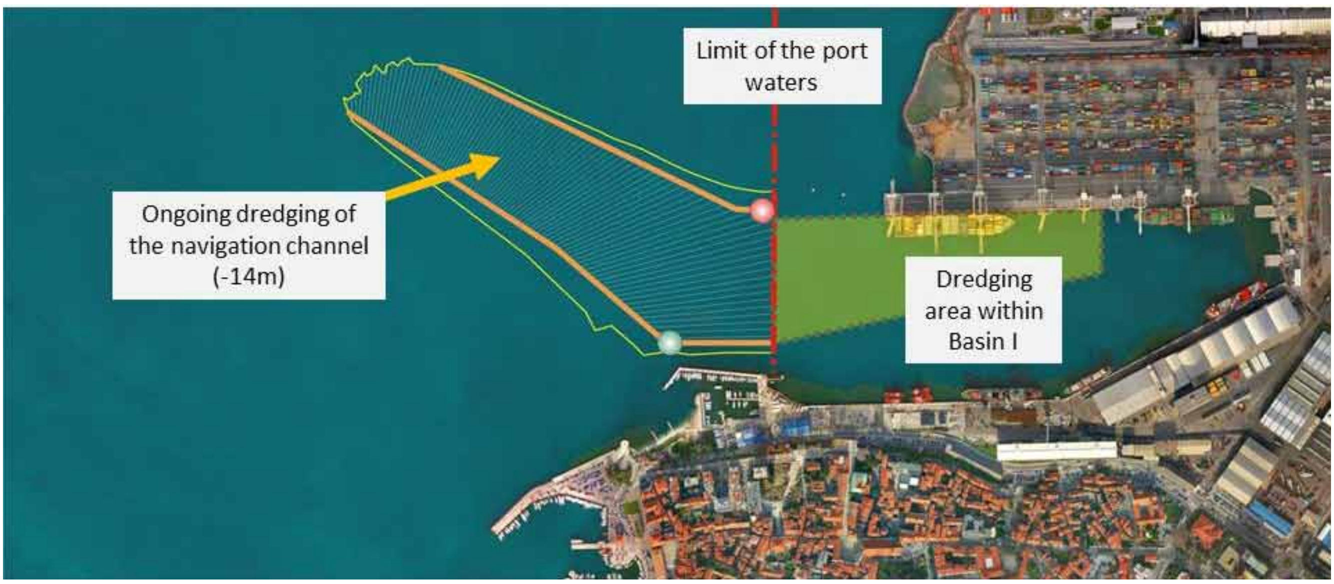
In relation to quayside depth, neighbouring Rijeka in Croatia suffers similar problems to Koper; Rijeka's new 330-metre long quayside at the Brajdica Terminal shall, however, be capable of accommodating vessels with drafts up to 14.5 metres. These works, including the installation of loading cranes, are anticipated to be completed in May. Due to its inland lagoon location, the Port of Venice cannot accommodate large container vessels; consequently it has for years considered the construction of a new off-shore terminal a few kilometres in front of the Venice lagoon. Containers would be reloaded from larger to smaller vessels at this facility, and then transported to the main terminal. The search for an investor for this multi-million euro project has now stopped, which puts its realisation in question. The further development of the port at Monfalcone, at the northernmost reach of the Adriatic, is likewise confronted with the problem of depth, or lack thereof. Accordingly, the "race to the bottom" remains open...

[1]: The Geography of Transport Systems, Dr. Jean-Paul Rodrigue, 2011

Figure 1: Average draft of container ships (source: Clarkson Research)



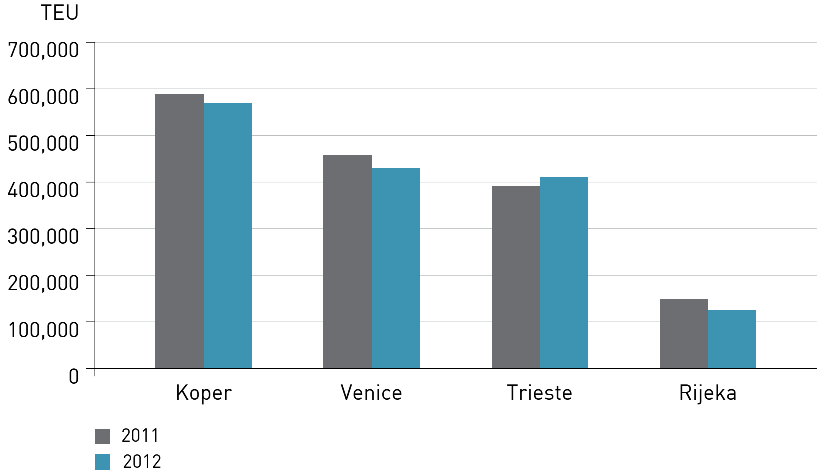
185,000 m³ of material - equivalent to the volume of 72 Olympic pools - will have to be dredged in order to ensure the channel approaches are of sufficient depth. The area within the basin shall require the excavation of an additional 80,000 m³ of silt.



Container throughput in the North Adriatic Ports

In 2012, the Port of Koper maintained its primacy in the region with regard to container freight; however, Koper's container throughput declined, as it did across the North Adriatic as a whole: container freight was down by seven percent at the Port of Venice, and sixteen percent off at the Port of Rijeka. Only the Port of Trieste achieved growth: its container business being four percent up on the poor performance recorded in 2011. A general decline in North Adriatic maritime transport can to a great extent be attributed to commercial decisions being made by shipowners in a period of recession; due to uncertain quantities, extreme variations in (shipping) rates as well as high fuel prices, fleets have been repositioned and services reconfigured in order to ensure utmost optimisation. Not even the largest ports on Europe's Northwestern seaboard have been able to record significant throughput growth during this period; indeed, currently available data pertaining to Hamburg and Rotterdam respectively reveal that in 2012 they recorded somewhat lower and identical cargo throughputs as in 2011.

Container freight throughput in Northern Adriatic Ports in 2011 and 2012



*data for port of Ravenna not yet available

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