



## **SUMMARY**

# **ANNUAL REPORT FOR THE YEAR 2007 THE LUKA KOPER GROUP AND LUKA KOPER, D.D. WITH AUDITORS OPINION**

Koper, Slovenia, april 2008

## KAZALO

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## **GENERAL INFORMATION**

The published summary of the Annual report for the year 2007 the Luka Koper group and Luka Koper, d.d. complies with the regulations of the Ljubljana Stock Exchange (Ljubljanska borza, d.d., Ljubljana) (Article 35) and the Securities Market Act.

Luka Koper, d.d., has headquarters at Vojkovo Nabrežje 38, SI-6000 Koper.

Major changes of information provided in the stock exchange listing prospectus are duly and regularly published on the Ljubljana Stock Exchange electronic information system SEOnet and on the company website at [www.luka-kp.si](http://www.luka-kp.si).

The 2007 Audited Annual Report of Luka Koper, d.d., and of the Luka Koper Group was discussed and adopted by the company Supervisory Board at its regular meeting on 09 April 2008.

The complete Annual Report can be viewed at the company headquarters every business day between 8 am and 1 pm. The 2007 Audited Annual Report of the parent company and the Group, along with the Auditor's Report, has been forwarded to the national Agency for Public-Legal Records and Related Services, in accordance with applicable regulations.

## **AUDIT AND AUDITOR'S REPORT**

The 2007 Financial Statements of Luka Koper, d.d., and of the Luka Koper Group have been audited by the authorised auditor Deloitte Revizija, d.o.o., Ljubljana. The Auditor's Report was received on 01 April 2008. The Authorised Auditor made on 21 March 2008 a positive recommendation in relation to the Annual Report of Luka Koper, d.d., and the Luka Koper group.

## STATEMENT OF THE PRESIDENT OF THE MANAGEMENT BOARD

Dear respected shareholders and esteemed business partners,

Excellent performance and achievements in 2007 represent significant progress in the implementation of our set strategic policies. We have been successfully realising our vision to become the leading port and logistics system servicing the countries of Central Europe.

We increased goods throughput in all key markets. In the Hungarian market, container transport rose and throughput climbed to a record 1.3 million tonnes. The higher throughput for Slovakia, where we are successfully integrating into goods flows connected with the car industry, is promising. New market opportunities are opening up in Germany and in the Czech Republic. We penetrated the markets of Romania and Bulgaria and opened a representative office for the two countries. Furthermore, we intensified connections with the Near and Far East, and South America. We brought our service range even closer to our customers by setting up a representative office for the Far East in Malaysia.

Extensive strategic projects in the past year sped up growth in the port and logistics activities of the Luka Koper Group. The expansion of the land terminal network in Slovenia and towards the east of Europe, along with specific measures undertaken by Luka Koper to become a railway operator, guarantee optimal management of the new port capacities, which will be obtained by the extension of pier I, completion of the warehouse facility for cars, and finalisation of other investments in port infrastructure and equipment that are underway.

### Successful in 2007

A major strategic jump was made when we changed the structure of maritime throughput. The latter rose by 9% in 2007, exceeding 15 million tonnes. Container, car and general cargo throughput increased by 40%, 31% and 36%, respectively. I am particularly pleased to highlight this increase. Namely, we are boosting the volume of top-quality cargo with higher added value that is also more environmentally friendly. Dry bulk cargo remained on the 2006 level, which is why the overall increase in throughput is lower. This corresponds to the adopted strategy, because owing to spatial rationalisation we will not increase the scope of this type of cargo much in the future.

The rise in cargoes with higher added value, more additional services related to goods, and greater throughput in general were also reflected in higher revenues, which totalled more than EUR 122 million. These movements were reflected in a promising 20% growth in operating profit, which is considerably more than in 2006 (6%). The increase in the net profit of the Luka Koper Group was also exceptional, i.e. 49%. In addition to the better performance of the parent company and its associates, the increase was also due to higher finance income from the disposal of shares in Banka Koper, d.d., in the amount of EUR 5.2 million, and a lower effective tax rate, which was 8.8% in 2007 and 12% in 2006. Earnings per share increased from EUR 1.42 to EUR 1.79. The dramatic increase in the Luka Koper share in mid 2007 and its depreciation in the first months of 2008 thus reflect the stock exchange movements and not successful performance. The stability and profitability of the investment is proved also by the fact that our activity of logistics and transport is intensively growing on the global level.

### Launch of investment cycle

In 2007, investments set out in the Development Strategy 2006-2015 were in full swing. EUR 93.8 million was earmarked for these investments, whereas in 2008 the respective amount will be EUR 144 million.

In spite of such extensive investments, the Company's financial stability was ensured by efficient financial management. We defined clear procedures and financing methods which provide for the consistent and safe realisation of planned investment projects. The safety of the Group's financial standing is secured by a high share of own sources of financing, since capital at the end of the year accounted for 74% of total assets. We have sufficient manoeuvring space, so we will also increase the volume of borrowed funds used for financing investments. In doing so, we will make sure that financial liabilities are predominantly long-term.

Sufficient funds for financing the investment cycle will also be obtained by the sale of some existing financial investments and the directing of surplus cash.

### **The Luka Koper Group tomorrow**

Tomorrow's image of the Luka Koper Group will to a high degree depend on the investments in new capacities and development launched in 2007.

Already at the end of 2008, some new facilities will be completed. The container terminal on the extended pier I will be prepared for welcoming giant ships. The European Distribution Centre in Sežana will intensify its role in the region and start spreading over an additional 70 hectares. In line with our partnership strategy, we will undertake additional joint ventures with successful logistics companies and expand the network of inland terminals. In December 2008, the company Rail Port Arad, one third of which is owned by Luka Koper, will set up a container terminal in Arad near the Hungarian-Romanian network. The plans for the establishment of the 'Panonija' distribution centre in the Prekmurje region, the general cargo (especially timber) terminal in Divača, and the terminals in Hungary will definitely be acted on. Through the subsidiary Adria Terminali, we will apply for a concession to manage the general cargo terminal in the Port of Trieste.

In 2008, our wagons will transport containers and steel parts for the car industry over the Central and Eastern European railway lines. In this way we will be able to utilise the greater port capacity, improve its throughput, and develop new logistics services in the framework of land terminals.

Due to the building rights granted by the state in 2007, we will be able to expand capacities and put the valuable space available in the port to better use. We expect to sign a concession agreement with the Government, which will in the long run define the relationship with the state, our largest owner. A car warehouse will be constructed, holding up to 2,750 cars in the first phase. The first three of the six new tanks for oil derivatives will be installed.

We expect the green light to be given to the establishment and management of a passenger terminal. In addition, we plan to sign the respective agreement with the Minister of Transport. The first port warehouse which will host the new passenger terminal has already been purchased. Construction is scheduled to start already in 2008.

The knowledge of our employees, the business excellence integrated into everyday operations on all levels, and a quick-response information system are firm assurance that the planned projects will be fully and usefully put into practice.

### **Sustainable development**

Consistent efforts to restrict environmental impacts remain our basic guidance. We are aware of the fact that port and logistics activities are invasive to the environment, but we are certain that these impacts can be very much mitigated by suitable measures. That is why

new investments have been designed with the aim of creating a balance between economic benefits and the benefits brought by a clean environment to us and future generations. To this end we founded a company in 2007 which will in the port area produce energy from alternative sources. Thus, we will provide ourselves with the energy we consume. The environmental aspect will also be consistently complied with at our land terminals.

The completion of the dust guard for the energy terminal and the purchase of an ecological vessel deserve special mentioning among last year's environmental investments, to which we allocated EUR 2.3 million. Last year we established the Sea Protection Department, which oversees the port aquatorium. We are applying for a concession to protect the entire Slovenian sea, in which case our many years' experience would definitely be useful.

By making donations and supporting sports, culture and social projects we strengthen cooperation with the local community and a wider social environment.

The basis of our success is our employees, which is why we provide for their satisfaction and development. The expansion of activities and new investments also bring new jobs. As a result, we recruited 108 employees last year. The Company' Management Board strives for a fruitful dialogue with the trade unions, with which an annex to the Corporate Collective Agreement was signed in early 2008.

50 years since the creation of the only Slovenian port – the anniversary was celebrated last year – the Luka Koper Group is expanding and improving its business potential in a promising manner. We are persistently following our strategic orientations and strengthening our competitive advantages. We would like to thank all the employees of the Luka Koper Group for their contribution to the achievement of the set goals and their successful work.

Robert Časar,

President of the Management Board of Luka Koper, d.d. Consistent efforts to restrict environmental impacts remain our basic guidance. We are aware of the fact that port and logistics activities are invasive to the environment, but we are certain that these impacts can be very much mitigated by suitable measures. That is why new investments have been designed with the aim of creating a balance between economic benefits and the benefits brought by a clean environment to us and future generations. To this end we founded a company in 2007 which will in the port area produce energy from alternative sources. Thus, we will provide ourselves with the energy we consume. The environmental aspect will also be consistently complied with at our land terminals.

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Robert Časar,

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

## REPORT OF THE SUPERVISORY BOARD FOR 2007

### Respected shareholders!

In 2007, the Supervisory Board regularly monitored and supervised the work of the Management Board. It followed the implementation of the 2007 Business Plan and Strategic Guidelines until 2015. Its resolutions and decisions supported the realisation of set strategic and business objectives. The Supervisory Board obtained from the Management Board all the necessary and required information about the current operations of the Company.

Even though the present Chairman of the Supervisory Board assumed office only on 19 July 2007, he reports about the work of the Supervisory Board carried out over the entire year. Until taking the position of Chairman, he was a member of the Supervisory Board and is therefore fully familiar with its operations.

### Composition of the Supervisory Board

In 2007, the composition of the Supervisory Board changed. At the 20th meeting, Boris Popovič was elected Chairman. The General Meeting of Shareholders appointed Olga Franca and Marjan Bezjak to the Supervisory Board as representatives of the Republic of Slovenia. Their four-year term of office started on 20 July 2007. Marjan Bezjak was elected Deputy Chairman at the 21st meeting. The Supervisory Board operated in full composition (with nine members) without interruptions.

The changes in the composition of the Supervisory Board resulted from the resolution of the Government of the Republic of Slovenia to discharge state officials from the supervisory and management boards of companies. Accordingly, the then President, Marko Starman, MSc., and his Deputy, Dr. Peter Verlič, resigned at the July meeting. The Supervisory Board thanks both of them for their valuable contribution during their term of office.

The composition of the Supervisory Board at the end of 2007 is stated in the Report on Corporate Governance. Key data about the members of the Supervisory Board are published on the website [www.luka-kp.si](http://www.luka-kp.si).

The members of the Supervisory Board do not have a business relationship with the Company or its Management Board nor are they personally or in some other way closely connected with either.

### Composition and Performance of the Supervisory Board's Committees

Three committees operated in 2007 and reported about their operations at the Supervisory Board's meetings. Changes in the composition of the Supervisory Board influenced the composition of the Audit Committee and the Environmental Committee.

Until 19 July 2007, the Audit Committee consisted of Dr. Peter Verlič (Chairman), Marko Starman, MSc., and Alverino Pavletič (members). When two members were replaced, the Supervisory Board appointed Marjan Bezjak and outsourced expert Aleksander Milostnik to the Committee. The Committee participated in the examining of the Annual Report for the year before, and summarised its findings in the Report on the Work of the Supervisory Board for the same year.

The Environmental Committee is composed of the Chairman, Metod Mezek, and the members Olga Franca and Tatjana Jazbec. The Committee met in April 2007, still in the former composition with Marko Starman, MSc., as member (replaced by Olga Franca). The Committee discussed the material »An Overview of Luka Koper's Ecological Balance« and presented its findings at the 20th meeting of the Supervisory Board. The latter adopted its stance on supporting continued measures and investments aimed at restricting the environmental impacts of the port.

The Committee for Spatial Issues (Bojan Zadel (Chairman), Marko Valentinčič and Robert Jerman (members)) operated unchanged throughout the year. It acknowledged the open questions related to the solving of spatial issues arising from the increase in the volume of the Company's activity, and supported the efforts geared towards signing the concession agreement with the Republic of Slovenia.

The members of the Committees agree that such a method of operation is efficient and will continue it in the future, naturally assisted by the relevant departments of the companies from the Luka Koper Group which provide them technical and expert support.

#### **Co-Operation with the Management Board**

The Supervisory Board constantly and actively co-operated with the Management Board and was informed about the results of its operations. The Management Board in due time notified the Supervisory Board about the business results, key plans and decisions, and regularly acquired approvals of investments in property, plant and equipment which exceeded 5% of share capital as well as of equity investments. The Supervisory Board assesses that the co-operation with the Management Board was good.

The Chairman of the Supervisory Board within his authority also co-operated with the Management Board in between Supervisory Board meetings.

#### **Meetings and Operations of the Supervisory Board**

The supervisory Board met at six regular and two correspondence meetings. The first regular meeting was held on 28 February (17th meeting), followed by meetings on 22 March, 21 May, 19 July, 6 November and 19 December 2007 (22nd meeting). The correspondence meetings were held on 6 February and 22 June (3rd and 4th meetings).

Most meetings were attended by all members of the Supervisory Board; none of them was absent often. Depending on the contents of the items on the agenda, the meetings were attended by the President and other members of the Management Board as well as expert employees of the Company, who thus provided additional explanations and information needed for adopting decisions.

The Supervisory Board's assessment of its work in 2007 is positive. All members were active and monitored the implementation of the adopted resolutions. They were well prepared for the meetings and acquired further information about the discussed topics. The composition and organisation of the Supervisory Board provided for efficient performance of the supervisory function. The new members became acquainted with the work of the Supervisory Board and underwent professional training for supervisory board members.

The Management Board informed the Supervisory Board through quarterly, semi-annual and three-quarterly reports on operations as well as provided explanations and answers to the

members' questions. At the November meeting, the Management Board assessed the operations until the end of the year.

At its regular annual meeting held on 28 February, the Supervisory Board acknowledged the report of the independent auditor and approved the 2006 Annual Report along with the proposed allocation of the accumulated profit. The Audit Committee took part in the examination of the Annual Report.

The Supervisory Board focused on active monitoring and supervision of the major strategic processes of the past year, such as the start of an intensive cycle of investments in port infrastructure and equipment, establishment of a network of land terminals, entry among railway operators, and soliciting of new business in the developing car industry in Central Europe. To this end the Supervisory Board supported the decisions of the Management Board on the establishment of new companies, investments in the purchase of holdings, and new investments in property, plant and equipment.

At the first session (which was a correspondence session), the Supervisory Board approved the establishment of the company Adria Terminali, d.o.o., which is managing the European Distribution Centre in Sežana. It also issued approval of the co-founding of the company for the distribution of steel car products - POS ESDC, d.o.o., and a limited liability company in Croatia. In July it approved the co-founding of Tehnološko okoljski center, d.o.o., and in November also of the companies Adria Pro, d.o.o. and Luka Koper Deutschland GmbH as well as a company producing alternative energy. The parent company's holdings in individual established Group companies are presented in the chapter Company Profile.

In November, in the scope of the establishment of a hinterland terminal network, the Supervisory Board agreed with the acquisition of land for the terminal in Divača and for the transport logistics centre in the Prekmurje region. It supported further activities for the establishment of logistics centres in Hungary and the co-founding of Rail Port Arad S.r.l., which will establish a container terminal in Romania. In addition, it approved the capital increase of Adria Terminali, d.o.o. in the amount of EUR 1.5 million.

In February, the Supervisory Board supported the disposal of 44,279 shares of Banka Koper, d.d. and the sale of a 26% interest in Actual IT, d.o.o., and in March the acquisition of a holding in Splošna plovba, d.o.o., which did not take place. At the May meeting, the Supervisory Board also approved the increase in the capital of Golf Istra, d.o.o., as a result of which a 20% holding was preserved.

On the basis of available data, the Supervisory Board assessed that the proposed investments in property, plant and equipment were justified and consistent with the strategic development orientations. It therefore agreed with the Management Board on these investments. This also included the approval of the purchase of 25 railway wagons and the support of the Management Board's decisions on investing in the new activity of the Company, namely its own railway transport.

At its 18th meeting, the Supervisory Board set the bonus for the Management Board due to its successful performance in 2006, equalling six gross salaries.

### **Remuneration of the Supervisory Board**

In 2007, the remuneration of the Supervisory Board changed according to the resolution passed by the General Meeting of Shareholders. This is described in more detail in the Report on Corporate Governance. Information about the receipts of the Supervisory Board members is presented in Note 3 to the Consolidated Financial Report.

### **Approval of the Annual Report and Opinion on the Auditor's Report**

The Supervisory Board discussed the Annual Report of Luka Koper, d.d. and the Luka Koper Group for 2007, along with the proposal of the Management Board on the allocation of

accumulated profit at its 23rd regular meeting, held on 9 April 2008. It also acknowledged the Auditor's Report and had no comments with regards to it.

By examining the Annual Report, the Supervisory Board established that reporting about the operations of Luka Koper, d.d. and the Luka Koper Group had been clear and transparent, and presented a true and fair view of their business position. Thus, it unanimously approved the Annual Report of Luka Koper, d.d. and the Luka Koper Group for 2007.

### **Proposed Allocation of Accumulated Profit in 2007**

The Supervisory Board is of the opinion that the Management Board's proposal on the allocation of accumulated profit is in line with the strategic development orientations until 2015 and considers the interest of shareholders with regard to a long-term increase in share value.

It proposes to the General Meeting of Shareholders to allocate accumulated profit in the amount of EUR 25,554,194.12 as follows:

- EUR 7,700,000.00 to dividends,
- EUR 135,000.00 to participation in profit by the Supervisory Board members,
- EUR 5,185,000.00 to other revenue reserves, and
- decision on the allocation of EUR 12,534,194.12 of other accumulated profit is to be adopted in the following business years.

On the basis of the implemented strategic development steps and disclosed performance results, the Supervisory Board estimates the work carried out by the Management Board in 2007 as good.

It proposes to the General Meeting of Shareholders to grant discharge from liability to the Management Board and Supervisory Board based on the Annual Report of Luka Koper, d.d. and the Luka Koper Group as well as the Auditor's Report and this Report.

The Supervisory Board thanks the Management Board and employees of the parent company and other companies from the Luka Koper Group for very good achievements in 2007, and offers its support in the implementation of set business and strategic goals in 2008.

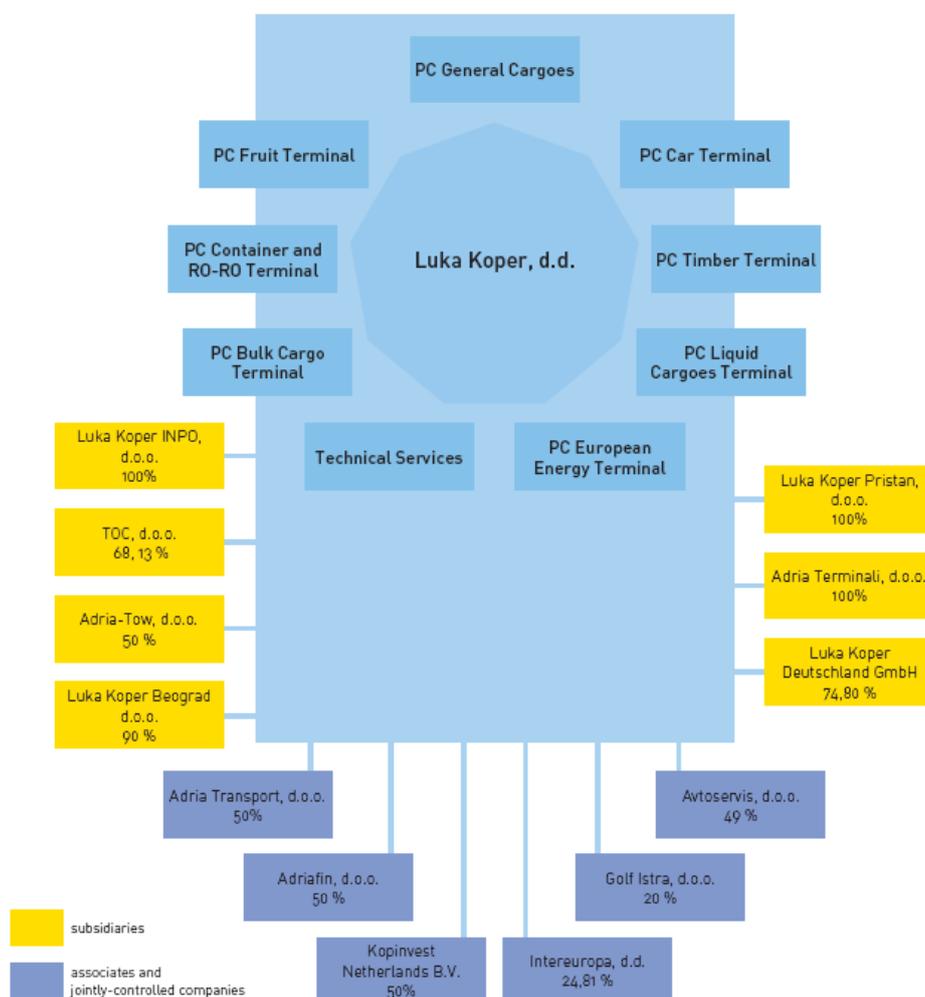
Boris Popovič,

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

## COMPANY PROFILE OF THE PARENT COMPANY LUKA KOPER, D.D.

|  |   |
|--|---|
| Company name                                 | Luka Koper, port and logistics system, public limited company |
| Abbreviated company name                     | Luka Koper, d.d.  |
| Registered office                            | Vojkovo nabrežje 38, Koper                                    |
|  | Telephone: 05 66 56 100                                       |
|  | Fax: 05 63 95 020   |
|  | E-mail: portkoper@luka-kp.si                                  |
|  | Website: www.luka-kp.si                                       |
| Entered in the register of                   | District Court of Koper, entry number 066/10032200            |
| Company registration number                  | 5144353   |
| Tax number                                   | SI 89190033   |
| Share capital                                | EUR 58,420,964.78   |
| Number of shares                             | 14,000,000 ordinary no-par value shares                       |
| Quotation of shares                          | Ljubljana Stock Exchange, first quotation                     |
| Share symbol                                 | LKPG  |
| President of the Management Board            | Robert Časar  |
| Chairman of the Supervisory Board            | Boris Popovič   |
| Number of companies in the Luka Koper Group  | 8   |
| Principal activity of Luka Koper, d.d.       | Service company, port and logistics system                    |
| Activities performed in the Luka Koper Group | Various service activities                                    |

## ORGANISATION OF THE LUKA KOPER GROUP AS AT 31 DECEMBER 2007



## REPORT ON CORPORATE GOVERNANCE

### Efficient and transparent achievement of strategic goals

Corporate governance of Luka Koper, d.d. and the Luka Koper Group is based on best practices established in Slovenia and internationally. Of key importance are, in addition to the applicable legislation and internal organisational rules and regulations, the Corporate Governance Code for Joint Stock Companies and the recommendations of the Association of Supervisory Board Members.

### Management system

In line with its two-tier management system, Luka Koper, d.d. is managed by the Management Board, which is supervised by the Supervisory Board appointed by the Company's General Meeting of Shareholders. The management bodies of the Company act in compliance with the Corporate Governance Code for Joint Stock Companies and the recommendations of the Association of Supervisory Board Members.

### General Meeting of Shareholders

The shareholders exercise their rights set in the Companies Act at the General Meeting of Shareholders, which is the supreme body of the Company. The competences of the General Meeting of Shareholders and other matters directly related to it are defined in the Articles of Association of the Company. The Articles of Association are published in their entirety on the website [www.luka-kp.si](http://www.luka-kp.si).

### Convening the General Meeting of Shareholders

As a rule, the Management Board convenes a General Meeting once a year in June or July. The convening of the General Meeting of Shareholders is announced to all shareholders, who no later than three weeks earlier receive the annual newspaper for shareholders entitled 'Luški delničar'. The convening of the General Meeting of Shareholders is published one month earlier in the Official Gazette of the Republic of Slovenia, in the newspapers 'Delo' and 'Dnevnik', in the electronic information system of the Ljubljana Stock Exchange (SEOnet), and on the website of the Company. The website includes material with draft resolutions, which is also available to shareholders also at the registered office of the Company.

### The right to participation and voting right

Shareholders may participate in the General Meeting of Shareholders and exercise their voting right if they register in writing with the Management Board of the Company no later than three days before the General Meeting and if they are entered in the Share Register kept by the Central Securities Clearing Corporation (Klirinško depotna družba) on the day the General Meeting is convened.

### Resolutions of the General Meeting of Shareholders

The shareholders convened once in the past year. At the 13th General Meeting (19 July 2007) they acknowledged the 2006 Annual Report and the Report of the Supervisory Board, and adopted all draft resolutions.

- They approved the proposed allocation of distributable profit for 2006.
- They granted a discharge from liability to the Management Board and the Supervisory Board for 2006.
- They set the amount of session fees and bonuses of the Chairman and members of the Supervisory Board.
- They passed a resolution on transforming 6,860,000 preference participating no-par value shares with limited voting right into ordinary no-par value shares.

- They adopted a resolution on amendments to the Company's Articles of Association referring to the changed distribution of share capital.
- Deloitte Revizija, d.o.o. was appointed auditor of the Company and the Group for 2007.
- Marjan Bezjak and Olga Franca were, on the proposal of the Republic of Slovenia, appointed to the Supervisory Board as shareholders' representatives for a four-year term of office.

A challenging action was announced at the General Meeting of Shareholders. On 13 August 2007, a lawsuit was filed to annul and contest the resolutions passed at the 13th General Meeting of Shareholders of Luka Koper, d.d. This is explained more extensively in the chapter Shareholder Value.

### **Supervisory Board**

The key role of the Supervisory Board is to supervise the performance and conduct of the Company's operations and, in this scope, to appoint and discharge the Management Board. The powers of the Supervisory Board and other issues directly related to it and its operations are defined in the Articles of Association and Rules of Procedure of the Supervisory Board.

### **Composition of the Supervisory Board**

The Supervisory Board of the Company is composed of nine members, of which six are representatives of the shareholders and three represent the employees. The shareholders' representatives are elected by the General Meeting of Shareholders by a simple majority and the employees' representatives by the Workers' Council. The members of the Supervisory Board are elected for a period of four years.

In the past year the composition of the Supervisory Board changed. Due to the Government's decision on state officials' discharge from the supervisory and management boards of companies, the then Chairman of the Supervisory Board, Marko Starman, MSc., and the Deputy Chairman, Dr. Peter Verlič, stepped down. That same day, the General Meeting of Shareholders appointed Olga Franca and Marjan Bezjak as shareholders' representatives to the Supervisory Board of the Company for a four-year term of office. Boris Popovič was appointed as new Chairman of the Supervisory Board and Marjan Bezjak Deputy Chairman.

The Supervisory Board is comprised of:

- Boris Popovič, representative of the Municipality of Koper, Chairman employed by: Mayor of the Municipality of Koper functions in other Supervisory Boards: Chairman of the Supervisory Board of the Public Housing Fund of the Municipality of Koper
- Marjan Bezjak, representative of the Republic of Slovenia, Deputy Chairman employed by: F.A. MAIK d.o.o.; Director functions in other Supervisory Boards: member of the Supervisory Board of the Slovene Enterprise Fund
- Olga Franca, representative of the Republic of Slovenia, member employed by: Adriatic Slovenica, d.d.; Health Insurance Director
- Metod Mezek, representative of other shareholders, member employed by: Health Centre Koper; Director
- Marko Valentinčič, representative of the Funds of the Republic of Slovenia, member pensioner
- Bojan Zadel, representative of the Republic of Slovenia, member employed by: Deputy Mayor of the Municipality of Izola
- Tatjana Jazbec, employees' representative, member function: Public Relations, independent expert
- Robert Jerman, employees' representative, member function: Profit Centre Dry Cargoes, Technical Manager

- Alverino Pavletič, employees' representative, member function: Profit Centre General Cargoes, Technical Manager Komisije nadzornega sveta

### **Supervisory Board committees**

In order to increase the efficiency of its operations, the Supervisory Board established the Audit Committee, the Environmental Committee and the Committee for Spatial Issues.

Due to the resignation and appointment of two new members of the Supervisory Board, the management of its committees changed. Thus, the function of Chairman of the Audit Committee was taken up by Marjan Bezjak (instead of Dr. Peter Verlič). The Environmental Committee was chaired by Metod

Mezek and the Committee for Spatial Issues by Bojan Zadel. Each of the three committees held a meeting in 2007.

- Audit Committee reviewed and approved the Annual Report for 2006;
- Environmental Committee examined the material »An Overview of Luka Koper's Ecological Balance« and supported activities to reduce and restrict environmental impacts; and
- Committee for Spatial Issues acknowledged the situation at the port related to spatial issues.

### **Activities and resolutions of the Supervisory Board**

The Supervisory Board meets when the need arises, but at least once every three months, to review the operations of the Company and check the implementation of the business plan. In 2007, the Supervisory Board met at six regular meetings and adopted decisions at two correspondence meetings.

The main resolutions passed by the Supervisory Board in 2007 were:

- review and approval of the Annual Report and a proposal for the allocation of distributable profit,
- approval of sales and purchases of equity stakes and of the founding and co-founding of companies, and
- approval of investments in tangible assets exceeding 5% of equity.

The operations of the Supervisory Board are presented in greater detail in the Report by the Supervisory Board for 2007.

### **Remuneration of the Supervisory Board**

Payments, reimbursements and other benefits of the Supervisory Board members are fixed and independent of the Company's performance. They are detailed in the Financial Report of Luka Koper, d.d. in Note 4. Session fees and bonuses for the members of the Supervisory Board were last determined at the 13th General Meeting of Shareholders.

For participating in a regular meeting, the Chairman and the members of the Supervisory Board receive a session fee of EUR 858 gross and EUR 660 gross, respectively. The session fee for a correspondence session equals 80% of the above amounts. The person substituting the Chairman is entitled to session fee set for the Chairman. Travel expenses and daily allowance are paid according to the regulations applying to companies.

Luka Koper has not introduced a system of rewarding Supervisory Board members by option plans. The number of shares owned by the members of the Supervisory Board is given in the chapter Shareholder Value. The Supervisory Board members and their related persons report to the Company and competent institutions all acquisitions and disposals of the shares of the Company or its associates. This information is published in the SEOnet electronic information system of the Ljubljana Stock Exchange.

### **Management Board**

The main task of the Management Board is strategic management and efficient governance of the Luka Koper Group. The method of the Management Board's operation, its decision-making procedures, and the division of areas of operations among members of the Management Board are defined in its Rules of Procedure.

### **Presentation of the Management Board**

The Company is managed by a four-member Management Board. The five-year term of office of the current Management Board started in autumn 2005. On 31 December 2007 the Management Board operated in the following composition:

- Robert Časar, President of the Management Board LLB He represents the Company and acts on its behalf independently and without restrictions in all matters, especially as regards relations with key stakeholders and publics, infrastructure, organisational and human resources, safety and security, internal audit, and legal issues.
- Aldo Babič, MSc., Deputy President of the Management Board BSc. Econ. and MSc. (soc. sciences) He is in charge of marketing and sales, representative offices, and market and operational co-ordination between profit centres.
- Marjan Babič, MSc., member of the Management Board BSc. Econ. and MSc. Econ. He covers finance and accounting, IT, controlling, and quality control.
- Pavle Krumenaker, member of the Management Board - employee director BSc. Mech. Eng., MBA in management His remit includes workers' rights and social issues, maintenance, purchasing, relations with contractors and suppliers, and innovations.

On the proposal of the Workers' Council, the Supervisory Board on 9 April 2008 discharged Pavle Krumenaker, which is reported in the chapter Important Events Subsequent to Financial Year End.

The Management Board is presented also on the website [www.luka-kp.si](http://www.luka-kp.si).

### **Operations of the Management Board**

The Management Board manages the Company independently and at its own responsibility, representing it and acting on its behalf against third parties. In the absence of the President of the Management Board, the Deputy President acts in his place. The Deputy President and the members of the Management Board individually represent and act on behalf of the Company in line with the Rules of Procedure of the Management Board.

Each member of the Management Board is authorised to oversee a specific area of the Company's operations. The Management Board has established direct and efficient cooperation with the executive directors.

In 2007, the Management Board successfully managed and governed the Luka Koper Group and the parent company Luka Koper, d.d.

### **Remuneration of the Management Board**

Payments, reimbursements and other benefits of the Management Board members are stipulated in the respective fixed-term Service Contracts concluded between the Management Board members and the Supervisory Board. The receipts of the Management

Board members should be composed of a fixed and a variable component. Luka Koper, d.d. has not introduced a system for remunerating Management Board members by option plans.

The amounts of payments, reimbursements and other benefits of the Management Board members are given in the Financial Report of Luka Koper, d.d. in Note 4. The number of the Company's shares owned by the Management Board members is reported in the chapter Shareholder Value. The Management Board members and their related persons report to the Company and competent institutions all acquisitions and disposals of the shares of the Company or its associates. This information is published in the SEOnet electronic information system of the Ljubljana Stock Exchange.

Subsidiaries comprising the Luka Koper Group in addition to the parent company Luka Koper, d.d.

| Company                              | Director          | Equity stake of the parent company |
|--------------------------------------|-------------------|------------------------------------|
| Luka Koper INPO, d.o.o.              | Mirko Pavšič      | 100.00                             |
| Luka Koper Pristan, d.o.o.           | Darko Grgič       | 100.00                             |
| Adria Terminali, d.o.o.              | Viktor Orel       | 100.00                             |
| Luka Koper Deutschland GmbH, München | Andrej Andrijanič | 74.80                              |
| TOC, d.o.o., Koper                   | Marko Likon       | 68.13                              |
| Adria-Tow, d.o.o.                    | Robert Gerk       | 50.00                              |
| Luka Kopar Beograd, d.o.o.*          |                   | 90.00                              |

\* inactive company

### Management and governance of subsidiaries

The successful performance of our subsidiaries is based on strategic goals and management guidelines defined on the level of the Luka Koper Group. So as to provide for the efficient coordination and supervision of our subsidiaries' operations, the members of the parent company's Management Board are also members of the subsidiaries' General Meetings. Major tasks of the General Meetings of subsidiaries that should be noted include the approval of the annual business plan, the adoption of resolutions on the allocation of distributable profit, and the appointment and discharge of company directors.

Luka Koper, d.d. also connects subsidiaries from the Group on the level of business functions, chiefly in development and marketing, accounting, financing, legal consulting, environmental protection, IT support, and human resources management.

In 2007, the Luka Koper Group gained three newly founded companies:

- Adria Terminali, d.o.o. provides warehousing and distribution activities in the emerging European regional distribution centre in Sežana.
- Tehnološko okoljski center, d.o.o. (TOC d.o.o.), co-founded by Luka Koper, supplies technological and ecological research and quality assurance services.
- Luka Koper Deutschland GmbH was founded so as to provide marketing, market and sales activities for the parent company.

More details about the changes in subsidiaries, associates and jointly-controlled companies are provided in the Consolidated Financial Report of the Luka Koper Group.

### Internal audit

Owing to staff changes and an attempt to provide for the most efficient placement of internal auditing, in 2007 it was partly and indirectly intertwined with the operations of the Controlling Department. Since 2006, internal auditing tasks within the Luka Koper Group have been carried out by an experienced internal auditor.

### External audit

The financial statements of the parent company Luka Koper, d.d. and the consolidated financial statements of the Luka Koper Group were audited in 2007 by the auditing company Deloitte Revizija, d.o.o. The Company follows the provision of the Corporate Governance Code for Joint Stock Companies stipulating that the auditor-partner should be changed at least every five successive years.

## WE ARE PROGRESSING IN ALL STRATEGIC ORIENTATIONS

Successful implementation of the strategic goals and orientations of the Luka Koper Group, set out in the Business Development Strategy for the 2006-2015 period, is proven by the numerous achievements that will be upgraded and complemented in 2008. By realising ambitious goals we boost our competitive advantages.

### VISION, MISSION, STRATEGIC ORIENTATIONS

#### VISION

LUKA KOPER - the leading port and logistics system servicing Central Europe

#### MISSION

Port and logistics services as the simplest possibility for establishing business connections on the shortest route to the heart of Europe.

#### STRATEGIC ORIENTATIONS

| Visible logistics service provider          | Efficient port system and distribution centre   | Group of companies successful in the long run   | Ensuring sustainable development  |
|---|---|---|---|
| We manage the links in the transport chain. | We generate added value through technologically optimised processes and diverse product groups. | We develop modern and harmonised operations boosting return and guaranteeing the growth of asset value. | We maintain balance in relations with the corporate, natural and institutional environments and other stakeholders. |

By means of fundamental **VALUES - KNOWLEDGE, AMBITION, PARTNERSHIP, RESPECT AND RESPONSIBILITY** we realise our goals based on well-considered **STRATEGIES APPLYING TO KEY BUSINESS AREAS:**

|  |   |   |                            |                                     |
|--|---|---|----------------------------|-------------------------------------|
| Marketing and development of the product range | Organisational and human resources management | Infrastructural and technological development | Financial asset management | Attitude towards the general public |
|--|---|---|----------------------------|-------------------------------------|

## IMPLEMENTATION OF THE DEVELOPMENT STRATEGY AND PLANS FOR 2008

### 1<sup>st</sup> strategic orientation:

#### Remain a visible logistics service provider

##### Achievements in 2007:

- We founded the company **Adria Terminali, d.o.o.** and carried out the first services at the Sežana inland terminal.
- The activities for setting up land terminals in Romania, Hungary and Slovenia were carried out.
- We became the **point of entry and a distribution centre** for supplying steel products from the Far East to car factories in Central Europe.
- We co-founded a company for the distribution of steel products, **POS-EDSC, d.o.o.**
- We opened the **Far East Representative Office**, the **Bulgaria and Romania Representative Office** and the **South America Representative Office** in Argentina.
- The **Passenger Port of Koper** received 53 ships and an award for the most creative and innovative tourist project.
- A **36% increase in general cargo**, mainly due to steel products for the car industry and wood.
- A **40% increase in the number of container units handled**.
- Preparations for the projected growth in the throughput of fruit and other perishable food products.

##### Plans for 2008:

- The **expansion of activities at the inland terminal** in Sežana and the construction of a terminal in Divača.
- Preparations for setting up the **Pomurje and Podravje logistics terminals**.
- Establishment of a **land container terminal in Arad, Romania**.
- **Further activities** to set up land terminals and distribution centres in Hungary.
- **Improved structure of throughput by increasing** container, fruit, vegetable and car throughput.
- **Launching a distribution centre for steel products**.
- **More than 70 calls by passenger ships**.
- **Events for customers and promotion in key markets, especially in the Far East**, to heighten the visibility of the transport route and logistics connection via Koper.

### 2<sup>nd</sup> strategic orientation:

#### Efficient port system and distribution centre

##### Achievements in 2007:

- **Putting into operation an information system** supporting operational and marketing processes (TinO).
- Starting construction work to **extend pier I**, featuring a container terminal.
- Acquiring a construction permit for a **car warehouse** with a capacity of 12,000 cars.
- New **block train connections** and an **in-house railway service** to provide for greater throughput.
- **Purchasing 25 wagons** and combined locomotives giving new impetus to the organisation and provision of railway transport at Adria Transport, d.o.o.
- Preparing the **tax warehouse project**.
- **Redesigning the port intranet**, the basic tool of communication between employees of the Luka Koper Group.

##### Plans for 2008:

- **EUR 144 million will be allocated to investments in infrastructure and equipment**. Financing will be provided by a suitable structure of own and borrowed funds, and also by the sale of some financial investments.
- **Completing the extension of pier I** and purchasing two container lifts.
- **Constructing a new entrance to the port** and inner road connections to the motorway network.
- **Starting phase one of construction of the new car warehouse**, which will initially provide 2,750 parking places.
- **Construction and reconstruction of railway infrastructure** at the port.
- **Further pursuit of activities to solve environmental issues** related to the European energy terminal.
- **Finalising the construction of the 12<sup>th</sup> mooring with hinterland** for the distribution of steel products for the car industry in Central Europe.
- **Developing information support** with the aim of simplifying business processes, achieving "paperless" operations, and speeding up communication within the port environment.

3<sup>rd</sup> strategic orientation:

## Group of companies successful in the long run

Achievements in 2007:

- Operating revenue: + 15.6% or EUR 122.2 million.
- Net profit: + 49% or EUR 30.9 million.
- Added value: + 17% or EUR 70.6 million.
- Added value per employee: + 5.2% or EUR 65,992.
- Maritime throughput: + 9.4% or 15.4 million tonnes.

Plans for 2008:

Projected income statement for 2008 (in '000 of EUR)

|                       | Plan for 2008 |
|-----------------------|---------------|
| Operating revenue     | 124,525       |
| Operating costs       | -100,833      |
| Operating profit/loss | 23,692        |
| Finance income        | 21,197        |
| Finance expenses      | -6,648        |
| Total profit or loss  | 38,241        |

- Operating revenue will not be significantly higher on account of utilising almost full capacity and the initial investment stage to boost them in 2008.
- The goal is to increase return on sales (ROS), which at moderate revenue growth requires efficient cost control. ROS will equal 19%.
- The relative EBITDA and operating revenue ratio will be 35%.
- Added value will increase by 8%, reaching EUR 76.3 million.
- Maritime throughput will rise by 2% due to the same reasons as revenue.

4<sup>th</sup> strategic orientation:

## Ensuring sustainable development

Achievements in 2007:

- By providing systematic care for employees, suitable organisation, new knowledge, and by increasing the number of employees to 1,070, we have successfully supported the realisation of the Group's plans.
- We closed the third pool with protective booms to prevent any pollution from spreading into the open sea.
- The average annual concentration of inhalable dust was below the prescribed limit.
- A public tender was organised for a comprehensive spatial plan of the port.
- Our Sea Protection Department acquired its first ecological intervention vessel in case of sea pollution.
- Co-operation with the social environment was strengthened through sports, culture, and social donations and sponsorships.
- The 50<sup>th</sup> anniversary of Luka Koper was accompanied by sports, cultural and social events for the general public.

Plans for 2008:

- We will provide a suitable personnel structure and employee training to enable optimal implementation of the Company's goals.
- At the end of 2008 the Group will have 1,137 employees.
- The average annual concentration of inhalable dust will not exceed 25 µg/m.
- Procedures will continue for obtaining the EMAS environmental certificate, as a result of which the public will be even better informed about the constant improvements in environmental management.
- Reduced noise emissions into the environment at no less than one measurement point.
- Obtaining a concession for performing the public utility service of sea protection in the entire area of the Slovenian sea.
- Supporting research, educational and other social activities in the local environment and wider region. One million euros will go for donations and sponsorships.

## ANALYSIS OF OPERATIONS OF THE LUKA KOPER GROUP

### Promising diverse growth

Testifying to the extremely successful performance of the Luka Koper Group are the 15.6% rise in operating revenue, 9% increase in throughput, 49% growth in net profit, and, last but not least, the 11% rise in the number of employees. This reflects the effectiveness of efforts aimed at redirecting maritime goods flows for Central and Eastern Europe and the bold development investments in the expansion of port and logistics activities.

Operating revenue of the parent company account for 90% of the total operating revenue of the Luka Koper Group, which is why the parent company's operations have a significant

impact on the Group's performance. The analysis of the Luka Koper Group's operations also presents the operations of the parent company.

## Performance of the Luka Koper Group

Major categories of the Luka Koper Group's income statement (in '000 of EUR)

| Major indicators             | 2005   | 2006    | 2007    |
|------------------------------|--------|---------|---------|
| Operating revenue            | 92,634 | 105,688 | 122,222 |
| Operating expenses           | 74,297 | 86,288  | 98,827  |
| EBITDA                       | 32,466 | 33,803  | 40,033  |
| Net profit                   | 20,098 | 20,702  | 30,865  |
| Added value (in '000 of EUR) | 53,801 | 60,348  | 70,610  |
| <b>Turnover ratios</b>       |        |         |         |
| Operating efficiency ratio   | 1.25   | 1.22    | 1.24    |
| Total efficiency ratio       | 1.31   | 1.26    | 1.33    |

### Operating revenue

The year was characterised by a 15.6% rise in operating revenue. Average annual growth in the last three years stood at 17.4%. We generated EUR 122 million in operating revenue, of which 72% was in foreign markets. The structure of revenue by currency shows that 84% is accounted for by EUR and 16% by USD. The exposure to and management of currency risk are presented in the chapter Risk Management.

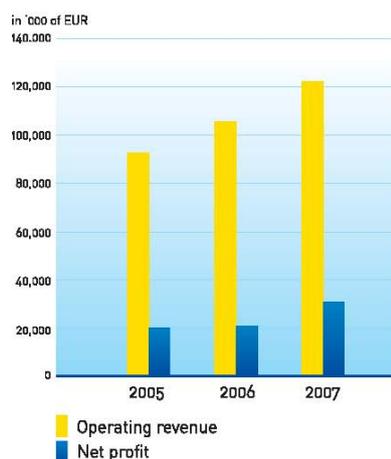
The increase in revenue was mostly influenced by basic throughput activity, where we again achieved record figures. Maritime throughput of 15.4 million tonnes was 9% greater than the year before. The year 2007 was a turning point also as regards the strategically significant product groups of containers and cars, namely more than 300,000 containers and over 500,000 cars were transhipped.

The favourable upward trend in throughput activity also had a positive impact on the towing activity performed in the port pool. This activity contributed 4.4% of the Group's revenue and recorded a 6% increase in the number of tows. The number of ships in the Port of Koper last year climbed to 2,234 and on average more than two towing operations were performed per ship.

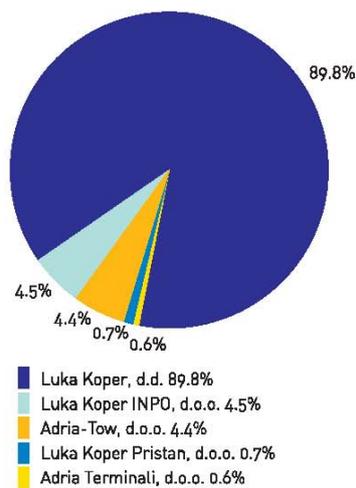
Logistics services of the hinterland terminal and hotel services round up the Group's activity, although they currently represent only 1.3% of the Luka Koper Group's revenue. The hinterland terminal services have only started being carried out, while the hotel activity has been expanding to high-class restaurants. Revenue earned by the disability company equal 4.5% of the total revenue of the Group and exceed the 2006 figure by 15%.

Proof of the growth in other activities of the Luka Koper Group is the share of the parent company's revenue in total revenue, having decreased from 92% in 2006 to 90% in 2007.

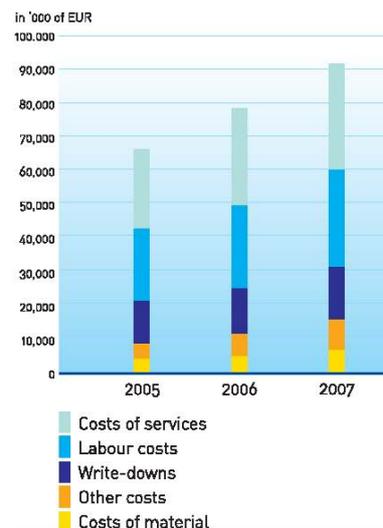
Operating revenue were also influenced by other operating revenue in the amount of EUR 3.2 million, generated by the sale of some fixed assets and rewards for loading and unloading ships ahead of schedule.



Operating revenue and net profit



Structure of operating revenue in 2007



Structure of operating expenses

## Operating expenses

The rise in throughput is reflected in a greater volume of additional activities, which significantly influence the increase in operating expenses. The latter amounted to EUR 98.8 million, or 14.5% more than in 2006. The annual growth in operating expenses is one percentage point below the annual growth in operating revenue, which favourably impacts the operating result.

The greatest increase in variable costs was that of the costs of physical services. Growth was also recorded in some fixed costs, for instance amortisation/depreciation, labour costs and environmental protection costs. The operating expenses of the parent company represent more than 89% of the total expenses of the Luka Koper Group.

### Costs of material

Changes in the costs of material were characterised chiefly by throughput trends and the price of energy sources. Compared to the year before, the costs of material, which were also influenced by the monitoring of maintenance costs, rose by 34%. More details are available in Note 2 in the consolidated Financial Report.

### Cost of services

These costs were 13% higher than in 2006, reaching EUR 33.9 million. The costs of physical services, maintenance costs, and the costs of transport services accounted for 66% of the total costs of services.

The highest rise was recorded in the costs of physical services, which grew by 43% over the year before. The increase in the costs of suppliers of port services, in addition to the more extensive sea freight, is influenced by a greater volume of additional services related to goods, the interior transport of goods to remote warehouse locations owing to occupied warehousing capacities around terminals, and more numerous goods movements at specific terminals.

Maintenance costs amounted to EUR 7.6 million, which is 5% less than in 2006. The costs of transport services varied during the year depending on the scope of fruit, vegetable and coal throughput to the markets of Western Europe. They were 5% higher than the 2006 figure.

### Labour costs

These costs grew by 15% and totalled EUR 30.9 million. They account for 31% of total operating expenses. In September, the basic salary was raised by 5%, as salaries were

harmonised with the increase in the consumer price index. The rise was also due to having 11% more employees, whose number at the end of the year equalled 1,070. More information about the number and structure of employees is available in the chapter Sustainable Development.

### Write-downs

In 2007, depreciation/amortisation rose by 14% to EUR 16.7 million. The rise reflects intensive investments over the past two years. In 2007, depreciation/ amortisation represented 18% of the total investments made by the Luka Koper Group that year.

### Finance income and expenses, and financial result

Finance income in 2007 reached EUR 14 million. Revenue from the disposal of financial investments, comprised chiefly of the sale of Banka Koper shares, stood at EUR 5.9 million.

The largest portion of finance expenses is that of interest expense arising from loans taken in the amount of EUR 2.3 million. In 2007, the financial result was EUR 10.3 million.

### Profit for the period

The Luka Koper Group generated EUR 23.4 million in profit from operations, which is 21% more than the year before. Taking into account EUR 10.3 million in profit from financing, total profit stood at EUR 33.7 million and exceeded last year's figure by 44%.

Taking the corporate income tax into consideration, the net profit of the Group totalled EUR 30.9 million. Minority shareholders were entitled to EUR 741,000.

The effective tax rate in 2007 was 8.8%. The reduction in the tax base mostly reflects tax benefits for investments in the economic zone and deductions for R&D investments. If the 25% corporate income tax rate is taken into account, the effective tax rate would be 0.8% higher, equalling EUR 257,000.

### Operating efficiency ratio and total efficiency ratio

Testifying to effective performance are the total efficiency ratio, namely the ratio between total revenue and expenses, and the operating efficiency ratio, calculated as the ratio between operating revenue and operating expenses. Both ratios have been increasing over time.

### Assets and liabilities

Balance sheet as at 31 Dec. (in '000 of EUR)

|                                   | 2005    | 2006    | 2007    |
|-----------------------------------|---------|---------|---------|
| Total assets                      | 331,216 | 366,404 | 461,159 |
| Long-term assets                  | 266,825 | 326,910 | 421,422 |
| Short-term assets                 | 64,391  | 39,494  | 39,737  |
| Long-term liabilities             | 315,420 | 350,292 | 370,309 |
| Short-term liabilities            | 15,796  | 16,112  | 90,850  |
| <b>Financial condition ratios</b> |         |         |         |
| Equity financing rate             | 0.82    | 0.80    | 0.74    |
| Financial liabilities rate        | 0.11    | 0.10    | 0.13    |

### Assets and their structure

As at 31 December 2007, the Luka Koper Group managed EUR 461 million in assets. Of these assets, 91% were long-term and 9% short-term. Real estate and financial investments accounted for 70% of the total. The bulk of short-term assets comprised current operating receivables, representing 73% of short-term assets.

The Group's long-term financial investments stood at EUR 173 million. The major item is investments in shares of Slovenian blue chip companies. Considering tax impacts and the situation in the capital market, long-term financial investments will be sold off in a balanced manner and used as a source for financing our ambitious investment plans.

### Liabilities and their structure

Long-term and short-term liabilities account for 4% and 20% of total assets, respectively. In 2007, short-term operating receivables grew on account of an amended financial policy whereby the maturity of payments was extended, and due to an increased volume of purchasing, mainly investments. A rise was also recorded in short-term financial liabilities, among which the prevailing item is short-term liabilities to commercial banks arising from loans taken. The portion of short-term financial liabilities increased to exceed long-term financial liabilities in 2007, when the Company financed the investment cycle by using more favourable short-term loans. More information about the maturity of liabilities is given in chapter Financial Management.

### Equity financing rate

The capital of the Luka Koper Group, amounting to EUR 341 million, accounts for 74 percent of total liabilities. The share of capital in total assets dropped compared to the previous year owing to a gradual changing of the structure of liabilities in favour of cheaper debt equity. Financial security remains favourable, which is confirmed by a high equity financing rate.

#### Cash flow

Cash flow (in '000 of EUR)

|  | 2005   | 2006    | 2007   |
|--|--------|---------|--------|
| Net cash from operating activities           | 22,798 | 37,419  | 55,940 |
| Net cash used in investing activities        | 12,880 | 32,376  | 68,010 |
| Net cash from (used in) financing activities | -9,509 | -10,568 | 13,462 |
| Cash for the period                          | 409    | -5,525  | 1,391  |

### Financial liabilities rate

The portion of short-term and long-term financial liabilities in total assets was 13% as at 31 December 2007. The upward trend in financial liabilities points to the fact that the advantages of the financial leverage are being exploited.

In 2007, the Luka Koper Group generated EUR 56 million in cash flow from operating activities. This is 49% more than in 2006. A positive impact on cash flow from operating activities was due to the amended financial policy of the parent company, which is reflected in higher liabilities to suppliers as a result of extended payment deadlines.

Investment activities were in parts financed by sold long-term and short-term financial investments. Owing to their volume, the cash flow from investing activities exceeded the cash flow from basic activities by EUR 12 million, for which the Group acquired all additional sources, recognised as net cash from financing activities.

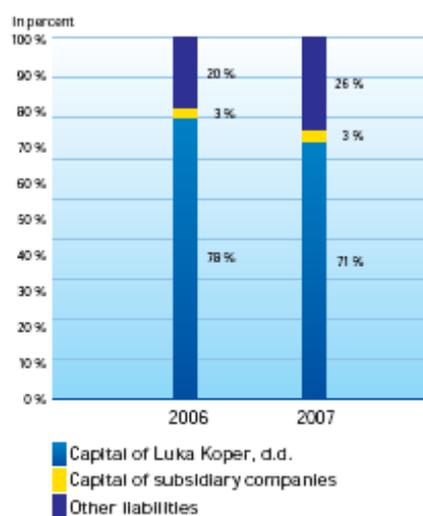
## FINANCIAL MANAGEMENT

### Safe support to development

Comprehensive financial management of the Luka Koper Group is organised on the level of the parent company, which sees to it that optimal liquidity, control, and management of financial risks in the Group's companies are provided. The management of the Group's financial investments is also centralised. The prevailing influence of the parent company is reflected in its very high shares in the Group's balance sheet items. The total assets of the parent company make up 94% of the total assets of the Group, whereas its equity accounts for 95% of the Group's total capital.

### Ownership aspect of financing sources

The very high degree of security of the Luka Koper Group is mainly ensured by equity sources of financing, namely capital. This category of financing accounted for 74% of all liabilities, which is 6 percentage points less than the year before. On the Group level, we will in the future expand the share of cheaper debt sources of financing and thus exploit the Group's financial leverage.



Structure of liabilities

In 2007, the Luka Koper Group's financial liabilities accounted for 13% of its total assets, having risen by 3 percentage points compared to the year before. The low level of indebtedness of both the parent company and the entire Group represents solid foundations for financing future investments. By increasing the volume of borrowing we provide the conditions for a higher return on equity.

The Group also used operating liabilities as a source of financing. These rose by 3 percentage points and on 31 December 2007 equalled 8% of the Group's total liabilities. This increase was mainly due to the amended financial policy whereby Luka Koper, d.d. extended the maturity of payments to suppliers, and due to the increased volume of purchasing chiefly resulting from investments in the Company's core activity and development.

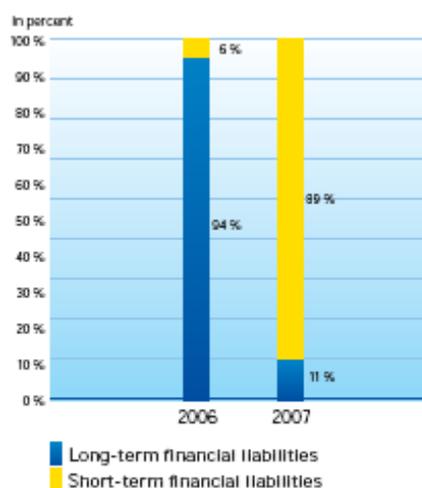
### Currency structure of financial sources

In 2007, the Luka Koper Group almost exclusively procured financing in euros. The exception was a loan raised by the parent company that was denominated in US dollars. This loan was raised to hedge the parent company's asset item of trade debtors against currency risk. More detailed effects of this hedging are presented in Note 31 to consolidated financial statements.

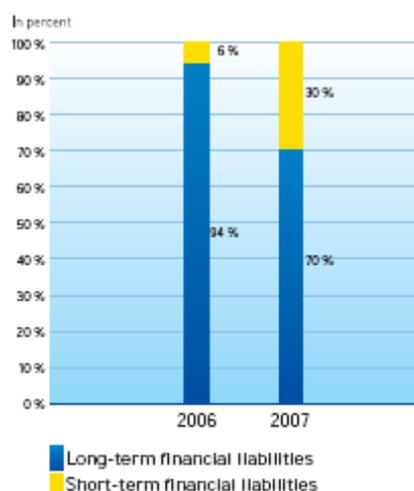
The share of foreign sources in US dollars accounted for 3% of all foreign sources of the Group's financing and was 2 percentage points higher than the year before.

### Maturity of liabilities

The change in the ratio between long-term and short-term financial liabilities was also caused by conditions in the banking market as short-term sources were significantly cheaper than long-term ones. That is why all new bank sources were short-term. A large proportion of the long-term financial liabilities of Luka Koper, d.d. falls due in 2008, which is why as at 31 December 2007 these liabilities were recognised as short-term.



Structure of financial liabilities in terms of maturity



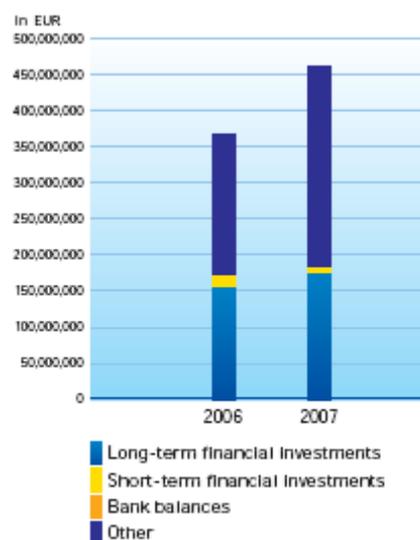
Structure of financial liabilities in terms of maturity type

Since some short-term financial liabilities have a long-term character and because the parent company intends to extend all existing short-term sources as they fall due, the maturity of financial liabilities can in terms of contents be presented as in the chart above. In such a case the ratio between short-term and long-term financial sources is very different since in 2007 short-term financial liabilities accounted for 30% of the Group's total.

### Financial investments as a source of financing expansion of the basic activity and the Group's development

An important asset item of the Group and jointly-controlled company is assets in the form of long-term financial investments, namely financial investments in associates, financial investments in other shares and stakes, and long-term loans granted. As at the last day of the year they amounted to EUR 173 million. Short-term financial investments totalled EUR 8.6 million, mainly consisting of bank deposits. More than one-half of long-term financial investments comprise investments in marketable securities of successful Slovenian companies and mutual funds.

Financial investments represent a significant potential source of financing the planned intensive investment cycle. By carefully managing these investments and taking into account the tax aspect of their disinvestment the Group, the parent company in particular, will gradually transfer its financial investment balance to real investments. Thus, it will boost its capacity to perform basic activity and implement its development strategy.



Structure of assets

Such an extensive source of funds on the assets side - in the form of financial investments - represents a good basis for making ambitious projected investments which will in the next few years provide strong foundations for the constant growth in operating results.

## RISK MANAGEMENT

### Efficient approach to risk reduction

The steep rise in the scope of services, the ever greater utilisation of capacities and the realisation of clearly set development goals are reflected in the Luka Koper Group's diverse growth and its greater exposure to different types of risks.

Identifying the type of risk, defining the level of exposure and establishing of an efficient system for managing risks are becoming important segments of the business policy being pursued through balanced co-operation between the Management Board, the Controlling Department, the Quality Department and other technical services. We conduct regular internal and external assessments and inspections of our operations. In this way we defined the key risks to which the Luka Koper Group is exposed. They are divided into:

- strategic risks;
- business risks; and
- financial risks.

### Strategic risks

The clearly defined and targeted development strategy for the period up until 2015 significantly reduces exposure to strategic risk. The strategic orientations are helping the Luka Koper Group develop into a visible logistics service provider and an efficient port and distribution system. Successful implementation of the development strategy in the Port of Koper is directly influenced by adoption of the national spatial plan that is scheduled for 2008.

Estimate of the Management Board: strategic risks are moderate and there is a limited probability of opportunity losses in the Group as a result of this type of risk.

### Business risks

The risks which are directly related to the ability to generate revenue and the planned return represent a series of business risks.

### Investment risks

The investment cycle started by the Luka Koper Group in 2007 will intensify in the next year. Investments will be made in port infrastructure, technological upgrades and the future development of the activity. As a result, risks concerning investments in property, plant and equipment will increase as well.

Risk control measures include:

- the balanced planning of investments in basic port and development activity in terms of contents;
- checking the economic justification of investments;
- achieving the planned economic performance of investments; and
- constantly improving the quality of the preparation, implementation, activation and monitoring of investments.

The Management Board establishes that risks arising from investments in property, plant and equipment are high and at the same time feels that due to the functioning risk management mechanisms the probability of a loss suffered by the Group is low.

### Human resources risks

In spite of the state-of-the-art technical and technological equipment, the port activity remains labour-intensive. That is why the availability and motivation of staff are important factors of efficiency.

The management of human resources risk in the section referring to the availability of labour was in the conditions directed by port activity trends defined as follows by:

- a systematic approach to planning labour needs; and
- providing for the horizontal and vertical mobility of the workforce.

The Luka Koper Group maintains and enhances the motivation of its employees by:

- systematic annual interviews with employees;
- periodic measurements of the organisational climate;
- setting up a dialogue with the employees by using various forms and tools of internal communications;
- using rewards systems; and
- putting into action various forms of additional care for employees even outside of working hours.

In the opinion of the Management Board, human resources risk in the Luka Koper Group is moderate. Owing to systematic measures of risk management, the probability of loss in the Group is also moderate.

### **Information system risks**

The only identified risk in the information system's functioning refers to the method for providing information support services by outsourcing. A comprehensive and integral service in this area is supplied by Actual I.T., d.o.o. from Koper.

The established good business practice proved by the stable functioning of the information system and a suitable level of IT user satisfaction considerably decreases the risk related to the information system's operations.

In 2007, Luka Koper, d.d. sold its 26% stake in Actual I.T., d.o.o. Koper. Nevertheless, the two companies will continue co-operating based on a partnership. We successfully completed the most important long-term project, namely the introduction of modern information support to operational processes for service implementation and marketing.

The Management Board estimates that the described status of the information system ensures a low level of risk. In its opinion, the established mechanisms for controlling it limit the probability of damage to the Group to a low level.

### **Sales risks**

Sales risks are directly related to the level of competitiveness in the provision of services in terms of both quality and quantity.

In addition to basic port services of throughput and warehousing, we make sure that customers' needs for additional services are met within the port system and along the entire logistics chain. We strive for:

- the supervision and systematic management of customer relations (regular communications, proactive solving of operational issues, checking customer satisfaction);
- a diversity of the port's range of services which in the future will remain focused on various product groups and be upgraded by services boosting added value and profitability;
- the provision of comprehensive support to customers by outsourcing other logistics service activities; and
- quality and efficiency as the main competitive advantages of our service range.

According to the estimate of the Management Board sales risk in the Luka Koper Group is moderate. The likelihood of the Group suffering a loss as a result of sales risk is estimated as moderate since numerous activities increase its competitiveness level.

### **Environmental risks**

The risk of a deterioration of environmental media (water, air or ground) is estimated as low by the Management Board of the Company.

On the level of the Luka Koper Group we prepare and update lists of potential environmental hazards and threats to employees on an annual basis. We regularly assess the level of endangerment in the sense of the possibility of major accidents. The lists and assessments are revised once a year in the register of environmental issues within the scope of the environmental planning processes and the planning of employee protection.

The risks of environmental impacts directly connected with port activities, the risks connected with global orientations in energy and the risks related to the amendments and harmonisation of new legislation are managed by:

- regular and legally prescribed measurements carried out by authorised organisations (environmental measurements and measurements in the workplace);
- regular internal supervision within the framework of the Sea Protection Department and Security Service;
- implementing preventive measures specifically defined for each terminal and technological procedure;
- conducting prevention exercises on a regular basis;
- the constant training of employees;
- taking efficient measures; and
- the introduction of technological novelties and monitoring the implementation of adopted measures.

As environmental risks are low due to the consistent measures taken, the Management Board is of the opinion that the probability of a loss in the Group arising from these risks is also low owing to the systematic measures.

### **Legislative risks**

Legislative amendments and interpretation of the legislation, in particular those parts regulating the basic activity of the Group, are crucial elements of legislative risk.

Fruitful co-operation and consulting with regulatory bodies in the process of introducing and amending legislation, along with our in-house experts, significantly reduce exposure to this type of risk.

Legislative risk is assessed as low by the Management Board. The latter feels that suitable measures help maintain the low probability of a loss to the Group arising from such risks.

### **Profitability risk**

The unresolved concession relationship between Luka Koper, d.d. and the Republic of Slovenia represents a profitability risk for the Group.

Once this concession relationship pertaining to port terminal management is regulated, port activity will gain a stable foundation of Luka Koper's dynamics. By increasing the scope of operations, the share of more profitable services and efficiently managing costs, we are maintaining and improving profitability despite the expected pressures to reduce the prices of our services.

The Management Board believes that the profitability risk is moderate. Also moderate is the probability of a loss in the Group as we believe that the contents and amount of the

concession fee will be determined by equally bearing in mind the ownership and management goals.

### **Financial risks**

The main financial risks experienced by the Luka Koper Group are the following:

- fair value risk;
- interest rate risk;
- currency risk;
- liquidity risk; and
- credit risk.

Exhaustive supervision of these risks, which is regularly carried out by the Financial Department at different intervals, prevents to a sufficient degree the uncertainty arising from fluctuations in financial categories, in particular finance income and expenses. Thus the designed financial policy provides solid foundations for the long-term stable operations of the entire Group.

With this approach we achieved a significantly higher reality level of planned categories, in particular projected future cash flows, among which we highlight the minimisation of the possibility of extraordinary finance expenses as a result of negative movements in various economic categories.

The measures for establishing and controlling financial risks are included in everyday working process. They provide the foundations for fast and timely responses to the changes in managed financial categories, which are the consequence of the presence of risks in financial operations.

The results of such financial policy and the process of financial risk management provide more stable operations of the entire Group and enhance the trust of the Company's owners, business partners and all other stakeholders co-operating with the Luka Koper Group.

This is proved also by credit rating reports of internationally established rating institutions, which enable the Group companies to acquire funds under the most favourable terms.

### **Fair value risk**

The Group invested 20.1% of its assets (in 2006: 14.2%) in financial investments carried at a fair value. The fluctuation in securities prices affects the value of these assets and consequently the potential capital gains on disposal.

Accordingly, Luka Koper, d.d. which holds all the said investments, estimated the risk volume arising from the change in the fair value of these investments. Note 31 to the consolidated financial report presents the effects of different projections of the future changes in fair values, along with the results of a sensitivity analysis.

On the basis of the estimated values the Management Board assessed that the exposure to the risk of changes in the fair value of the Company's assets invested in financial investments is low, as is the probability of a related loss.

### **Interest rate risk**

The greater the volume of borrowing, the greater the importance of interest rate risk owing to the fact that an unexpected rise in variable interest rates may jeopardise the planned business results of the Company.

Financial liabilities represent 14.5% and 12.7% of the total liabilities of the parent company and the Group, respectively.

The effects of expected fluctuations in interest rates are presented in Note 31 of the consolidated financial report.

In the framework of the ambitious investment cycle, which will include heavy investments in the Company's core activity and the boosting of its capacities, the share of borrowing will rise. As a result, the Company will be more exposed to interest rate risk. That is why activities were launched at the level of the Company and the Group, which will be reflected in interest rate risk management by means of other (derivative) financial instruments. The objective of such a policy will in part be to neutralise the effects of changes in variable interest rates on finance expenses arising from interest expenses.

Since the share of financial liabilities linked to a variable interest rate is low, the Management Board estimates that the exposure to interest rate risk and thus the probability of a loss due to changes in interest rates are low.

### **Currency risk**

The introduction of the euro in Slovenia had a positive impact on companies as regards currency risk. This is also true of all companies in the Luka Koper Group. Thus, the parent company »secured« its asset items denominated in foreign currencies by stating a financial liability in the same currency; namely, trade debtors in US dollars. The practice of maritime transport is historically closely connected with the US dollar, which is why great effort was devoted in past years to change the currency in which services are charged. As a result, the share of invoiced sales in US dollars is constantly decreasing.

In order to secure the USD-denominated receivables, the Company has provided for internal protection in the form of a financial liability equalling the average monthly turnover in the said currency. In this way in 2007 the Company balanced a good 60% of financial effects arising from changes in the USD exchange rate.

The Management Board assesses that the exposure to currency risk and thus the probability of a loss owing to an unfavourable movement in the exchange rate are low since the risk-bearing foreign-currency item accounts for a mere 0.61% of the total assets of the Company. The effect of hedging, detailed in Note 31 of the consolidated financial report, further reduces this exposure.

### **Liquidity risk**

The Luka Koper Group manages liquidity risk through the regular planning of cash flows for different maturities. Reconciliation of funds on the asset side and obligations on the liabilities side by maturity is crucial for assuring long-term solvency.

By carefully planning both operating and financial liabilities we create the foundations for consistent compliance with agreed due dates. The regular and timely checking of deadlines and amounts of liabilities are adjusted with the agreed (expected) inflows. If a business partner fails to meet its financial obligations in due time, we draw a revolving loan that we use for unpredictable situations. In this way we make sure that the operating and financial liabilities are discharged regularly and by the deadline. This is confirmed by the credit rating reports issued by competent institutions which have assigned us the highest payment discipline estimates. We believe that by managing liquidity risk in this way we can make a positive contribution to better financial discipline in both Slovenia and the broader European economic area.

The analysis of financial liabilities by maturity shows that all short-term financial liabilities of the parent company will fall due in 2008. According to the business plan, the Company will renew them as these liabilities can already be characterised as long-term ones. Long-term liabilities in the amount of EUR 6.2 million will fall due at the start of 2009.

Long-term solvency is provided by reliable operations and efficient asset management. Investments planned in the upcoming period will significantly impact on the Company's

solvency, which is why we will make sure that suitable sources (own and borrowed) for financing these investments are acquired in due time.

The Company's Management Board estimates that the exposure to liquidity risk and thus the probability of a loss arising from a potentially unbalanced liquidity position are low.

### **Credit risks**

The risks of customers failing to fulfil their contractual obligations by the prescribed deadline or so-called credit risks are identified promptly. Suitable measures are set up for the collection of operating receivables. In this way we provide protection against uncertain payments, which could hinder future cash flow projections.

The uncertainties about counterparties' fulfilment of obligations could lead to additional borrowing and financing costs. To this end, we introduced additional collection activities in 2007. Only by the regular and prompt reminding of defaulters and consistent charging of default interest do we maintain a relatively high-level payment discipline of our customers.

When entering into new deals with unknown companies, we check the customer's credit rating. On this basis we make further business decisions. The operations of the parent company are connected with the specific structure of our customers as we mostly do business with intermediaries, i.e. forwarding companies and agents.

A much lower volume of receivables arises from direct business relations with end purchases. As a result of the specific structure of our customers, the credit risk exposure is lower since the intermediaries' customer portfolio is very diversified. A special characteristic of our operations is the liens we arrange regarding warehoused goods, which can be used for the collection and recovery of the customer's obligations in the case of a default.

Some types of receivables are secured separately by security deposits. Financial investments include loans collateralised by at least blank bills of exchange and other (im)movable property. Such collection activities and the required collateral are also reflected in the low percentage of impaired assets, i.e. in 2007 only 0.47% of total assets of the Company (in 2006: 0.56%). Collection procedures are underway for all impaired assets, including before the courts.

We estimate that the credit quality of the Company's other (outstanding and non-impaired) assets is good.

In line with the above, the Management Board of the Company feels that the credit risk is low as is the probability of a loss arising from it.

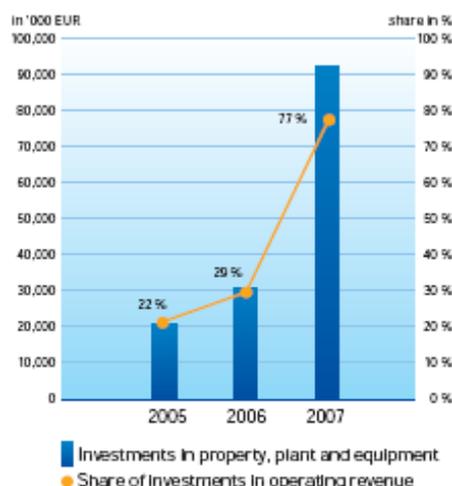
### Estimate of exposures to various types of risks

| Type of risk             | Exposure |          |      |
|--------------------------|----------|----------|------|
|                          | low      | moderate | high |
| <b>Strategic risks</b>   |          |          |      |
| Development risks        |          |          |      |
| <b>Business risks</b>    |          |          |      |
| Investment risks         |          |          |      |
| Human resources risks    |          |          |      |
| Information system risks |          |          |      |
| Sales risks              |          |          |      |
| Environmental risks      |          |          |      |
| Legislative risks        |          |          |      |
| Profitability risk       |          |          |      |
| <b>Financial risks</b>   |          |          |      |
| Fair value risks         |          |          |      |
| Currency risks           |          |          |      |
| Interest rate risks      |          |          |      |
| Liquidity risks          |          |          |      |
| Credit (trust) risk      |          |          |      |

## INVESTMENT POLICY

### Ambitious and promising investments

In 2007 the Luka Koper Group strategically intensified its investment activities by making heavy investments in port infrastructure, technologically updating equipment and making investments in the future development of the activity. A record EUR 93.8 million was allocated to investments in property, plant and equipment, which accounts for 77% of operating revenue. The bulk of such investments were realised by the parent company Luka Koper, d.d. namely in the amount of EUR 91.8 million.



Share of investments in sales revenue

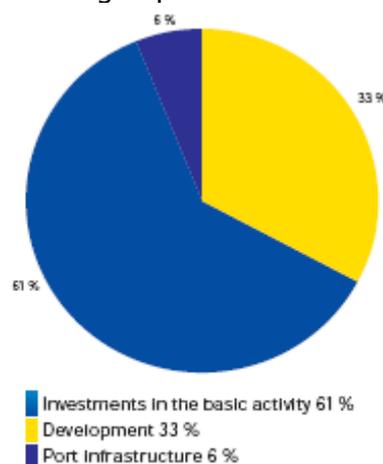
The strategic development orientations set an ambitious investment policy which will also be pursued in the future. In this framework, the majority of funds were for investments aimed

at boosting the capacity and modernising the equipment and devices for throughput and warehousing services as well as for investments in hinterland terminals and development.

### Investments in the basic port activity

Investments in the upgrading of equipment and boosting of equipment capacity are necessary for managing an ever greater volume of port throughput. Major investments made in equipment and to increase capacity in 2007 included:

- the start of construction of six tanks (each of 20,000 m<sup>3</sup>) with all installations and infrastructure for the acceptance, warehousing and shipment of oil derivatives;
- the renovation of older warehousing facilities and arranging of warehouse areas to provide for more efficient warehousing services;
- the purchase of a 40-tonne mobile port crane due to the greater volume of iron product turnover;
- terminal semi-trailers for the transport of containers and terminal tractors for transporting semi-trailers across the entire port area;
- the purchase of two RTG cranes for managing container throughput; and
- fork lifts with different bearing capacities for the more efficient management of the throughput of various product groups.



Structure of funds invested in 2007

The car terminal at the Port of Koper is one of the largest and best equipped in the Mediterranean. However, warehouse area needs to be increased so that a greater number of cars can be stored there. In 2007, the Ministry of the Environment and Spatial Planning issued us a building permit for the new warehouse for cars in the approximate vicinity of the parking garage. The facility will comprise a ground floor, four storeys and a drive-on roof. It will take up to about 22,000 cars. The warehouse will be constructed in phases. Currently, the first phase is underway, which will provide 2,750 parking places. The facility will be connected to the shore by a bridge so that the main radial road to Luka Koper will be by-passed.

### Investments in port infrastructure

#### Extension of pier I

Container throughput at Luka Koper has been rising steeply in the last few years. The existing container capacities of the Port of Koper do not meet the demand nor are they optimal as regards technology. To provide a medium-term solution, we drafted a plan to extend pier I for which we acquired a building permit in September 2007. The existing shore of the container terminal will be one-third or 146 metres longer. In this way, the terminal will gain an additional mooring and new hinterland area for container throughput. The

investment will be completed in 22 months and make it possible to double the container throughput.

### **Investments in development**

Investment activities were in line with the applicable strategy focused on various development projects. We would like to highlight the investment in the first hinterland logistics centre in Sežana, the investment in railway wagons and the investment in the passenger terminal.

#### **The European distribution centre in Sežana**

Owing to development needs and so as to clear up some area within the port, Luka Koper decided to build and develop a transport logistics centre, namely the European distribution centre in Sežana. The logistics and distribution activity which we will develop in Sežana provides an opportunity for the entire Karst region. For this purpose, we purchased land and other real estate in 2007 and founded the company Adria Terminali, d.o.o. which manages, markets and develops the existing capacities. With this purchase the Luka Koper Group started developing the network of the transport logistics centre, which will function as the backbone of its logistics system.

#### **Purchase of railway wagons**

The increase in turnover brought about some spatial problems for Luka Koper which can be curbed by greater cargo removals from the port. In this respect, railway transport is essential. In December, we bought 25 Rgs wagons for transporting containers, timber and other bulk goods along with a road-rail locomotive for moving wagons over industry sidings. We will also continue purchasing wagons in 2008. Via Adria Transport, d.o.o. we will acquire three locomotives.

#### **Passenger terminal**

In the scope of the maritime passenger terminal project we purchased a building in which we will arrange everything necessary for the passenger terminal. In 2008, activities will be geared at determining the most suitable institutional form for the development and management of the passenger terminal.

#### **Plans for 2008**

In 2008, the Luka Koper will continue pursuing its intensive investment policy. EUR 144 million will be earmarked for investments in property, plant and equipment, mainly for upgrading and updating the throughput and warehousing capacities.

#### **Investments in the basic port activity**

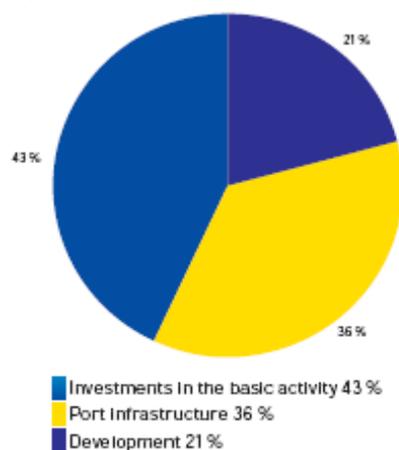
Investments made to update and upgrade capacities are necessary if we want to seize major market opportunities. They are also necessary for improving the structure of throughput by expanding the share of containers and cars, and for improving productivity so as to obtain additional services with greater added value. Major investments in the equipment and facilities of profit centres in 2008 will include:

- the construction of a warehouse for cars;
- the purchase of two Post panamax container cranes;
- the acquisition of a Transtainer and two manipulators for container throughput;
- the arrangement of a warehouse for the PC General Cargoes;
- the construction of a new TH hall for managing dry cargo; and
- a combined machine for iron ore throughput.

## Investments in port infrastructure

In order to boost operational efficiency and quality, some major investments will be made in the port infrastructure:

- the construction and reconstruction of railway infrastructure to allow a suitable connection of the existing and new shores;
- further implementation of the project for extending pier I at the container terminal;
- a road connection with the new entrance to Luka Koper- in May 2008 the connection with the motorway network will be finally constructed; and Luka Koper must arrange the new entrance to the port and suitable internal road connections.



Structure of investments planned for 2008

## Investments in the network of hinterland logistics centres

### Terminals in Slovenia

We will continue expanding the activities in Sežana and Divača via the company Adria Terminali, d.o.o. and upgrade them with other logistics centres. Two major centres are located in the Pomurje and Podravje regions.

### Terminals in Europe

As far as the logistics terminals are concerned, our business development focuses mainly on Eastern markets and Adriatic ports.

We see significant opportunities in the terminal close to the Romanian town of Arad, where we have already defined strategic business partnerships for suitable capital and infrastructural investments. Similar talks about co-operation have been initiated in the Hungarian market with reference to the development of a multimodal container and hub terminals and a terminal for the establishment of a distribution centre in Zahony.

Activities aimed at creating business connections will also be promoted in Bulgaria. In addition, we will strive for a closer connection with the river port in Serbia.

## MARKETING:

### PRODUCT GROUPS AND MARKETS

#### New markets and a surge in strategic cargoes

Besides the exceptional growth in throughput, 2007 witnessed significant strategic progress towards the consolidation of logistics services, increasing the volume of cargoes with added value and expanding activities in new markets. This is, among other things, confirmed by the project of constructing a distribution centre in Sežana, the plans for the establishment of a container terminal in Arad, Romania, the expansion of the network of hinterland logistics terminals and opening new representative offices in strategic markets of South-East Europe and the Far East.

#### Marketing strategy

The marketing strategy aimed at increasing the volume of logistics services and additional services in relation to goods and the development of the port activity was implemented by a series of activities, which included:

- the introduction of the service range provided at the land container terminal and the distribution centre in Sežana;
- preparation for marketing the service supplied by a private organiser and a provider of railway transport through the company Adria Transport, d.o.o.;
- regular communications, the proactive solving of operational issues and checking of customer satisfaction within the scope of the systematic management of customer relations;
- setting up and nurturing contacts with customers by organising various events for customers and appearing at trade fairs;
- preserving the diversity of the port's service range and upgrading it with services which raise profitability (ripening of bananas in fruit cold storage, filling and emptying of containers, stencilling, painting and protection of wood at the timber terminal);
- supplying comprehensive support to customers in co-operation with other providers of logistics services within the scope of individual activities; and
- enhancing quality and efficiency as competitive advantages of our range.

#### Maritime throughput

Maritime throughput continued growing at a 9% rate and exceeded last year's figure by one million tonnes.

Increase in maritime throughput (in tonnes)

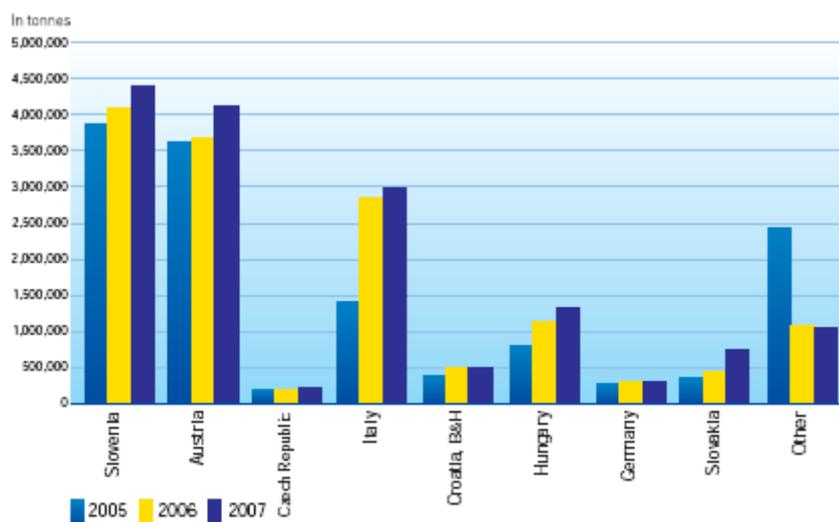
|      |            |
|------|------------|
| 2005 | 13,066,102 |
| 2006 | 14,030,733 |
| 2007 | 15,302,979 |

It is particularly important that the increase in throughput was mostly due to the higher container, general cargo and car throughput. These are strategic cargoes which are very profitable and among the most acceptable from the environmental aspect (in particular, perishable goods within general cargoes). Thus, the threshold of 300,000 twenty-foot equivalent units (TEU) and 500,000 cars throughput was exceeded in 2007.

Besides the projected marketing activities, the growth in throughput is also the consequence of favourable trends in global trade and the redirecting of cargo to Southern European ports owing to the over-saturation of Northern European ports. The upward trend will continue.

### The structure of throughput by market

In spite of the rise in throughput, the share of individual markets in the throughput structure did not change much compared to previous years, which means that the volume of throughput has been growing almost proportionately in all key markets. The Hungarian market deserves special mention, having accounted for a throughput of 1.3 million tonnes of goods in 2007, which is the biggest volume so far. This indicates the continuation of the positive trend in throughput seen since 2003, indicating an average increase of 30% annually.



The growth in throughput by market

With a 29% share or 4.4 million tonnes of throughput the Slovenian market remains one of the most important ones. It is followed by Austria with 4 million tonnes, and Italy, Hungary and Slovakia.

### The structure of throughput by product group

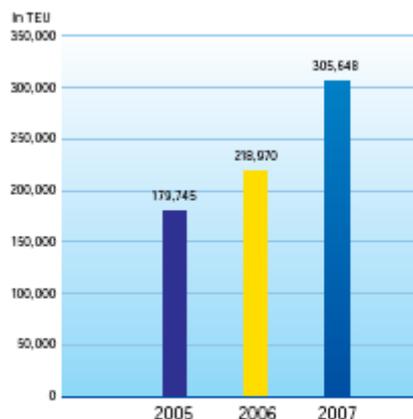
Goods travelling through the port are classified in the five product groups shown in the table below, depending on the method of transport and throughput. In comparison with 2006, the share of dry and bulk cargoes in the total decreased while the share of general cargo, containers and cars grew.

Throughput quantity (in tonnes)

|                      | 2007              |
|----------------------|-------------------|
| General cargoes      | 1,607,027         |
| Containers           | 2,637,910         |
| Vehicles             | 744,610           |
| Dry and bulk cargoes | 8,132,991         |
| Liquid cargoes       | 2,240,441         |
| <b>Total</b>         | <b>15,362,979</b> |

### Containers: 40% growth

Container throughput recorded excellent results. This is confirmed by the 40% annual growth and the 305,648 TEU throughput.



The growth in container throughput

This growth is largely attributed to the increasingly more market-oriented activities, and the greater visibility of Luka Koper and the Northern Adriatic transport route. The escalation of goods flows through our port is also accelerated by favourable trends in global trade: economic growth in China and India, and the supply of components and semi-products from the Far East to the car industry in new EU member states.

The majority of containers still involve throughput for the Slovenian and Hungarian markets; however, the five-fold increase in throughput for Slovakia is very important. The Austrian market slid to fourth place but nevertheless recorded an 11% rise. Throughput for the German market rose by 45%.

Comparison of container throughput in four major markets (in TEU)

|          | 2006   | 2007    |
|----------|--------|---------|
| Slovenia | 87,833 | 132,546 |
| Hungary  | 57,334 | 68,961  |
| Slovakia | 5,884  | 29,145  |
| Austria  | 21,568 | 23,871  |

In 2007, we co-operated with more than 30 container ship operators, all of whom experienced a higher turnover. Many of them predict that capacities will increase along with the use of larger ships on lines to the Far East. That is why the completion of pier I extension is of the utmost significance, as only in this way will we be able to welcome ships with a capacity of up to 8,000 TEU and double the area available for warehousing at the terminal. We also plan to improve throughput in 2008 by strengthening the railway service of block connections and own investments in the faster shipment of goods by railway.

### General cargoes: record year

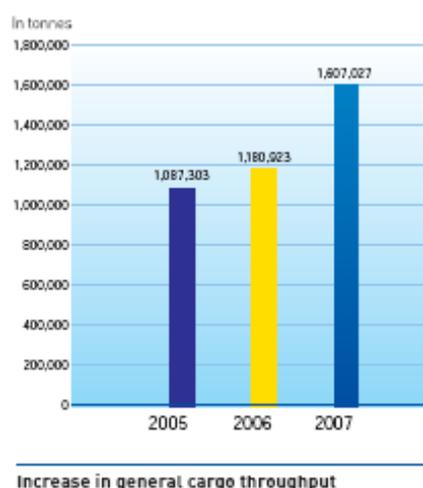
A jump was recorded in general cargo throughput, which leapt by 36% compared to 2006 and reached 1,607,027 tonnes. General cargo is transhipped at four terminals of the Port of Koper:

- a fruit and perishable goods terminal;
- a timber terminal;
- a terminal for (other) general cargo;
- a livestock terminal.

Throughput rose mostly due to the throughput of steel products for the car industry from the Far East and the countries of Eastern Europe, and a record throughput of sawn wood.

The basic reason for the rise in steel throughput was the decision of the world's third largest steel and steel product manufacturer - the Korean multinational Posco -to choose our port as a point of entry and distribution centre for supplying car factories in Slovakia and the Czech Republic. Together with the said company and two other Korean companies Luka Koper, d.d. founded a logistics company POS ESDC, d.o.o. (Posco Europe Steel Distribution Center) and laid the foundations for long-term co-operation.

Timber throughput surged by as much as 19%. A record 687,416 tonnes was the throughput, which equals 1.1 million of m<sup>3</sup> of timber. Even though the capacities for warehousing timber are poorer on account of the new storage and throughput facilities being constructed, we plan to accelerate the throughput of warehoused timber to preserve the existing volume of throughput. In the future we do not expect the throughput to decrease since the demand for construction wood in the markets of Northern Africa and the Persian Gulf remains high.

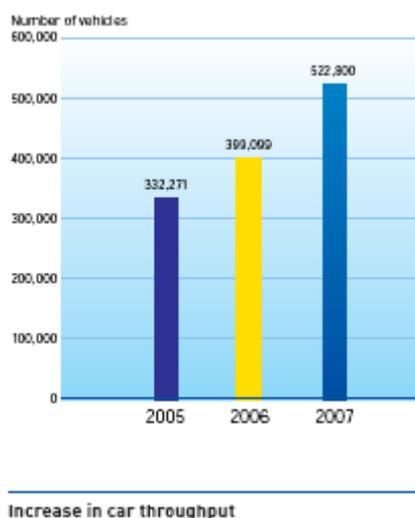


The throughput of fruit, vegetables and other perishable food products remained at the same level as in 2006. We forecast a rise in this segment owing to our efforts as well as the expansion of the additional service range. Among other things, we constructed two cold storages where we package peppers for retail chains in Austria and Germany. To provide for the uninterrupted supply of European markets with these food products, we strengthened co-operation with all those participating in the transport route - from local forwarders to inspection services - and increased warehousing capacities in the port.

Important growth was also achieved in container stuffing and stripping. Since the cargo transported in containers is ever more diverse, e.g. dry cargo, cars and timber, this service will in the future represent an even greater source of income.

#### **Vehicles: the threshold of 500,000 vehicles was exceeded**

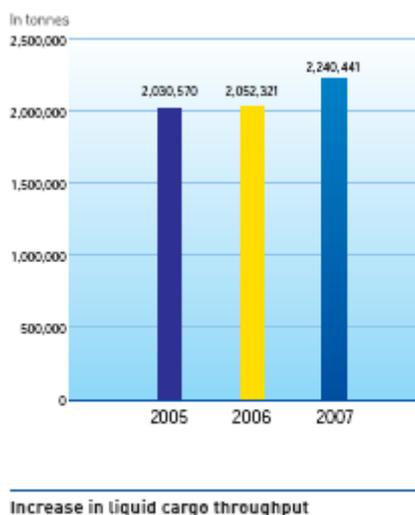
We put a special stamp on the very successful year by exceeding the threshold of half a million throughput cars. We reached a record figure of 522,800 or 31% more than the year before. Thus, we rank among the largest car terminals in the Mediterranean.



In 2008, throughput will rise by at least one-tenth, especially due to greater demand in the Russian market, the construction of new car factories in Eastern Europe and the introduction of a new maritime line between Koper and Spain. The necessary new warehouse areas will be acquired as the new warehouse is completed and new outdoor storage premises are leased.

#### Liquid cargoes: fully utilised capacity

The liquid cargo terminal also recorded a positive trend in the performance of key product groups. Turnover rose by 9%. The slight increase in liquid cargoes was accompanied by a notable growth in oil derivatives.



The existing terminal capacities are fully utilised. By March 2008 the tanks will be ready for implementing a new deal involving airplane fuel. The terminal will continue to be marketed mainly based on long-term commercial partnership contracts and new customers will be attracted as capacities are upgraded.

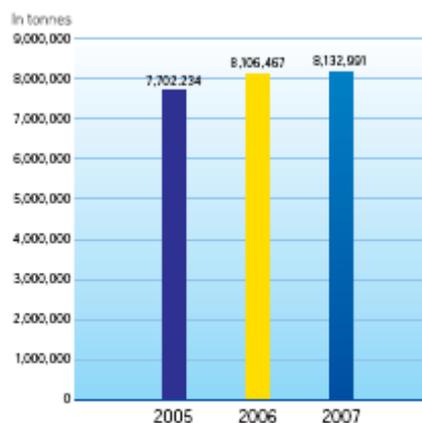
#### Dry bulk cargo: at the 2006 level

The total quantity of dry bulk cargo stagnated at the 2006 level. This is in line with the strategic policy of preserving the scope of dry bulk cargo and boosting the quantity of

containers, vehicles and general cargoes. The throughput of dry bulk cargo is conducted at two terminals:

- the dry cargo terminal; and
- the European energy terminal.

Throughput at the dry cargo terminal dropped mainly due to the poor wheat crop in Hungary. However, we transhipped a record 635,000 tonnes of soy. We also expect such a quantity in 2008 as well. The alumina throughput will be somewhat lower since the key customer has been increasing the share of recycled aluminium in its production. We plan to enhance the throughput and warehousing capacities by investing in the hall for grain throughput and a new lift at the dry cargo mooring.



The increase in the throughput of bulk cargo

The European energy terminal recorded no significant increase in turnover. Even though the potential of the bulk cargo throughput (iron ore, coal, biomass) is very great in European markets, we will maintain the quantities at the same level in 2008 owing to spatial limitations.

## BUSINESS EXCELLENCE

### The only port in the world with the ISO 22000:2005 standard for ensuring safe food products

Excellence is one of the foundations on which the business policy of the Luka Koper Group's companies rests. The business excellence model is systematically applied in everyday practice, which is reflected in the results achieved in the past five years.

### The existing standards and novelties in 2007

The introduced requirements of various standards (from the ISO family and others) make up a comprehensive management system which provides for the excellence of operations in all areas and at the levels of the Company, unit and individual, down to the lowest level.

Luka Koper has obtained certificates for all introduced standards, namely:

- the ISO 9001 quality management system certificate;
- the ISO 14001 environment management system certificate;
- the ISO 22000 food safety management system certificate (which includes the HACCP system); and
- a non-GMO certificate for handling non-genetically modified cargo.

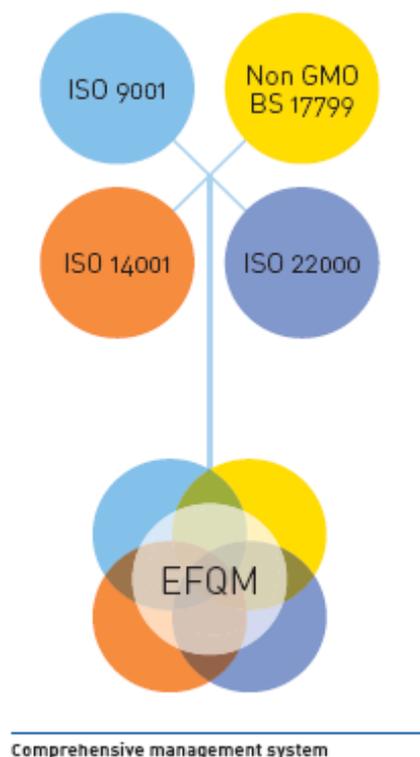
All standards, except the latest ISO 22000:2005 have been integrated in all business processes and organisational units, including in the subsidiary companies Luka Koper INPO, d.o.o. and Luka Koper Pristan, d.o.o.

The novelty in 2007 was the ISO 22000:2005 standard for a safe food management system which was issued to five terminals of Luka Koper, d.d.: general cargoes, fruit, dry cargoes, liquid cargoes and the container terminal, which among other things that boasts a food safety standard and the only international port holding such a certificate.

### **Comprehensive and mutually connected systems**

Various systems and models have been systematically and gradually introduced into the Company's operations and they have been linked to form an integral unit.

All operational guidelines and standard requirements are included in the Management Rules of Procedure. This is an umbrella document of the parent company, defining the business policy, organisation, business processes, and elements of management and quality assurance for all Group companies. It provides the basis and guidelines enabling all employees to continually train themselves and constantly improve the Group. This document presents and proves to customers, certification institutions and other interested publics that we are committed to the constant improvement of our operations. Our long-term orientation to business excellence is demonstrated by the fact that we received the award of the Republic of Slovenia for business excellence and were among the finalists applying for the European Business Excellence Award in the past few years.



### **Plans for 2008**

- Preparing for the external certification assessment and undergoing this assessment to obtain the OHSAS occupational health and safety certificate.

- Setting up an integral system for monitoring the performance of the Company and its profit units by means of balanced indicators.
- The introduction of the quality management system according to ISO 9001 in the subsidiary company Adria Terminali, d.o.o.

## SHAREHOLDER VALUE

### The highest share price since shares were listed

One of the records registered by Luka Koper in 2007 was the share price of Luka Koper, d.d. the highest since the share has been listed on the Ljubljana Stock Exchange. In addition to good business results and promising plans for the expansion of activity, this was also thanks to the improved visibility of the Company and the Group among foreign investors.

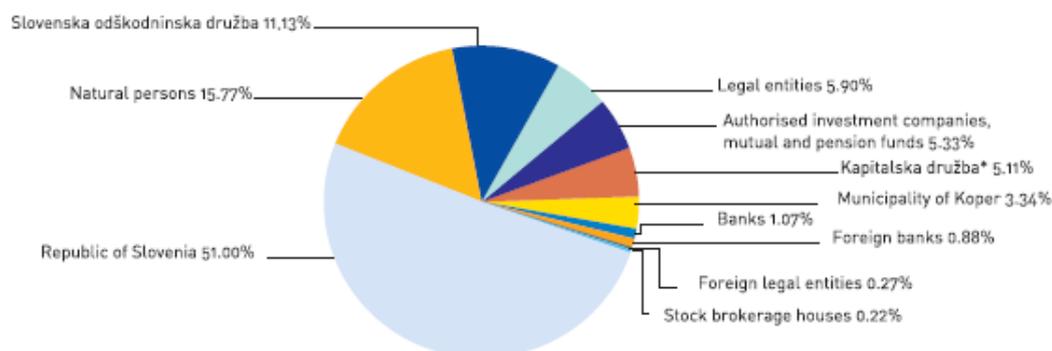
In one year the share gained 87.7% and in terms of total trading, ranked fourth on the Ljubljana Stock Exchange. The share of Luka Koper, d.d. is included in the first listing on the Ljubljana Stock Exchange under the symbol LKPG.

### Ownership structure

At the end of the year, the Company had 13,367 shareholders or 36% more than the year before. At year-end, the 10 largest shareholders owned 75.89% of all shares of Luka Koper, d.d. The largest shareholder remains the Republic of Slovenia, holding a 51% stake.

### Ten largest shareholders as at 31 December 2007

| Name  | Address                            | Number of shares  | Stake         |
|---|------------------------------------|-------------------|---------------|
| Republic of Slovenia                                    | Gregorčičeva 20, 1000 Ljubljana    | 7,140,000         | 51.00%        |
| Slovenska odškodninska družba, d.d.                     | Mala ulica 5, 1000 Ljubljana       | 1,557,857         | 11.13%        |
| Kapitalska družba, d.d.                                 | Dunajska cesta 119, 1000 Ljubljana | 715,305           | 5.11%         |
| Municipality of Koper                                   | Verdijeva ulica 10, 6000 Koper     | 466,942           | 3.34%         |
| KD Galileo, mutual fund, flexible investment structures | Celovška cesta 206, 1000 Ljubljana | 151,905           | 1.09%         |
| KD ID, delniška ID, d.d.                                | Celovška cesta 206, 1000 Ljubljana | 147,655           | 1.05%         |
| Vizija Holding Ena, d.d.                                | Dunajska cesta 156, 1000 Ljubljana | 131,585           | 0.94%         |
| Adriatic Slovenica d.d.                                 | Ljubljanska cesta 3a, 6503 Koper   | 117,899           | 0.84%         |
| Zavarovalnica Triglav, d.d.                             | Miklošičeva 19, 1000 Ljubljana     | 104,756           | 0.75%         |
| Hypo Bank d.d.  | Dunajska cesta 117, 1000 Ljubljana | 91,061            | 0.65%         |
| <b>10 largest shareholders total</b>                    |                                    | <b>10,624,965</b> | <b>75.89%</b> |



\* The item Kapitalska družba includes the funds of Kapitalska družba [First Pension Fund of the Republic of Slovenia - PPS, Compulsory Supplementary Pension Insurance Fund - SODPZ, Equity Mutual Pension Fund - KVPS] and Kapitalska družba, d.d.

## Share ownership by members of the Supervisory Board and the Management Board

As at 31 December 2007, shares of Luka Koper were owned by the following members of the Supervisory Board:

|                   |       |
|-------------------|-------|
| Tatjana Jazbec    | 412   |
| Robert Jerman     | 704   |
| Metod Mezek       | 150   |
| Alverino Pavletič | 1.567 |
| Marko Valentinčič | 100   |

Other members of the Supervisory Board did not own any shares in the Company as at that day. The following members of the Management Board owned shares of Luka Koper as at 31 December 2007:

|  |       |
|--|-------|
| Marjan Babič, MSc., member of the Management Board | 928   |
| Pavle Krumenaker, member of the Management Board   | 3.328 |

The President and Deputy President of the Management Board did not hold any shares in the Company.

### Changes in the LKPG share price

The upward trend started when the share was transferred for its first quotation in December 2006 and reached a peak on 9 August with a record EUR 113.66. In the second half of the year the share price started sliding so that at the end of the year the share price stood at EUR 88.76. Nevertheless, in one year the share price rose by 87.69% and exceeded market growth since the SBI20 index increased by 73.5% within a year. The changes in the Luka Koper share price basically mimicked the stock exchange movements, which in the first half of the year recorded fast growth in the prices of the most traded shares and a slowdown in autumn.

In 2007, turnover in Luka Koper shares totalled EUR 144,597,030.84. There were 15,796 stock exchange transactions and lot transactions, while 1,709,731 shares changed owners.

### Book value of a share

The share book value, calculated as the ratio between average capital and the number of all shares issued, was EUR 21.91 as at the last day of the year.

### No-par value shares and change of share class

Based on the resolution of the General Meeting of Shareholders, on 1 January 2007 the shares of Luka Koper, d.d. were transformed into no-par value shares. Thus, the share capital was divided into 7,140,000 ordinary no-par value shares and 6,860,000 preference participating no-par value shares with limited voting rights. At the 13th General Meeting of Shareholders (AGM) held on 19 July 2007 a resolution was passed on the transformation of 6,860,000 preference participating shares with limited voting rights into ordinary no-par value shares. As a result, the number of ordinary shares changed to 14,000,000. The share capital of Luka Koper, d.d. is divided into 14,000,000 ordinary registered freely transferable no-par value shares.



Changes in the SBI20 index and LKPG in 2007



Changes in the LKPG share price and daily turnover in 2007

The resolution of the AGM on the share transformation and the related amendments to the Company's Articles of Association were entered in the register of companies kept by the competent court. After the entry of the amendments to the Company's Articles of Association, the shareholders who at the AGM announced they would challenge the resolutions of the AGM filed legal proceedings with the competent court to contest the resolutions on the share transformation. Based on the resolution of the AGM and the registered amendments to the Articles of Association, we filed an application for expanding the listing by transformed shares with the Ljubljana Stock Exchange. This expansion will be effected when the resolution is passed by the Committee for the Admission of Securities and once a suitable procedure is carried out at the Central Register of Dematerialised Securities kept by Klirinško depotna družba (Central Securities Clearing Corporation).

In the period between submission of the application for expanding the listing to the Ljubljana Stock Exchange until the actual expansion, the Company was informed about the court's temporary injunction on the expansion of the listing until the court has made a final decision about the lawfulness of the AGM resolutions passed on 19 July 2007.

Luka Koper, d.d. complied with the demands of the court and instructed the Ljubljana Stock Exchange to stop the procedure for expanding the listing. The competent court ruled in favour of the Company's appeal against the court's resolution granting the request of the proposers for an injunction so it repealed the injunction which prohibited the expansion of

the listing on the Stock Exchange. The Company will continue the listing expansion procedure as prescribed by the applicable legislation.

### Dividend policy

As a rule half of net profit goes to dividends. At the 13th General Meeting held on 19 July 2007 the shareholders confirmed gross dividends for 2006: EUR 1.09 per ordinary share; and EUR 0.27 per preference participating share. The gross dividend for 2007 is projected at EUR 0.55.

Key data about the LKPG share in the past three years

|   | 2005       | 2006       | 2007       |
|---|------------|------------|------------|
| Number of shares  | 14,000,000 | 14,000,000 | 14,000,000 |
| Number of ordinary no-par value shares*                               | 7,140,000  | 7,140,000  | 14,000,000 |
| Number of preference participating no-par value shares*               | 6,860,000  | 6,860,000  | -          |
| Share price as at the last trading day of the year (in EUR)           | 29.67      | 47.29      | 88.76      |
| Average share book value (in EUR)**                                   | 17.74      | 19.06      | 21.91      |
| Average weighted market price (in EUR)***                             | 31.94      | 36.45      | 85.20      |
| Net earnings per share (EPS) (in EUR)                                 | 1.25       | 1.42       | 1.79       |
| Share price/earnings ratio (P/E)                                      | 25.62      | 25.56      | 47.58      |
| Share price/share book value ratio                                    | 1.80       | 1.91       | 3.89       |
| Market capitalisation as at the last day of the year (in EUR million) | 211.84     | 337.65     | 633.75     |
| Total share trading volume (in EUR million)                           | 21.91      | 42.92      | 144.60     |
| Dividend per share (in EUR)   | 1.08       | 1.08       | 1.09       |

\*The share transformation is further clarified in this chapter.

\*\* Average share book value is calculated based on average monthly ratio between capital and the total number of ordinary shares.

\*\*\* Average weighted market share price is calculated as the ratio between total turnover, arising from ordinary (stock exchange) transactions, and the quantity of LKPG shares traded in ordinary (stock exchange) transactions.

### Cross-linkages with other companies

The companies in which Luka Koper, d.d. holds at least a 5% stake and the companies which own shares of Luka Koper, d.d. (31 December 2007) are:

| Name                       | Stake of Luka Koper, d.d. in another company | Other company stakes in Luka Koper, d.d. |
|----------------------------|--|--|
| Intereuropa, d.d.          | 24.81 %                                      | 0.03 %                                   |
| Pokojninska družba A, d.d. | 6.17 %                                       | 0.03 %                                   |

Shareholders holding at least 5% of the LKPG shares as at 31 December 2007:

- Republic of Slovenia (51%);
- Slovenska odškodninska družba, d.d. (11.13%); and
- Kapitalska družba and its funds (5.11%).

There were no cross-linkages.

### Treasury stock, authorized capital, conditional capital increase

In 2007 the Company had no treasury stock.

The applicable Articles of Association of Luka Koper, d.d. do not provide for a category of authorised capital up to which the Management Board could increase the share capital. In 2007 the Company had no basis for a conditional increase in its share capital.

### Rules on restrictions on trading and the disclosure of trading in shares of the Company and associates

We have not yet formulated special internal rules to regulate restrictions on trading in the Company's shares.

However, we co-operated with the Ljubljana Stock Exchange in preparing the Rules on Trading in the Company's Shares which will set the standard in this area and are expected to enter into force in 2008.

### Calendar of major publications and events in 2008

| Scheduled date of publication / event | Type of publication/event  |
|---------------------------------------|--|
| 28 February 2008                      | Publication of unaudited unconsolidated and consolidated financial statements for 2007   |
| By 30 April 2008                      | Publication of the summary audited unconsolidated and consolidated Annual Report of the Company for 2007<br>Publication of the Statement of Compliance with the Corporate Governance Code for Joint-Stock Companies<br>Publication of the Annual Report for 2007 |
| By 31 May 2008                        | Publication of quarterly data concerning the performance: Data concerning the performance in the first quarter of the year   |
| July 2008                             | 14th General Meeting of Shareholders   |
| By 14 August 2008                     | Publication of the summary semi-annual report about the Company's performance  |
| September 2008                        | Dividend payment for 2007  |
| By 30 November 2008                   | Publication of quarterly data concerning the performance: Data about the performance for the first nine months of the year   |

The planned publications and other price-sensitive information will be published on the website of the Ljubljana Stock Exchange via the SEOnet electronic system of informing (<http://SEOnet.ljse.si>) and on our website [www.luka-kp.si](http://www.luka-kp.si). Any changes to the scheduled publication dates will be communicated on the website of [www.luka-kp.si](http://www.luka-kp.si) in due time. At both websites we will, presumably in April, publish the annual document – a list of all information available in the Slovenian and English languages on SEOnet within the last 12 months.

## OPEN TO THE PUBLIC

### Accessibility and timely response

The Luka Koper Group provides the highest possible accessibility of information that is important for the professional and general public. We continuously inform the widest circle of interested parties about our operations, plans and novelties. The key issues which required special communication efforts were the following:

- activities related to the establishment of a dry terminal in Sežana;
- marking the 50th anniversary of Luka Koper;
- the co-founding of POS-EDSC, d.o.o. with Korean partners;
- laying of the foundation stone for pier I extension;
- activities at the Open House Event,
- the disposal of an equity stake in Banka Koper, d.d.;
- completion of the contest for design solutions pertaining to the spatial arrangement of the port;
- temporary organisation of the car warehousing premises; and

- the arrival of Veendam, the largest passenger vessel.

### **Corporate communications**

At the corporate communications level special emphasis in 2007 was given to marking the 50th anniversary of Luka Koper.

In this respect, we organised events for the local and national publics, business partners and employees. Some of the events were an exhibition about the history and presence of Luka Koper at the Regional Museum in Koper, a protocol event at our oldest warehouse, and the Open House Event, which attracted very many visitors. We co-organised with Radio Capris one of the most well-attended musical events on the coast. In addition, we issued a monograph presenting Luka Koper.

#### **Communicating with the media**

Slovenian and foreign journalists have in the past year often shown interest in events taking place in and everything related to Luka Koper. We provided quick and comprehensive answers to various media questions. Two press conferences were organised and 34 press releases issued. We also regularly published news in an electronic form, available at [www.luka-kp.si](http://www.luka-kp.si) and distributed it by e-mail to more than 900 addresses, including journalists.

#### **Communications with investors**

The shareholders are informed about all events relevant to the Company and the Luka Koper Group on a regular basis and in due time. All information is available at any time in the SeoNet informing system of the Ljubljana Stock Exchange and on our website. In compliance with the Articles of Association we publish comprehensive data about annual operations in the bulletin 'Luški delničar', which is distributed to all shareholders before the General Meeting of Shareholders. In 2007, communication with the financial publics was enhanced by our presentation at the Slovenian Capital Days in Ljubljana, Milan, Vienna, Stockholm, London and Zagreb. In this way we contributed to the greater visibility of the parent company and intensified foreign investors' interest in the shares of Luka Koper, d.d.

#### **Communication with other publics**

Communication with employees and communication about environmental issues are presented in greater detail in the chapter Sustainable Development.

## **DEVELOPMENT ACTIVITY**

### **Incentives for new activities**

In this area 2007 was of particular importance. In line with strategic guidelines we intensified and systematically engaged in development and research activity. We mainly set out the guidelines for our future work in this area. Innovative activity continued to be successfully encouraged as 15% more improvement proposals were presented.

### **Research and development**

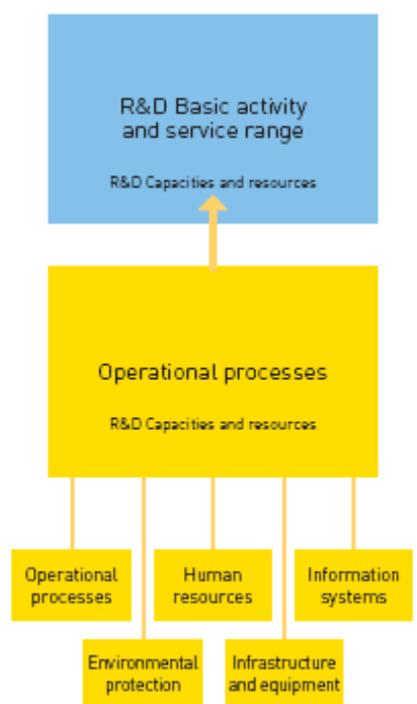
The more targeted approach to research activity was the result of the Company's set strategic policies. These policies prompted several new activities at two levels:

- within the basic activity, in the scope of the redesigned development concept focusing on logistics and passenger transport; and
- in the provision of suitable capacities, equipment and technologies, IT-communication support and environmental protection.

Our activities were also strengthened by institutional initiatives which provide ever more encouragement to the corporate sector to boost its competitiveness by intensifying investments in R&D. In order to make the best of the non-refundable funds of the EU for the new programming period 2007-2013 we undertook special training because we want to participate in international projects.

Since most tenders will be published in 2008, in 2007 we paid attention to the following:

- studying conditions of individual programme funds from which we can draw funds;
- the identification of project ideas in line with our business needs and orientations;
- searching for and establishing project partnerships; and
- preparing project contents.



Presentation of research and development activity at two levels

In the next period we will compete for funds from the Community and transnational programmes as well as from the Structural Funds and the Cohesion Fund. We expect the support of authorities and individual institutions which is why in 2007 we started harmonising our business interests with the priority development projects of the state. In the framework of the Slovenian Maritime Technological Platform we applied for tenders in the Seventh Framework Programme where our StarnetRegio project, related to innovation and the development of port technologies, was approved. Luka Koper Group supports co-operation with universities and research institutes. With their help we want to make sure that our experience is transferred further and we wish to develop new knowledge geared at sustainable development and social responsibility. More information about co-operation with education institutions in 2007 is available in the chapter Sustainable Development.

### **Innovation activity**

The Luka Koper Group has been developing innovation activity for a number of years within the scope of the business excellence system. Through a comprehensive system we promote

and motivate employees to make proposals for improvements and innovations.

The improvements are proposed by employees within their organisational units. Minor improvements are rewarded by the unit manager, while major innovations are addressed and rewarded by a commission. Improvements are proposed either by individuals or independent work groups within organisational units. Every proposal for an improvement is rewarded by a pecuniary incentive and, after successful implementation, an innovation bonus is paid. Once a year the commission selects the 'innovator of the year' who receives a special monetary award.

The number of improvements is growing every year. In 2007, there were 15% more proposers of improvements. Employees of the Group put forward 388 proposals for improvements.

The number of improvements and their proposers at the Luka Koper Group in the past three years

In 2008, we plan to further boost innovations by introducing novelties for motivation and the rewarding of presented improvements, recording of improvements and measuring of their effects.

## **SUSTAINABLE DEVELOPMENT**

The activity of the Luka Koper Group has a strong impact on the social community as we provide jobs for many local people. We are closely integrated in everyday life by supporting various organisations and individuals. In addition, we greatly influence the special natural resource – the sea, to which we assure the highest possible protection.

In 2007, the upward trend in employee numbers continued. This was due to the steep increase in throughput and also the newly founded company. We provided for employee training through in-house training events - also because only we possess certain knowledge in the country. The satisfaction of our employees is proved by the low absenteeism levels and the internal surveys on the work and organisational climate.

We sponsor and donate funds to projects from various areas, including special projects that will provide for the harmonised development of common points between the port and the population in our immediate vicinity.

Luka Koper is the only port in the Northern Adriatic to operate according to the ISO 9001 and ISO 14001 standards. We are developing new methods and models for efficient environmental protection and management. Measurements show that gas, water and dust emissions along with noise and dust immissions are below the legal limits. We have set up the Sea Protection Department at the Group level, drafted the Plan of action and informing in the case of hazardous substance spills at sea, acquired the equipment to protect the sea and taken part in two international exercises.

Growth is planned so that it has minimum impact on the environment. We select cargo that is not only more profitable but also more environmentally acceptable. Cleaner environment is also ensured through the greening of surrounding areas, investments in energy independence, and safer and cleaner technologies. When the construction of Pier I had been planned, we also looked after environmental values and biodiversity. The plan was presented to the local community, which made no comments thereon.

We spread our environmental and social responsibility to other stakeholders - our suppliers and customers. We develop partnerships with competent and financially stable suppliers. We

have built excellent relations with all our customers and maintain them within the framework of the EFQM business excellence model.

## HUMAN RESOURCES MANAGEMENT

### Number of employees

The number of employees in companies of the Luka Koper Group and the Group total:

| Year/company               | 2005       | 2006       | 2007         |
|----------------------------|------------|------------|--------------|
| Luka Koper, d.d.           | 679        | 693        | 774          |
| Luka Koper INPO, d.o.o.    | 242        | 237        | 228          |
| Luka Koper Pristan, d.o.o. | 6          | 9          | 9            |
| Adria Terminali, d.o.o.    | -          | -          | 35           |
| Adria-Tow, d.o.o.          | 23         | 23         | 24           |
| <b>Luka Koper Group</b>    | <b>950</b> | <b>962</b> | <b>1,070</b> |

As at 31 December 2007, the Luka Koper Group had 1,070 employees, which is 11% more than the year before.

We have been witnessing an upward trend in the number of employees since 2005. In 2007, the growth was significantly higher. The key reason for this was the need for the throughput of much greater quantities of goods in changed working conditions. This growth was also influenced by the obligation to comply with the regulations and provisions on the management of working hours, health protection, environmental protection, and the replacing of employees who retired or left for other reasons. Thus, the number of employees in the Group rose by 108. The rise in the number of employees was also due to the 35 employees of the newly founded company Adria Terminali, d.o.o. Through this company we will expand the activity, as the first inland terminal located in Sežana, will be established and managed.

### Recruitment, departures, fluctuation

#### Recruitment

In 2007, the Group employed 170 new employees, of whom Luka Koper, d.d. alone recruited 120, 85% of whom were assigned to positions connected with the basic work process.

At Luka Koper, d.d. 43% of all new employees have a post-secondary vocational or higher education. These employees occupy expert, management and middle management positions.

The necessary staff are selected based on job applications we receive daily and through announcements of vacant positions. We present ourselves at employment fairs, through brochures and publications targeted at young people who are concluding their schooling. In 2007, the number of job applications submitted via the online form on our website grew, already accounting for 15%.

In order to fill occupations in short supply, we introduce scholarships (in 2007 we granted three scholarships). Besides the basic conditions, the main staff selection criterion is a willingness to adjust to the demands of the work process.

#### Departures

In 2007, the employment of 62 employees of the Group was terminated. Luka Koper, d.d. was left by 39 employees, which equals the 2006 figure. The most frequent reasons were regular retirement and a consensual termination of the employment contract.

#### Fluctuation

In 2007, the employee fluctuation was 6.2%, while that of Luka Koper, d.d. was 5.1%, very similar to the year before. The fluctuation was higher owing to 17 disabled workers of Luka Koper INPO, d.o.o. who became eligible for retirement.

## Employee structure

### Structure by gender

Owing to the nature of work (demanding conditions) and arrangement of working hours in shifts, there are more male employees than female employees. For the most part, women occupy positions in expert services and the administration of profit centres. The structure of employees by gender has not changed significantly over the last three years. Since 2006, the share of women grew by 0.5 of a percentage point from 11.4% to 11.9% in 2007.

### Structure by age and length of service

The average age of employees has been rising in recent years, chiefly because of the high age structure of employees of Luka Koper INPO, d.o.o. In spite of that, it is still low in other companies because mainly young staff are recruited. Thus, the average age of all employees of the Luka Koper Group in 2007 was 44.2 years. The average age was the highest at Luka Koper INPO, d.o.o. (49.2 years) and the lowest at the parent company (40.3 years). The consequence of the older personnel of Luka Koper INPO, d.o.o. is also their longest average length of service.

#### Average age and length of service of employees

| Company in the Luka Koper Group | Average age of employees |             |             | Average length of service of employees |             |             |
|---------------------------------|--------------------------|-------------|-------------|--|-------------|-------------|
|                                 | 2005                     | 2006        | 2007        | 2005                                   | 2006        | 2007        |
| Luka Koper, d.d.                | 41.4                     | 41.7        | 40.3        | 19.8                                   | 19.8        | 18.4        |
| Luka Koper INPO, d.o.o.         | 48.5                     | 48.8        | 49.2        | 27.4                                   | 28.7        | 28.4        |
| Luka Koper Pristan, d.o.o.      | 35.8                     | 37.4        | 40.4        | 13.7                                   | 15.5        | 16.1        |
| Adria Terminali, d.o.o.         | -                        | -           | 44.9        | -                                      | -           | 24.5        |
| Adria-Tow, d.o.o.               | 44.8                     | 45.7        | 46.4        | 17.4                                   | 18.3        | 19.2        |
| <b>Luka Koper Group</b>         | <b>42.6</b>              | <b>43.4</b> | <b>44.2</b> | <b>19.6</b>                            | <b>20.6</b> | <b>21.3</b> |

#### Number of employees by level of education

| Year | Total amount | Education degree |     |      |     |     |     |      |       |
|------|--------------|------------------|-----|------|-----|-----|-----|------|-------|
|      |              | I.               | II. | III. | IV. | V.  | VI. | VII. | VIII. |
| 2005 | 950          | 52               | 146 | 59   | 227 | 261 | 47  | 156  | 2     |
| 2006 | 962          | 50               | 150 | 38   | 242 | 265 | 44  | 163  | 10    |
| 2007 | 1070         | 63               | 138 | 35   | 269 | 297 | 54  | 199  | 15    |

## Educational structure

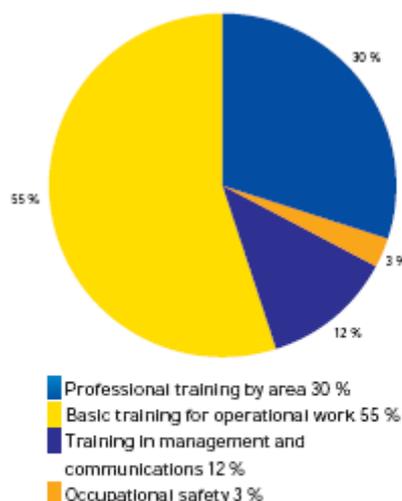
For several years Luka Koper, d.d. has been gradually and systematically replacing less qualified staff with employees who have a higher education level. We support training and education and as a result the educational structure is improving. The number of employees with at least level VI education has grown in the past three years by 3 percentage points and accounted for 25% of the Groups' employees.

The entire Luka Koper Group recorded a downward trend in the number of employees with an educational level below vocational education. In the last few years we have focused on the recruitment of personnel with two professional profiles to perform, namely machinery management and maintenance works, and low and middle management functions.

### Structure of employees by type of employment

The planned annual turnover is managed by permanent employees. Part-time employees are taken on mainly:

- for the period of long-term training and induction into work; and
- to manage fluctuations between the planned and existing volumes of throughput during the year.



Contents of functional training in 2007

## HUMAN RESOURCES DEVELOPMENT: EDUCATION AND CAREER DEVELOPMENT OF EMPLOYEES

### Employee training and education

The Luka Koper Group recorded 23,915 hours of functional training of its employees, which is on average 14 hours per employee or 8 hours less than the year before. The average number of training hours per employee dropped on account of:

- an individual, systematic and selective approach to employee training;
- predominantly active forms of education (workshops, exercises);
- the promotion of an organisational culture whereby education is not a right, but a reward and added value; and
- intensive throughput, as a result of which work obligations did not allow any long-term absences from work since most training was conducted during working hours.

In 2007, EUR 248,580 or EUR 101 per employee was spent on training.

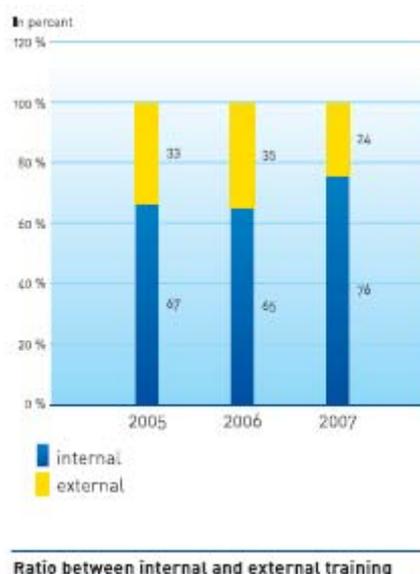
### Structure of training

|   | 2005    | 2006    | 2007    |
|---|---------|---------|---------|
| Average number of training hours        | 20      | 22      | 14      |
| Costs of training per employee (in EUR) | 120     | 158     | 101     |
| Funds earmarked for training (in EUR)   | 208,700 | 264,960 | 248,580 |

The decline in the costs of training per employee was achieved by a high share of in-house training, long-term co-operation with education institutions and systematic restrictions on the financing of off-the-job training. In 2007, 6.8% of employees underwent off-the-job training.

Training covered numerous areas, as shown below.

The share of in-house training organised by the parent company has been increasing in the Luka Koper Group, and reached 76%, which is 11 percentage points more than in 2006. This method of training is tailored to meet the goals and needs of business processes and the specific activity of the Group. It also follows the development of the industry. At the same time, we noted the in-depth transfer of knowledge between employees, that a uniform organisational culture was being created and a decline in costs.



There are no personnel qualified to manage port machinery and cranes in the labour market, which is why we have to provide for their training after recruiting them. This was the first year that we organised the training of operative staff who will operate different machinery entirely by in-house personnel.

Since the applicable legislation prevents us from training employees of associates and contractors, we will next year focus on the gradual fulfilment of all legally prescribed conditions for obtaining a suitable training licence from the competent ministry and on improving the system for rewarding the practical training instructors.

Co-operation with higher education institutions and scientific organisations

We have been co-operating with secondary and higher education institutions in the following manner:

- employees perform the functions of associate professors and assistants at the faculties of the University of Primorska and the University of Ljubljana;
- we carry out topically-oriented internal projects in conjunction with faculties;
- the employees act as mentors or co-mentors of students who are preparing seminars, diploma and master thesis papers;
- we host groups of students and higher education professors during expert excursions;
- we provide for obligatory practical training (in 2007, 10 pupils and students underwent 1,100 hours of practical training); and
- we provided half-year practical training to a foreign student through the Leonardo da Vinci programme.

## Human resources development

For the well-timed recruitment of the parent company we established a base of potential or replacement staff by work level, at both the level of individual units and the Company. There are 65 employees who could be promoted as soon as the need arises due to the work process or gradually when they acquire suitable experience and education.

### Employee satisfaction

The organisational climate, loyalty and satisfaction of employees were first measured by the Luka Koper Group in 1997. Since then, a constant upward trend has persisted, which is the consequence of regular survey analyses, the presentation of results to employees at workshops and the co-operation of management and employees in drafting measures for improvement.

The number of respondents was also higher in the last survey (57%). The employees expressed greater satisfaction mainly as regards the management, which we ascribe to investments in the intensive training of managers over the last few years. The lowest grades - as in all previous years - were assigned to the payment system, which is comparable to other Slovenian and foreign organisations.

Measurement of employee satisfaction

| Year | Level of satisfaction |
|------|-----------------------|
| 2003 | 3.78                  |
| 2004 | 3.83                  |
| 2006 | 3.94                  |

### Absenteeism

In 2007, employees spent 145,315 hours on sick leave. Absenteeism was at a low 6.8% in the past year. As presented in the table below, this figure corresponds to that for 2006. The low level testifies to employee satisfaction in the workplace and a smaller number of work-related injuries, resulting in fewer costs.

Absenteeism

| Year | Number of hours | Share |
|------|-----------------|-------|
| 2005 | 145,255         | 7.5   |
| 2006 | 134,083         | 6.8   |
| 2007 | 145,315         | 6.8   |

### Occupational safety and health

In 2007, there were 44 industrial injuries. The absence of the injured workers caused costs in the amount of EUR 4.17 per 1,000 tonnes of throughput. Every industrial injury is analysed, a report is compiled, the reasons for the resulting situation are established and, based thereon, measures and goals are set out to decrease the number of injuries on the job. The basic aim is to protect employees from negative impacts of the working environment and technological processes, which will be additionally limited by implementation of the occupational safety and health system.

The costs of absence due to industrial injury

| Amount of costs 2007  | Objective 2007        |
|-----------------------|-----------------------|
| EUR 4.17/1,000 tonnes | EUR 4.30/1,000 tonnes |

### Employees' co-management

The Workers' Council participates in management by the Company's bodies via workers' representatives on the Supervisory Board of the Company and through the workers' representative on the Management Board – a workers' director. According to the Articles of Association, the member of the Management Board – workers' director represents and acts on behalf of the employees in relation to personnel and social issues.

There are three representative trade unions operating at Luka Koper, d.d.: the Port Employee Trade Union of Slovenia, the Port Activity Union of Slovenia, and the Maritime Crane Operators Trade Union of Luka Koper. In 2007, the social partners at the level of the Company launched the intensive drafting and adoption of new corporate collective agreements for employees of the parent company and subsidiaries. By signing an annex to the Collective Agreement, in early 2008 the Company reached a social agreement with the Port Activity Union and the Port Employee Trade Union.

### Informing the employees

At the Luka Koper Group, internal communications are conducted according to the principles defined in the criteria for achieving business excellence in line with the EFQM standard and other applicable quality standards. The tools of internal communication are the following:

- The internal bulletin ‚Luški glasnik‘: monthly publication which besides current events within the Company and its surroundings contains information about planned developments and investments, professional articles and pieces on other activities and the success of employees.
- The intranet, which is accessible to an ever greater number of employees; as a result, the website was redesigned and expanded in 2007.
- The bulletins ‚Kratke vesti‘ and ‚Interna obvestila‘ are issued periodically and usually contain one page (they are available on the notice boards, e-mail and the intranet).

An important role is played also by direct mutual informing of employees within units and work groups at briefings and work meetings.

On the basis of surveys we have conducted we establish that internal communications are conducted well and that the employees are satisfied with the level of informing.

### Employing the disabled

At the end of 2007, the Luka Koper Group employed 176 disabled people, of whom 156 or 68.4% of the total worked at Luka Koper INPO, d.o.o.

The number of disabled employees as at 31 December 2007

| Company                 | Number of the disabled |
|-------------------------|------------------------|
| Luka Koper, d.d.        | 14                     |
| Luka Koper INPO, d.o.o. | 156                    |
| Adria Terminali, d.o.o. | 6                      |
| <b>Luka Koper Group</b> | <b>176</b>             |

In the past year, we paid attention to our disabled employees mainly as regards:

- acquiring new programmes which could be implemented by the disabled;
- expanding the possibilities of reassignment and promotion;
- including them in motivational workshops;
- informing and preparing them for retirement as well as obtaining suitable data from the Pension and Disability Insurance Institute of Slovenia;
- offering assistance to the disabled in solving work-related and personal problems;
- co-operating with the Papilot Institution in disability procedures in the field of occupational medicine; and

- organising several internal and external training events.

### **Remuneration, motivation and other employee benefits**

Stability and a successful performance ensure the social and economic security of our employees. The salary, which comprises a basic and a variable part, is remitted regularly and the employees receive a group performance bonus every quarter. We reward useful proposals and innovations, instructorship and other ways of transferring knowledge to employees as well as project work. Every year, we reward as many as up to five model employees, managers of the year and the quality team members. We also pay 70-90% of the supplementary voluntary pension premium and cover flu vaccination expenses.

At the same time, we encourage the non-formal socialising of employees through organised forms of sports recreation, use of the Company's holiday facilities and social get-togethers at the anniversary of the Company and New Year. We organise sports games for the employees and business partners, a picnic for all employees, annual social meetings within organisational units, events on Women's Day, a New Year's presentation of gifts to the employees' children and more.

Upon retirement, we pay the employees severance pay higher than the amount stipulated by law. Moreover, our retired employees can maintain contacts with the Company through the Pensioners' Club operating within Luka Koper, d.d. which is also financed by the Company.

We monitor the medical treatment of our employees, especially those whose treatment is lengthy due to a serious illness or injury. Usually, the superiors and close colleagues keep contact with such employees and we also help them financially. In addition, we offer employees assistance in solving their accommodation and social problems. Financial assistance has been provided to 29 employees in total.

### **Goals achieved in 2007**

In 2007, the activities related to human resources were targeted at:

- providing a rational and flexible work organisation by improving the microorganisation, managing working hours and implementing organisational changes;
- providing a suitable number of adequate employees, promotions and employee rotations to ensure an uninterrupted work process;
- introducing new approaches to obtain job candidates, in particular for operative positions;
- introducing a new form of soliciting staff by co-operating with agencies;
- following and adjusting to legislative novelties;
- preparing and organising the necessary operations for the takeover of employees from BTC Terminal Sežana, d.d. by Adria Terminali, d.o.o.; and
- launching the in-house training of port machinery drivers and crane operators.
- 

### **Goals for 2008**

Human resources management goals are the following:

- reorganising the job systemisation;
- concluding a new corporate collective agreement;
- providing a suitable number and type of personnel;
- 5% employee fluctuation;
- 100% employee participation in training; and
- introducing an individual approach to planning employee development and training.

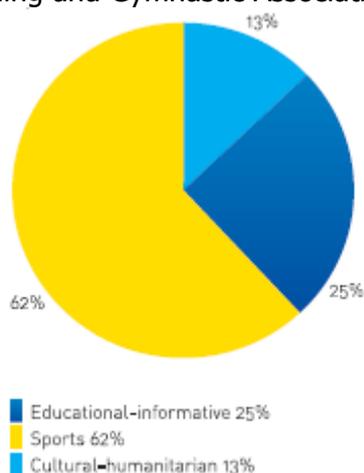
## IN PARTNERSHIP WITH THE SOCIAL ENVIRONMENT

### Sponsorships and donations

In 2007, the Luka Koper Group allocated EUR 1.4 million to sponsorships and donations, which is 187% more than the year before. This jump is a consequence of the celebration of the 50th anniversary, where we paid special attention to the local community. Major sponsorships and donations include those based on which we establish long-term partnership between the Group and the recipients of funds in various areas.

One of these areas is sport:

- Our employees value sport, as no less than 220 are active in the Sports Association of Luka Koper.
- We support the clubs that are named after our Company: Luka Koper Volleyball Club, Luka Koper Bocce Club and Luka Koper Basketball Club.
- We also provided support to the Koper Football Club and a tennis club at Portorož.
- We sponsored the swimmer Matjaž Markič, the canoeist Špela Ponamarenko and the sailor Gašper Vinčec.
- We made it possible for the organisers of the 'Euroregion Running' project to route part of the marathon course across the port territory.
- For a number of years we have been sponsoring the Olympic Committee and we also supported the Skiing and Gymnastic Associations.



Distribution of funds by area

### In the field of culture we:

- devoted special attention to the development of cultural activity in the hinterland, bringing to life old cultural traditions and preserving cultural heritage;
- have been the main sponsor of the Koper Brass Orchestra for a number of years and also sponsored the Primorska Summer Festival and numerous other cultural events; and
- participated in organisation of the Radio Capris summer concert, the jubilee concert of the Faraoni band and helped set up the 'Krasovanje' event in Sežana.

### Our donations went to:

- humanitarian organisations, such as associations of patients suffering from specific illnesses and societies providing help to people in distress;
- the purchase of emergency vehicles for the Izola and Koper Health Centres and the purchase of medical equipment for the Izola General Hospital, the Institute of Oncology and the Medical Centre of Ljubljana; and
- the people affected by September's river floods in central and western Slovenia.

**The quality of knowledge is important for our work, which is why we support education institutions. Thus, in 2007:**

- we contributed to the operations of primary schools, vocational colleges, higher education institutions, faculties, scientific and research organisations which we helped purchase school equipment and teaching aids; and
- further co-operated with the University of Primorska - we were among its initiators and have upgraded our position as we provide financial aid and our experts participate in lectures as well as in the

**Co-operation with the local community**

The project of the Passenger Port of Koper was in 2007 assessed by the Slovenian Tourist Organisation as the most creative and innovative contribution of all Slovenian tourist projects. We supported it when it was no more than an idea and followed up on our support by moving the port activity from the western part of the town. We will continue conducting activities related to the tourist cruise service range. Further, we will participate in the establishment of modern infrastructure to enhance the quality passenger transport activity and thus promote tourism development in the old city centre.

We also support other projects which will bring about the harmonised development of areas where the port territory comes into contact with the urban environment in our approximate vicinity. In 2007, we provided funds for rehabilitation of the neglected small port in the Bay of St. Catherine in Ankaran. We also plan to build the Ankaran sports and recreational park by arranging the land next to the bay. We will further contribute to improve the quality of life in the town by relocating the main truck entrance to the port to Srmin. Project documentation was prepared and a public tender organised for the construction of the road connection with the new entrance in 2007.

The port boasts a volunteer fire department, which we make sure is well-equipped and trained. The fire-fighters are ready to intervene and help at any time, not only in the port itself, but also in the town of Koper and the surrounding area.

The port area is secured with a customs fence since it has the status of an economic zone. That is why it is not accessible to the public. The latter is often critical as it lacks knowledge about our activities.

We want to enhance company visibility and in June 2007 we therefore organised the Open House Event. Many visitors came, almost 1,000 in a day, and 14,000 people opted for guided excursions.

## CONTROLLING THE IMPACT ON THE NATURAL ENVIRONMENT

Luka Koper is the only port in the Northern Adriatic to operate according to the ISO 9001 and ISO 14001 standards. We already successfully introduced the environmental management system (ISO 14001) in 2000 and undertook to develop new methods and models for efficient environmental protection and management. We solve environmental issues in close co-operation with the competent municipal and national bodies as well as the local communities. We provide for environmental protection in line with the regulations of both the Republic of Slovenia and the European Union. The competent inspection services in the port regularly monitor our environmental impact. No measurements point to the legal limits being exceeded.

In 2007, EUR 2.32 million was spent on environmental purposes, which equals 2% of operating revenue.

Major investments in equipment were:

- the purchase of two sea protective vessels;
- wind protection for the iron and coal disposal site;
- set-up of a rainwater sewage system; • oil trap installations;
- the remodelling of vehicles to make them suitable for use in case of spills of hazardous substances;
- an environmental upgrade of the transporter;
- co-financing of the purchase of a new measurement station for determining the quantity of inhalable particles PM10 - it will be installed within the port; and
- the purchase of three on-line noise measuring devices for the continued monitoring of noise immissions.

In 2007, the studies and activities referred to below were carried out:

- a study involving the control of air pollution from dust deposits in the area of the Ankaran local community for the 2006-2007 period;
- a study on the environmental impact and toxicology value of emissions in the inshore sea area of Luka Koper; and
- a study on the impact of Luka Koper's operations on pollution and other environmental problems in Koper Bay, along with the proposed strategy and measures for environmental protection.

The implementation of the environmental, safety and health policy is the responsibility of all employees. One of the Management Board members is also the management's representative for the environment and is tasked with providing the harmonised functioning of the environmental protection system and company policy. The Environmental Protection and Occupational Health Department was set up and assigned to oversee environmental protection, safety and health at work and sea protection. The department manager is authorised for environmental protection and is in charge of advising, informing the employees, obtaining environmental permits, monitoring, reporting and providing information to the public.

### Co-operation with institutions and local communities

We annually conduct surveys so as to learn the opinions of the local population. This year the survey included 301 respondents and the analysis gave us a better understanding of the Group's importance of in the everyday lives of the region's population.

In spite of the lively events and continuous rise in throughput, the respondents have a

positive opinion. The overall estimate of the environmental impact of port activities on a scale from 1 to 5 was 3.78 in 2007. The analysis did not reveal any general negative opinion about our operations and future, and our contribution to the economic development of the Municipality of Koper is positive.

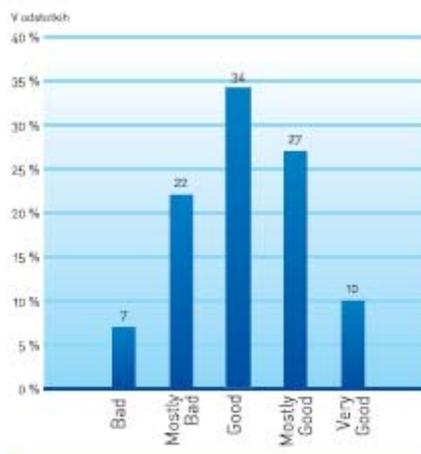
Overall estimate of the environmental impact of port activities on a scale from 1 to 5

| 2005 | 2006 | 2007 |
|------|------|------|
| 3.69 | 3.84 | 3.78 |

In co-operation with numerous institutions we carry out many research projects and actively take part in national and international projects aimed at reducing and preventing negative environmental impacts, i.e.: Life Cycle Assessment (ship waste), IONAS – Ionian and Adriatic Cities and Ports Joint Co-operation.

### Technological Environmental Centre (TEC)

2007 saw the establishment of the Tehnološko okoljski center, d.o.o. (Technological Environmental Centre), of which Luka Koper, d.d. is a strategic partner. The TEC will operate as a market-oriented company performing technological and environmental research services and quality assurance. The development and work will be based on the transfer of research and new findings to technological practice. The Centre will conduct technological research in engineering and technology with a special emphasis on renewable energy sources, waste recovery, technologies for obtaining natural medicinal substances, sea and inland area ecology.



Results of the survey conducted on the local population about the attitude of Luka Koper to environmental protection

### Monitoring air quality

Air quality is monitored by measurements of emissions and immissions. It is no longer legally prescribed that dust immissions be measured, which is why we do not report the result to the state authorities but we do observe the maximum recommended immission level of particles of 200 mg/m<sup>2</sup> per year. Control measurements of dust deposits are carried out at ten measurement sites. In 2007, the limits were not exceeded, except at the measuring site in the approximate vicinity of the pier extension. In addition, since 2001 the Primorska Institute of Natural Sciences has been conducting measurements of immissions of inhalable dust particles smaller than 10 µm (PM<sub>10</sub>) in the immediate area of the source of immissions

- the bulk cargo disposal site. The last average PM10 concentration measured was 34.97 $\mu\text{g}/\text{m}^3$ , which is below the legally prescribed limit (40  $\mu\text{g}/\text{m}^3$ ).

Luka Koper, d.d. has set itself the task to halve this figure by 2010, as required by the European and Slovenian legislation. This goal will be achieved by preventive measures and activities aimed at reducing dust particles in the atmosphere. In March 2008, a mobile station will start being used for PM10 emissions. In the framework of operational monitoring of emissions into the atmosphere, the authorised organisation is conducting measurements at the liquid cargo terminal. The results of measurements are below the prescribed maximum limits.

Concentration of dust particles,  $\mu\text{g}/\text{m}^3$

| Period                                      | Concentration $\mu\text{g}/\text{m}^3$ |
|---|--|
| April 2004 – April 2005                     | 33.0                                   |
| April 2005 – April 2006                     | 25.1                                   |
| April 2006 – April 2007                     | 35.0                                   |
| Target average annual concentration in 2010 | 20.0                                   |
| Permitted average annual concentration      | 40.0                                   |

Comparison of noise levels in the entire area of Luka Koper, d.d.

| Year                        | 2005 | 2006 | 2007 |
|-----------------------------|------|------|------|
| Daily noise level ( $L_d$ ) | 58   | 58   | 61   |
| Night noise level ( $L_n$ ) | 53   | 53   | 52   |

### Monitoring noise effects on the environment

Noise immissions have been regularly measured since 1998 at three locations: near the town centre of Koper and at border points towards Ankaran and Bertoki, where measuring devices were installed at the end of 2007 for continuing noise measurements. While the night time noise levels decreased, noise levels during the day slightly rose on account of the new facilities being constructed. However, both levels are below the prescribed limits.

### Rational energy and water consumption

In order to reduce the consumption of energy, energy sources and water, we are considering the use of alternative energy sources. The water needed for the European energy terminal is drawn from wells. We are reducing the loss of water from the distribution network by promptly discovering water losses and via computer control.

Fuel consumption is limited by the use of more electrically-powered machinery; however, this machinery is usually not strong enough. In spite of the above, the consumption is slightly increasing as a consequence of the higher number of services with added value. The increase in consumption per tonne of throughput is attributed also to the lack of warehouses and thus goods transport outside the terminals to a wider area of port. Energy consumption has decreased over the last few years. Admittedly, the costs were somewhat higher, but this was due to the rise in electricity prices.

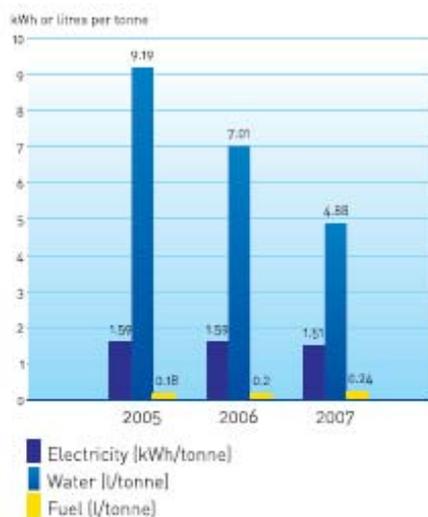
### Systematic waste management

The environmental awareness of our employees is also reflected in the separate collection and recycling of waste. At the port, up to 70% of all waste is collected separately and then handed over for recycling. We improved the cleanliness and appearance of our working environment as well as boosted the cost-effectiveness of our operations. We perform the

mandatory public utility service of collecting solid and liquid waste from vessels in the area of the Port of Koper.

### Sea protection

Services related to the prevention and elimination of the consequences of sea pollution are carried out on the basis of a contract concluded between the Republic of Slovenia and Luka Koper, d.d. We supervise the port aquatorium 24 hours a day, 365 days a year. On the Luka Koper Group level, we organised the Sea Protection Department and formulated the Plan of action and informing in the case of hazardous substance spills at sea. Crucial for successful performance are the suitably qualified staff and adequate equipment.



Decrease in the consumption of electricity, fuel and water per tonne of throughput

In 2007, we acquired the equipment for sea protection and participated in two international exercises for spills of hazardous substances at sea. We played the leading role at the 'Sea 2007' national-level exercise. In October 2007 our Sea Protection Department gained the first ecological intervention vessel to be used in the case of sea pollution. 'Kormoran', a special Gabbiano boat, is fitted with all equipment necessary for the remediation of small-scale pollution. In December, we received the fast working patrol boat OMNIA 10.60, designed for patrolling and quick interventions in extraordinary events at sea. Our goal is to acquire a concession for the mandatory public utility service of maintaining aquatic and inshore land in the entire area of the Slovenian sea.

### Reduction of light pollution

We commissioned a study for the overall adjustment of the existing external lighting in the port area with the Decree on Limit Values Due to Light Pollution of the Environment. The new outdoor warehouses are lit by fixtures that comply with the said Decree.

### Informing the public about environmental aspects

We provide data to the national authorities as prescribed and within the legally set deadlines. The public is informed via our website, the 'Luški glasnik' bulletin and the public media. We also issue publications describing the development of the Luka Koper Group, organise interactive workshops, publish professional articles about sustainable development and take an active part in environmental conferences.

### Environmental objectives for 2008

In 2008, we have set the following environmental protection objectives:

- upgrading the environmental management system according to the EMAS system requirements;
- obtaining the OHSAS 18001 certificate of occupational safety and health of workers;
- acquiring a concession for the mandatory public utility service of maintaining aquatic and inshore land in the entire area of the Slovenian sea;
- environmental activities on the operative level will focus on cutting unfavourable environmental impacts of our activity.

## SUPPLIERS AND CUSTOMERS

### Responsible selection of suppliers

The Luka Koper Group continued organising purchasing conferences which connected employees at profit centres who are responsible for purchasing equipment with the Technology and Purchasing Department with the aim of ensuring uniform and optimal purchasing.

At the end of 2007, we assessed 22 suppliers from two groups: technical services and products. Assessment criteria were the following: quality, delivery deadline, price, time needed for resolving complaints, payment terms and the environmental policy of a supplier.

As in the year before, in 2007 the Committee gave high scores to suppliers, which means that the high quality of suppliers has been preserved. Suppliers are selected and included in the list of strategic suppliers on the basis of this assessment. Namely, we only co-operate and conduct business with strategic suppliers who can assure reliability as regards the supplied goods or services, along with the desired quality and agreed deadline.

According to the Committee's assessment we established a team for selecting the best supplier. In addition, rewards will be presented to the best suppliers in specific areas.

### Partnership with suppliers

We develop partnerships with competent and financially stable suppliers which maintain a high quality level of products and services. We have concluded agreements with suppliers on the provision of critical inventories and the timely delivery of material. The success of the systematic building of partnerships with suppliers is reflected in a drastic drop in the number of complaints and the low percentage of missed contractual deadlines. By having a uniform presence in the market we also create conditions for attaining better effects.

When purchasing new assets, significant attention is paid to more energy efficient and environmentally-friendly assets. We started systematically monitoring the introduction of new technologies in practice and the launch of technological solutions for enhancing productivity and intensifying environmental protection.

### RESPONSIBILITY TO CUSTOMERS

We have built excellent relations with all our customers and maintain them within the framework of the EFQM business excellence model. We monitor their opinions through contacts between them and the sales staff (meetings, telephone conversations, e-mail) and the annual customer satisfaction survey which in 2007 was for the first time carried out in an electronic form, via a questionnaire on the Company's website. We take into account customers' opinions and inform them about adopted measures, thus encouraging them to put forward proposals for the improvement and development of services, and to reinforce our co-operation.

Complaints from customers totalled EUR 160,957 or 0.13% in 2007 - a negligible proportion of operating revenue, but which evidence our high-quality services which is relevant in the scope of business relations.

**CONSOLIDATED FINANCIAL REPORT OF THE LUKA  
KOPER GROUP FOR 2007**

## **INTRODUCTORY NOTES TO THE PREPARATION OF THE FINANCIAL REPORT**

Consolidated financial statements and notes to the financial statements of the Luka Koper Group and unconsolidated financial statements and notes to the financial statements of the company Luka Koper, d.d. have been presented as two separate reports. The financial statements have been prepared in accordance with International Financial Reporting Standards (hereinafter: IFRS).

The auditors of Deloitte revizija, d.o.o. audited the consolidated and unconsolidated financial statements and the notes thereto and prepared the auditor's report which has been included in the corresponding sections.

The statement of management's responsibility is published at the beginning of the financial report and denotes management's responsibility for all financial statements, i.e. the financial statements of the Luka Koper Group and the company Luka Koper, d.d.

### **STATEMENT OF MANAGEMENT'S RESPONSIBILITY**

Management of the company Luka Koper, d.d. declares that it fully approves the consolidated financial statements of the Luka Koper Group for the year ended 31 December 2007 as well as the unconsolidated financial statements of the company Luka Koper, d.d.

Management confirms that the financial statements have been prepared under the assumption of going concern and in accordance with applicable legislation. The consistent application of accounting policies and guidelines together with a prudent preparation of accounting estimates represent a basis for a true and fair presentation of the financial position of Luka Koper, d.d. and the Luka Koper Group and of their financial performance in the year 2007.

Koper, 27 March 2008

President of the Management Board

Robert Časar



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**INDEPENDENT AUDITOR'S REPORT**  
to owners of LUKA KOPER d.d.

We have audited the accompanying consolidated financial statements of the Luka Koper Group, which comprise the balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Luka Koper Group as at 31 December 2007, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

*Report on Other Legal and Regulatory Requirements*

Pursuant to Article 57(1) of the Companies Act (ZGD-1), we have reviewed the company's business report. In our opinion, the business report is consistent with the audited financial statements.

DELOITTE REVIZIJA d.o.o.

Lidija Jezernik  
Certified Auditor  
Member of the Board



Ljubljana, 21 March 2008



DELOITTE REVIZIJA D.O.O.  
Ljubljana, Slovenija 1

**INCOME STATEMENT - audited and consolidated**

| (IN EUR)                               | Notes     | 2007              | 2006              |
|--|-----------|-------------------|-------------------|
| Operating revenue                      | 1         | 122,221,811       | 105,688,276       |
| Net sales revenue                      | 1         | 118,992,415       | 101,844,318       |
| Other operating revenue                | 1         | 3,229,396         | 3,843,958         |
| Operating costs                        |           | 98,827,040        | 86,288,430        |
| Costs of goods, materials and services | 2         | 41,757,873        | 35,769,184        |
| Labour costs                           | 3         | 30,857,201        | 26,812,055        |
| Write-downs in value                   | 4         | 16,764,462        | 14,683,308        |
| Provisions created                     | 5         | 1,905,295         | 1,478,194         |
| Other operating expenses               | 6         | 7,542,209         | 7,545,689         |
| <b>Operating profit</b>                |           | <b>23,394,770</b> | <b>19,400,472</b> |
| Financial revenue                      | 7         | 14,080,376        | 6,098,404         |
| Financial expenses                     | 8         | 3,798,898         | 2,091,674         |
| Financing gain                         |           | 10,281,478        | 4,006,730         |
| <b>Total profit</b>                    | <b>9</b>  | <b>33,676,248</b> | <b>23,406,576</b> |
| Corporate income tax                   | 10        | 2,949,620         | 2,958,968         |
| Deferred tax                           | 11        | 138,502           | 254,939           |
| <b>Net profit for the period</b>       | <b>12</b> | <b>30,865,130</b> | <b>20,702,547</b> |
| Profit of majority shareholder         | 12        | 30,124,485        | 19,926,275        |
| Profit of minority shareholder         | 12        | 740,645           | 776,272           |
| Earnings per share                     | 25        | 2.15              | 1.42              |

**BALANCE SHEET - audited and consolidated**

| (IN EUR)                                      | Notes     | 31/12/2007         | 31/12/2006         |
|---|-----------|--------------------|--------------------|
| <b>Assets</b>                                 |           | <b>461,159,397</b> | <b>366,403,967</b> |
| Long-term assets                              |           | 421,422,072        | 326,909,604        |
| Intangible assets                             | 13        | 1,078,021          | 649,574            |
| Property, plant and equipment                 | 14        | 242,250,356        | 163,279,886        |
| Investment property                           | 15        | 3,732,466          | 7,853,163          |
| Long-term investments                         | 16        | 172,998,339        | 154,108,158        |
| Long-term operating receivables               | 17        | 217,294            | 11,730             |
| Deferred tax assets                           | 18        | 1,145,596          | 1,007,093          |
| <b>Current assets</b>                         |           | <b>39,538,187</b>  | <b>39,403,369</b>  |
| Assets (disposal group) held for sale         | 19        | 103,865            | 125,092            |
| Inventories                                   | 20        | 9,688              | 4,397              |
| Short-term financial assets                   | 21        | 8,624,943          | 16,320,831         |
| Short-term operating receivables              | 22        | 28,544,163         | 22,061,243         |
| Short-term corporate income tax assets        | 22        | 242,635            | 270,274            |
| Cash and cash equivalents                     | 23        | 2,012,893          | 621,532            |
| Short-term deferred costs and accrued revenue | 24        | 199,138            | 90,994             |
| <b>Off-balance sheet assets</b>               | <b>30</b> | <b>14,899,609</b>  | <b>9,360,499</b>   |
| <b>Equity and liabilities</b>                 |           | <b>461,159,397</b> | <b>366,403,967</b> |
| Equity  | 25        | 340,663,798        | 294,887,189        |
| Equity - majority shareholder                 |           | 337,791,792        | 292,942,931        |
| Share capital                                 | 25        | 58,420,965         | 58,420,965         |
| Capital surplus                               | 25        | 89,562,703         | 89,562,703         |
| Legal reserves                                | 25        | 18,868,358         | 18,864,125         |
| Other revenue reserves                        | 25        | 95,728,958         | 82,430,362         |
| Revaluation surplus                           | 25        | 44,598,950         | 20,188,925         |
| Retained earnings                             |           | 13,025,799         | 13,530,245         |
| Net profit for the period                     | 12        | 17,586,058         | 9,945,606          |
| Equity - minority shareholders                |           | 2,872,006          | 1,944,258          |
| Provisions                                    | 26        | 11,718,551         | 10,080,972         |
| Long-term liabilities                         |           | 17,926,907         | 45,323,712         |
| Long-term financial liabilities               | 27        | 6,622,990          | 33,280,071         |
| Long-term operating liabilities               | 27        | 154,180            | 6,013,183          |
| Long-term deferred tax liabilities            | 27        | 11,149,737         | 6,030,458          |
| Short-term liabilities                        |           | 90,487,510         | 15,249,933         |
| Short-term financial liabilities              | 28        | 52,014,429         | 2,250,797          |
| Short-term operating liabilities              | 28        | 38,028,073         | 12,834,058         |
| Short-term corporate income tax liabilities   | 28        | 445,008            | 165,078            |
| Accrued costs and deferred revenue            | 29        | 362,631            | 862,161            |
| <b>Off-balance sheet liabilities</b>          | <b>30</b> | <b>14,899,609</b>  | <b>9,360,499</b>   |

## CASH FLOW STATEMENT

| (IN EUR)   | 2007             | 2006           |
|--|------------------|----------------|
| <b>A. Cash flows from operating activities</b>   |                  |                |
| a) Net profit  |                  |                |
| Profit before tax  | 33,676,249       | 23,406,577     |
| Income taxes and other taxes not included in operating expenses  | (2,811,118)      | (2,704,029)    |
|  | 30,865,131       | 20,702,548     |
| b) Adjustments for   |                  |                |
| Depreciation or amortisation (+)   | 16,180,460       | 14,043,718     |
| Revaluation operating revenue associated with investing and financing items (-)  | (405,441)        | (546,742)      |
| Revaluation operating expenses associated with investing and financing items (+)   | 99,663           | 153,247        |
| Financial revenue less financial revenue from operating receivables (-)  | (13,341,765)     | (5,637,570)    |
| Financial expenses less financial expenses from operating liabilities (+)  | 3,561,342        | 1,686,475      |
|  | 6,094,259        | 9,699,128      |
| b) Changes in net operating assets in the operating balance sheet items (including accruals and deferrals, provisions and deferred tax assets and liabilities) |                  |                |
| Opening less closing operating receivables   | (6,660,844)      | (3,610,161)    |
| Opening less closing deferred costs and accrued revenue  | (108,143)        | (12,431)       |
| Opening less closing deferred tax assets   | (138,501)        | (1,007,094)    |
| Opening less closing assets (disposal groups) held for sale  | 21,227           | (125,092)      |
| Opening less closing inventories   | (5,290)          | (246)          |
| Closing less opening operating liabilities   | 19,614,941       | 5,635,563      |
| Closing less opening accrued costs and deferred revenue, and provisions  | 1,138,049        | 1,893,843      |
| Closing less opening deferred tax liabilities  | 5,119,279        | 4,243,114      |
|  | 18,980,718       | 7,017,496      |
| c) Net cash from operating activities (a + b)  | 55,940,107       | 37,419,172     |
| <b>B. Cash flows from investing activities</b>   |                  |                |
| a) Cash receipts from investing activities   |                  |                |
| Interest and dividends received from investing activities  | 3,821,531        | 1,695,362      |
| Cash receipts from disposal of intangible assets   | -                | -              |
| Cash receipts from disposal of property, plant and equipment   | 1,129,609        | 747,651        |
| Cash receipts from disposal of long-term investments   | 26,162,393       | 7,937,330      |
| Cash receipts from disposal of short-term investments  | 113,943,481      | 38,256,655     |
|  | 145,057,014      | 48,636,998     |
| b) Cash disbursements from investing activities  |                  |                |
| Cash disbursements to acquire intangible assets  | (775,649)        | (132,134)      |
| Cash disbursements to acquire property, plant and equipment  | (85,570,739)     | (27,275,386)   |
| Cash disbursements to acquire investment property  | (6,983,206)      | -              |
| Cash disbursements to acquire long-term investments  | (14,271,276)     | (31,792,253)   |
| Cash disbursements to acquire short-term investments   | (105,466,455)    | (21,813,004)   |
|  | (213,067,325)    | (81,012,777)   |
| c) Net cash from investing activities (a + b)  | (68,010,311)     | (32,375,779)   |
| <b>C. Cash flows from financing activities</b>   |                  |                |
| a) Cash receipts from financing activities   |                  |                |
| Cash proceeds from increase in long-term financial liabilities   | 44,348,646       | 39,914,000     |
| Cash proceeds from increase in short-term financial liabilities  | 23,479,286       | 2,903,418      |
|  | 67,827,932       | 42,817,418     |
| b) Cash disbursements from financing activities  |                  |                |
| Interest paid on financing activities  | (1,747,520)      | (1,169,885)    |
| Cash repayments of long-term financial liabilities   | (34,638,417)     | (41,027,478)   |
| Cash repayments of short-term financial liabilities  | (8,312,518)      | (1,556,440)    |
| Dividends and other profit shares paid   | (9,667,912)      | (9,631,932)    |
|  | (54,366,367)     | (53,385,735)   |
| c) Net cash from financing activities (a + b)  | 13,461,565       | (10,568,317)   |
| <b>Č. Closing balance of cash</b>  | <b>2,012,893</b> | <b>621,532</b> |
| x) Net cash inflow or outflow for the period (sum total of net cash Ac, Bc and Cc)   | 1,391,361        | (5,524,924)    |
| y) Opening balance of cash   | 621,532          | 6,146,457      |

## CHANGES IN EQUITY

| (IN EUR)  | Called-up capital | Capital surplus | Legal reserves | Other revenue reserves | Retained earnings | Net profit for the period | Revaluation surplus | Total       |
|---|-------------------|-----------------|----------------|------------------------|-------------------|---------------------------|---------------------|-------------|
| Balance as at 1 January 2006  | 58,420,965        | 89,562,703      | 18,860,044     | 73,739,863             | 10,520,581        | 11,049,875                | 7,614,919           | 269,768,940 |
| Movements to equity   |                   |                 |                |                        |                   | 19,926,275                | 12,574,006          | 32,500,281  |
| Net profit for the period   |                   |                 |                |                        |                   | 19,926,275                |                     | 19,926,275  |
| Change in the fair value of available-for-sale investments  |                   |                 |                |                        |                   |                           | 12,574,006          | 12,574,006  |
| Movements within equity   |                   |                 | 4,082          | 18,322,440             | 3,009,664         | -21,030,544               |                     | 305,641     |
| Creation of other revenue reserves and legal reserves based on a decision of the management and the supervisory board |                   |                 | 4,082          | 9,976,587              |                   | -9,980,669                |                     |             |
| Movement to other revenue reserves based on a decision of general meeting   |                   |                 |                | 8,345,852              | -8,040,211        |                           |                     | 305,641     |
| Movement of net profit for the previous year to retained earnings   |                   |                 |                |                        | 11,049,875        | -11,049,875               |                     |             |
| Movements from equity   |                   |                 |                | -9,631,932             |                   |                           |                     | -9,631,932  |
| Payment of dividends  |                   |                 |                | -9,631,932             |                   |                           |                     | -9,631,932  |
| Balance as at 31 December 2006  | 58,420,965        | 89,562,703      | 18,864,126     | 82,430,361             | 13,530,245        | 9,945,606                 | 20,188,925          | 292,942,931 |
| Equity - minority shareholders  |                   |                 |                |                        |                   |                           |                     |             |
| Balance as at 31 December 2006  | 49,796            | 25,651          | 4,980          | 784,586                | 302,974           | 776,272                   |                     | 1,944,258   |
| Total equity  | 58,470,760        | 89,588,355      | 18,869,105     | 83,214,947             | 13,833,219        | 10,721,878                | 20,188,925          | 294,887,189 |
| Movements to equity   |                   |                 |                |                        |                   | 30,124,485                | 24,410,025          | 54,534,510  |
| Net profit for the period   |                   |                 |                |                        |                   | 30,124,485                |                     | 30,124,485  |
| Change in the fair value of available-for-sale investments  |                   |                 |                |                        |                   |                           | 24,410,025          | 24,410,025  |
| Movements within equity   |                   |                 | 4,233          | 22,966,509             | -504,446          | -22,484,033               |                     | -17,737     |
| Creation of other revenue reserves and legal reserves based on a decision of the management and the supervisory board |                   |                 | 4,233          | 12,534,104             |                   | -12,538,427               |                     |             |
| Movement to other revenue reserves based on a decision of general meeting   |                   |                 |                | 10,432,315             | -10,432,315       |                           |                     |             |
| Movement of net profit for the previous year to retained earnings   |                   |                 |                |                        | 9,927,809         | -9,945,606                |                     | 17,737      |
| Movements from equity   |                   |                 |                | -9,667,912             |                   |                           |                     | -9,667,912  |
| Payment of dividends  |                   |                 |                | -9,667,912             |                   |                           |                     | -9,667,912  |
| Balance as at 31 December 2007  | 58,420,965        | 89,562,703      | 18,868,358     | 95,728,958             | 13,025,799        | 17,586,058                | 44,598,950          | 337,791,792 |
| Equity - minority shareholders  |                   |                 |                |                        |                   |                           |                     |             |
| Balance as at 31 December 2007  | 236,898           | 25,651          | 4,980          | 1,087,560              | 776,272           | 740,645                   |                     | 2,872,006   |
| Total equity  | 58,657,863        | 89,588,355      | 18,873,338     | 96,816,518             | 13,802,070        | 18,326,704                | 44,598,950          | 340,663,798 |

**UNCONSOLIDATED FINANCIAL REPORT OF LUKA  
KOPER, D.D. FOR 2007**

# Deloitte.

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## INDEPENDENT AUDITOR'S REPORT to owners of LUKA KOPER d.d.

We have audited the accompanying separate financial statements of the company Luka Koper d.d., which comprise the balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the separate financial statements present fairly, in all material respects, the financial position of the company Luka Koper d.d. as at 31 December 2007, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

### *Report on Other Legal and Regulatory Requirements*

Pursuant to Article 57(1) of the Companies Act (ZGD-1), we have reviewed the company's business report. In our opinion, the business report is consistent with the audited financial statements.

We have reviewed the attached report prepared by Luka Koper d.d. pursuant to the provisions of Articles 4 and 5 of the Contract for the lease of operational shores and land owned by the Republic of Slovenia in the port of Koper dated 2 February 2000 for the year ended 31 December 2007 (Chapter 10 of the financial report of Luka Koper d.d.). In our opinion, the company Luka Koper d.d. complied in all material respects with the provisions of Articles 4 and 5 of the Contract for the lease of operational shores and land owned by the Republic of Slovenia in the port of Koper.

DELOITTE REVIZIJA d.o.o.

Lidija Jezernik  
 Certified Auditor  
 Member of the Board



## Deloitte.

DELOITTE REVIZIJA D.O.O.  
 Ljubljana, Slovenija

Ljubljana, 21 March 2008

**INCOME STATEMENT - audited and unconsolidated**

| (IN EUR)  | Notes | 2007              | 2006              |
|---|-------|-------------------|-------------------|
| Operating revenue   |       | 111,331,815       | 97,363,795        |
| Net sales revenue   | 1     | 108,950,005       | 94,166,749        |
| Other operating revenue   | 2     | 2,381,810         | 3,197,046         |
| Operating costs   |       | 90,732,104        | 80,675,154        |
| Costs of goods, materials and services                                    | 3     | 41,672,259        | 36,160,133        |
| Labour costs  | 4     | 25,073,937        | 21,986,024        |
| Write-downs in value  | 5     | 15,175,580        | 13,724,660        |
| Other operating expenses  | 6     | 8,810,328         | 8,804,337         |
| <b>Operating profit</b>   |       | <b>20,599,711</b> | <b>16,688,641</b> |
| Total financial revenue   | 7     | 10,194,595        | 7,670,634         |
| Financial revenue from interests  |       | 8,481,730         | 5,711,237         |
| Financial revenue from loans  |       | 1,005,776         | 1,520,854         |
| Financial revenue from operating receivables                              |       | 707,089           | 438,543           |
| Total financial expenses  | 8     | 3,430,862         | 1,920,434         |
| Financial expenses arising from impairment and write-downs of investments |       | 780,002           | 83,703            |
| Financial expenses for financial liabilities                              |       | 1,981,546         | 1,117,496         |
| Financial expenses for operating liabilities                              |       | 669,314           | 719,235           |
| <b>Total profit</b>   | 9     | <b>27,363,444</b> | <b>22,438,841</b> |
| Corporate income tax  | 10    | 2,285,975         | 2,720,547         |
| Deferred taxes  | 11    | -9,081            | 234,881           |
| <b>Net profit</b>   | 12    | <b>25,068,388</b> | <b>19,953,175</b> |
| Earnings per share  | 13    | 1.79              | 1.42              |

**BALANCE SHEET - audited and unconsolidated**

| (IN EUR)  | Notes     | 31/12/2007         | 31/12/2006         |
|---|-----------|--------------------|--------------------|
| <b>Assets</b>   |           | <b>434,312,786</b> | <b>340,140,666</b> |
| Long-term assets  |           | 405,307,103        | 307,382,721        |
| Intangible fixed assets                                     | 14        | 1,077,540          | 648,598            |
| Property, plant and equipment                               | 15        | 217,180,278        | 149,276,880        |
| Land and buildings  |           | 130,972,114        | 109,285,189        |
| Manufacturing plant and equipment                           |           | 44,440,930         | 29,897,442         |
| Other plant and equipment                                   |           | 135,220            | 51,505             |
| Property, plant and equipment being acquired                |           | 41,632,014         | 10,042,744         |
| Investment property   | 16        | 14,254,814         | 7,853,164          |
| Long-term investments                                       | 17        | 171,681,824        | 148,687,915        |
| Long-term investments, excluding loans                      |           | 160,718,249        | 138,051,877        |
| Long-term loans   |           | 10,963,575         | 10,636,038         |
| Long-term operating receivables                             | 18        | 217,293            | 11,730             |
| Deferred tax assets   | 19        | 895,354            | 904,434            |
| <b>Current assets</b>                                       |           | <b>28,848,131</b>  | <b>32,673,208</b>  |
| Assets (disposal groups) held for sale                      | 20        | 103,865            | 125,092            |
| Short-term investments                                      | 21        | 43,006             | 11,237,883         |
| Short-term operating receivables                            | 22        | 27,194,812         | 19,931,219         |
| Short-term corporate income tax assets                      | 22        | 207,859            | 1,063,225          |
| Cash  | 23        | 1,298,589          | 315,789            |
| Short-term deferred costs and accrued revenue               | 24        | 157,552            | 84,737             |
| <b>Off-balance sheet assets</b>                             | <b>30</b> | <b>17,539,666</b>  | <b>14,605,160</b>  |
| <b>Equity and liabilities</b>                               |           | <b>434,312,786</b> | <b>340,140,666</b> |
| Equity  | 25        | 325,158,610        | 285,348,110        |
| Called-up capital   | 25        | 58,420,965         | 58,420,965         |
| Capital surplus   | 25        | 89,562,703         | 89,562,703         |
| Revenue reserves  | 25        | 114,494,073        | 101,195,476        |
| Revaluation surplus   | 25        | 44,598,950         | 20,188,925         |
| Retained earnings   | 25        | 5,547,725          | 6,003,453          |
| Net profit for the period                                   | 12        | 12,534,194         | 9,976,588          |
| Provisions and long-term accrued costs and deferred revenue | 26        | 4,160,511          | 3,637,505          |
| Long-term liabilities                                       | 27        | 17,481,844         | 34,615,451         |
| Long-term financial liabilities                             | 27        | 6,265,538          | 28,512,012         |
| Long-term operating liabilities                             | 27        | 66,569             | 72,981             |
| Deferred tax liabilities                                    | 27        | 11,149,737         | 6,030,458          |
| Short-term liabilities                                      | 28        | 87,172,026         | 15,684,846         |
| Short-term financial liabilities                            | 28        | 56,514,874         | 3,817,112          |
| Short-term operating liabilities                            | 28        | 30,657,152         | 11,867,734         |
| Short-term accrued costs and deferred revenue               | 28        | 339,795            | 854,754            |
| <b>Off-balance sheet liabilities</b>                        | <b>30</b> | <b>17,539,666</b>  | <b>14,605,160</b>  |

## CASH FLOW STATEMENT

| (IN EUR)   | 2007             | 2006           |
|--|------------------|----------------|
| <b>A. Cash flows from operating activities</b>   |                  |                |
| a) Net profit  |                  |                |
| Profit before tax  | 27,363,444       | 22,438,842     |
| Income taxes and other taxes not included in operating expenses  | -2,295,056       | -2,485,666     |
|  | 25,068,388       | 19,953,175     |
| b) Adjustments for   |                  |                |
| Depreciation or amortisation (+)   | 14,610,380       | 13,134,743     |
| Revaluation operating revenue associated with investing and financing items (-)  | -379,806         | -534,791       |
| Revaluation operating expenses associated with investing and financing items (+)   | 85,568           | 151,098        |
| Financial revenue less financial revenue from operating receivables (-)  | -9,487,506       | -7,232,091     |
| Financial expenses less financial expenses from operating liabilities (+)  | 3,219,191        | 1,543,848      |
|  | 8,047,827        | 7,062,806      |
| b) Changes in net operating assets in the operating balance sheet items (including accruals and deferrals, provisions and deferred tax assets and liabilities) |                  |                |
| Opening less closing operating receivables   | -6,613,790       | -3,014,917     |
| Opening less closing deferred costs and accrued revenue  | -72,815          | -30,529        |
| Opening less closing deferred tax assets   | 9,081            | -234,875       |
| Opening less closing assets (disposal groups) held for sale  | 21,227           | -125,092       |
| Closing less opening operating liabilities   | 18,783,006       | -417,669       |
| Closing less opening accrued costs and deferred revenue, and provisions  | 8,047            | 533,537        |
| Closing less opening deferred tax liabilities  | 5,119,279        | 3,492,155      |
|  | 17,254,035       | 202,609        |
| c) Net cash from operating activities (a + b)  | 50,370,251       | 27,218,591     |
| <b>B. Cash flows from investing activities</b>   |                  |                |
| a) Cash receipts from investing activities   |                  |                |
| Interest and dividends received from investing activities  | 3,384,375        | 6,843,225      |
| Cash receipts from disposal of property, plant and equipment   | 1,045,689        | 718,896        |
| Cash receipts from disposal of long-term investments   | 26,129,383       | 1,769,158      |
| Cash receipts from disposal of short-term investments  | 110,365,244      | 33,858,292     |
|  | 140,924,690      | 43,189,572     |
| b) Cash disbursements from investing activities  |                  |                |
| Cash disbursements to acquire intangible assets  | -775,649         |                |
| Cash disbursements to acquire property, plant and equipment  | -83,772,628      | -23,540,945    |
| Cash disbursements to acquire investment property  | -6,983,206       |                |
| Cash disbursements to acquire long-term investments  | -14,271,276      | -23,047,362    |
| Cash disbursements to acquire short-term investments   | -104,330,712     | -14,398,861    |
|  | -210,133,471     | -60,987,167    |
| c) Net cash from investing activities (a + b)  | -69,208,781      | -17,797,596    |
| <b>C. Cash flows from financing activities</b>   |                  |                |
| a) Cash receipts from financing activities   |                  |                |
| Cash proceeds from increase in long-term financial liabilities   | 43,670,000       | 34,870,000     |
| Cash proceeds from increase in short-term financial liabilities  | 29,447,889       | 3,274,766      |
|  | 73,117,889       | 38,144,766     |
| b) Cash disbursements from financing activities  |                  |                |
| Interest paid on financing activities  | -1,422,659       | -1,037,913     |
| Cash repayments of long-term financial liabilities   | -31,581,772      | -39,440,874    |
| Cash repayments of short-term financial liabilities  | -10,624,216      | -619,069       |
| Dividends and other profit shares paid   | -9,667,912       | -9,631,932     |
|  | -53,296,559      | -50,729,787    |
| c) Net cash from financing activities (a + b)  | 19,821,330       | -12,585,021    |
| <b>Č. Closing balance of cash</b>  | <b>1,298,588</b> | <b>315,798</b> |
| x) Net cash inflow or outflow for the period (sum total of net cash Ac, Bc and Cc)   | 982,800          | -3,164,026     |
| y) Opening balance of cash   | 315,789          | 3,479,824      |

## STATEMENT OF CHANGES IN EQUITY

| (IN EUR)   | Called-up capital | Capital surplus | Legal reserves | Other revenue reserves | Retained earnings | Net profit for the period | Revaluation surplus | Total       |
|--|-------------------|-----------------|----------------|------------------------|-------------------|---------------------------|---------------------|-------------|
| Balance as at 1 January 2006   | 58,420,965        | 89,562,703      | 18,765,115     | 73,739,853             | 5,609,152         | 8,740,154                 | 7,614,919           | 262,452,861 |
| Movements to equity  |                   |                 |                |                        |                   |                           |                     |             |
| Net profit for the period  |                   |                 |                |                        | 19,953,175        | 19,953,175                | 12,574,006          | 32,527,181  |
| Change in the fair value of available-for-sale investments   |                   |                 |                |                        |                   |                           |                     | 19,953,175  |
| Movements within equity  |                   |                 |                | 18,322,440             | 394,301           | -18,716,741               | 12,574,006          | 12,574,006  |
| Creation of other revenue reserves based on a decision of the management and the supervisory board |                   |                 |                | 9,976,588              |                   | -9,976,588                |                     |             |
| Movement to other revenue reserves based on a decision of general meeting                          |                   |                 |                | 8,345,852              | -5,609,152        | -2,736,700                |                     |             |
| Movement of net profit for the previous year to retained earnings                                  |                   |                 |                |                        | 6,003,453         | -6,003,453                |                     |             |
| Movements from equity  |                   |                 |                | -9,631,932             |                   |                           |                     | -9,631,932  |
| Payment of dividends   |                   |                 |                | -9,631,932             |                   |                           |                     | -9,631,932  |
| Net profit and revenue recognised directly in equity   |                   |                 |                |                        |                   | 19,953,175                | 12,574,006          | 32,527,181  |
| Balance as at 31 December 2006   | 58,420,965        | 89,562,703      | 18,765,115     | 82,430,361             | 6,003,453         | 9,976,588                 | 20,188,925          | 286,348,110 |
| Movements to equity  |                   |                 |                |                        |                   |                           |                     |             |
| Net profit for the period  |                   |                 |                |                        | 25,068,388        | 25,068,388                | 24,410,025          | 49,478,413  |
| Change in the fair value of available-for-sale investments   |                   |                 |                |                        |                   |                           |                     | 25,068,388  |
| Movements within equity  |                   |                 |                | 22,945,005             | -455,728          | -22,489,278               | 24,410,025          | 24,410,025  |
| Creation of other revenue reserves based on a decision of the management and the supervisory board |                   |                 |                | 12,534,194             |                   | -12,534,194               |                     |             |
| Movement to other revenue reserves based on a decision of general meeting                          |                   |                 |                | 10,432,315             | -6,003,453        | -4,428,862                |                     |             |
| Movement of net profit for the previous year to retained earnings                                  |                   |                 |                |                        | 5,547,726         | -5,547,726                |                     |             |
| Movements from equity  |                   |                 |                | -9,667,912             |                   |                           |                     | -9,667,912  |
| Payment of dividends   |                   |                 |                | -9,667,912             |                   |                           |                     | -9,667,912  |
| Balance as at 31 December 2007   | 58,420,965        | 89,562,703      | 18,765,115     | 95,707,454             | 5,547,726         | 12,512,690                | 44,598,950          | 325,158,610 |
| Net profit and revenue recognised directly in equity   |                   |                 |                |                        |                   | 25,068,388                | 24,410,025          | 49,478,413  |

## EVENTS AFTER THE BALANCE SHEET DATE

### Changes affecting associated companies

The subsidiary company Adria Terminali, d.o.o. got a new co-owner - the company Trade Trans Terminal - which belongs to a logistics business system Trade Trans Invest from Bratislava. In January 2008, the said company purchased a 49% interest from Luka Koper.

### Establishment of associated companies

In January 2008, Luka Koper, d.d. and the company Ekološka energija Koper, d.o.o. co-founded a new company Ecoporto Koper, d.o.o. with a nominal capital of EUR 10,000, which is engaged in the production of alternative energy. Luka Koper has a 24.9% stake in the company.

In January, Luka Koper, d.d. and the company Altena, d.o.o. co-founded a limited liability company Adriasole, d.o.o. with a nominal capital of EUR 10,000, in which Luka Koper holds a 24.9% stake. The company is engaged in the production of alter-native energy.

Luka Koper d.d. became a one-third owner of the company Rail Port Arad (the other two partners being MAV Cargo from Hungary and Trade Trans Invest from Slovakia), which will construct an inland container terminal in Romania's Arada - a strategic point along axis 4 of the European corridor. The investment is worth EUR 1,500,000, and the annual throughput ca-pacity of the new terminal, which measures 10 hectares, will equal 60,000 TEU (container units). As a result, the throughput of containers in the port of Koper can be increased as well (305,648 TEU in 2007). The port or its European logistics centre in Sežana will be connected with the Arad terminal via block trains.

The subsidiary Adria Terminali, d.o.o. together with the Italian companies Pacorini and Ocean, established the company GCT (General Cargo Terminal). The latter will participate in a tender for winning a concession to manage the general cargo terminal in the Port of Trieste, transshipping mainly timber

### Acquisitions of companies

In February 2008, Luka Koper, d.d. took full ownership of the company Investicije Novamark, d.o.o., for the amount of EUR 2,081,552.

### Authorisation for the performance of VAT warehouse services

On 26 February 2008, the Customs Office of Koper issued an authorisation to Luka Koper, d.d. for the performance of VAT warehouse services. Issued for an unlimited period, the authorisation is effective from 1 March 2008. A tax warehouse enables EU customers to be exempt from the levying and payment of VAT on services related to Community goods. For Luka Koper, d.d., the authorisation represents yet another competitive advantage over ports that do not offer this possibility and competition with EU ports, which already provide such services, on a more equal footing.

### Dischargement of the employee director

The members of the Supervisory Board passed the proposal of the Workers' Council of Luka Koper, d.d. and discharged the previous employee director, member of the Management Board, Pavle Krumenaker. His successor was not appointed. In line with the Workers' Participation in Management Act, a Committee was founded, comprised of three representatives of the Supervisory Board and three representatives of the Workers' Council. By the next meeting of the Supervisory Board, the Committee is expected to propose a joint candidate for the Management Board - employee director.