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# Dear Readers,



2010 will - in many respects - be a landmark year for the Luka Koper Group. The non-audited statements published at the end of last month reveal that the company's performance in 2009 - in the midst of the global depression - did not differ substantially from anticipations. The recession, replacement of the company's Management Board, and over-valued investments which necessitated the cleaning of the balance sheet, have provided new foundations on which future development can now be based. This exercise, however, resulted in a manifest loss, the proportions of which have never been faced in the entire history of the company. Nevertheless, Luka Koper is not despondent, Group operations remain healthy and stable, and such a perspective is also vindicated by independent analysts. The degree of indebtedness is - with regard to equity - manageable, whilst continued operating profits facilitate the accomplishment of investment plans. The company is thus confident about its future.

This edition of Notice pays particular attention to marketing. As you will see for yourself, other ports have suffered even greater declines in cargo throughput, particularly as regards container freight. The multi-functionality of the Port of Koper contributes a dynamic aspect to its operations, as well

as an immediate ability to respond to a down-turn in any particular aspect or segment of its business, and marketing activities are also oriented in such a direction. The interview herein with Tomaž Martin Jamnik, Management Board member responsible for marketing and operations, is illuminating in this respect. Improved organisation, centralisation of particular activities, together with flexibility in service provision, has already contributed to cost reductions, and this year we anticipate a ten percent increase in cargo throughput. All of this is the upcoming challenge for Marko Rems, who joined the Management Board at the beginning of March, and is now in charge of accounting and finance. His arrival has been eagerly anticipated, and with the exception of the Workers Director who is shortly to be elected by the Workers Council, the new management team is now complete.

In addition to operating activities, which remain our primary priority, we shall also be dealing with a number of projects that will have a long-term impact on the future of the Port of Koper. The National Spatial Plan is undoubtedly one such project, and as you are probably aware, there are some complications, this time due to our western neighbour; nevertheless, the

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**LUKA KOPER**  
Port of Koper

competent ministries promise that the Plan should be adopted sometime this autumn. A few months delay doesn't seem much; unfortunately for us, however, the project now falls within the period of campaigning for upcoming local elections, and again the Port of Koper will be the victim of various political interests. Recent happenings and the attempts at all-round general discreditation have reached such dimensions that they even affect the credibility of Luka Koper's current Management Board, for whom the disclosure of all irregularities and the pursuit of compensation is in its own best interests as well as those of the company.

For as long as the state remains Luka Koper's majority shareholder – and according to the plans of current government this shall continue to remain the case – we will not be able to avoid certain political pressures. But it is high time for politics to retreat from the day-to-day operations of the company, and for focusing exclusively on the strategic development of the port. We can't forget that Luka Koper is a public limited company operating in an international environment; because its shares are listed on the stock exchange, affairs of any kind inevitably affect its image and reverberate in business circles.

**Gregor Veselko,**  
President of Management Board

## “Clients are willing to pay a higher price for quality”



We asked Tomaž Martin Jamnik, Vice-President of the Luka Koper Management Board, some questions as to market conditions, potentials and suchlike.

**What are your estimations as to market conditions, a year after the onset of the global recession? Is Luka Koper likely to accomplish its ambitious plan to increase cargo throughput by nine percentage points above 2009?**

Indeed, the plan for 2010 is ambitious; but I believe that we are able to accomplish it. At first sight, the situation on world markets does not support such growth, global expectations for economic development are more in the region of four percent, and even lower than this in Europe. Nevertheless, I have to point out that in planning we did not count on “natural” growth, but rather on the company's proactive activities in exploiting new markets and new cargo types, by way of which we intend to make up the difference between natural growth and the set objectives.

**What changes have been observed with regard to users of port services? Is there a lot of consumer pressure to reduce the cost of services?**

Last year when the crisis reached its zenith – or at least we hope so – we perceived some pressure to reduce prices as well as prolong payment terms. At the same time, we also

observed clients starting to use switch to Koper services because they realised the Adriatic route was cheaper. This was certainly obvious as regards the Austrian market, where we recorded an increase in the number of containers handled; such was also true as regards Hungary, a country which has been deeply affected by the crisis.

**The Luka Koper brand is considered a guarantee of reliable quality services delivered in a flexible manner; is this in itself an adequate response to pressure to reduce prices?**

When we discuss the possibility of price reduction with our clients, they acknowledge that other ports might be more favourable in terms of cost, but they are willing to agree to slightly higher price due to the quality and efficiency of Luka Koper services. I believe that this is something we can be quite proud of. In addition to the provision of tailor-made services, flexibility and reliability continue to remain two comparative advantages. We are a relatively small port and can afford to offer the client tailor-made solutions which best meet their individual needs and requirements.

**You are in charge of terminal operations at the Port of Koper. In addition to sourcing new cargo streams, you have been intensively engaged in the issue of cost reduction over recent months. How successful have you been, and what still needs to be achieved?**

One may reduce costs to a certain extent. Within the scope of those operations which are considered more labour intensive – a typical example of which is the General Cargo Terminal – it is possible to reduce costs only to certain extent due to a necessarily large workforce. In any exercise in cost reduction it is important to establish an apposite level, beyond which the results are ultimately detrimental and harmful to the business in the longer term. In my opinion we have accomplished a great deal in this sphere thus far, though some reserves still remain in such fields as investment and supply. We also try to identify synergy and achieve rationalisation in relation to terminal operations; the first results will become apparent in the second half of the year.

**In your opinion, what cargo types offer the potential that Luka Koper should profit from in the years to come?**

One such type is definitely project cargo, because we are truly able to do better in this segment; further to which the company does have some good references in this respect: for example, last year an entire cement works was shipped from China to Hungary via the Port of Koper, and we also had a number of larger open-side container cargos. Given the fact that Koper is Mediterranean port, two other types of maritime transport have much potential: one is smaller vessels, up to 5,000 tonnes, on short sea routes, while the other is RO-RO transport; we are still relatively weak in both these spheres. The fact remains that at present operating areas within the port do not facilitate the optimal organisation of RO-RO transport, a business which requires dedicated operational quayside, as well as adequate facilities in the immediate hinterland. The situation will improve with the opening of the new port entrance, though we will most likely have to consider a new berth specifically dedicated to RO-RO vessels.

In addition to this, I also see potential with regard to some bulk cargos. Thus far we have – in particular – handled iron ore and minerals, but lack other bulk cargo facilities; suitable services could be offered in the event we are able to make such available. We are also aware that there's unexploited potential with regard to the vehicles business, further to which the company is active in those markets where vehicle production is anticipated to increase over the coming years.

**Cars and containers are strategic cargos: the container freight business faces the toughest of competition, whereas last year vehicles recorded the highest drop in market share. How shall Luka Koper deal with these challenges?**

Container freight is oriented to those ports with established regular lines. With free navigation in such areas as bulk cargo, vessels will go where there is cargo to be taken. An established line is thus of essential importance in the container business, and accordingly we have been discussing the possibility of establishing new lines with the operators. Such also holds true for vehicles. We are looking for new brands and are active in new markets, as well intent on the provision of new value-added services which will attract such business. This is all there is to it, and we really don't have to rediscover America!

**What will be Luka Koper's role in the recently established association of North-Adriatic ports? Will these ports become specialised in individual cargo types?**

It is a lot easier for ports to discuss co-operation with regard to commercial issues during a period of growth and expansion than it is a recession. Now, however, when we are all fighting for every single tonne, it is unrealistic to discuss purely commercial agreements. As to common promotion, Luka Koper continues to believe that our primary competition remains the ports of Northern Europe, and this is where the Adriatic ports stick together. We are aware that a large proportion of cargo from our natural hinterland markets is still shipped via the northwestern

side of the continent. Therefore, joint promotion and hinterland connections are of interest to us all; indeed, every single Adriatic port benefits from the development of Europe's Fifth Transport Corridor. In addition, the Northern Adriatic ports can play a significant role in bodies and organisations of the European Union, as well as the political circles within which European port and maritime policy is being formulated. Currently, the ports on the other side of the continent have a far greater say when it comes to making such decisions. I also have to point out that Luka Koper is flattered to be the first president of NAPA, and we take this as a vote of confidence. As to the natural specialisation of ports, this has actually already occurred. Partially it is a specialisation by cargo type, and partially by markets. For example, Luka Koper handles a minimal amount of cargo in relation to northern Italy, although this region is easily accessible. When it comes to the other ports – Trieste, Venice and Ravenna – we do overlap in a number of markets, which is completely logical. Such is also the case with cargo types. For example: Trieste, unlike Koper, handles crude oil and has done for many years; coal is handled by Koper, Rijeka and Venice, but not by the port of Trieste. At the same time, Koper is considered the second largest vehicle port in the entire Mediterranean. Overall I believe that the existing capacities do not satisfy the market potential, thus there's enough room for all of us.

# A lean year for the majority of European ports

Luka Koper handled 13.1 million tonnes of cargo in 2009, some eighteen percent down on the previous year. Container freight volumes recorded a significantly lower downturn: a three-percent decline compared to 2008. Indeed, the overseas trade of the entire European continent has been hit by the recession: Hamburg recorded a twenty-one percent fall in cargo throughput, Antwerp a decline of seventeen percent, whilst Rotterdam was eight percent down on the previous year. And how did the recession affect neighbouring ports in the Adriatic? Based on available data, this can be concluded in a number of ways:

Total tonnage volume throughput at Adriatic ports in 2008 and 2009

	Tonnes	Tonnes	Percentage decrease	
Port	2008	2009	Index	D%
Koper	16,050,448	13,143,620	82	-18%
Rijeka	12,391,591	10,780,000	87	-13%
Trieste	48,279,107	44,393,322	92	-8%
Monfalcone	4,022,886	3,203,909	80	-20%
Venice	30,262,230	25,261,657	83	-17%
Ravenna	25,896,313	18,702,876	72	-28%
Ploče	5,100,000	2,800,000	55	-45%
Split	340,000	252,000	74	-26%

Container freight throughput at Adriatic ports in 2008 and 2009

	(TEUs)	(TEUs)	Percentage decrease	
Port	2008	2009	Index	D%
Koper	353,880	343,165	97	-3%
Rijeka	168,761	130,740	77	-23%
Trieste	335,943	277,245	83	-17%
Venice	379,072	369,403	97	-3%
Ravenna	214,324	185,022	86	-14%

As an indication of European trade with destinations east of Suez, traffic through the Suez Canal also saw a decline. 17,228 vessels passed through the Canal last year, which is twenty percent less than in 2008. The total includes 6,080 container vessels, which is a year-on decrease of twenty-five percent. However, the actual number of containers transported through the Canal only recorded an eight-percent decline, which can be attributed to the fact that the average size of container vessels was increasing and an ever-increasing volume of freight is being shipped by container.



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## A good performance in February

Total cargo throughput amounted to 1,224,876 tonnes in February, which is two percent ahead of Luka Koper's plan for 2010, and 15.8 percent ahead of February 2009. Koper's Container Terminal witnessed a record throughput in the amount of 35,551 TEUs, which is the highest monthly total in the entire history of the port. Another record was accomplished in early March with 5,238 TEUs being unloaded/loaded from the Maersk Karachi - the largest ever total in relation to a single vessel. The operation took forty hours and necessitated the involvement of all four post-panamax cranes.



## Alcohol Terminal investment nearly complete

The newly-constructed Alcohol Terminal, encompassing five methanol storage tanks with a total capacity of 33,000 m will come on stream in early April. The tanks, replete with a floating membrane to diminish evaporation, as well as all related installations have been constructed using the most advanced technology. The methanol loading system is replete with vapour traps which cool and liquefy evaporants before returning them to the tanks, thus making the entire system emissions free and environment friendly.



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