Strictly Private & Confidential

Consolidated Report on Special Audit of LUKA KOPER

20th April 2009

PRICEWATERHOUSECOOPERS

Table of Contents

PricewaterhouseCoopers d.o.o.
Cesta v Kleče 15
1000 Ljubljana
Slovenia
Telephone +386 1 5836 000
Facsimile +386 1 5836 099

Luka Koper, d.d.
Vojkovo nabrežje 38
6501 Koper

For the attention of Mr. Gregor Veselko, President of Management Board

PRIVATE AND CONFIDENTIAL

Dear Sir,

Referring to our Letter of Engagement dated 24th Jun 2009 and its addendum dated 16th Sep 2009, you asked us to undertake a special audit of Luka Koper, d.d. ("LK" or "Luka Koper").

We have reported our Phase I findings through the presentation which we have provided to you on 23 July 2009. Subsequently, we agreed on scope of detailed investigation for Phase II and we have reported our findings related to the Phase II by Report on special audit of Luka Koper dated 18 December 2009.

Subsequently, you have requested, in line with resolution no.1 of the 17th General Shareholders' Meeting held in Koper on 26 March 2010, that we include into our final report also the findings related to those areas which were covered in the Phase I scope of work and reported in Phase I presentation, but which were not included in our Phase II scope of work.

As a result, we attach this Consolidated Report on special audit of Luka Koper. This includes all the findings which we have made a presented to you in respect of all areas of concern which you require us to cover.

Our work was based on the information and data provided to us by the management and employees of Luka Koper and documents seized by the Slovenian Police to which we were provided access.

This report may not be copied in whole, or in part, to persons other than the addressees, without our prior written permission. PricewaterhouseCoopers d.o.o. ("PwC" or "we") does not accept responsibility to any other party to whom it may be shown or into whose hands it may come.

No reliance shall be placed on any draft reports or letters which may be provided by us. Any oral comments made in discussion with you concerning our reports and letters are not intended to have any greater significance than explanations of matters contained in the final written report or letter.

If you have any queries regarding this report, or if we can be of any further assistance, please do not hesitate to contact me on +386 1 5836 000.

Yours faithfully,

Francois D. Mattelaer	Leon Zivec
Partner	Certified Auditor
PricewaterhouseCoopers d.o.o.	

Glossary of Key Terms

Adriasole	Adriasole, d.o.o.
Altena	Altena, d.o.o.; Adriasole's shareholder
Areas of Concern	ten areas included in scope of special audit for Phase 2
Adria Terminali	Adria Terminali, logisticne storitve, d.o.o.
BCT	bulk cargo terminal
BTC	BTC Terminal Sežana d.d.
Debt Position	LK's debt position
DCF method	discounted cash-flow method
Deloitte	Deloitte d.o.o.
EEK	Ekološka energija Koper, d.o.o. ; Ecoporto's shareholder
ECO Companies	Adriasole, d.o.o. and Ecoporto, d.o.o.
Ecoporto	Ecoporto, d.o.o.
Ekoloska Energija	Ekoloska Energija, d.o.o.
Fixed Assets under Construction	fixed assets under construction
Former management	former members of Management Board of Luka Koper, namely Mr. Robert Casar, Mr. Aldo Babic, Mr. Marjan Babic and Mr. Boris Marzi
Grafist	Grafist d.o.o.
Inženiring Graj	Inženiring Graj d.o.o.
Lasting	Lasting d.o.o
Lasscan	Lasscan d.o.o.

Glossary of Key Terms

LK or Luka Koper	Luka Koper, d.d.
LOI	letter of intent
MAV or Hungarian company	MAV Kombiterminal Ktf
MB	Management Board of Luka Koper
MLH	Modra Linija Holding, d.d.
Napredne tehnologije	Napredne tehnologije, d.o.o.
Nill Tech	Nill-Tech GmbH; vendor of technology to Ecoporto
NLB	NLB d.d.
Passenger Terminal	passenger terminal
Ponting	Ponting d.o.o.
Police	Slovenian Criminal Police
Post-panamax Cranes	post-panamax cranes
Potential losses	potential losses to LK
PwC	PricewaterhouseCoopers d.o.o.
Railport Arad	Railport Arad , S.r.l
RIN Plus	RIN Plus d.o.o.
Robotina	Robotina, d.o.o.; a vendor of technology to Adriasole
Romanian Companies	Railport Arad, S.r.l. and Trade Trans Terminali, S.r.l.
SB	Supervisory Board of Luka Koper
SIMBOL Marketing	SIMBOL Marketing d.o.o.

Glossary of Key Terms (cont.)

Sintesi Pen	Sintesi Pen d.o.o.
SMS Projekt	SMS Projekt, d.o.o.
Spedition Trade Trans Holding	Spedition Trade Trans Holding, s.r.o.
TTI or Trade Trans Invest	Trade Trans Invest, a.s.
TTI Group	Group of companies under control of Trade Trans Invest, a.s.
TTL	Trade Trans Log, S.r.l.
TTT	SC Trade Trans Terminali Sr.l.

Glossary of Key Individuals

Mr. Andrijanic	Andrej Andrijanic, head of profit centre car terminal
Mr. Aldo Babic	Aldo Babic, former Deputy Chairman of Management Board
Mr. Marjan Babic	Marjan Babic, former Management Board member responsible for finance
Mr. Bertok	Igor Bertok, expert in investments department
Mr. Bezjak	Marjan Bezjak, Supervisory Board Member during former Management
Mr. Blazic	Marko Blazic, head of legal department
Mr. Bolcic	Peter Bolcic, Director of Ecoporto
Mrs. Brilli	Katarina Grillc Brilli, director and owner of Lasting d.o.o.
Mr. Cah	Andrej Cah, head of sales and marketing department
Mr. Casar	Robert Casar, former Chairman of Management Board
Mrs. Certalic	Masa Certalic, development projects & EU cooperation manager
Mrs. Cok	Andreja Licen Cok, head of finance department
Mrs. Franca	Olga Franca, member of Supervisory Board
Mrs. Galadova	*Ing. Adela Galadova, assistant in Trade Trans Invest*
Mr. Gortan	Ernest Gortan, director of BTC Terminal Sezana
Mr. Glavina	Alexander Glavina, project manager
Mr. Jerman	Boris Jerman, lawyer
Mr. Kaas	Kaas, owner of TTI Group

Glossary of Key Individuals (cont.)

Mr. Levanic	Roberto Levanic, head of technical department
Mr. Marzi	Boris Marzi, former Management Board member
Mrs. Mavsar	Monika Mavsar, lawyer representing Grafist d.o.o.
Mrs. Mezek	Metod Mezek, member of Supervisory Board
Mr. Orel	Victor Orel, market manager, Italy
Mr. Palcic	Devid Palcic, representative Robotina d.o.o.
Mr. Ivan Peric	Ivan Peric, project manager in LK
Mr. Rudi Peric	Rudi Peric, Investments service
Mrs. Pucer	Mojca Pucer, Director for finance
Mr. Pucko	Milan Pucko, executive director for strategic development
Mr. Sirk	Zdravko Sirk, licensed valuator for real-estate
Mr. Srednik	Rajko Srednik*, licensed valuator for machinery and equipment*
Mr. Joze Starman	Joze Starman, director of Altena d.o.o.
Mr. Janez Starman	Janez Starman, Attorney at Law
Mr. Strnad	Marjan Strnad, Director of Adriasole
Mr. Tomisic	Bojan Tomsic, head of profit centre for liquid cargo
Mr. Topic	Nebojsa Topic, technical control and safety department (project engineer)
Mr. Trebec	Barbara Trebec, Internal auditor in LK
Mrs. Trebec	Barbara Trebec, certified internal auditor
Mrs. Troha	Irena Troha, head development and investment department

Glossary of Key Individuals (cont.)

Mr. Tudor	Eugen Tudor, director of TTT
Mrs. Vižintin	Tanja Vižintin, employee Port Infrastructure LK
Mr. Vodopija	Branko Vodopija, head of profit centre for general cargo
Mrs. Zadel	Bojan Zadel, member of Supervisory Board

Section 1

Introduction

Introduction

- We understand that Luka Koper's shareholders, the Ministry of Transport of the Republic of Slovenia, Kapitalska druzba, d.d and Slovenska Odskodninska druzba, d.d., together hold a 67.11% stake in LK, decided at its Extraordinary General meeting on 20th Mar 2009 ("EGM") to perform a special audit of Luka Koper.
- Following to this decision, PwC was engaged on 24th Jun 2009 to perform a special audit. We agreed on a phased approach with Phase 1 as a scoping phase to identify key areas to focus and Phase 2 was a more detailed review of those areas. Initial scoping phase included fourteen areas identified by the decision of the EGM and two areas which we have identified duing Phase I and included into scope (no.15 and no. 16)

1. Purchase of 10% share in Trade Trans Invest, a.s. ("TTI" or "Trade Trans Invest");
2. Purchase of assets from BTC Terminal Sezana d.d. ("BTC");
3. Investment into Adriasole, d.o.o. and Ecoporto, d.o.o. ("ECO Companies");
4. Investment into Railport Arad, S.r.l. and Trade Trans Terminali, S.r.l. ("Romanian Companies");
5. Investment into construction of passenger terminal ("Passenger Terminal");
6. Investment into construction of bulk cargo terminal ("BCT');
7. Purchase of coastal post-panamax cranes ("Post-panamax Cranes");
8. Transactions with Grafist d.o.o. ("Grafist"), Premik-Net („Premik-Net") and BRIL;
9. Sale and disposal of capital investments during the period;
10. Purchase of real estate in the Orleška Gmajna woods in Sežana;
11. Justification of down payments and release of vessels owned by Pasnjak d.o.o. and H/J Shipping Malta Ltd.;
12. New business premises (Barka II);
13. Pier I extension; and
14. Construction of the Ankaran road entrance.
15. Overview of current balance on fixed assets under construction ("Fixed Assets under Construction"); and
16. Development of LK's debt position ("Debt Position").

Introduction

- Following our presentation on Phase 1 findings, dated 23rd Jul 2009, and subsequent discussions with responsable of the company, we signed an addendum to the Engagement letter. Within the addendum we were asked to perform a detailed review (“Phase 2”) for the following ten areas (together “Areas of Concern”):

    1. Purchase of 10% share in Trade Trans Invest, a.s. (“TTI” or “Trade Trans Invest”);
    2. Purchase of assets from BTC Terminal Sezana d.d. (“BTC”) and Orleška Gmajna;
    3. Investment into Adriasole, d.o.o. and Ecoporto, d.o.o. (“ECO Companies”);
    4. Investment into Railport Arad, S.r.l. and Trade Trans Terminali, S.r.l. (“Romanian Companies”);
    5. Investment into construction of passenger terminal (“Passenger Terminal”);
    6. Investment into construction of bulk cargo terminal (“BCT’);
    7. Purchase of coastal post-panamax cranes (“Post-panamax Cranes”);
    8. Transactions with Grafist d.o.o. (“Grafist”);
    9. Overview of current balance on fixed assets under construction (“Fixed Assets under Construction”); and
    10. Development of LK’s debt position (“Debt Position”).

- Based on our Phase I findings we did not recommend the following areas for detailed investigations as part of Phase II :

    1. Sale and disposal of capital investments during the period;
    2. Purchase of real estate in the Orleška Gmajna woods in Sežana;
    3. Business conducted with Premik-Net and BRIL;
    4. Justification of down payments and release of vessels owned by Pasnjak d.o.o. and H/J Shipping Malta Ltd.;
    5. New business premises (Barka II);
    6. Pier I extension; and
    7. Construction of the Ankaran road entrance.

Introduction

- These areas were not recommended for detailed Phase II investigation for the following reasons:
  - lack of any clear indication of possible wrongdoing that, if identified, would warrant a more detailed Phase II investigation;
  - unavailability of documents and information that would enable the successful execution of a detailed Phase II investigation;
  - small probability of adding value to the ongoing police investigations given the limitations of our work (and hence not being cost-efficient for Luka Koper).
- The primary goal of the detailed review in Phase II was to analyse available evidence to establish the facts and to form our view as to:
  - The reasons for each of the transactions entered into;
  - The procedures undertaken;
  - Whether there are any indications as to the legality of the transactions; and
  - Whether funds have been misappropriated and, if so, by whom.
- The details of procedures performed, as well as limitation in scope are included within the Section II – Work Performed and Limitation in Scope.
- We understand that the Slovenian Criminal Police ("Police") raided offices of Luka Koper on 15th Apr 2009 and seized documentation which is primarily related to some of the Areas of Concerns identified above. We further understand that the Police raid was related to a criminal investigation into certain activities of the former members of LK's Management Board. At the time of the Police raid the MB consisted of the following members:
  - Mr. Robert Casar (chairman of the Management Board; relieved from his position on 15th Jun 2009);
  - Mr. Aldo Babic (deputy chairman of the Management Board; relived from his position on 15th Jun 2009);
  - Mr. Marjan Babic (member of the Management Board responsible for finance; relieved from his position on 28th Aug 2009); and
  - Mr. Boris Marzi (member of the Management Board; relieved from his position on 28th Aug 2009)

  (collectively "Former management").

Section 2

Work Performed and Limitations in Scope

Work Performed

Documents

- We have requested and obtained and analyzed a large volume of documents in relation to all the areas which were investigated. The documentation included, for example, business agreements, tender documentation, invoices, bank statements, business plans, feasibility studies, and meeting minutes from the Supervisory Board ("SB") and the Management Board ("MB").
- We have also conducted multiple visits to the Police in order to search through documents secured by the Police in attempt to find documents relevant to the Areas of Concern, which appeared to be missing at LK.
- The list of key documents obtained is attached as Appendix A to our report.

Interviews

- During the course of our work, we interviewed over 30 employees of LK group and 3 members of the SB. Some individuals, depending on their roles and responsibilities, were, where necessary, interviewed more than once.
- We have further interviewed Mr. Marjan Babic and Mr. Marzi, both of which continued to be employed by LK in course of our work. Both of them were interviewed multiple- times.
- In addition, we have also approached Mr. Casar and Mr. Aldo Babic to provide them with an opportunity to comment on Areas of Concerns and provide us his views on certain transactions. Mr. Casar agreed with an interview, while Mr. Aldo Babic did not. We interviewed Mr. Casar twice, on 4th and 10th Nov 2009, in presence of his legal representative. Comments and explanations of Mr. Casar were incorporated into this report, but neither Mr. Casar nor his legal representative were provided access to our findings and/or this report.
- The list of individuals interviewed is attached as Appendix B to our report.

Work Performed (cont.)

E-mails

- Following consents from individuals concerned, we have processed and analyzed electronic evidence (i.e. emails) of 8 custodians.
- The analysis of electronic evidence was performed using keyword searches, which were tailored to specific Areas of Concern and were defined in multiple languages in order to identify relevant communication not only in Slovene but also foreign languages. The necessity of multi language keywords stemed from the fact that some Areas of Concern related to financial investments outside Slovenia.
- In summary, we searched using 115 keywords and reviewed over 3,600 emails. The overview of custodians and the list of keywords is attached as Appendix C to our report.
- The copy of mailboxes of selected custodians was provided to us by LK and its IT service provider (Mr. Boris Susmak) and was based on the latest back-up of the email server available at Luka Koper.

Background search

- In order to obtain additional information about certain individuals or companies, we performed a search within publicly available information sources, such as information filed on the Commercial registers in four countries (Slovenia, Poland, Slovakia and Romania), internet and various knowledge databases.

Limitations in Scope

- The information contained within this report is based on the scope of work performed and the documents made available to us. In particular:
  - Our review was focused on all the areas identified by resolution of the General Meeting, in accordance with our Engagement letter and it's later addendum. We also reviewed three other areas which we have identified, but not other transactions;
  - We have not performed our own search of the business premises of LK and therefore cannot exclude the possibility that some potentially relevant documents were not provided to us or were withheld from us; and
  - Due to the ongoing Police investigation a significant volume of documents were provided to or taken by the Police during its raid on 15th Apr 2009. A portion of these documents relates to the areas which we investigated. Although we were given access to these documents and despite our best effort, due to the rather unstructured manner of organization of these files, we cannot exclude the possibility that some potentially relevant documents were not identified.
- We have not been able to interview Mr. Aldo Babic. Neither Mr. Aldo Babic nor Mr. Casar provided their consent to analyze the electronic evidence from their email boxes.
- We did not seek any third party explanations in course of our work.
- Our analysis of electronic evidence is based on copies of mailboxes from selected custodians, as provided to us by LK and its IT service provider. This copy is based on data from the latest available back-up of e-mail server performed in May 2009. We did not verify completeness of this evidence, neither we performed any forensically sound capture of any electronic data. Rather, we have fully relied on the copy provided to us.
- We understand that the additional copy of some e-mails was taken by Police during its raid on 15th Apr 2009. Therefore it is possible that this evidence includes additional e-mails which were later deleted from the e-mail server. We have requested access to the mailboxes held by the Police but were not granted such consent.
- This report does not represent a legal opinion nor does it constitute anything in nature a statutory audit; and is a presentation of facts and key findings.

Section 3

Executive Summary

Executive Summary

- Most of findings are related to investment activities of Former management in relation to construction projects and financial investments. These investment activities significantly increased during years 2007 and 2008 and were financed from a mixture of short and long terms loans resulting in a considerable increase of LK’s debt position.
- The investment activities represent a mixture of planned projects to develop the port and non-core opportunistic investments. Many of these investment activities were not well prepared, discussed and did not appear to have a clear business rational. Former management did not follow required approval process in authorizing transactions under these investment activities.
- LK´s Article of Association, Article 22 (point 15), based on our interpretation, require that certain transactions to be approved by the SB prior to execution and not after, as we understand some other parties’ interpretation is. We have identified the following four transactions which were not approved by the SB prior to execution which, according to our interpretation, is not in accordance with this Article:
  - Contract with Sintesi Pen, d.o.o. (“Sintesi Pen”) (related to Passenger Terminal);
  - Contract with Ponting, d.o.o. (“Ponting”) (related to Bulk Cargo Terminal);
  - Purchase of the later two post-panamax cranes (related to Post-panamax Cranes); and
  - Contract with Grafist for landfill (related to Grafist).
- Based on our understanding of LK’s Article of Association, Article 22 (point 13), SB approval is further required for all LK’s equity participation in domestic as well as foreign legal entities. We have identified the following four transactions (related to two Areas of Concerns) for which we found no evidence of SB approval:
  - Sale of 49% share in Adria Terminali, logisticne storitve, d.o.o. (“Adria Terminali”) (related to BTC);
  - Second share capital increase in Adria Terminali (related to BTC);
  - Increase in share capital in Railport Arad, S.r.l. (“Railport Arad”), (related to Romanian Companies); and
  - Increase in share capital in Trade Trans Terminali S.r.l. (“TTT Romania”), (related to Romanian Companies).

Executive Summary

- Internal policies of LK (OP15 – Preparation of contracts) require contracts should be reviewed and approved by LK's finance and legal departments. We identified the following five transactions which did not appear to adhere to this internal policy:
  - Contract for acquisition of 10% of TTI shares (related to TTI);
  - Contract for loan provided to Adriasole (related to Eco Companies);
  - Contract for loan provided to Ecoporto (related to Eco Companies);
  - Contract for loan provided to Railport Arad, later modified to capital injection (related to Romanian Companies); and
  - Contract for loan provided to TTT Romania, later modified to capital injection (related to Romanian Companies).
- Moreover, four of the above contracts (contracts related to Eco Companies and Romanian Companies) were signed despite concerns expressed by Mrs. Mojca Pucer (Director for finance) related to the financial viability and the risk exposure these transactions presented to Luka Koper.
- We also noted that the SB was provided with limited and potentially misleading information related to the following two transactions:
  - Acquisition of 10% share in TTI (related to TTI); and
  - Investment in Adriasole (related to Eco Companies).
- The insufficient time allowed to review the valuation report, together with the lack of understanding of the report due to missing Slovene translation was subject to criticism from three SB members, namely Mrs. Olga Franca, Mr. Bojan Zadel and Mr. Metod Mezek. However, this did not prevent them from providing their consent with this transaction. The Slovene version was provided to them more than 6 months later.

Executive Summary

- It is our understanding that LK already invested Euro 61,368 thousand in relation to these transactions and have entered into additional capital commitments amounting Euro 15,915 thousand. The table below summarizes the amounts already invested as well as the level of further commitment we identified:

Transactions	Area of Concern	Ref. to Section	Transaction Amount in EUR'000	Related commitments in EUR'000	Description of related commitment
Acquisition of 10% share in TTI Group	TTI	Section 5.1	25,800	-	
Second increase in share capital	BTC	Section 5.2	408	-	
Loan to Adriasole	ECO Companies	Section 5.3	2,739	8,375	Unpaid part of Adriasole's contracts with Robotina d.o.o. and Robotina Inzeniring d.o.o.
Loan to Ecoporto	ECO Companies	Section 5.3	1,370	3,220	Unpaid part of Ecoporto's contract with Nill-Tech GmbH
Increase in share capital in Railport Arad	Romanian Companies	Section 5.4	1,500	2,250	Initial share capital and bank guarantee
Increase in share capital in TTT	Romanian Companies	Section 5.4	1,300	1,390	Initial share capital and bank guarantee
Contract with Sintesi Pen	Passenger Terminal	Section 5.5	3,200	-	
Contract with Ponting	Bulk Cargo Terminal	Section 5.6	5,482	-	
Purchase of the later two cranes	Post-panamax cranes	Section 5.7	14,600	-	
Contract with Grafist for landfill	Grafist	Section 5.8	3,969	680	Penalties for missing construction permit
Total			60,368	15,915	

Executive Summary

- We have noted that some of the investments which LK management entered into in past seem to be unrecoverable or not providing an economical value to LK. Payments related to these investments represent a maximum damage which company may incur or already incurred. This report deals with circumstances which have lead to the conclusion of such contracts. We also understand that some of the damages or its portions may be mitigated by current management and therefore the amount of final damage may reduce.
- The following table provide our estimate of such damages and also refers to potential mitigation actions which may reduce the final amount of damage. We could not estimate total value of these potential reductions due to their dependency on current management decisions in respect to the further strategy.
- Some of the damages could not be estimated due to insufficient information. These are noted at the table below, too.

Transactions	Area of Concern	Maximum damage in EUR'000	Mitigation available
Acquisition of 10% share in TTI Group	TTI	25,800	Proceed from sale of 10% share in TTI.
Second increase in share capital	BTC	n/a	
Loan to Adriasole	ECO Companies	Could not be identified	Technical valuation of project would be required to determine fair market value of technology and services supplied by Robotina.
Loan to Ecoporto	ECO Companies	Could not be identified	Technical valuation of project would be required to determine fair market value of technology and services supplied by Robotina.
Increase in share capital in Railport Arad	Romanian Companies	n/a	
Increase in share capital in TTT	Romanian Companies	n/a	
Contract with Sintesi Pen	Passenger Terminal	3,200	Amount to be obtained from sale of the project or proceed from Terminal should it be constructed
Contract with Ponting	Bulk Cargo Terminal	5,482	Utilisation of part of the project.
Purchase of the later two cranes	Post-panamax cranes	n/a	
Contract with Grafist for landfill	Grafist	4,649	Damage is equal to price differential plus amount of penalties paid.
Total		39,131	

- Should you determine with your legal advisors that our findings constitute breach of fiduciary duties, and should you decide to pursue civil actions a quantification of final damages may need to be recalculated.

Section 4

Further Considerations and Recommendations

Recommendations

- During our work, we identified a number of areas for improvement. In this Section, we propose steps for your further consideration and recommendations for improvement of internal controls.

Steps for further considerations

- We recommend that you consult our findings with your legal advisors in order to determine as to whether findings identified by us could constitute a breach of fiduciary duties of the Former management. Depending on the outcome of your consultations, consideration should be given to remediation steps. These would typically encompass the following:
  - Disciplinary actions against certain employees;
  - Recovery of losses suffered; and
  - Improvement of internal controls (detailed under separate heading).
- Disciplinary actions should be determined in conjunction with your legal counsel. In general, such actions could range from warnings, impact on performance evaluation, demotion, dismissal to civil or even criminal actions.
- Should you determine with your legal advisors that our findings constitute breach of fiduciary duties, and should you decide to pursue civil actions a quantification of final damages may need to be recalculated.
- Should you and your legal advisors determine that further information is needed in order to prove breach of fiduciary duties, additional evidence might be available within the electronic data held by Police. Interviews with third parties, such as the owner or other representatives of TTI, might represent another potential source of new information.

Recommendations

Recommendations for improvement of internal controls

- Besides prompt and decisive disciplinary actions, LK should aim to improve the quality of internal control environment and the internal control systems. Our findings suggest that in many instances internal control procedures were not followed and overall control environment does not appear to be sufficiently robust:

Segregation of roles and responsibilities between the MB and the SB seems unclear	Implications
Segregation of roles and responsibilities between the MB and the SB seems unclear	Lack of proper control of management and their decisions.
The SB members were not provided sufficient time to allow them to form their view and make decisions	SB could not provide qualified assessment of the risks associated with investments.
Approved Investment plans were often supplemented with significant additional, often non-core, investments	Assessment of overall impact to financial situation could not be made.
Function of Internal audit department was – de-facto cancelled and merged with controlling department in 2007	Lack of independent control of LK processes and transactions.
Feasibility studies were prepared only "pro-forma" and not fully incorporated into investment approval process	Decreased ability to predict cost of investments and its recoverability.
Employees were not provided with (or not aware of) an avenue to raise their concerns outside of their usual reporting lines	Lack of communication and escalation of processes.

- We therefore recommend that Luka Koper undertakes a comprehensive assessment of its overall control environment, with aim to:
  - Understand the major risks and current control shortcomings in the main business and financial processes;
  - Improve the quality of the internal control environment and the internal control system; and
  - Establish an efficient internal audit function in accordance with the best practices.
- The assessment of control environment and its effectiveness could be performed using COSO, the generally acceptable internal control framework developed by the Committee of Sponsoring Organizations of Treadway Commission. This framework defines internal controls, standards and criteria serving as benchmarks to organizations that can thus see to what extent their internal control systems upholds to highest standards. The COSO framework has five mutually interconnected components: control environment, risk assessment, control activities, information & communication and monitoring. Integral to this framework are three key business objectives: compliance, reporting (including financial), operations.

Section 5

Key Findings and Observations

Section 5.1

Trade Trans Invest

Overview

Background

- On 9th Sep 2008, LK acquired from Mr. Kaas a 10% share in TTI for consideration of EUR 25,800,000.
- According to their web pages (http://www.tradetrans.com), TTI is a holding company of the Trade Trans group ("TTI Group") with its headquarter in Bratislava and is involved *"in about 50 companies"* and has presence in *"several European countries"*. The main activities of the group are forwarding and logistic services, with an emphasis on rail transport.
- The acquisition was financed by LK from a loan, taken from NLB d.d. ("NLB")
- Prior the acquisition, LK hired Deloitte d.o.o. ("Deloitte"), LK's statutory auditor at that time, to perform:
  - Due-diligence on TTI (engaged on 27th May 2008); and
  - Fair market valuation of TTI (engaged on 9th Jul 2008).
- Deloitte issued its due-diligence report on 29th Jul 2008 and subsequently its fair market valuation report on 27th Aug 2008.

Key issues identified

- The Former management of LK did not have sufficient information to properly assess the acquisition price of TTI shares and did not exercise appropriate care to obtain comfort that the acquisition price is not inflated. In particular:
  - Former management appointed Deloitte to perform due diligence, however limited the scope to six companies only, the scope excluded the second largest entity of TTI Group. This limitation meant it was not possible to understand financial and operational transactions of TTI Group to the full extent;
  - Former management appointed Deloitte to perform a fair market valuation of the TTI Group, however again limited the scope to six companies only and the scope excluded the second largest entity of the TTI Group;
  - Other TTI Group companies appeared to be valued at carrying (net book) value, however no details of value of individual entities was provided in the report;
  - According to the Deloitte's valuation report the maximum fair market value of 10% share in TTI was EUR 11,900,000, without any consideration of minority discount. This is significantly lower compared to consideration paid (EUR 25,000,000).
  - The difference between fair market value and price paid appears to have been justified by value of potential synergies.

Overview (cont.)

Key issues identified (cont.)

  - Deloitte's scope included calculation of present value of synergies only, entirely based on information provided by management of LK, namely Mr. Milan Pucko (former Director for strategic investments), and without any independent verification or assessment by Delloite.

- Synergies calculated by Mr. Pucko and provided to Delloite as an input for present value calculation were unrealistic, unsupported and did not seem to make any commercial sense, especially considering that only minority stake of 10% was being acquired. The limited ability of minority shareholder to influence decisions of TTI was pointed out by Deloitte in their due-diligence report.
- SB appears not to have been given sufficient time to consider fully the investment prior to approval and appeared to have been mislead with respect the role of Delloite in valuation of synergies.
- Acquisition price seems to be pre-agreed prior to conducting due-diligence and valuation of the TTI Group. The valuation seems to be influenced in order to justify the acquisition price, in particular by including synergy effects into the calculation of TTI Group value.
- The contract and payment of acquisition price was not approved in accordance with LK internal policies, in particular:
  - Contract was not approved by internal lawyers and finance department;
  - Mrs. Pucer refused to approve and initiate payment for TTI shares, pointing out the risks associated; and
  - Payment was subsequently approved by MB members, Mr. Marjan Babic and Mr.Casar, directly.
- Acquisition price was increased at the latest stage of negotiation from EUR 25,000,000 to EUR 25,800,000. We did not find any justification for the increase.
- In accordance with issues identified, the remainder of this section details findings divided into the following sub-sections:
  - Price negotiation and final contracted price;
  - Deloitte's Fair market valuation;
  - Approval of contract and payment terms; and
  - SB approvals.

Recommendation

- There have been practically zero synergy effects up to date and it does not appear to be likely that any major synergies would materialize in the foreseeable future.
- We recommend, therefore, that LK engage its legal advisors to perform a legal review of the purchase agreement in order to assess legal possibilities to revoke the contract or otherwise dispute its validity.
- If this option will not be seen as viable, management could consider exit in form of disposal of its shareholding in TTI, should they identify a willing buyer.
- We further recommend that LK consult with their legal advisors as to whether issues identified by us could constitute a breach of fiduciary duties of former management and, if so, to determine if LK has suffered a loss.

Findings

Price negotiation and final contracted price

- We understood from Mr. Pucko and Mr. Casar that the major driver of the acquisition of TTI shares was an intention to participate on railway transport business and to utilize synergies which railway transport could bring to port cargo business. According to Mr. Pucko and Mr. Casar, TTI had a presence in markets attractive for LK.
- However, neither Mr. Pucko nor Mr. Casar explained how the acquisition of TTI's minority share of 10% could significantly enhance LK position in the business. According to Mr. Casar, the intention of LK was to influence TTI's decisions via its representative in TTI's supervisory and management boards.
- On 27th May 2008, Deloitte was appointed to perform a due diligence of six entities at TTI Group. According to Mr. Pucko and Mr. Marjan Babic's explanation to SB on 21st Jul 2008, these companies represented about 85% of TTI Group business at the time. We noted, however, that the second largest company (based on value in TTI's financial statements) Spedition Trade Trans Holding, s.r.o. ("Spedition Trade Trans Holding") was not included into the scope of due diligence.
- Within the due-diligence report, Deloitte draw an attention of reader to the fact that the scope was limited to fair market value of 6 entities, out of 49 and therefore there is a risk that LK may not have a clear picture of the overall group. Deloitte further draws the attention of the reader to fact that the structure of the TTI Group is unusually complex and thus acquirer of minority stake is likely to have limited access to information and little to no influence on decision making.
- Subsequent to due-diligence, LK also appointed Deloitte to perform fair market valuation of TTI Group (see next page for comments).
- The acquisition price EUR 25,000,000 seems to be negotiated before valuation report was provided to LK. This is evidenced by two documents prepared by Mr. Pucko and Mr. Marjan Babic for SB meeting on 21st Jul 2008 as well as from the suggested SB resolution asking for an approval of investment up to EUR 25,000,000.
- Neither Mr. Casar nor Mr. Pucko, both involved in negotiation with Mr. Kaas on behalf of LK, were able to explain to us how and on what base was the price determined. Both of them suggested that the price was based on Deloitte's valuation which does not appear to be true as we have found no evidence of Delloite's draft report provided to LK before 21st Jul 2008.
- Subsequently, in the latest stage of negotiation, the acquisition price was increased to EUR 25,800,000. We did not obtain any explanation of the increase.
- We noted that Mr. Pucko shared results of the synergy effects calculation with Mr. Kaas and Mrs. Galadova (email dated 21st Aug 2008). This could disadvantaged LK at the negotiation, because the value of synergy effects in fact represent a premium which LK might be willing to pay above a fair market value of TTI Group. It is also possible that the increase in price was related to this information leakage, however, we did not find any evidence which would further prove this assumption.
- The fact that initial price negotiated was EUR 25,000,000 is further evidenced by one of early drafts of the contract discovered within email correspondence. On 7th Sep 2008, Mr. Pucko sent a draft of contract (with the price of EUR 25,000,000) to Mrs. Galadova with a note: *"This are corrections made by our lawyer … Don't worry about the old figures."*

Findings

Deloitte fair market valuation

- On 9th Jul 2008, the Engagement letter was signed by Mr. Marjan Babic with Deloitte for valuation consulting services. The scope follows the scope of the due-diligence report and it includes fair market valuation of the six TTI's subsidiaries (out of 49):
  - P.S. Trade trans Sp z o.o., Warszawa;
  - PolRail Srl, Udine;
  - Rail Cargo Sedition a.s., Bratislava;
  - Rail Cargo Spedition GmbH, Wien;
  - Rentrans Cargo Sp z o.o., Szczecin; and
  - Rom Rail, Bucarest.
- According to the engagement letter, other subsidiaries of TTI would not be individually valued but their values would be assumed to be equal to the carrying value of their equities as of the valuation date, i.e. 31st Dec 2007.
- Mr. Marjan Babic had no recollection as to how these six companies were selected and why the scope was limited to these six companies only.
- Subsequently, on 22nd Aug 2008, an Addendum to the Engagement letter was signed. This addendum extended the scope by an addition of calculation of present value of potential synergies from acquisition of 10% of TTI.
- Deloitte submitted its Fair Market Valuation report on 27th Aug 2008 with the following value conclusions:

A] A range of fair market value of 100% share in the equity of TTI as of 31st Dec 2007 : **Between EUR 104,000,000 and EUR 119,000,000**

B] A present value of potential synergies from acquisition of 10% of TTI : **EUR 46,000,000.**

- The total fair value of TTI companies consist of :
  - EUR 29,000,000, representing 24 to 28 % of total value, which was valued at carrying value; and
  - EUR 75,000,000 to EUR 90,000,000 which was valued at fair market value (value range represents various valuation method considered by Deloitte).
- While companies excluded from scope represent, according to information from document presented to the SB on 21st Jul 2008, only 15% of TTI's business, according to Deloitte's valuation they contribute to total TTI value by 24 to 28%.
- The limitation of scope (24-28% of company value is not fair market valued) has three implications:
  - This value does not represent real fair market value of this asset of the TTI Group and therefore management cannot assess its real value for LK;
  - This value was not broken down into individual companies, therefore management could not asses this part of valuation; and
  - Most of the value is probably attributable to Spedition Trade Trans Holding, the second largest company in the TTI Group, which was for unknown reason excluded from scope of both due diligence as well as valuation reports.

Findings

Deloitte fair market valuation (cont.)

- The calculation of present value of synergies was not included within a scope of the initial engagement letter with Deloitte and was added to the scope late in the process, in the form of addendum.
- Interviewees did not provide to us any reasonable explanation as to why synergy effects were added into the calculation and how the input data for Deloitte were derived.
- In addition, none of interviewees provided any reasonable explanation as to how a 10% minority shareholding in TTI Group could potentially generate such a significant synergy effects to LK.
- According to the Deloitte's Valuation report, the Addendum was signed on 22nd Aug 2007. From the email correspondence, however, it is clear that the Addendum was still not signed on 25th Aug 2008, i.e. two days prior the date of Valuation report draft.
- This is evident from the email sent by Deloitte's manager to Mr. Pucko on 25th Aug 2008 where Mr. Pucko is asked to arrange the Addendum to be signed. On the same date, Mr. Pucko forwards the email to Mr. Marjan Babic.
- Deloitte's role was to merely calculate present value of future synergies as provided by LK without any verification and/or assessment as to reasonability of such figures. Deloitte is drawing attention of the reader of the report to this important fact in number of paragraphs.
- The input for synergy valuation seems to be prepared by Mr. Pucko. The input is represented by simple table which includes estimated increases in volumes of trans-shipment of common goods, container, bulk, liquid and other goods in Luka Koper and its mainland terminals. Increased volumes are multiplied by unit prices to derive estimated increase in revenues – further multiplied by EBIT margin to derive estimated additional profit.
- We have found an e-mail sent by Mr. Pucko to Mrs. Pucer on 8th Aug 2008 asking her to check the data in the table with input for synergy valuation and forward it to Deloitte. Mrs. Pucer did send the data to Deloitte at the same date.
- According to the interview with Mrs. Pucer, she refused that she was checking all data, but she was asked to review the percentages used for EBIT margin only. In particular, she claimed that she was not asked to review estimated increased volumes and unit prices. This is supported by her later email (also sent on 8th Aug 2008) to Mr. Pucko where she confirms that she reviewed the EBIT margin – as agreed between them and also informs Mr. Pucko that she forwarded the tables to Deloitte.
- Mr. Pucko stated at interview that he consulted input data with individual heads of respective departments, namely Mr. Cach, Mr. Vodopija and Mr. Tomisic. When interviewed, none of them had any recollection of any such discussion with Mr. Pucko. When shown the synergy calculation input, they were of an opinion that schedules are way too general and lack details they would normally expected, such as break-down of volume increases per individual products and/or per customer. They also re-affirmed that they provided no input into those tables.

Findings

Approval of contract and payment terms

- The contract for acquisition of TTI's shares was signed by Mr. Casar and Mr. Marjan Babic on 9th Sep 2008. They did not follow internal rules for the approval of contracts (internal guidelines OP15) and standard payment approval procedures of LK, in particular:
  - Contract was not approved by internal legal department (external lawyer was involved instead);
  - Contract was not approved by finance department;
  - Payment was not approved by finance department;
  - Payment order was authorized by Mr. Marjan Babic and Mr. Casar directly, which was not standard practice at LK.
- The price for 10% stake in TTI of EUR 25,800,000 was paid by LK on 3rd Oct 2008 from UniCredit Bank account. The amount was transferred to the bank account of Mr. Kaas.
- We understand from Mrs. Pucer that she was instructed to arrange for a financing of the deal by Mr. Marjan Babic with an extremely short notice for the loan of such significance.
- On 24th Sep 2008, Mrs. Pucer wrote an email to Mr. Marjan Babic and Mr. Pucko and informs them that the credit line was approved by NLB. She further notes that, having read the contract, the payment was due on 23rd Sep 2008.
- In her email, she further noted that certain conditions needs to be fulfilled prior the payment can be processed and suggested that – since she is not familiar with the details of the deal – the MB should prepare an explicit written confirmation that those conditions were indeed met. After finance department will be provided with the confirmation, they would process the payment.
- Since no such confirmation was provided to her, she refused to initiate the payment.
- The payment order was finally signed by Mr. Marjan Babic and Mr. Casar themselves on 2nd Oct 2008. Such payment approval method was not standard, according to Mrs. Pucer, and was not in compliance with a standard procedures of LK.
- When interviewed, Mr. Marjan Babic agreed this was not standard method of payment but had no recollection as to why the payment was processed in this particular way. Similarly, also Mr. Casar had no recollection as to why the payment order was signed directly by him instead of finance department head.

Findings

SB approvals

- On 21st Jul 2008, the SB was initially asked to approve an investment in TTI up to the amount of EUR 25,000,000.
- The board was presented by Mr. Pucko and Mr. Marjan Babic with a two supporting documents:
  - Strategic purchase of 10% in TTI – includes a high-level info about the holding and also information that 85% of the TTI Group's business results is generated by 6 companies (5 of which correspond to entities listed under Deloitte's scope); and
  - Commercial basis for the investment into equity of TTI – this document includes already a high-level estimates of potential synergies and suggests the consideration of EUR 25,000,000.
- Following the discussion and concerns raised, the SB agreed to grant an approval to negotiate with TTI about this opportunity but did not approve investment itself nor the maximum value.
- According to Mrs. Franca, it was agreed that the price will be approved once Deloitte's valuation report is completed and SB is presented with the valuation results.
- The acquisition of 10% stake in TTI for EUR 25,800,000 was finally approved by the SB on 2nd Sep 2008 (i.e. after Deloitte submitted the valuation report).
- We understand from Mrs. Franca and Mr. Zadel that a day earlier, i.e. on 1st Sep 2008, there was a separate meeting of three SB members who requested to see the valuation report.
- On this meeting they were shown the report for a period of about one hour only, but not allowed to take any copies for further review.
- The SB voted unanimously for the investment. Mrs. Franca, however, asked her comments to be recorded within the meeting minutes. She complained that the report was prepared in English only and that one hour time was not sufficient to fully evaluate it and decide on such an investment. She also demanded copies of certain documents, such as plans for expected synergy effects. Similar comments were made by Mr. Zadel and Mr. Mezek.
- From the subsequent SB meetings it is apparent the no such documents were provided. On 30th Jan 2009, Mr. Zadel insisted on Executive summary of Deloitte's report to be provided in Slovene. He further adds that he was not properly informed about the TTI deal and therefore he did not authorise the meeting minutes of the 6th SB correspondence session (documenting SB approval of this deal). The translation was not provided to the SB until May 2009.
- The view that SB may not have been properly informed about the TTI deal is further supported by comments of Mrs. Franca. During our interview she stated that she was not aware of the fact that Deloitte's role in synergy calculations was merely the calculation of present value without any verification of input provided by LK's management.
- Therefore it appears that the SB have not been given sufficient time to consider fully the investment prior to approval and appeared to have been mislead with respect the role of Delloite in valuation of synergies.

Section 5.2

BTC Sezana

Overview

Background

- BTC was an owner of properties located in a Sezana area, an area located on a Slovene – Italian border.
- In line with its long term strategy as approved by SB in March 2006, LK invested into the inland terminal in Sezana. The aim was to build a modern logistics centre, including container and car terminal as well as multipurpose and racking system warehouses.
- Following approval from the SB, LK (represented by Mr. Casar) signed with BTC two agreements for:
  - Purchase of real estates for a total of EUR 6,641,432 (excl. VAT); and
  - Purchase of movable assets for a total price of EUR 533,424 (excl. VAT).
- LK also agreed to take over 30 employees of BTC as well as contracts concluded by BTC with their customers.
- In order to manage properties acquired from BTC and to employ overtaken employees, LK established – as a sole shareholder - Adria Terminali with a share capital of EUR 60,000.
- Later, following an approval of SB, the share capital of Adria Terminali was increased to EUR 1,200,000 on 24th Dec 2007.
- Subsequently, on 29th Jan 2008, the 49% share in Adria Terminali was sold to Spedition Trade Trans Holding (a company from TTI Group) for a consideration of EUR 588,000; i.e. amount corresponding to a 49% of share capital of EUR 1,200,000.
- Both shareholders then participated on an increase of share capital by EUR 800,000 and paid in amounts corresponding to their shares, i.e. EUR 408,000 by LK and EUR 392,000 by Spedition Trade Trans Holding.

Background

Key issues identified

- We did not identify any irregularities related to acquisition of real estate and machinery of BTC, however we noted that LK acquired a warehouse from Modra Linija Holding, S.A. ("MLH") for a price per sqm which is triple compared to acquisition price of BTC real estates.
- We have noted that neither the sale of 49% share in Adria Terminali nor subsequent increase of share capital were approved by the SB, although such approval was required for the type of transaction and its size.
- In accordance with issues identified, findings under this section are further detailed under the following headings:
  - Valuation of assets acquired from BTC;
  - Valuation of assets acquired from MLH;
  - Transactions with Adria Terminali; and
  - Approvals of SB.

Recommendations

- We further recommend that LK consult with their legal advisors as to whether issues identified by us could constitute a breach of fiduciary duties of former management. DELETED.

Findings

Valuation of assets acquired from BTC

- Prior to finalization of the purchase price for BTC assets, two valuation reports were prepared to assess the value of these assets:
  - Valuation of BTC's real estates prepared by Mr. Rajko Srednik, licensed valuator; and
  - Valuation of BTC's machinery prepared by Mr. Zdravko Sirk, licensed valuator.
- According to the valuation report for BTC's real estates (total of 85,470 sqm) dated Septmeber 2006 the value equal to EUR 8,076,832 (applying cost method).
- The valuation report for machinery was dated 9th Feb 2007 and the report assess the value of the most significant items of machinery only, such as 13 fork-lifters, mobile pallet wrapper, automatic lifts, etc.
- It does not cover all 111 items of machinery which were later acquired from BTC (as per the contract dated 20th Mar 2007). The value of selected machines was determined to be EUR 388,760.
- We understand that the purchase price of remaining machineries, i.e. those not included in valuation report, was negotiated between Mr. Victor Orel and Mr. Ernest Gortan (CEO of BTC).
- BTC assets was transferred to LK on 30th Mar 2007.

Real estates of MLH

- At the same date, on 30th Mar 2007, LK (represented by Mr. Casar) signed an agreement with MLH for future purchase of real estates, specifically warehouse with associated verge (1,400 sqm), courtyard (333 sqm) and another courtyard (733 sqm) for an agreed price of EUR 785,780. Both parties agreed that the assets would be sold to LK after 1st Jan 2009 but no later than 30th Jan 2009.
- At the same time, LK and MLH agreed that the assets would be leased to LK until the point of sale (i.e. Lease period from 1st Apr 2007 until 30th Jan 2009) for a monthly fee of EUR 3,130. In addition, it was further agreed that LK would provide a loan to MLH in amount corresponding to future sale price, i.e. EUR 785,780 at 5% p.a. interest.
- The MLH's assets are located in the middle of properties acquired by LK from BTC, directly next to the area – marked as number 4 acquired from BTC.
- We understand that this contractual arrangement could have been established due to tax reasons on MLH side. MLH purchased the building in December 2005 and should they sell the property within 2 years the sale could be subject to additional taxes.
- We noted, however, that the price of MLH's properties is nearly triple (EUR 318 per sqm) compared to price determined by valuator of properties acquired from BTC (EUR 108 per sqm). Mr. Casar did not provide us with any explanation of the differing price. Further, we were not provided with any valuation report related to the MLH assets.
- Neither Mr. Casar nor Mr. Marjan Babic had any recollection as to how the price was determined neither why the unit price was much higher compared to BTC assets.

Findings

Transactions with Adria Terminali

- As noted within the background, Adria Terminali was established to manage and operate properties acquired by LK from BTC.
- On 4th Apr 2007, LK and Adria Terminali signed a lease agreement. According to it, Adria Terminali would lease LK's assets (acquired from BTC) for a total monthly fee of EUR 30,725 (excl. VAT).
- On 16th May 2007, both parties signed another lease agreement, subject of which were machineries acquired by LK from BTC. Monthly lease was agreed to be EUR 9,424 (excl. VAT).
- Subsequently, both lease agreements were subject to several amendments, mostly resulting in a reduction of monthly lease.
- We noted that the most significant decrease in rent were agreed after the sale of 49% stake in Adria Terminali to Spedition Trade Trans Holding and it seems to be connected to investments made by Adria Terminali into LK's assets.
- As illustrated within the table on right hand side, the initial rent for real-estates purchased from BTC decreased from EUR 30,725 down to EUR 18,635. Similarly, the rent for machineries decreased from EUR 9,424 down to EUR 8,659.
- According to Mr. Pucko and Mr. Casar, the rational behind sale of 49% shares to TTI was to gain an access to TTI's customers base and bring additional business to Sezana. From our review of business plans and our discussion with Mr. Orel it seems that, insofar, no additional business was brought by TTI.

Lease contract (4th Apr 07) with Adria Terminali and its amendments

Date	Contract	Subject	Amount in EUR excl. VAT
4th Apr 2007	**Lease Agreement**	Initial monthly lease	**30,725**
17th May 2007	**Annex Nr.1**	Reduction of monthly lease payment	**29,079**
5th Jun 2008	**Annex Nr. 2**	Based on investments into leased property made by Adria Terminali (to be re-assessed twice a year), the monthly rent is changed to EUR 17,605.	**17,605**
11th Sep 2008	**Annex Nr.3**	Following new investments into property, the monthly lease changes to EUR 10,714 (the lease for land remains unchanged EUR 7,921 per month).	**18,635**

Findings

Approvals of MB

- As noted within the background part of this section, LK signed a letter of intent ("LOI") with BTC on 4th Sep 2006. Mr. Casar, on behalf of the LK, signed the LOI already on 31st Aug 2006.
- We found that MB resolution which granted a consent to sign the LOI with BTC was dated 11th Sep 2006, i.e. several days after the LOI was actually signed.
- According to Mr. Casar, LOI was not legally binding and therefore he did not think this was an issue to sign it prior to obtaining formal approval from MB.
- Similarly, we noted that while the final purchase agreements to acquire real estates and movable assets from BTC were signed on 16th Feb 2007 and 20th Mar 2007 respectively, the resolution of MB related to confirmation of purchase price was dated 27th Mar 2007.

Approvals of SB

- SB approved the acquisition of BTC properties as well as establishment and subsequent initial increase of share capital of Adria Terminali.
- However, we have not found any evidence of SB approval of the following transactions:
  - Sale of 49% share in Adria Terminali to Spedition Trade Trans Holding.; and
  - The second increase of share capital dated January 2009.
- On 19th Dec 2007, the SB was informed about the intent of TTI to purchase a 49% stake in the Adria Terminali. We have found no resolution of SB approving the actual sale. According to Mrs. Franca, SB was informed about the sale of 49% of shares several months after the sale agreement was signed.
- The contract for sale of Adria Terminali shares was signed by Mr. Casar, Mr. Pucko and Mr. Boris Jerman (in-house lawyer) on LK's behalf.
- The second increase of share capital in Adria Terminali was approved by the MB on 23rd Dec 2008, signed by Mr. Casar, Mr. Marjan Babic, Mr. Aldo Babic and Mr. Marzi.
- The Former management seems to breach LK's Articles of Association, in particular the Article 22 point no.13, which requires SB to approve LK's equity participation in domestic as well as foreign legal entities. It is our understanding that this requirements applies also on sales of equity shares and increases of share capital.

Section 5.3

ECO Companies

Overview

Background

- On 24th Jan, 2008, Luka Koper co-established two companies: Adriasole and Ecoporto ("Eco companies").
- Both companies were established with a share capital of EUR 10,000 and Luka Koper's share in both was 24.9% (i.e. corresponding to EUR 2,490).
- Controlling interest of 75.1% was held by Altena, d.o.o. ("Altena") in Adriasole and by Ekoloska energija Koper ("EEK") in Ecoporto.
- The director of Adriasole is Mr. Strnad, Mr. Bolcic is a director of Ecoporto.
- Adriasole was meant to generate a green energy from a solar panels which would be placed on roofs of existing buildings within the Luka Koper's port. According to business plan, total estimated costs of this project amounted EUR 11,000,000.
- Ecoporto was established with a plan to process oiled water (i.e. waste oil) from the port and convert it to heating oil. It was estimated in that the project will require an investment of EUR 5,510,000.
- In order to provide a financing for a part of both projects, Luka Koper provided loans to both companies, EUR 2,739,000 to Adriasole and EUR 1,370,000 to Ecoporto. The loan amounts corresponded to Luka Koper's share in both companies.
- Both loans provided by LK were later on capitalized and were converted into increase of share capital. As a result, LK's share increased from 24.9% up to 98% in both companies.

Key issues identified

- We identified a number of issues regarding the LK's investments into Adriasole and Ecoporto:
  - LK does not control Adriasole and Ecoporto, despite its majority ownership;
  - Despite its limited control, LK carries practically all financial risks associated with these investments;
  - Most of funds invested by LK into Adriasole were used for acquisition of technologies and services from companies associated with other shareholders, i.e. Altena;
  - Part of LK's funs invested into Ecoporto were paid out to EEK (shareholder of Ecoporto) and its parent company;
  - In addition to funds invested directly to Adriasole, LK has also paid EUR 710,510 to Robotina for various project documentation related to photovoltaic power plat, an Adriasole's project.
  - Business plans for both projects are rather weak in their financial parts and key assumption used;
  - MB approved loans to Eco Companies despite concerns expressed by financial department; and
  - An approval of the SB related to LK's loan of EUR 2,739,000 to Adriasole was obtained based on potentially misleading information provided.

Overview

Key issues identified (cont.)

- In accordance with issues identified, findings under this section are further detailed under the following headings:
  - Adriasole:
    - Control over Adriasole;
    - Business Plan and its key assumptions;
    - Adriasole's use of funds provided by LK;
    - Contracts with Robotina, d.o.o. ("Robotina"), and potential risks to LK;
  - Ecoporto:
    - Control over Ecoporto;
    - Business Plan and its key assumptions;
    - Ecoporto's use of funds provided by LK;
    - Contract with Nill-Tech GmbH ("Nill Tech") and potential risks to LK;
  - SB approvals and Concerns expressed by finance department.

Recommendations

- Both projects are currently on hold, awaiting LK's decision with respect to securing further funds needed for both projects to be completed and implemented.
- LK will have to make determination as to whether they continue to see both projects as economically beneficial and fitting to its strategy. Considerations will have to be given to existing contracts entered into by Adriasole and Ecoporto which represents certain risks and obligations for both Eco Companies. We recommend that these risks to be considered by LK and consulted with its legal advisors.
- Should LK decide to continue their involvement in both companies and their respective projects, we recommend LK should explore ways how to increase their level of influence and control over both entities.
- We recommend that LK obtains an independent assessment of value of the technology being acquired from Robotina, Robotina Inzeniring and Nill-Tech in order to evaluate whether the prices contracted with these vendors are fair market values.
- We further recommend that LK consult with their legal advisors as to whether issues identified by us could constitute a breach of fiduciary duties of former management DELETED.

Findings - Adriasole

Control over Adriasole

- According to the original shareholders agreement between Luka Koper and Altena, the decisions were made based on the majority of votes, with the exception of certain transactions (such as change of Articles of Association, capital increase, changes in representatives) which required ¾ votes approval. The agreement was signed by Mr. Marjan Babic on LK's behalf.
- According to Mr. Casar he was not involved in negotiations and was persuaded by others that this is a good investment opportunity. He noted that the main drivers were Mr. Aldo Babic, Mr. Pucko and Mr. Marzi. Both Mr. Marzi as well as Mr. Pucko denied their role in initial negotiations. According to Mr. Pucko his involvement started later and identified Mr. Aldo Babic as the key driver.
- Considering the fact that Luka Koper's initial shareholding was 24.9% only, the majority shareholder Altena had a sufficient power to make all decision on its own.
- Following the capitalization of LK's loan, the shareholding of LK increased to 98%. However, the shareholders agreement was modified in a way that unanimous decision was required. We understand that this was a condition of Altena in order to consent with share capital increase. As a result LK, despite its high shareholding, can not make practically any decision on its own.
- We understand that the reason for Luka Koper's minority shareholding was for Adriasole to be eligible for EU funding as higher share of Luka Koper, as an entity controlled by Slovene government, would disqualify Adriasole from eligibility to such funds.
- We have been provided with no evidence that such structure was indeed required in order to be eligible for EU funding.
- According to our discussion with Mrs. Certalic (Head of research and development department), the limitations related to government shareholding differs and depends on specific type of EU funding sought.
- Business plan, prepared by Robotina, considers EU funding as an option which would reduce the payback period. The plan, however, does not specify the type of EU fund program. We understand that no application for EU funding was filed insofar.
- Altena, the majority shareholder as per original shareholders agreement, is a company registered on 21st Dec 2007, i.e. one month prior to establishment of Adriasole. According to the Commercial register, the company is owned by two entities:
  - Napredne tehnologije, d.o.o. ("Napredne tehnologije"): 66.7%
  - SMS Projekt, d.o.o. ("SMS Projekt"): 33.3%
- Napredne tehnologije was established soon prior to establishment of Altena (on 11th Dec 2007) and is fully controled by Mr. Joze Starman, who also appear to have a control over the other Eco company, Ecoporto (see relevant part of section below).
- SMS Projekt is owned by Mr. Strnad and was established in 1990. Mr. Strnad was appointed as a executive director of Adriasole.
- Relationships are illustrated in chart attached as Appendix E.4 to this report.

Findings – Adriasole (cont.)

Business plan and its key assumptions

- In March 2008, i.e. soon after Adriasole's establishment, the Adriasole's Business Plan describing project for Photovoltaic power plant was prepared by Robotina.
- The plan was to utilize large areas of LK's warehouses roofs within the port and to install solar panels on top of them.
- From Mr. Pucko we understand that the rational for the investment, from LK point of view, was to diversify energy resources and thus decrease its dependence on traditional energy resources. According to the plan, the energy would be sold to LK at market prices while Adriasole would benefit from governmental support of clean solar energy (min guaranteed prices for this energy are significantly higher than energy market prices). LK, in turn, would further benefit from Adriasole's profit distribution.
- The plan further states that the ownership of technology would be transferred to LK after 25 years of operations. Given the estimated useful life of such type of technology – this appears to be rather burden than actual benefit for LK due to likely costs needed for its disposal.
- In exchange, LK was asked to provide a loan (to be converted to share capital) of EUR 2,739,000 to finance part (corresponding to its shareholding percentage) of required total investment.
- The plan, however, lacks the details as to how would the company finance required EUR 11,000,000. The financial analysis attached as Appendix to the plan seems to include two options of funding, however no details are provided:
  - capital contributions of shareholders;
  - mixture of the capital (EUR 5,000,000) and debt financing
- The financial analysis (Appendix 1 of the plan) appears to be overly simplified and lacking details regarding the actual calculations. Included are financial statement projections for period from 2008 to 2033. Two version of the statements are prepared, with differing sources of financing (see text on left-hand side for details).
- The plan does not seem to take into account time value of the money, i.e. does not seem to include any discounting of future cash-flows to their present value.
- Further, the feasibility of the plan is heavily dependent on availability of actual financing to acquire technology. The project does not address this issue and appears to merely assume financing will be available.

Overview of Business plan for Photovoltaic Power Plant

- Total investment: EUR 11,000,000
- Payback period*:

  10-15 years (7 years with EU funds)
- Estimated useful life: 30 years
- Location: Luka Koper
- Estimated start: Q2 2009

Findings – Adriasole (cont.)

Adriasole's use of funds provided by LK

- The main source of Adriasole's funding, so far, was the loan of EUR 2,739,000 received from LK in September 2008.
- We also understand that Altena made additional capital contribution of EUR 49,792 on February 2009.
- We requested from Mr. Strnad a complete set of bank statements of Adriasole however number of monthly statements were missing.
- On the basis of bank statements we noted that majority of payments were executed to companies related to Altena's owners and/or management. In particular, Adriasole paid total of EUR 3,271,322 to four companies: Robotina, Robotina Inzeniring, RIN Plus d.o.o. ("RIN Plus") and SIMBOL Marketing d.o.o. ("SIMBOL Marketing")
- Robotina Inzeniring is a Ljubljana branch of the RIN Plus and its authorized representative is Mr. Strnad. According to the public sources (http://www.gvin.com/simatrix) Mr. Strnad is a member of Robotina management.
- RIN Plus and Robotina are also related through person of Mr. Devid Palcic, a procurator of both companies. They are registered at the same business address: Hrpelje 38 - Kozina. Altena is also registered on this address.
- Based on the bank statement extract, SIMBOL Marketing receives a payment of EUR 696 each month. According to the Slovene Commercial register, Mr. Joze Starman was a founder and director of a SIMBOL Marketing at that time.

Key payments summary	Amount in €
Robotina d.o.o.	**1,785,000**
Robotina Inženiring	**1,355,842**
RIN Plus d.o.o.	**127,000**
SIMBOL Marketing d.o.o.	**3,480**
Total	3,271,322

- Detailed list of payments made as well as cash-inflows to Adriasole's account is included within the Appendix E.2.
- The total amount of cash outflow from the bank statements exceeds the contributions of LK and Altena. We understand that the rest of purchases were financed from VAT returns (from purchases of technology and services). For example, the Adriasole received EUR 276,120 on 18th Feb 2009 in form of VAT return.
- As at 15th Oct 2009, the balance on Adriasole's bank account was EUR 3,679.
- Appendix E.4 includes chart illustrating relationships identified between the Adriasole's vendors and Altena.

Findings – Adriasole (cont.)

Contracts with Robotina and potential risks to LK

- The payments made to Robotina and Robotina Inzeniring ("Robotina") made so far are, however, only a portion of total value of contracts signed by Adriasole with both parties. As illustrated on table below, total value of contract with Robotina represents EUR 8,250,000 and EUR 3,266,230 with Robotina Inzeniring (see table below).
- Both contracts state that the ownership of equipment remains with Robotina / Robotina Inzeniring until all the payments are made by Adriasole. Both contracts also include a clause with a right of Robotina / Robotina Inzenirig to charge Adriasole in case of suffered damages resulting from Adriasole failure to fulfill its contractual obligations.
- In addition, we were also provided with two contracts entered into by Robotina and LK (not Adriasole)

  EUR 401,450 project documentation (PGD+PZR/PZI)

  EUR 309,060 project outline and feasibility of locations
- Both these contracts relate to project documentation for photovoltaic power plant, a project of Adriasole. Both contracts were signed by Mr. Casar on behalf of LK and were approved by the MB on 23rd Dec 2008. It is unclear as to why did LK agreed that it would pay for these studies, as opposed to these being paid by Adriasole as studies are clearly related to the project.

Date of contract	Amount in EUR	Contracting party	Contract No.	Description
1st Sep 2008	**8,250,000**	Robotina d.o.o.	008-AS001	Purchase and assembly of photovoltaic panels (power of 2.000 KW)
15th Oct 2008	**3,266,230**	Robotina Inženiring	0010-AS001	Purchase and assembly of converters for photovoltaic panels (power of 2.000 KW)
Total	**11,516,230**			

Findings - Ecoporto

Control over Ecoporto

- According to the original shareholders agreement (dated 24th Jan 2008) between Luka Koper and EEK, the decisions were made based on the majority of votes, with the exception of certain transactions (such as change of Articles of Association, capital increase, changes in representatives) which required ¾ votes approval. The agreement was signed by Mr. Marjan Babic on LK's behalf. Similarly as with Adriasole, he had no recollection as to why the original percentage was set-up at 24.9%.
- Considering the fact that Luka Koper's initial shareholding was 24.9% only, the majority shareholder EEK had sufficient power to make all decision on its own.
- Following the capitalization of LK's loan, the shareholding of LK increased to 98%. However, the shareholders agreement was modified in a way that unanimous decision was required. We understand that this was a condition of EEK in order to consent with share capital increase. As a result LK, despite its high shareholding, can not make practically any decision on its own.
- We understand that the reason for Luka Koper's minority shareholding was for Ecoporto to be eligible for EU funding as higher share of Luka Koper, as an entity controlled by Slovene government, would disqualify Ecoporto from eligibility to such funds. As noted under Adriasole, the percentage of allowed government shareholding depends on type of EU fund sought.
- Despite the reasoning used for shareholding arrangement, the Business plan submitted to LK's SB in April 2008 does not seem to consider EU funding in it's financial analysis.
- We further understand that no application for EU funding was filed insofar.
- EEK, a majority shareholder as per original shareholders agreement, is a company registered on 24th Dec 2007, i.e. one month prior to establishment of Ecoporto. According to the Commercial register, the company is owned by two entities:
  - Ekoloska Energija, d.o.o. ("Ekoloska Energija") : 66.7%
  - Napredne tehnologije, d.o.o. : 33.3%
- Both companies were also established in December 2007 (Ekoloska Energija on 14th Dec 2007 and Napredne tehnologie on 11th Dec 2007).
- Mr. Joze Starman is a sole-shareholder of Napredne tehnologije and holds 27.5% interest in the Ekoloska Energija.
- Other shareholders of Ekoloska Energija include the executive director of Ecoporto Mr. Bolcic (5%), Rituper Bostjan (37.5%) and INTCONHOLDING A.G. (30%).
- INTCONHOLDING A.G. is a Swiss joint-stock company. We understand that this company helped Ekoloska Energija to get an access to the Nill Tech, a supplier of SYNTROL technology for conversion of the waste oil. We have not identified who the shareholders of INTCONHOLDING A.G. are.

Findings – Ecoporto (cont.)

Business plan and its key assumptions

- In April 2008, the SB of LK was presented with the Original Business Plan describing project for conversion of the waste oil to heating oil. We understand that this document was prepared primarily by Mr. Bolcic and Mr. Joze Starman.
- The rational for the investment, from LK point of view, was to reduce costs related to disposal of waste oil and to benefit from proceeds of sale of heating oil (as a shareholder of Ecoporto). We understand that while LK was paying about EUR 75 per ton for burning of waste oil, it would pay EUR 70 per ton only to Ecoporto.
- In exchange, LK was asked to provide a loan (to be converted to share capital) of EUR 1,370,000 to finance part (corresponding to its shareholding percentage) of required total investment.
- It is unclear from the plan, however, how did the company plan to finance the remaining portion of the required investment value.
- We understand from our discussion with Mr. Bolcic that certain discussions were held with Sparrkasse Bank, however, no written agreement or LOI was in place at that time, i.e. April 2008.
- The business plan was later modified to provide for a changes resulting from delays in project timetable. We understand that the latest version was prepared by Ecoporto and provided to LK in September 2009.

Findings – Ecoporto (cont.)

Business plan and its key assumptions (cont.)

- The financial analysis (pages 16 and 17of the plan) appears to be overly simplified and lacking details regarding calculation of discounted cash-flow.
- It is unclear from the financial plan, as to what time-period was used for a calculation of NPV, i.e. unclear how many years of cash-flows were accounted for to evaluate the present value of the investment. It is clear, however, that the period must have been longer than estimated useful life of the technology (the period over which the technology would be depreciated), which was set-up to be 7 years. The period included in calculation is one of the key elements of any such financial model.
- Another key element of the financial calculation is the volume of input, i.e. waste oil in form of oiled water from ships, and related fee (price of waste-oil) charged by Ecoporto to ports. The plan is based on input of 15,000 tons with an average price of EUR 65-70 per ton. According to our discussion with Mr. Bolcic, only about 25% of that was estimated to come from Luka Koper.
- In July 2008, Ecoporto signed an agreement with LK whereas LK committed to provide all of its waste-oil to Ecoporto for a fee (paid by LK to Ecoporto) of EUR 70 per ton and thus securing about 25% of the required input.

Overview of Business plan for Conversion of waste oil into heating oil

- Total investment: EUR 5,510,000
- Payback period: 4 years
- Estimated useful life: 30 years
- Location: Luka Koper's EKO-Park
- Estimated start: Q2 / 2009
- Technology: SYNTROL (by Nill Tech)

Note: The above is based on original Business plan

Findings – Ecoporto (cont.)

Ecoporto's use of funds provided by LK

- We understand that the main source of Ecoporto funding so far was the loan of EUR 1,370,000 received from LK in August 2008.
- We also understand that the EEK made additional capital contribution of EUR 21,248 on February 2009.
- We requested from Mr. Bolcic a complete set of bank statements Ecoporto however number of monthly statements were missing.
- The most significant part of cash outflow relates to purchase of the technology from Nill Tech (see next slide for details).
- Contract with Robotina (see transactions with Robotina under Adriasole part of this section) was concluded in December 08 and was signed by Mr. Bolcic on behalf of Ecoporto. Robotina was contracted to provide engineering services and related project documentation necessary to obtain a building permission.
- Ecoporto made also payment of EUR 45,000 to Ekoloska Energija, a parent company of EEK. Mr. Joze Starman holds a 27.5% share in this company. We have no information as to what this payment relates to.
- Payment of EUR 25,000 to EEK, a shareholder of Ecoporto,, according to Mr. Bolcic relates to various analysis done by EEK. We have not been provided with any supporting evidence in relation to these services. We noted, however, that this payment was done three months prior to EEK's contribution to share capital which was done in similar amount and therefore it seems that EEK's additional contribution was financed from LK's payments for these services.

Payment to:	Amount in €
Nill Tech	**1,070,000**
Robotina d.o.o.	**195,600**
Ekološka energija	**45,000**
Ekološka energija Koper	**25,000**
Cash-payments	**20,200**
Starman Janez	**15,000**
SIMBOL Marketing	**9,048**
Subtotal	**1,379,848**

- Detailed list of payments made as well as cash-inflows to Adriasole's account is included within the Appendix E.3.
- According to bank statements, the company also made certain cash-payments, in total value of EUR 20,200. We have no information as to how these funds were spent.
- Mr. Janez Starman, a lawyer and brother of Mr. Joze Starman provided legal services mainly related to share-capital increase.
- Similarly as with Adriasole, also Ecoporto is using regularly services of SIMBOL Marketing, a company with links to Mr. Joze Starman. Based on bank statements made available to us, SIMBOL Marketing received over EUR 9,000 from Ecoporto.

Findings – Ecoporto (cont.)

Contract with Nill Tech and potential risks to LK

- The contract between Ecoporto and Nill Tech for supply of the SYNTROL technology was signed in July 2008. Mr. Joze Starman signed the contract on behalf of Ecoporto.
- The total contracted amount with Nill Tech is EUR 4,300,000. It was meant to be settled in five installments. Based on bank statements made available to us, it appears that Ecoporto has only made first installment (EUR 800,000) and part of second installment (EUR 280,000).
- Contract also specifies timetable of delivery with an intend to undertake final acceptance test in the time period between December 2009 and January 2010.
- We understand that no deliveries were made insofar by Nill Tech due to delays from Ecoporto side caused by financing issues as well as issues with a location for the technology placement and related building permits.
- According to the Termination clause of the contract (Acticle 28), in the event of contract is terminated due to reasons relating to buyer, Nill Tech shall not be required to refund any payments made or due. This may present a risk to LK, as a current majority shareholder, and we recommend the management of LK to consider these risks with its legal advisors.

Findings – common to both

SB approvals

- On 6th Nov 2007, the SB made a resolution whereas it approved an investment of EUR 2,500 into an equity stake of two companies for the purposes of generating an alternative energy.
- On 22nd Apr 2008, the SB agreed to provide a part of funding for both projects (i.e. EUR 1,370,000 for Ecoporto and EUR 2,739,000 for Adriasole) in form of loans which will be later converted into increased equity.
- The decision was made on basis of information provided and presentation given by Mr. Pucko and Mr. Aldo Babic. We noted that the shortened presentation of business plan for Adriasole included different payback periods from those stated in the full version of the plan (not provided to the SB). According to the full version of the business plan, the payback periods were 10-15 years (without EU funding) and 7 years (with EU funding), the presentation offered 10-12 years and 6-7 years respectively.

Concerns expressed by finance department

- Mrs. Pucer expressed her concerns repeatedly with respect to both green investments in her emails during May – June 2008, i.e. the time when contracts for business cooperation and contracts for loan agreements were drafted. Emails were mostly addressed to Mr. Marzi and Mrs. Pucer called the drafts unacceptable, exposing to LK to risk and proposed changes to projects financing (equal investments to be done by other shareholders as well) etc. Her comments appeared to have been ignored. We have found no evidence of any email communication of Mr. Marzi in response to Mrs. Pucer's concerns.
- Both loan agreements were singed by Mr. Casar and Mr. Pucko on behalf of LK. Neither Mr. Casar nor Mr. Pucko recall any knowledge of concerns expressed by finance regarding these two contracts.
- This is further supported by email of Mrs. Cok to Mr. Marjan Babic dated 26th Aug 2008. Mrs. Cok complained to Mr. Babic that the signed versions of loan agreements with Ecoporto and Adriasole are different from drafts / suggestions prepared by her and Mrs. Pucer and called those signed versions harmful to the LK. She noted that use of loan was not clearly defined and contracts are not dated. She requested a written instruction otherwise she will not proceed the loan payments.
- Mr. Marjan Babic did not recall as to what was his reaction, if any, to Mrs. Cok's email.

Section 5.4

Romanian Companies

Overview

Background

- In early 2007, LK was in discussion with TTI about the possibility of cooperation in area of Arad, Romania. Following the series of negotiation lead by Mr. Casar, Mr. Aldo Babic and Mr. Pucko, and SB approval dated 6th Nov 2007 (see our findings regarding the SB approval), LK made an investment into two companies in the Arad area: Railport Arad and TTT Romania.
- Railport Arad was established in 2006 by TTI and MAV Kombiterminal Ktf ("MAV"; a Hungarian company). On 15th Jan 2008, the Shareholders agreement was signed between LK, MAV and Trade Trans where all parties agreed on the transformation of the ownership structure of Railport Arad and to increase share capital to EUR 4,500,000 (i.e. each party having an equal share of EUR 1,500,000). LK paid-in its share on 25th Feb 2008. Railport Arad was to be the operator of the Curticini Container Terminal.
- TTT Romania, was a newly established company, co-founded on 15th Jan 2008 by LK and Trade Trans Log ("TTL"), with an interests of 43.18% and 56.82% respectively. Share capital of the newly established company was EUR 2,316,000. LK paid in its share, equal to EUR 1,000,000, on 16th Jan 2008. TTT Romania was to build and operate the Steel Terminal and related warehouses as well as administration building. The constructions would be build on an existing plot of lands owned by Trade Trans.
- The Former management approved capital injections to both Romanian Companies on 30th Jan 2009, EUR 1,500,000 to Railport Arad and EUR 1,300,000 to TTT Romania.
- Mr. Pucko was nominated by LK's MB to represent interests of LK in both Romanian investments.

Overview of business plan for Curtici container terminal

- According to the investment plan, the idea was to establish a logistic hub with an advantage of direct connection to the rail (Curtici rail station) and road networks since Arad's proximity to the planned Nadlac (important custom point for automobile traffic) - Bucuresti highway.
- The targeted customers included investors who import raw and packaging materials or finished projects by railway and it was expected that the Romanian accession to EU would significantly contribute to the investors growing interest.

Key issues identified

- We identified the following issues with respect to Romanian investments:
  - Investment and further share capital increases were not properly approved by LK's SB;
  - Mr. Pucko signed a guarantee for TTT Romania's loan prior to his official authorization to do so; and
  - Valuation of lands contributed by TTI into TTT Romania was more than three times higher than similar lands contributed by TTI into Railport Arad.

Overview

Key issues identified (cont.)

- In accordance with issues identified, findings under this section are further detailed under the following headings:
  - Railport Arad:
    - Initial Capital Contribution;
    - Loans and Capital Increase
  - TTT Romania:
    - Initial Capital Contribution;
    - Loans and Capital Increase;
  - SB approvals and Concerns expressed by finance department.

Recommendations

- We understand that there was an official grand opening of Arad terminal in 28th Sep 2009 and, as such, the investment into the Romanian companies should start to generate benefits.
- Since LK did not finalize payment for share capital increase in TTT Romania, it currently holds minority interest of 17% only. Current management of LK will need to make determination as to whether such shareholding percentage affords sufficient level of control over operations of TTT or whether additional contribution will need to be approved and made.
- We further recommend that LK consult with their legal advisors as to whether issues identified by us could constitute a breach of fiduciary duties of former management. DELETED

Findings – Railport Arad

Initial capital contribution

- According to the Shareholders Agreement, the initial capital contributions were agreed as follows (amounts in EUR):

	Cash	In-Kind	Total
TTI	500,000	1,000,000	1,500,000
MAV	1,375,000	125,000	1,500,000
LK	1,500,000	-	1,500,000
total			**4,500,000**

- In-kind contribution of TTI was represented by a plots of land. In total, approx 100,000 sqm at a value of max 10 EUR per sqm. Precise price was to be determined by a certified valuator. We have no evidence as to whether the valuation was later performed.
- Contribution of MAV consisted of used KALMAR resch-stacker valued at EUR 125,000 (in-kind), monetary contribution of EUR 240,000 and further EUR 1,135,000 in form of payments for a RTG crane (which was to be acquired in future by Railport Arad). It is unclear as to why the payment for crane was structured in this way, as opposed to MAV contributing cash directly to Railport Arad.
- LK was asked to provide a contribution fully in cash.
- According to the articles of association, the unanimous votes of shareholders was required to approve decisions.

Loans and capital increase

- On 17th Oct 2008, Railport Arad signed an agreement with Bank Austria for an amount of EUR 1,500,000. The purpose of the loan was to finance Container terminal in Arad. To secure the loan, Railport Arad signed two blank bills of exchange declaration. In addition, LK and TTI agreed to provide a guarantee of EUR 750,000 each in a separate agreements.
- Within the guarantee agreement between LK and Railport Arad (undated) it was agreed that should LK be called to pay its amount of guarantee (i.e. EUR 750,000), Railport Arad undertakes to set a mortgage on RTG crane (movable property initially provided by MAV shareholder as a in-kind contribution to the share-capital). Mr. Marjan Babic signed the agreements on LK behalf.
- In addition, on 27th Oct 2008, all three shareholders on a General Assembly meeting agreed to provide a loan of EUR 1,500,000 each to the Railport Arad. LK and Trade Trans were asked to provide funds within 60 days. MAV was given until 30th Sep 2009 (later extended to 30th Sep 2010). LK was represented by Mr. Pucko on this assembly.
- This commitment to provide loan to Railport Arad was formally approved by MB of LK on 17th Dec 2008, i.e. subsequently.
- Following to this decisions of MB, Mrs. Pucer wrote an email (on 8th Jan 2009) to the Mr. Marjan Babic, Mr. Pucko and Mr. Jerman stating that: *"granting an additional credit line of EUR 1,500,000 represents an extraordinary risk to LK and I can not agree with that"*.

Findings – Railport Arad (cont.)

Loans and capital increase (cont.)

- Only a day after Mrs. Pucer's email, Mr. Marjan Babic signed a long-term loan agreement between LK (as lender) and Railport Arad (as borrower) for an amount of EUR 1,500,000 to fulfill the obligations resulting from decisions taken by Railport Arad General Assembly meeting and MB of LK.
- On 4th Feb 2009, Mr. Pucko wrote a mail to MB whereas he proposes that the money (i.e. EUR 1,500,000) to be provided to Raiport Arad in form of capital injection, rather than a loan as providing better security for LK. The mail was attached to a MB resolution to provide the capital injection dated 30th Jan 2009 (i.e. 5 days prior to Mr. Pucko's mail). Within the same resolution, MR cancelled their previous decision regarding the approval of loan (as the money will be provided via share capital increase instead).
- Railport Arad's General Assembly dated 13th Feb 2009, decided about the increase of share capital by EUR 3,000,000 to total amount of EUR 7,500,000. The amount to be contributed equally by LK and TTI. TTI's contribution to be paid from a loan previously provided in November 2008 and LK's payment to be made by 19th Feb 2009. As a result, new shareholdings would be: LK (40%), TTI (40%) and MAV (20%).
- MAV holds the option until 30th Sep 2010 to make further capital increase to equalize its share with TTI and LK. Regardless the percentage, all parties maintained equal voting rights. We understand that MAV recently decided to exercise their option and will contribute EUR 1,500,000 into Railport Arad.
- According to Mr. Casar, the specific arrangements for MAV were related to the fact that MAV was taken over by Austria Railways and the transaction was awaiting an approval from Brussels officials. As a result, MAV did not want to commit in any further equity participation until the acquisition is fully approved.

Findings – TTT

Initial capital contribution

- As noted under the Background to this section, LK co-founded TTT, together with TTL. TTL was a company fully controlled by TTI Group.
- The initial capital of EUR 2,316,000 was to be contributed as follows (amounts in EUR):

	Cash	In-Kind	Total
TTL	316,000	1,000,000	1,316,000
LK	1,000,000	-	1,000,000
total			**2,316,000**

- In-kind contribution of TTL is represented by plots of lands.
- Within the articles of incorporation, it was agreed that TTL would, within 60 days, increase its share to 74% by further contribution in-kind in total value of EUR 1,530,000, represented by an area of 45,000 m2 (34 EUR/m2). The price was determined by a Romanian certified valuator.
- The increase was materialized on 4th Mar 2008, leaving LK with an ownership share of 26% as documented by the resolution of the TTT's General Assembly.
- We received no explanation as to why the value of lands contributed by TTL was more than three times higher than lands contributed by TTI into Railport Arad, despite the fact that both contributions were made within similar time-span.

Loans and capital increase

- On 7th May 2008, TTT signed an agreement with Bank Austria for a loan amount of EUR 1,500,000. The purpose of the loan was to finance Steel terminal in Arad. To secure the loan, TTT signed two blank bills of exchange declaration. In addition, LK and TTL agreed to provide a guarantee of EUR 390,000 and EUR 1,110,000 respectively, in a separate agreements. Mr. Pucko signed the guarantee to Bank Austria on LK's behalf. According to the MB resolution, the approval of MB of the guarantee as well as empowerment of Mr. Pucko to sign guarantee was done subsequently, i.e. on 20th Jun 2008.
- LK was later notified by Mr. Tudor (director of TTT), in an undated mail provided to us, about the intention to merge TTT with TTL into one company. This was apparently to optimize logistics services and was an idea fully supported by Mr. Kaas. According to the mail, the TTL would transfer certain infrastructure and equipment into TTT and it was estimated that LK should provide further capital contribution of about EUR 1,300,000 in order to keep its shareholding of 26%. Mail was addressed to Mr. Casar.
- Following Mr. Pucko's suggestions (mail dated 4th Feb 2009), the MB approved capital injection of EUR 1,300,000 into TTT on 30th Jan 2009.
- The intention, as described in Mr. Tudor's email, appeared to be (partly) formalized during General Assembly meeting on 13th Feb 2009. According to the assembly resolution, following the transfer of TTL's owned assets in Arad, the shareholdings were changed to 83% held by TTI and 17% for LK. The resolution further states that LK needs to contribute EUR 1,300,000 to re-gain its former share of 26%. LK was represented by Mr. Casar on this assembly meeting.
- As detailed on next slide, the additional contribution of LK was not materialized insofar.

Findings – Both

Approvals of SB and concerns of finance department

- According to the resolution of SB meeting held on 6th Nov 2007, the SB unanimously approved an investment of EUR 2,500,000 into the logistic centre in Arad, which would represent a one-third shareholding in Raiport Arad.
- However, the amount approved appeared to be split and invested into Railport Arad (EUR 1,500,000) and TTT (EUR 1,000,000). While the approved amount corresponds, the approved purpose seems to differ from actual use:
  - SB approved investment into Railport Arad, not into TTT;
  - The amount approved was meant to represent a one third shareholding, which holds true for Railport Arad investment only, as the LK's share in TTT was different (i.e. 26%)
- Based on our understanding, the paragraph 13 of the Articles of Association requires SB to approve LK's involvement in establishment of new companies as well as subsequent changes in equity stakes. Therefore, it appears that investment into TTT was not properly approved by SB and thus could be in breach with a company Articles of Association (paragraph 13).
- The Articles of incorporation of TTT were signed by Mr. Pucko acting on behalf of Mr. Casar, as a president of MB. The payment of EUR 1,000,000, as a LK's share capital contribution was made on 16th Jan 2008.
- On 30th Jan 2009, the MB approved to provide a capital injection to both Romanian companies, EUR 1,500,000 to the Railport Arad and EUR 1,300,000 to the TTT.
- Attached to the resolution as a support, were two letters from Mr. Pucko explaining the need for the injections for both companies. Both these letters were dated 4th Feb 2009, i.e. 5 days after the handwritten date on the MB decision.
- Despite certain concerns raised by finance and legal department (mostly related to sufficiency of details in underlying contract), the Railport Arad's injection was eventually paid-in on 19th Feb 2009.
- Capital injection to TTT was not finalized and was eventually stopped by a pre-trial proceedings decision made on 12th Jun 2009. Finance department repeatedly opposed this payment despite further instructions from MB (MB meeting on 15th May 2009) to proceed with the payment immediately.
- The decision of MB was sent to Mrs. Pucer by Mr. Marjan Babic on 11th Jun 2009. She replied to Mr. Marjan Babic that *"I would like to once again draw your attention to the opinion of the legal department, in accordance of which such capital injection requires a decision of SB*". She further pointed out worsening cash position of the LK with an estimated deficit of EUR 6,000,000 by the end of month June 09.
- We have found no evidence of SB's approval for neither Railport Arad's capital increase nor for TTT increase. This also appears to be in breach of LK's point 13 of LK's Articles of Association.
- Mr. Casar noted that he was not aware of any concerns of finance department and he would, in general, rely on Mr. Marjan Babic as a MB member in charge of finance to address these and/or bring it to attention of other members of MB. We have found no evidence of any email communication of Mr. Babic in response to concerns expressed by Mrs. Pucer.

Section 5.5

Passenger Terminal

Overview

Background

- In 2007, LK decided to build an international sea Passenger Terminal.
- We have been informed that the Passenger Terminal was considered to have strategic importance for the City of Koper and LK invested as part of it's corporate social responsibility.
- To date, LK spent EUR 4,000,000 on the project:
  - EUR 3,200,000 was paid to Sintesi Pen d.o.o. ("Sintesi Pen") for acquisition of land with two warehouses (site of future construction of Passenger Terminal);
  - EUR 400,000 was paid for demolition of the warehouses; and
  - EUR 400,000 was paid for other services.
- Currently, the Passenger Terminal project is on hold due to lack of financing. Passengers are processed and served in temporary structures (i.e. tents).
- Valuation of the two warehouses purchased from Sintesi Pen was performed by Lasting d.o.o ("Lasting"). We understand that mainly Mr. Marko Blazic was directly in contact with Mrs. Katarina Grillc Brilli (an owner of Lasting) and that Mr. Blazic recommended this valuator.

Key issues identified

- We identified the following key issues:
  - It appears that the MB had sufficient information that the passenger terminal project was not economically viable, however the project was executed;
  - The MB did not appear to have secured the financing of the project before launching it, i.e. before deciding to purchase the land and warehouses;
  - Acquisition price of construction site seems to be overstated.
  - The supervision of the demolition of the warehouses was granted by the MB to a company called Tringrad Nova without tender.
  - The SB approved this investment on 19th Dec 2007. This was after the contract with Sintesi Pen was already signed (20th Nov 2007).
- In accordance with issues identified, findings under this section are further detailed under the following headings:
  - Economic sustainability and financing of the project;
  - Valuation of the property; and
  - Relationship check.

Overview

Recommendations

- LK to determine whether this project is economically viable and whether it fits in the actual business strategy. Considerations have to be given to the costs already incurred and costs still needed for potential completion of the project.
- LK should explore the financing possibilities:
  - From EU funds
  - Discussions with the government
  - Cooperation with Koper municipality or other municipalities
  - Joint venture partners
- We further recommend that LK consult with their legal advisors as to whether issues identified by us could constitute a breach of fiduciary duties of former management. DELETED

Findings

The economic sustainability and financing of the project

- LK finance department prepared feasibility study with six scenarios of funding this project.
- Four of the scenarios anticipated donation from EU of EUR 3,000,000. Despite donation all six scenarios show a negative internal rate of return.
- The business development plan states that LK applied for EU funds and it would most likely obtain EUR 3,000,000.
- According to a discussion with Mrs. Certalic we understand that LK has never prepared nor submitted any application for any type of EU funds related to this project.
- Mr. Casar noted that building the passenger terminal was a precondition included in the concession contract for the land beneath warehouses 7 and 8. We did not find any evidence supporting such a statement.

Findings

Valuation of the property

- LK paid to Sintesi Pen EUR 3,200,000 which is price determined by Mrs. Brilli. The price was a maximum of three values calculated by Mrs. Brilli.
- There were three different methods used for a valuation of the warehouse value:
  - DCF method: EUR 3,200,000
  - Acquisition method: EUR 2.900,000
  - Comparable sales method: EUR 2,800,000
- Discounted cash-flow method ("DCF method") calculates value of future flows of rental income. The DCF method used in this report seems to have certain unrealistic assumptions:
  - Unlimited life time of warehouses is anticipated, despite facts that the warehouses were 41 years old as of the date of valuation, and therefore close to their economic lives and no information about their renewal is available,
  - Warehouses were intended to be liquidated, and this intention was publicly known,
  - Replacement costs were not taken into an account,
  - The hypothetical rent for the warehouses was set at EUR 10 per sqm. There is no reference to any sources or underlying calculations to understand how this figure was determined. As a comparison, on 18 Mar 2008 LK has rented other nearby and similar-size warehouses from Slovenske železnice for EUR 4.5 per sqm.
- We did not obtain any information about negotiations, however we noted that no reduction from maximum market price determined by a valuation expert was achieved.
- In these circumstances it seems the price was overstated because:
  - the building was 41 years old, nearing the end of its accounting and economic life;
  - Sintesi Pen was in a "distress" position due to being in liquidation, reduction of value due to distress sale was not sought;
  - LK was not under any visible time pressure to close the deal
  - seven months had elapsed between the date of the valuator's report and the transaction date and the market price was not re-tested;
  - there seems to be no other potential acquirer on the market due to circumstances; and
  - no investor could realistically expect to generate revenue from rental of warehouse for unlimited period in these circumstances.
- We understand that Mr. Aldo Babic sent on 30th Jan 2007 an offer to Sintesi Pen for purchasing warehouses 7 and 8 whereas he also makes a proposal to agree on a nomination of a certified assessor of these properties.
- Mr. Časar on his 16th regular MB meeting on 7th Mar 2007 states that LK and Sintesi Pen will agree on the court assessor and that Mr. Aldo Babic will be responsible for negotiating the purchase price.

Findings

Relationship checks

- We did not identify any relationships between the LK management and SB members and third parties who have been involved in the Passenger Terminal project, i.e. Sintesi Pen and Lasting.
- DELETED

Approval of SB

- The SB approved this investment on 19th Dec 2007, one month after the contract was signed with Sintesi Pen. The contract with Sintesi Pen was signed on 20th Nov 2007. Mr. Aldo Babic signed the contract on LK's behalf.
- According to our opinion, this is not in line with the LK's Articles of Association. The approval of the SB should have taken place before the contract with Sintesi Pen was signed by the MB.

Section 5.6

Bulk Cargo Terminal

Overview

Background

- The Bulk Cargo Terminal ("BCT') at LK is used for temporary storage of iron ore and coal. We have been informed that due to environmental considerations (dust and sound pollution) in 2007, LK decided to cover the BCT ("BCT project"), which has a total surface area of more than 100,000 m^2.
- Such a construction project appears to be unique not only in Slovenia but also in Europe, as there is no other covered bulk cargo terminal in Europe.
- The total project value was initially estimated to be between EUR 240,000,000 and 291,000,000, while the most recent estimate is at EUR 352,000,000. The project is currently on hold due the lack of financing.
- So far, the project documentation necessary to secure the permits from government authorities have been completed. This documentation was prepared by Ponting d.o.o. ("Ponting"), one of the largest engineering and construction companies in Slovenia.
- As of 31st Mar 2009, LK paid Ponting EUR 3,921,000 (excl. VAT) in respect of the project, documentation and other services.

Key issues identified

- We identified the following key issues, which will be detailed in the following pages:
  - From the documentation we reviewed, it appears LK did not seem to be under any legal or regulatory environmental pressure to initiate such a project.
  - Although there were no clear and feasible options for financing, it was decided to proceed with the project despite very significant estimated completion costs.
  - LK started discussing the details of the BCT project with Ponting months before an official tender was launched. The other bidders did not benefit from the same proximity on the part of LK, which means that they might be disadvantaged in the tender process; and
  - The SB was asked to give their approval to this investment on 19th Dec 2007. This was after the contract with Ponting was already signed (4th Oct 2007).
- In accordance with issues identified, findings under this section are further detailed under the following headings:
  - Environmental situation and pressures to LK;
  - Sustainability and value of the project;
  - Financing of the project;
  - Preparation and execution of the tender process; and
  - Relationship check.

Overview

Recommendations

- LK should determine whether there is any possibility to utilize at least parts of the technical project documentation for further development of the BCT.
- We further recommend that LK consult with their legal advisors as to whether issues identified by us could constitute a breach of fiduciary duties of former management.

Findings

Environmental situation and pressures to LK

- We understand from various discussions with Mr. Trebec during our review, that Mr. Popovic requested Mr. Casar to start with the project. Mr. Casar gave allegedly instructions to Mrs. Barbara Trebec to proceed with the project internally. However, we did not obtain any documents to confirm the validity of these statements.
- Despite having been informed on repeated occasions during our work that the main driver for the BCT project was environmental considerations and complaints from neighbouring communities, the documentation we have reviewed suggests that LK did not seem to be under any environmental pressures from third parties or regulators to cover the BCT.
  - We were not provided with any correspondence with municipalities, environmental associations or other state or private authorities requesting LK officially to start building the BCT cover.
  - A development plan prepared in May 2007 by LK (Barbara Humer and Nebojsa Topic) and covering the 2007-2025 period mentions in the Ecology section 2.4 that BCT is the most green cargo terminal in South Europe. This plan does not mention any environmental reason for a need to cover the BCT.
  - LK's Environmental safety services department conducts annually self reviews of LK's impact on the environmental pollution. We reviewed two such reports for years 2006 and 2007 and also a half yearly report for 2006. None of the reports indicated any environmental risks from the BCT.
- The 2007 report mentioned only:
  - that the inhalable dust limit according to the Slovene legislative framework and EU directives is 40 µg/m3
  - LK in the last three years never exceeded these limits (this includes the BCT). Dust levels for 2005, 2006 and 2007 were respectively 31.0 µg/m3, 25.1 µg/m3, 34.97 µg/m3
- We additionally reviewed 13 reports for the period 23rd Oct 2008 to 21st Jul 2009 from the inspection department of the ministry of environment.
- None of these reports pointed to any environmental issues or non-compliance with regard to operations of the BCT.
- An internal document from the technical department (Mr. Rudi Peric) dated 15th Jun 2007 recommends the covering of the BCT, but does not specify any reasons.
- Mr. Casar noted that this project was initiated due to environmental complaints from the community of Ankaran.
- Mr. Casar also noted that it was urgent to proceed with this project because the BCT was being threatened by Ankaran with shutting down its operations. We did not see any evidence to verify these statements.

Findings

The sustainability and value of the project

- We have noted that overall value of BCT project was changed number of times in the period of May 2007 till November 2008. As detailed in below paragraphs, the value ranged from EUR 240,000,000 to EUR 352,000,000.
- Development plan prepared in May 2007 covering the 2007-2025 period estimates the total value of the project at EUR 272,000,000.
- Ponting's tender offer dated 26th Jun 2007 estimates the total value of the project at EUR 240,000,000.
- Internal feasibility study prepared by Tomaz Deisinger dated 22nd Aug 2007 estimated costs for extending and covering the BCT at EUR 291,000,000.
- Apart from the Ponting offer, it is not clear how the possible project value was calculated in the other two documents.
- The estimated maximum value of the project (EUR 291,000,000) was more that 80% of LK's net assets as of 31st Dec 2007 (EUR 331,000,000).
- In February 2007, two persons from LK visited the Port of Gijon in Spain to see the terminal for iron ore and coal, which is one of the biggest in Europe. There, the LK delegation was informed by the Port of Gijon authorities that covering the iron ore and coal storage area is not considered economically viable nor ecologically necessary.
- Despite high costs, MB of the company approved the long-term development plan and covering the BCT terminal on 22nd May 2007. This approval lead to the initiation of the tender for preparation the project documentation.
- Ponting's project documentation after its completion in November 2008 states the value of the BCT project at EUR 352,000,000. This is 47% higher than the estimate indicated in the Ponting's tender offer. We were explained that the increase was due to certain technical reasons. We did not obtain any information allowing us to verify the validity of those claims.
- The feasibility study dated 22nd Aug 2007 states the following:
  - It states three scenarios for possible development of the BCT up to year 2025:
    - 1. scenario (extend and cover)
    - 2. scenario (extend only)
    - 3. scenario (cover only)
  - Each scenario considers three options: a) 10% increase of income, b) 10% increase of costs, c) no change from current status
  - Estimated value of the total project for scenarios 1,2 and 3 was respectively EUR 291,390,000, EUR 195,510,000 and EUR 109,292,000.
  - Only in scenario 2, the net discounted rate of return was a positive. This scenario was also recommended by the feasibility study as economically feasible.
  - We did not receive any underlying calculations to understand the basis and assumptions used in the calculations.

Findings

The financing of the BCT project

- We have been informed during our interviews that funding of the BCT project was supposed to come from the EU funds. However the interviewees:
  - Could not state what type of EU funds would be used and what specific actions were taken to secure these funds
  - Did not have information as to whether LK submitted any application for EU funds or had any intention to do so.
- We also understand from discussion with Mrs. Masa Certalic (development projects & EU cooperation manager) that:
  - LK has never prepared nor submitted any application for any type of EU funds at or around the estimated value of the BCT project.
  - Based on the regulations governing the European Union Cohesion Funds for Regional Development for the period 2007-2013 covering ”operative quays” for public port infrastructure, the maximum allowable financing is EUR 34,500,000, which is significantly less that the minimum estimated project value for the BCT.
- We did not see any other documentation on whether the MB contacted banks, municipalities or the state as to alternative financing possibilities.
- It appears that the MB did not have clear vision how to finance the project before it was decided to launch it and the contract with Ponting was signed.
- Based on an interview with Mr. Casar, when asked about the lack of financing for the project, Mr. Casar said that there were some discussions with the Government of Slovenia and the EU. We did not see any evidence to verify these statements.
- When confronting Mr. Casar with the facts that Mrs. Certalic did not know of any financing discussions with anyone and that EU funds would normally be limited to EUR 34,500,000, Mr. Casar said that Mrs. Certalic was probably not doing her job properly, however, no other facts were provided to us.

Findings

Preparation and execution of the tender process

We have the following findings concerning the preparation and execution of the supplier tender process:

- LK initiated detailed discussions with Ponting about covering the BCT already in January 2007. This is more than 5 months before sending official tender requirements to other BCT tenderees.
- We could not obtain any written evidence to understand the reason for discussing with Ponting months before launching an official tender for the preparation of the project documentation. We understand however, that LK's technical department suggested Ponting as expert. We did not obtain however any written documentation in this respect.
- We understand that LK did not have any discussions with the other two BCT bidders (PNZ and Projekt MR) prior to sending official tender requirements.
- Based on Ponting's meeting minutes covering the discussions between LK and Ponting, we have made the following observations:
  - In January 2007, LK presented Ponting with their intention to cover the BCT.
  - On 8th May 2007, Ponting presented LK with the structure of the project documentation and associated plans.
  - Between 15th May 2007 and 24th May 2007 Ponting presented LK its sub-contractors for various technical areas such as: architecture, construction, electrical installations and others.
- On 20th Jun 2007 LK sent the BCT tender requirements to three tender participants (Ponting, PNZ and Projekt MR) and requested them to provide offers until 6th Jul 2007.
  - Except for Ponting being acquainted with details of the BCT project, the remaining two tender participants had only 16 days to prepare and submit tender documentation.
  - The reason for setting such short preparation time by LK, considering the potential complexity of the project and the fact that none of the 3 bidders had any similar prior experience, is unknown.

Bulk cargo tender participants

Name	Offer date	EUR'000
Ponting	**5th July 2007**	**5,482**
PNZ	**4th July 2007**	**5,960**
Projekt MR	**5th July 2007**	**6,478**

Source: protocol on opening tender offers dated 9th Jul 2007

Findings

Preparation and execution of the tender process (cont.)

- The tender requirements prepared by LK do not contain a request to estimate the total value of the BCT project. As a result:
  - Of the 3 bidders, only Ponting submitted an estimate for the overall project value and explained how it calculated its own fees given the overall value of the project
  - It was not clear based on what information and using what benchmarks the other two bidders set their cost estimates, and on what basis could the management of LK assess the reasonableness of prices offered.
- Regarding a selection of tender participants:
  - Criteria and reasons for selecting three tender participants are not known, especially given the fact that none of the bidders had any prior experience in covering a 100,000 m^2 terminal on a pier.
  - Considering the complexity of the BCT project, and given that the BCT project is unique even on the European level, the reason for not inviting any international participant has not been made clear.

Relationship checks

- We have not identified any relationships between the LK management and SB members and third parties who have been involved in the BCT project, i.e. Ponting, Projekt MR and PNZ.

Approval of SB

- The SB gave its approval on 19th Dec 2007. This is more than two months after the contract was signed with the main supplier, i.e. Ponting. The contract with Ponting was signed on 4th Oct 2007.
- According to our opinion, this is not in line with the LK's Articles of Association. The approval of the SB should have taken place before the contract with Ponting was signed by the MB.

Section 5.7

Post-panamax Cranes

Overview

Background

- LK has acquired from Liebherr four STS post-panamax ship-to-shore container cranes for a total of EUR 29,000,000. The cranes were acquired in two transactions:
  - Two cranes were acquired (a contract was signed by Mr. Casar on LK's behalf) on 6th Feb 2008 for EUR 14,000,000; and
  - Additional two cranes were acquired (a contract was signed by Mr. Casar on LK's behalf) on 11th Jun 2008 for EUR 14,540,000.
- We understand that acquisition of the first two cranes was planned but acquisition of other two were acquired on the basis of ad-hoc decision, which seemed to have been made under some time pressure.
- We have been informed that due to their short arm span, the existing ship-to-shore cranes in the container terminal are not adequate to handle post-panamax sized ships coming into port, and that in order for LK to handle such ships, a project was initiated to purchase four post-panamax ship-to-shore container cranes in 2008.
- For the purchase of the first ship-to-shore cranes, LK held three tender rounds whereas Liebherr always had the lowest price and eventually was the winner. For ordering the second ship-to-shore cranes, there was no tender and the purchase was made directly from Liebherr.
- The SB was approved this investment on 30th Jan 2009. This was after the contract with Liebherr was already signed (11th Jun 2008).

Key issues identified

- We identified the following key issues, which are detailed in the next pages:
  - It appears that there is no documented reason, justification or decision making process supporting the order for the second set of two cranes. The Former management appeared to approve acquisition of these two cranes in a rush and based only on some discussions with Maersk (an international shipping company) related to the opening of potential post-panamax shipping lines to Koper.
  - The tender process for the first two cranes was interrupted in December 2007 for one and a half months apparently due to technical reasons. Afterwards, in the third tender round in January 2008, all bidders were requested to send renewed offers.
  - The winner of the tender, Liebherr, increased its tender offer between November 2007 and January 2008 by EUR 1,000,000. We were informed that the reason for the increase was the change in the delivery conditions. However, the documentation we have reviewed suggests that the delivery conditions remain unchanged. It should be noted, however, that other bidders increased their prices as well and that price offered by Liebherr was the lowest in all tender rounds.
  - The SB gave its approval to the purchase of the second two cranes seven months after the contract with Liebherr was signed (by Mr. Casar) which is, according to our opinion, not in line with Articles of Association.

Overview

Key issues identified

- In accordance with issues identified, findings under this section are further detailed under the following headings:
  - Tender process for the first post-panamax cranes;
  - Liebherr price increase in tender offers;
  - Purchase of two additional post-panamax cranes; and
  - Approval of SB.

Recommendations

- We would propose LK may seek to strengthen its procurement processes, in order to avoid an intuitive, event driven decisions.
- Investment planning needs more formalization and also long term visioning. The investments must be well thought through and set up in the context of long term strategy of Luka Koper.
- We further recommend that LK consult with their legal advisors as to whether issues identified by us could constitute a breach of fiduciary duties of former management.

Findings

Tender process for the first post-panamax cranes

- The tender for the first post-panamax cranes took three rounds to complete, as follows:
  - Round 1, with a deadline for submission of offers on 29th Oct 2007 (the best price offered Liebherr);
  - Round 2, with a deadline for submission of offers on 22nd Nov 2007 (the best price offered Liebherr);
  - Round 3 with a deadline for submission of offers on 29th Jan 2008 (the best price offered Liebherr).
- Unlike in the first tender round there is no official protocol signed by tender committee available on opening tender offers for the second round.
- For the second round, LK sent tender requirements to Konecranes, one of the bidders, just 3 days before an official deadline for submitting tender offers. Other bidders such as Liebherr and Regianne Crane had an advantage of four days over Konecranes to prepare and submit their tender offers for the second round.
- Liebherr second round tender offer makes a reference to a meeting at LK on 16th Nov 2007. We understand from Mr. Topic that other bidders also discussed with LK during the tender, however we did not obtain any correspondence to this effect, and such meetings were not mentioned in the other offers.
- The second round of the tender process was officially interrupted by an e-mail from technical and purchase department (Mr. Roberto Levanic) on 13th Dec 2007. This e-mail to all tender participants stated that: *"ordering of cranes is stopped due to technical reasons*". We sought but could not obtain any sufficient explanation as to what technical reasons caused stopping the tender process at that time.
- We were informed by Mr. Levanic that the reason was the lack of clarity related to the kilotons of pressure that the wheels of the different cranes would apply on the rails and the pier.
- However, during our reviews of the various offers, we have observed that the related figures were included and clearly indicated:

Vertical wheel load of post-panamax cranes

Name	in tons
Liebherr	**39.9 / 43.0**
Kocks	**53.3 / 46.9**
Regianne Cranes	**54.1**

Source: tender offers as of 22nd Nov 2007

- Moreover, we have observed that including the kiloton figures related to the downward pressure on the wheels and the rails was part of the original first round tender requirements.
- In an interview with Mr. Casar, when asked about the reasons for stopping and re-launching the tender, Mr. Casar said that he had absolutely no involvement in the technical aspects of this project and that he knew nothing. We did not identify any evidence that would suggest otherwise.

Findings

Liebherr price increase in tender offers

- The winner of tender for delivery of the first two post-panamax cranes, Liebherr increased its tender offer between November 2007 and January 2008 by EUR 1,000,000. This increase represents 8% of its original tender offer price.
- Liebherr quoted for 2 cranes (including 4 spreaders and 2 hook-beams) the price of EUR 13,600,000 and EUR 14,700,000 respectively on 22nd Nov 2007 and January 2008 offers.
- It is not clear on what basis or for what additional services the price was increased by Liebherr. We were informed that the reason for the increase was the change in the delivery conditions (i.e. the first offer involved the assembly of the cranes on site, while the second offer involved the assembly to take place in nearby Trieste and the cranes to be transported to Koper by barge) although the documentation we have reviewed suggests that the delivery conditions remain unchanged:
  - Fully erect delivery (erection outside Port of Koper, i.e. in Trieste) and
  - Provision of sea-going barge to supply both cranes (i.e. transport of the erected cranes from Trieste to Koper)
- It should be noted, however, that the other bidders increased their prices in second and third round of tender as well, and that the price offered by Liebherr was the lowest in all three rounds as illustrated in the table on right-hand side.

Tenders for first two post-panamax cranes (in EUR'000)

Name	5th Oct 2007	22nd Nov 2007	29th Jan 2008
Liebherr	**13,070**	**13,583**	**14,680**
Kocks	Did not submit	**14,712**	**15,920**
Regianne	**13,300**	**15,500**	**16,604**
Konecranes	**15,752**	Did not submit	**15,920**

Source: tender offers of tender participants as stated above.

Findings

Purchase of two additional post-panamax cranes

- The purchase of additional two cranes in June 2008 took place just four months after the first cranes were acquired. Such a purchase was not foreseen in the 2008 investment and business plan.
- The only evidence which we have located and which provides explanation why the additional two cranes were acquired is an e/mail from Mr. Andrej Cah dated 26th May 2008 stating that Maersk indicated significant interest in directing its post-panamax ships from the Far East to the Port of Koper.
- There was no tender process held and the offer for the cranes delivery was made directly from Liebherr. It offered EUR 14,600,000 on 30th May 2008. This price was reduced by EUR 60,000 in the final contract signed on 11th Jun 2008. We understand the reasoning behind approaching directly Liebherr was desire for one supplier which would also bring benefits with respect to future maintenance and spare parts supply.
- Mr. Casar noted in an interview on 10th Nov 2009 that it was known from the start that LK would need four cranes and not only two. Mr. Casar also claimed that he does not know why the initial investment request was for the first two cranes only, and the latter two were requested later. However, we did not identify any other information which would confirm this.
- From the interviews with Mr. Cah, Mr. Topic and Mr. Levanic, we understood that they did not have any knowledge of LK's need for four cranes (as suggested by Mr. Casar). According to these interviews, the main driver behind purchase of two additional cranes was Mr. Aldo Babic.

Approval of SB

- The SB gave its approval to the purchase of the second two cranes seven months after the contract with Liebherr was signed.
- Following an approval from the MB (on 9th Jun 2008), Mr. Casar signed the contract with Liebherr on 11th Jun 2008. The SB approved this investment on 30th Jan 2009.
- According to our opinion, this is not in line with the LK's Articles of Association. The approval of the SB should have taken place before the contract with Liebherr was signed by Mr. Casar.

Section 5.8

Grafist

Overview

Background

- LK entered into three agreements with Grafist during the period between November 2007 and January 2008.

Lease contract with Grafist

- On 19th Nov 2007, LK entered into a lease agreement with Grafist for a lease of five parcels in Bertoki, total of 32,603 sqm. Agreed rental was EUR 0.60 per sqm (excl. VAT).
- The parcels were handed over to LK on 30th Nov 2007 and its intended use was to have additional car storage facilities. We understand that the need for additional car storage capacities was due to an anticipated increase in flow of cars through the port.

Contract with Grafist for regulation of parking lots

- On 1st Dec 2007, both parties entered into another agreement.
- Grafist was contracted to regulate parking area in front of the port on plot number 1368/2 in area of Koper.
- Contracted price for related work, material and equipment was EUR 37,652 (excl. VAT).

Contract with Grafist for landfill

- On 7th Jan 2008, LK signed an additional agreement with Grafist where parties agreed that Grafist will prepare a landfill on plots of lands in the Bertoska Bonifika to make them suitable for a car-parking.
- Subject to the contract were 15 plots of lands, including four rented by LK from Grafist.
- Total value of the contract was EUR 3,969,374 (excl. VAT).
- Grafist claimed the completion of the works under the contract on 28th May 2008.

Overview (cont.)

Key issues identified

- We identified the following issues with respect to transactions with Grafist:
  - Lease contract with Grafist has non-standard and disadvantageous terms for LK;
  - Landfill done without construction permit resulting in significant penalties to LK and cost of removal;
  - LK is in disagreement with Grafist as to whose fault is the missing construction permit;
  - Tender for provider of Bonifika landfill appears non-standard;
  - Investments seems to be not approved in accordance with LK Articles of Association.

- In accordance with issues identified, findings under this section are further detailed under the following headings:
  - Lease contract with Grafist;
  - Contract with Grafist for landfill;
  - Tender for landfill provider;
  - Issue with construction permit; and
  - Approvals of SB.

Recommendations

- LK will have to make a determination as to whether the lease of lands from Grafist continues to be economically desirable, taking into consideration current market downturn and existing car parking facilities.
- Another factor which will have to be taken into account is outcome of negotiations with Grafist and Municipality as to the construction permit issue and related removal of construction.
- We further recommend that LK consult with their legal advisors as to whether issues identified by us could constitute a breach of fiduciary duties of former management.

Findings

Lease contract with Grafist

- The lease terms contracted with Grafist appears to be non-standard and disadvantageous for LK. In particular, based on the comparison with three other rentals of land utilized by LK (as detailed in table below), the rental from Grafist is at highest price per square meter. The contract was signed by Mr. Casar on behalf of LK.
- The most comparable lease agreement seems to be contract with Intereuropa, which was concluded during similar time-frame, relates to comparable area and is concluded also for indefinite period. While the price contracted with Intereuropa is EUR 0.33 per sqm, the price agreed with Grafist is nearly double. The two other lease agreements with Mestna Obcina are at rates closer to rate contracted with Grafist, however, they both being renewed on yearly basis as opposed to indefinite period in case of Grafist. The notice period for termination of the lease with Grafist is 5 years (compared to 14 days of notice period with Intereuropa). It is primarily this clause which makes the lease agreement non-standard and disadvantageous to LK.
- The view that contracted price appear to be high is also supported by LK's letter (signed by Mr. Casar and Mrs. Troha) to Grafist, dated on 1st Apr 2008, in which LK attempted to agree on decrease of the rate down to EUR 0.35 per sqm, an amount approximately corresponding to rates agreed with Intereuropa. In the same letter, Mr. Casar and Mrs. Troha were proposing that LK would purchase the leased plots of lands from Grafist, as an alternative to price reduction. Grafist responded on 23rd Jun 2008 that they would consider to sell lands for approx EUR 330 per sqm. Later, on 2nd Sep 2008, Grafist wrote another mail confirming they are willing to sell subjected lands for a total value of EUR 10,701,596; the price determined by an expert valuator.

Comparison with other land rentals

Leaser	Contract Date	Lease period	Area in sqm	Price per sqm in EUR
Grafist	19th November 2007	Indefinite period (5 years notice period)	32,603	0,60
Mestna Obcina Koper 1.	undated	1 year	25,070	0,59
Mestna Obcina Koper 2.	28th July 2006	1 year	150,000	0,42
Intereuropa	19th October 2007	Indefinite period (14 days notice period)	46,039	0,33

Findings

Contract with Grafist for landfill

- The MB approved to contract Grafist for Bonifika landfill on 21st Dec 2007. Subsequently, on 7th Jan 2008, the contract with Grafist was signed by Mr. Casar on behalf of LK.
- Soon after the contract was concluded, Grafist started their work and provided LK with a status reports (and related progress billing) as follows:

Date	Amount in EUR	Doc ref:
30th Jan 08	1,100,000	16-08/5420
29th Feb 08	2,200,000	34-08/5420
25th Mar 08	3,300,000	54-08/5420
27th May 08	3,969,373	92-08/5420

- We understand that the entire amount of EUR 3,969,373 was paid by LK.

Tender for landfill provider

- On 19th Nov 2007, a request for proposal was sent to two companies, Grafist and Stavbenik d.o.o.. Requests were sent by Mrs. Irena Troha and Mr. Igor Bertok.
- Mrs. Troha did not recall the reason as to why these two particular companies were approached as opposed to other companies providing similar services. We noted that two companies were approached only, despite the LK's policy (Procedures of tender collection and rating tenders for investments and maintenance; dated 25th Sep 2007) requiring at least 3 bids for investment of this size.
- Both bids were delivered within the time frame required and tender committee opened the bids on 29th Nov 2007. Commission comprised of Mrs. Troha, Mr. Bertok and Mrs. Tanja Vizentin. We understand that the only criterion was price and, on that basis, Grafist was selected as a winner with their offer of EUR 3,969,374.
- Despite the conclusion of the tender committee, one day after the evaluation, on 30th Nov 2007, the request for proposal was further sent to Projekt MR. According to Mrs. Troha, this was due to fact that bids from Grafist and Stavbenik seemed to be high.
- According to bid provided to us, the price offered by Projekt MR was EUR 9,387,423, i.e by far the highest. The offer from Project MR was submitted to LK on 18th Dec 2007, i.e. three days prior to contract was signed with Grafist.
- Neither Mrs. Troha nor Mr. Bertok were able to explain existence of another request for proposal sent to Grafist – exactly the same document as the first sent to them – but this time with different date, i.e. on 6th Dec 2007.

Findings

Issue with construction permit

- In their response (dated 23rd Jun 2008) to LK's proposal regarding the purchase of lands or decrease of rent price (as described on previous slide), Grafist also notified LK about the administrative proceedings initiated by authorities of Transport Inspectorate with respect to encroachment, i.e. construction done without required permits on lands rented by LK from Grafist.
- On 13th Nov 2008, LK and Grafist agreed on amendment of the lease agreement which gives LK permission to construct a storage area for vehicles on lands rented from Grafist. District Court, however, in their decision from 7th Jan 2009 rejected the registration of rental rights with the right of construction.
- On 29th Jan 2009, Mr. Bertok from LK informs Grafist that LK had withdrawn their application for a building permit because the project (as prepared by Grafist) was full of errors and incomplete.
- On 10th Mar 2009, the Transport Inspectorate issues a decision that Grafist is obliged to stop using the plot of lands as a car parking facilities. The decision become enforceable on 13th Mar 2009.
- Due to continuing use of the subjected plots of land, the Inspectorate issued a further decision on 24th Mar 2009 requesting immediate stop of usage under a penalty of EUR 180,000. According to a letter sent by Mr. Andrijancic (Head of the car terminals at LK) to Grafist on 5th May 2009, LK stopped using the facilities on 11th Apr 2009.
- On 11th Jul 2009, Grafist (Mrs. Monika Mavsar, lawyer) requested that LK pay the penalty of EUR 180,000 assessed by the Inspectorate.
- On 3rd Sep 2009, the Inspectorate issued another decision requesting the Grafist dispose all construction on plot of lands by 30th Oct 2009. This represents a further potential costs to the LK.
- During September 2009 LK and Grafist exchanged series of emails illustrating disagreements of both parties as to their responsibilities for current situation and obtaining the building permit. The position of LK is that Grafist was obliged to prepare project documentation based on which LK would apply for and receive the building permit, based on the contract concluded between the parties. Grafist argues that it excluded construction project documentation from scope and that this part was never invoiced to LK.
- As Bonifica landfill was constructed on lands rented from Grafist, as well as lands rented by LK from Municipality, we understand that LK was assessed a significant penalties for the construction on lands owned by Municipality. According to documents provided to us, these penalties totaled EUR 680,000 as detailed in Appendix E.5.

Findings

Approvals of SB

- The investment into the Bonifika car landfill was not included in the Business Plan for year 2008.
- It was approved by SB retrospectively, on 16th Sep 2008, together with other investments in a total value of EUR 28,464,000.
- As further detailed under Debt Position section, this was not an isolated incident of such group approval done subsequent to decisions made and contract signed with third parties.
- Based on our understanding, this is not in compliance with LK's Articles of Association.

Section 5.9

Fixed Assets under Construction

Overview

Background

- Given its increased investment activity in years 2007 and 2008, LK had a significant balance on fixed assets under the construction and related advances totaling EUR 98,794,000 as at 31st Mar 2009.
- We were asked to gain an understanding of the main projects and costs comprising the balance, with an objective to identify:
  - Potentially non-business related costs; and
  - Other inappropriate charges / fees which may have been capitalized and included within the balance.
- We have obtained a detailed listing of balances related to fixed assets under the construction and related advances and performed the following:
  - We reviewed detailed listing of items and based on their description assessed whether it seems to be business related;
  - For all items above EUR 1,000,000 we have discussed with responsible persons (as detailed on next slide) in order to understand:
    - Nature of the expenditure item;
    - Project to which item relates to;
    - The business case for project;
    - Total estimated value for the project; and
    - Expected completion date.

Key issues identified

- The following are our findings:
  - We did not identify any significant items which would be non-business related;
  - Besides projects covered under other Areas of Concerns, there were 5 other projects with significant cost items. Based on our discussion with relevant personnel, we bring to your attention the following two matters related to projects Pier III and Logistics center Panonija.
  - Pier III- we understand that the construction activity on one part of Pier III project concerning hardening the land started before LK obtained a building permit. As a result of that, we understand that LK paid fines amounting almost the value of construction works.
  - Logistic center Panonija - we understand that the project is in its initial phase (buying lands), but the business case and current development appears unclear. We understand that LK guarantees a loan taken by the third party, a company which has been contracted for initial phase of this project.
- This section is further split as follows:
  - An overview of Fixed assets under construction as of 31st Mar 2009;
  - Pier III; and
  - Logistic center Panonija.

Findings

An overview of fixed assets under construction as at 31st Mar 2009

- The fixed assets under construction of 31st Mar 2009 amount EUR 98,794,000 and are booked on the following two accounts:
  - Assets under progress of EUR 73,339,000
  - Advances under progress of EUR 25,455,000
- We obtained the cost breakdown of the balance and noted that the total of EUR 98,794,000 contains 244 individual cost items.
- We reviewed the detailed listing and based on the description of individual cost we noted no unusual or clearly business unrelated item.
- We noted that 21 individual cost item exceeded EUR 1,000,000 in total value of EUR 75,326,000 (representing 76% from total balance). We discussed all 21 items with relevant personnel from LK and assigned them to investment projects (as detailed listing of Fixed assets under construction does not include information about related project).
- In order to gain further understanding of the costs items we requested and reviewed information from the fixed assets analytical balance sheet ledger. We also requested printouts from Neoarc where all project related costs are registered for which contracts were signed.
- Table on right hand side summarized the cost items above the threshold grouped by projects.
- We did not find any potentially unusual matters, except for the costs related to the Pier III and Logistic centre Panonija, which are discussed on the following slides.

Projects	in EUR'000
Passenger Terminal	3,566
Bulk Cargo Terminal	9,577
Purchase of Coastal Cranes (Post-Panamax)	21,137
Barka II	6,490
Extension pier I	17,648
Projects included in our scope for Phase 1 or Phase 2	**58,418**
Pier III	3,095
New truck entrance to the port	3,542
Logistics centre Prekmurje (Panonija)	1,556
Car terminal - Garažna hiša	6,451
Pier II	2,264
Other projects	**16,908**
Total projects with items above EUR 1 mil	**75,326**

Findings

Pier III

- In a discussion with Mr. Glavina, we obtained the following information:
  - The business reason of this project is to extend place for storing cars within the terminal.
  - We understand that the initiative for this project came from a pressure from various car dealers.
  - The project started in December 2006 by hardening and drying the land where there were previously swamps.
  - The construction work started by building a bridge between the areas of Koper port and the cars terminal.
  - We understand that this construction started before LK obtained a building permit.
  - The construction inspection requested to demolish the bridge and pay additional fines amounting allegedly the total amount of costs for this project as of that date (i.e. EUR 1,013,000).
- According to the ledger extract, the two main parts of costs spent to date are:
  - Preparation of project documentation for port (EUR 2,082,000); and
  - Preparation of part of the soil surface (EUR 1,013,000).

Contracts with ISBE d.o.o. with respect to Pier III

Contract	Date signed	Contract value in EUR '000
Main contract	2nd March 2007	390
Anex to main contract	4th July 2007	1,079
Total value of contracts		**1,469**

Source: Copies of contracts

- The main vendor in respect to soil surface preparation was ISBE, d.o.o. Table above summarizes contracts with this supplier made available to us. We were not able to assess whether the costs of documentation is reasonable.
- The main supplier for preparation of the project documentation is Lasscan d.o.o.("Lasscan"). On 4th Sep 2007, the contract with Lasscan was signed for a total value of EUR 1,956,000.
- Lasscan sub-contracted a company Projekt Nizke Zgradbe d.o.o. for part of the services.

Findings

Logistic Centre Panonija (Prekmurje region)

- In a discussion with Mr. Peric, we obtained the following information:
  - The project started because there was not enough space for storing cargo in the LK area.
  - Prekmurje region has a strategic position due to its connection to the railways and proximity to the Austrian Graz.
  - Vast majority of the costs incurred so far relates to services provided by Inženiring Graj d.o.o. ("Inženiring Graj") which is buying the agricultural land in the Prekmurje region from farmers on behalf of LK.
  - LK is a guarantor for the loan Inženiring Graj took to acquire the agricultural land.
  - It is planned that LK will buy the land from Inženiring Graj when its status is changed from agricultural land into land suited for building purposes.
  - The first plan for the project started late 2007, beginning 2008.
  - The project is currently in its early stage and LK did not buy any lands from Inženiring Graj yet.
  - We understand that a letter of intent was signed with five ministries which will support the project. We have been told that also Slovenian railways will participate on the project, but we have seen no evidence of it.
- SB granted its approval to the total project value of EUR 18,700,000 on 22nd Apr 2008, i.e. after contracts with Inzeniring Graj (see table on right-hand side) were entered to by MB members.

Contracts with Inženiring Graj d.o.o. with respect to Logistics center Panonija

Contract number	Date signed	Contract value in EUR'000
Contract 02/2007	5th November 2007	280
Contract 03/2007	13th December 2007	480
Contract 04/2007	13th March 2008	419
Contract 05/2008	19th February 2008	788
Total value of contracts		**1,967**

Source: Copies of contracts;
Note: Figures are stated excluding VAT.

- The MB, on 8th Apr 2008, approved further three contracts with Inženiring Graj in total value of EUR 1,687,000 (first contract for EUR 280,000 not included) The contracts are related to:
  - Business cooperation in the establishment of conditions and the construction;
  - Preparation of spatial plans for the center; and
  - Establishment of conditions and the construction of logistics center in Panonija.
- MB further agreed on the same session to provide a guarantee for Inzenyrsky Graj's loans in total amount of EUR 4,500,000.

Section 5.10

Debt Position and Other Matters

Overview

Background

- The investment activities of LK with respect to construction projects and financial investments has significantly increased during the years 2007 and 2008. As a result, LK's debts position increased significantly.
- We were asked to review available documents to gain an understanding as to whether the investment decisions were done
  - in compliance with relevant internal policies;
  - in line with approved investment strategy; and
  - After consideration of mid/long term cash-flow plans.

Key issues identified

- We identified the following issues with respect to LK's debt position:
  - LK's debt position increased from EUR 35,976,000 as at 31st Dec 2005 to EUR 201,358,206 as at 31st Dec 2008;
  - Debt position increased primarily as a result of investment activities related to new construction projects and financial investments;
  - A significant portion of such activities were not included in originally approved Business Plan and were approved by SB subsequently, which seems to be in breach of LK's Articles of Association; and
  - Despite criticism from the SB members regarding such practice, the approvals were provided by SB regardless appropriate level of details and/or sufficiency of time allowed to assess a transactions.
- In accordance with issues identified, findings under this section are further detailed under the following headings:
  - Development of LK's group debt position; and
  - Approvals of SB.

Overview

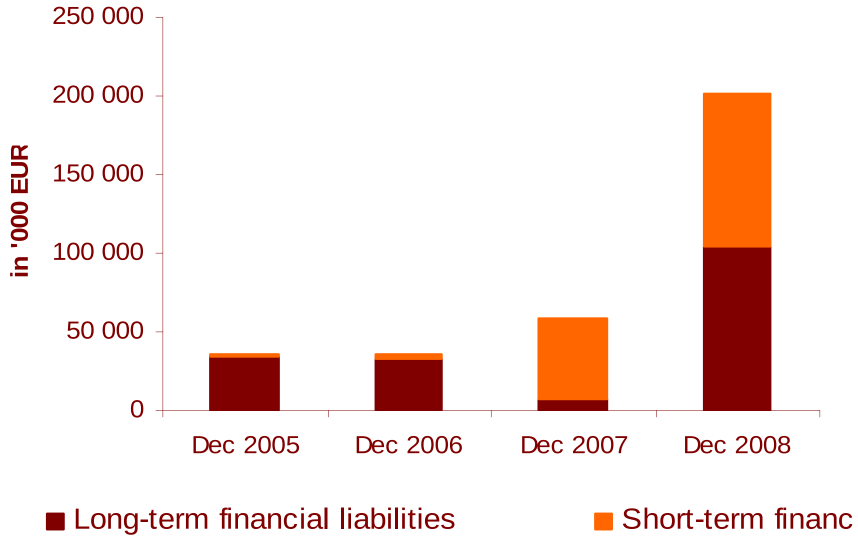
Recommendations

- It is our understanding of LK's statues that subsequent SB approval, as per Article 22, point 15, should only be applicable for investments below the threshold of 5%, not irrespective of investment value.
- We understand that there are differing legal views on interpretation of this particular article of LK's Articles of Association and, therefore, recommend that LK obtain a legal opinion as to whether the practice of subsequent SB's approvals, as utilized by LK's management in past, was indeed in line with Articles of Association or not.
- We also recommend to consider changes to the company's Articles of Association in order to increase its clarity and to eliminate possibility of differing interpretations.
- Going forward, we recommend that Business Plans should incorporate all major planned investments and SB should be asked to approve all major (i.e. above the threshold of 5%) investments in advance, not subsequently. Thus, institute of subsequent SB approval should only be used for minor investments.
- The proposed approach would further allow for better financial planning, including planning of structure and nature of loans taken.

Findings

Development of LK's group debt position

- Debt exposure of LK's group increased significantly during the period under our scope, raising from EUR 35,976,000 as at 31st Dec 2005 to EUR 201,358,206 as at 31st Dec 2008. Graph on right hand side illustrates the development.
- Most significant increases were in 2007 and 2008, amid to increased investment activity of LK during those years.
- According to the consolidated Cash flow of LK group, total amount of EUR 185,389,616 was disbursed in relation to investment activity in 2008 and EUR 213,067,325 in 2007. In comparison, the Business Plan for those years accounted for EUR 144,000,000 and EUR 31,914,000 respectively.
- We noted that the increase in debt corresponds to growing number of instances where significant investments were approved in-addition to the original Business Plan. For example, investments in TTI, BTC were not included in the investment plan.
- As further detailed on next slide, some of the add-on construction investments were not only not included in original Business plans but were actually approved by SB subsequently, i.e. after the decision was made by MB and contract signed with suppliers.
- It is apparent that short-term financing is being utilized to finance long-term investments. We understand that LK opted to do so due to current economic environment which provided unfavourable rates for long-term loan contracts.
- However, such a financing structure might present a liquidity problems for LK in future.



- This concern seems to be supported by recent email (11th Jun 2009) of Mrs. Pucer to Mr. Marjan Babic. In her email related to share increase in TTT she pointed out worsening cash position of the LK with an estimated deficit of EUR 6,000,000 by the end of month June 2009.
- Majority of finance liabilities are linked to variable interest rate (1M, 3M and 6M EURIBOR) and are secured by blank bills of exchange as a collateral.

Findings

Approvals of SB

- We noted that many significant investments were approved by SB subsequently, after investment decision was made by MB and contract signed with suppliers.
- For example, on 19th Dec 2007, investments – originally not included in Investment Plan - in total value of EUR 39,246,509 were retrospectively approved by SB. These investments included, for example Ponting's fees for project design and documentation for Bulk Cargo Terminal (EUR 5,500,000) or purchase of warehouse for Passenger Terminal (EUR 4,000,000).
- Similarly, on 16th Sep 2008, SB grant a subsequent approval to additional investments in total value of EUR 28,464,091.
- LK's Articles of Association, in particular an Article 22, point 15, define responsibilities of MB and SB in respect of investments with a value exceeding 5% of the share capital. According to the Articles of Association, the MB is responsible for obtaining an approval of SB for such investments:

  "15. (fifteen) grants approval to the management board for concluding all deals the value of which exceeds 5% (five percent) of the share capital as well as grants subsequent approval to the management board for concluding the deals related to capital expenditure and acquisition and sales of fixed assets, irrespective of their value, if the deals had not been included in the company's development plan or business plan"

- It is our understanding of the LK's Articles of Association that the approval of SB should be obtained prior to finalization of investments, i.e. prior to contract is signed by MB with suppliers or vendors of such investments.
- As a result, it would appear that the investments exceeding 5% threshold approved subsequently by SB were not approved in line with LK's Articles of Association. Similarly, MB when signing contracts for such investments, was not acting in accordance with the Articles of Association.
- We understand, however, that the former management interpreted Articles of Association differently and was of belief that subsequent approval can be obtained for all capital investments, regardless its value.

Findings

Approvals of SB (cont.)

- From the SB meeting minutes it is apparent that the practice of subsequent "group" approvals has been a subject to criticism of the following SB members :
  - On 16th Sep 2008, Mrs. Franca further suggested that the investment list for SB approval should be sorted by amounts and higher investments should be subject to earlier discussions; Mr. Bezjak agreed with Mrs. Franca's requirement for earlier discussion about major investments and suggested that approval of those should be postponed until next session;
  - On the same meeting, Mr. Zadel questioned why most of biggest investments were not planned and that it is not acceptable that he, as SB member, learns about certain significant investments from newspaper.
  - Despite the comments above and suggestion of Mr. Bezjak, SB approved the list of investments with 7 votes (out of 9).
- Dissatisfaction of SB members with the practice regarding preparation of Business plans appears to graduate at the end of 2008, when on 17th Dec 2008 SB refused to approve proposed Business Plan for 2009 proposed by MB. All SB members also voted against the approval of the plan on subsequent correspondence session dated 22nd Dec 2008. Main reservations of SB related to lack of details behind the investment plan and unclear link to financing as well as uncertainty of plans for repayment of loans.
- We noted, however, that despite concerns expressed by some SB members in past, the approval of SB was granted regardless. The practise of grouping investments into one request for approval also raise a question as to whether the SB had sufficient time and information available to grant such an approval. For example, the approval on 19th Dec 2007 included 136 individual investments.
- Granting approval without having sufficient time and information available could raise a question as to whether proper due-care was exercised by SB.

Section 6

Findings and Observations related to those areas which were not recommended for Phase II detailed investigation

Section 6.1.

Sale and disposal of capital investments during period

Sale and disposal of capital investments during the period

Findings

- We have identified that during the review period Luka Koper was investing into marketable securities listed on the Ljubljana Stock Exchange, such as Krka, Petrol, Telekom Slovenije and Gorenje, in particular in 2006 and 2007.
- In total Luka Koper purchased securities for Euro 27 million, and the investment strategy was focused on buying “blue chip” shares and holding them as a long-term position.
- Investments in such securities was not part of the Business Plan, however we understood from Mr. Marjan Babič, that management of Luka Koper was informed about the investments and it was treated as a standard method of investing excess cash.
- As a result of negative market movements in 2008, Luka Koper suffered a loss of Euro 9 million. We have also noted that Luka Koper realized significant revaluation gains in previous periods (2006-2007).
- We understand that Mr. Marjan Babič was exclusively responsible for trading. It seems that further approval was not required for transactions.
- We have not seen any evidence of approval of any of these investments by the Management Board or the Supervisory Board.

Conclusion

- We did not identify information that would indicate any malpractice during the review period. It seems that the major reason for loss from revaluation is caused by passive investment strategy, which did not react on negative market movement.

Section 6.2.

Purchase of Orleška Gmjana woods and business with Premik-Net

Purchase of real estate in the Orleška Gmajna woods in Sežana and business conducted with Premik-Net

Findings

- Luka Koper acquired 63 hectares of industrial land in Orleska Gmajna during 2007 and 2008 from land owners.
- We understand that the acquisition was part of Luka Koper's strategy to develop a new European Distribution Center.
- The land in Orleska Gmajna was purchased through a real estate broker (Premik-Net), who received a commission of 4%; i.e. approx Euro 800k. We understand that Premik-Net was selected due to the fact that it already had pre-agreements for the sale of the land with part of the land owners.
- Acquisition cost amounted to Euro 19.6 million as the date of preparation of Phase I presentation, which consist of Euro 18.8 million paid to land owners and Euro 0.8 million paid to Premik-Net for their services. The average price for this land was about Euro 32 per square meter.
- A valuation report by Lasting d.o.o. estimated the land's value at Euro 40 per square meter.
- The acquisition of the land was approved by the Management Board on 22 May 2007 and the Supervisory Board on 20 December 2006.
- We did not identify any direct relationships between Premik-Net and management of Luka Koper, however, we were informed that the Slovene Police was investigating the Premik-Net business and relationships related to it.

Conclusion

- We did not recommend this area for further investigation, because the information that would be required for more detailed investigation was not available at Luka Koper and therefore could not be subjected to further investigations.
- The missing information represented mainly details about prices for which Premik-Net acquired the land from original owners, as well as relationships between Premik-Net and local politicians and businessmen.
- As a result of the lack of information and the inherent limitations of our work, it was highly probable that our investigation would not add any further value to the ongoing police investigations, and hence not being cost-efficient for Luka Koper.

Section 6.3.

B.R.I.L.

Business conducted with BRIL

Findings

- BRIL provides workforce for off/on loading of general cargo and cars, and has been conducting business with Luka Koper for over 10 years.
- In 2007, following an internal directive (OP 13) Luka Koper attempted to implement a framework contract with all workforce suppliers, the aim was to harmonize the contracts and include equal terms and conditions for all workforce vendors.
- BRIL refused to sign the new contract and submitted their own proposal (with higher rates and more favourable terms for their services) to Luka Koper in January 2008.
- Mr. Bozic (Director for Operations) and Mr. Matic (Director for Logistics) refused to accept BRIL's proposals as they would be in breach of directive OP 13.
- We understand that there was a certain pressure on both gentlemen to accept the terms proposed by BRIL and eventually Mr. Matic was temporarily suspended due to his continuing disagreements. We have not obtained any information related to the source of this pressure.
- At present, it seems that BRIL is being paid rates which are in line with terms contracted with other workforce providers.
- Total fees paid to BRIL during the review period amounted to Euro 8 million.

Conclusion

- We did not recommend this area for a detailed investigation as it seems that Luka Koper did not accept the less favorable terms of business despite the pressures on the two gentlemen mentioned above. As a result, there was no indication that Luka Koper has suffered any damages.
- We did not recommend to investigate the allocation of work to various service providers due to the low likelihood that our findings would be sufficient to prove that the allocation was misused and that BRIL was gaining an unfair advantage over the other vendors.

Section 6.4.

Pasnjak d.o.o. and H/J shipping Malta

Justification of down payments and release of vessels owned by Pasnjak d.o.o. and H/J Shipping Malta Ltd.

Findings

- We have interviewed the Luka Koper employees responsible for down payments and release of vessels, as well as accounting staff, but nobody could give us any information related to any transactions with or on behalf of either Pasnjak d.o.o. or H/J Shipping Malta Ltd.
- We have also reviewed accounting and suppliers' ledgers for the period from 1 January 2005 to 31 December 2008 and did not find any evidence of any transactions with or on behalf of any of the two companies mentioned above.

Conclusion

- We have not been presented with any evidence that Luka Koper executed any transactions with or on behalf of the two companies mentioned above.

Section 6.5.

New business premises – Barka II

New business premises (Barka II)

Findings

- Construction of a new business premises was approved by the Board in 2000. The actual project was initiated in 2006, when architects were selected. The construction contract was signed in September 2007 with Primorje d.d.
- As of the date of this report, Luka Koper has spent Euro 6.5 million for the plans, permits, and construction of the three underground basements. Total project value was estimated at Euro 17.5 million.
- The new business premises were meant to free up the current head office building, which would have been rented to forwarding agencies who at that time wanted to have offices in the port area, as well as create extra revenue from the sale/rental of office space not occupied by LK staff.
- We have understood that :
  - the architecture work was directly awarded to a company called Movida d.o.o., with a total contract value of EUR 697 thousand (initial contract of EUR 332 thousand, supplemented by 2 annexes);
  - subsequent changes were not subjected to tender and were agreed through annexes to existing contracts, and that the economic impact of the changes made to the project were not submitted for further Management Board or Supervisory Board approval;
  - construction plans changed several times, including the increase of number of floors and basements;
  - we were not able to obtain sufficient information or evidence as to why the subsequent changes to the construction plans and contracts were needed;
  - we were informed that the original plan was for 2 basements, 1 ground floor, 6 floors, this underwent several changes, current plan is for 3 basements, 1 ground floor and 10 floors (feasibility study states 3 basements, 1 ground floor and 8 floors);
  - according to the adjusted plans, the new business premises were planned to be partially rented; however, no financial feasibility study was prepared for extension of original plans;
  - it seems that neither the Supervisory Board nor the Management Board approved adjusted construction plans, and intention to rent the spare premises; and
  - at this stage the project is on hold due to lack of financing.
- We have not identified any relationships between Movida and Primorje and any of the members of the Management Board and the Supervisory Board that were in office during the review period.

Conclusion

- We did not identify any information that would indicate any malpractice during the review period. It seems that the major issues related to the construction of Barka II were that the project was not properly planned and included in the investment planning and approvals process, as well as frequent changes to its specifications.
- As discussed in our Phase II Final Report, the investment process was not properly followed in a number of other areas as well; in particular, the necessary feasibility studies were not obtained on time and approvals of Supervisory Board were sought with delays, usually after the signing of a contract or the start of the respective projects.

Section 6.6.

Pier I extension

Pier I extension

Findings

- The Management Board of Luka Koper decided to extend Pier I by 146 meters to enable post-panamax ships to be served in the Port of Koper.
- The project also involved filling in the lagoons behind the pier to create extra container storage, and excavations of the seabed to increase draft of the port to 14 meters of depth.
- Expenditure made to date is EUR 25 million, this includes the pier extension (100% completed), the hinterland fill (100% completed) and one of the two lagoons (also 100% completed) filled behind the pier.
- We have understood that :
  - in-house feasibility study for the Pier I extension was done late (in March 2009, i.e. after the commencement of the civil works for the pier extension, approximately 3 months before the end of all civil works);
  - according to this study, the investment for the civil works is EUR 73 million, with another EUR 9 million for vehicles;
  - there are some inconsistencies in tender related documentation, as follows:
    - work was split into 12 contracts involving 7 vendors; we did not get any explanations as to why this split was made;
    - the vendors for these 12 contracts were as follows: Institut za vode, INI d.o.o., Adriaing d.o.o., University of Civil Engineering, Unit d.o.o., CM Celje d.o.o., Primorje d.d.
    - some contracts were not granted to the lowest bidders (e.g. container storage area contract granted to CM Celje). Gradis Skupina had initially put in a lower-priced offer for this specific component of the works;
    - offer provided by independent project supervisor (Project MR) seems to be dated after the supplier selection date. It appears that the offer, worth EUR 79 thousand, was dated 7 February 2008 although the vendor selection was made on 25 January 2008.
  - CM Celje later claimed additional costs of EUR 701 thousand (around 10% of the total contract) for finishing the works ahead of time.
- We have not identified any relationships between any of the companies that were awarded contracts under the Pier I extension project and any of the members of the Management Board and the Supervisory Board that were in office during the review period.

Conclusion

- We did not identify information that would indicate any malpractice during the review period. It seems that the major question related to this project is the costs and the fact that the works were divided up into small contracts.

Section 6.7.

Construction of Ankaran road entrance

Construction of the Ankaran road entrance

Findings

- The Management Board of Luka Koper decided to join a multiple party agreement and co-finance the construction of the Koper-Ankaran road.
- Luka Koper participation was required as there was a need to construct an underpass below the Koper-Ankaran road in order to link two sections of the car storage area to be divided by this road.
- The contracting and vendor selection for the design, construction and supervision of the project was made by the Koper Municipality and the Slovenian National Road Company (DARS). As one of the investors, Luka Koper had one person on the selection committee.
- The overall contract was awarded to Kraški zidar Sežana, who used the following companies for various parts of the construction of the underpass as subcontractors: Primorje Ajdovščina (general contractor), Luka Koper INPO (water pumping stations and cable installations), and Varmig (customs fence).
- We have understood that :
  - total value of the part of the investment to be made by Luka Koper was Euro 1.7 million, while total expenditure to date is Euro 1.1 million. We have not been provided with any explanation related to this difference;
  - as of the date of this report, the underpass is almost 100% completed; and
  - in a separate contract, it appears that Luka Koper also paid for 32% (Euro 438 thousand) of the roundabout with fountains situated at the entrance to the city of Koper.
- It is not clear why Luka Koper paid for this roundabout; the reason cited during the interviews was that the roundabout was going to be frequently used by the vehicles entering the port;
- However, once the new direct link to the Ljubljana motorway becomes operational, it is likely that the roundabout is no longer going to be used for entry into the port;
- We were informed that the plans for the direct link were known at the time of the construction of the roundabout.
- The architect (PNG Projekt d.o.o.) was paid EUR 49 thousand for the designs, and an additional EUR 31 thousand through a second contract for the preparation of the tender book.
- We have not identified any relationships between any of the companies that were awarded contracts under this project and any of the members of the Management Board and the Supervisory Board that were in office during the review period.

Conclusion

- Any further work would have required access to the documentation which is not in the ownership of Luka Koper and therefore would not have been available to us.
- We understand that this project was already under investigation of the Slovene Police. As a result of the lack of information (as mentioned above) and the inherent limitations of our work, it was highly probable that our investigation would not add any further value to the ongoing police investigations, and hence not being cost-efficient for Luka Koper.

Appendix A

Key Documents Provided to Us

Appendix A.1 – Trade Trans Invest

Binder Ref.	Document title	Source
1	Engagement letter with D&T for valuation services	Received from LK
2	Addendum to D&T Engagement letter	Received from LK
3	D&T's Fair Market Valuation of TTI	Received from LK
4	D&T's Due-diligence report on TTI	Obtained from Police
5	Strategic purchase of 10% in TTI	Received from LK
6	Commercial basis for the LK's acquisition into the equity of TTI	Received from LK
7	Contract for acquisition of 10% share in TTI	Received from LK
8	Collective share certificate	Received from LK
9	Payment order for EUR 25,800,000	Received from LK
10	Selected Supervisory and Management Board meeting minutes	Received from LK / Obtained from Police
11	Selected email communication	Electronic evidence

Appendix A.2 – BTC Sezana

Binder Ref.	Document title	Comment
1	Land Register Extract for the warehouse "Modra Linija"	Received from the Land Register
2	Signed Letter of Intent between LK and Adria Terminali d.d. Sežana	Received from LK
3	Agreement dated 22 Dec 2006 between LK and BTC Terminal Sežana d.d.	Received from LK
4	Purchase Agreement between Luka Koper and BTC Terminal Sežana d.d. dated 16 Feb 2007	Received from LK
5	Loan Agreement Nr. 1M-01/07 between LK and Modra Linija Holding d.d. dated 20 Apr 2007	Received from the Police
6	Lease Agreement between LK and Adria Terminali d.o.o. for real-estate dated 16 May 2007	Received from LK
7	Lease Agreement between LK and Adria Terminali d.o.o. for movable asstes dated 17 May 2007	Received from LK
8	Loan Agreement Nr. 03/04/07 - EC between LK and Adria Terminali d.o.o. dated 16 May 2007	Received from LK
9	Purchase Agreement between LK and BTC Terminal Sežana d.d. for movable assets dated 20th Mar 2007	Received from LK
10	Lease Agreement between LK and Modra Linija Holding d.d. dated 30 Mar 2007	Received from the Police
11	Agreement of the purchase of real estate in Sežana dated 30 Mar 2007 between LK and Modra Linija Holding d.d.	Received from the Police
12	Annex Nr.1 to Lease Agreement dated 4 Apr 2007	Received from LK

Appendix A.2 – BTC Sezana (cont.)

Binder Ref.	Document title	Comment
13	Notarial Record including Meeting minutes of the 2nd MB Assembly of Adria Terminali d.o.o. Dated 22 Jan 2008	Received from LK
14	Annex Nr. 1 to Laese Agreement dated 17 May 2007	Received from LK
15	Annex Nr.2 to Lease Agreement dated 4 Apr 2007 between LK and Adria Terminali d.o.o.	Received from LK
16	Annex Nr.2 to Lease Agreement dated 17 May 2007 between LK and Adria Terminali d.o.o.	Received from LK
17	Annex Nr.3 to Lease Agreement between LK and Adria Terminali d.o.o. dated 4 Apr 2007	Received from LK
18	Notary Certificate dated 29 Jan 2008 of Adria Terminali d.o.o.	Received from LK
19	Purchase agreement between LK and Modra Linija Holding d.d. dated 22 Jan 2009	Received from LK
20	E-mail print from Andreja Ličen addressed to Marjan Babič as at 4 Mar 2009	Received from LK
21	Notarial Record including the share capital changes dated 9 Apr 2009.	Received from LK
22	Selected Supervisory Board and Management Board Meeting Minutes	Received from the Police and LK
23	Selected banks statements (i-Net, Banka Koper)	Received from LK

Appendix A.3 – ECO Companies

Binder Ref.	Document title	Source
1	Notary records for establishment of Adriasole and Ecoporto	Received from LK
2	Email from Mr. Jože Starman to Mr. Milan Pučko	Received from LK
3	Business plan for Adriasole	Received from LK
4	Business report for Ecoporto	Received from LK
5	Contracts between Robotina and Luka Koper regarding Adriasole	Received from LK
6	Contract for business cooperation on implementation and management of photovoltaic power plants	Received from LK
7	Contract for business cooperation between Ecoporto and Luka Koper	Received from LK
8	Contract between Ecoporto d.o.o. and Nill-Tech GmbH	Received from LK
9	Loan contracts	Received from LK
10	Contracts between Adriasole and Robotina	Received from Mr. Marjan Strnad
11	Contract between Ecoporto and Robotina	Received from LK
12	Notary record for transformation of loan to equity share for Adriasole and Ecoporto	Received from LK
13	Set of bank statements for Adriasole	Received from Mr. Marjan Strnad
14	Set of bank statements for Ecoporto	Received from Mr. Peter Bolčič
15	Selected SB meeting minutes	Received from LK

Appendix A.4 – Romanian Companies

Binder Ref.	Document title	Comment
1	Investment project	Received from LK
2	Letter of intent	Received from LK
3	Extentions of letter of intent	Received from LK
4	Loan agreement	Received from police
5	20th SB Meeting	Received from police
6	Business plan for Curtici Container Terminal	Received from LK
7	Letter of intent no3 (investment in Railport Arad)	Received from LK
8	Consent referred to 13th point of 22nd point of statute	Received from LK
9	21st SB Meeting	Received from LK
10	22nd SB Meeting	Received from LK
11	Shareholders agreement	Received from LK
12	Advice of payment to TTT in amount of 1.000.000 eur	Received from LK
13	Hand written note about payment to TTT	Received from LK
14	Advice of payment to Railpord Arad in amount of 1.500.000 eur	Received from LK
15	Hand written note about payment to Railport Arad	Received from LK
16	Approval of the guarantee	Received from LK

Appendix A.4 – Romanian Companies (cont.)

Binder Ref.	Document title	Comment
17	Corporation agreement between TTT and Railport Arad	Received from LK
18	Legal assistance agreement	Received from LK
19	Meeting minutes of 36th Session of the Management Board	Received from LK
20	Loan Agreement for 1.500.000 eur and Approval of the guarantee	Received from LK
21	Loan guaranty agreement	Received from LK
22	Long - term loan agreement No.: 1RA/2008	Received from police
23	e-mail correspondence between Mrs. Černe Pucer Mojca and Mr. Milan Pučko	Received from LK
24	mail from Istvan Wagner to Mrs. Cerne Pucer Mojca and Mr. Milan Pucko	Received from police
25	Mail from Mr. Eugen Tudor to Mr. Časar	Received from police
26	Meeting minutes of 37th Session of the Management Board	Received from LK
27	Proposal for a capital injection of the company Railport Arad in the amount of 1.500.000 EUR	Received from LK
28	Proposal for a capital injection of the company TTT in the amount of 1.300.000 EUR	Received from LK
29	e-mail from Mrs. Tatjana Cok to Mr. Milan Pucko	Received from LK
30	e-mail form Mrs. Tatjana Cok to Mr. Milan Pucko	Received from police
31	Advice of payment to Railport Arad in amount of 1.500.000 eur	Received from LK
32	A declaration of Mrs. Tatjana Šavle Čok	Received from LK
33	Meeting minutes of 37th Session of the Management Board	Received from LK

Appendix A.4 – Romanian Companies (cont.)

Binder Ref.	Document title	Comment
34	Meeting minutes of 38th Session of the Management Board	Received from LK
35	e-mail from Mrs. Mojca Cerne Pucer to Mr. Babič Marjan	Received from LK
36	e-mail from Mr. Babič Marjan to Mrs. Mojca Cerne Pucer	Received from LK
37	Temporary injunction from District court of Koper	Received from LK
38	Articles of incorporation of TTT (15.1.2008)	Received from LK
39	Resolution of the General assembly of the Associates of TTT (4.3.2008)	Received from LK
40	Articles of incorporation of TTT n. 1/13.2.2009	Received from LK
41	Articles of incorporation of TTT n. 2/13.2.2009	Received from LK
42	Resolution of the General assembly of the Associates of "TT" (14.2.2009)	Received from LK
43	Decision of the General assembly of the Associates of "TTT" (9.7.2009)	Received from LK
44	Resolution of general assembly of the associates "Railport Arad" (1.2.2008)	Received from LK
45	Resolution of the General assembly of the Associates "Railport Arad" (17.4.2008)	Received from LK
46	Decision of General Meeting of shareholders "Railport Arad" (27.10.2008)	Received from LK
47	Decision of General Meeting of shareholders "Railport Arad" (12.12.2008)	Received from LK
48	Decision of General Meeting of shareholders "Railport Arad" (13.2.2009)	Received from LK
49	Resolution of General Meeting of shareholders "Railport Arad" (18.3.2009)	Received from LK
50	Constitutive act of the limited company "Railport Arad" (6.5.2009)	Received from LK

Appendix A.5 – Passenger Terminal

Binder Ref.	Document title	Source
1	Contract for the sale of real estate	Received from LK
2	Purchase contract between Luka Koper d.d. and Sintesi Pen d.o.o.	Received from LK
3	Annex to the purchase contract between Luka Koper d.d. and Sintesi Pen d.o.o.	Received from LK
4	Offer for Sintesi Pen d.o.o. for purchase of real estate	Received from LK
5	Report for valuation of objects	Received from LK
6	Contract no. 674002 between Luka Koper d.d. Tringrad Nova d.o.o.	Received from LK
7	Business plan for passenger terminal	Received from LK
8	Feasibility study for passenger terminal	Received from LK
9	Sales contract between Sintesi Pen d.o.o. and Luka Koper d.d.	Received from LK
10	Rental contract between Slovenske železnice d.o.o. and Luka Koper d.d.	Received from LK
11	Consent form from Ministry of transport for obtaining a building permit for the demolition	Received from LK
12	Meeting minutes from opening offers	Received from LK
13	Building permit from Ministry of the environment and spatial planning	Received from LK
14	Contract no. 6740021/45-14242 between Luka Koper d.d. and Peter Podržaj s.p.	Received from LK
15	Selected MB meeting minutes	Received from LK
16	Selected SB meeting minutes	Received from LK

Appendix A.6 – Bulk Cargo Terminal

Binder Ref.	Document title	Source
1	Report from business trip	Received from LK
2	Minutes related to Business trip to Gijon (Spain)	Received from LK
3	Meeting minutes from overview of finished activities for EET between January and April 2007	Received from LK
4	Development plan 2007-2025 for European energetic terminal	Received from LK
5	Tender for Ponting for project documentation	Received from LK
6	Purchase request no. 10005385	Received from LK
7	Project assignment for European energetic terminal	Received from LK
8	Offer no. P-29-2007 from Ponting d.o.o.	Received from LK
9	Opening offers report	Received from LK
10	Internal feasibility study	Received from LK
11	Purchase order no. 4500006709 to Ponting d.o.o.	Received from LK
12	Contract no. 527006/45-6709 between Luka Koper d.d. and Ponting d.o.o.	Received from LK
13	Project documentation for obtaining building permit	Received from Police
14	Contract no. 527006/45-17299 between Luka Koper d.d. and PNZ d.o.o.	Received from LK
15	Cohesion funds documents	Received from LK
16	Application for building permit	Received from LK
17	Selected MB meeting minutes	Received from LK

Appendix A.7 – Post-panamax Cranes

Binder Ref.	Document title	Source
1	Proposal for decision to MB for creation of project team for coastal crane purchase	Received from LK
2	Request for two STS container cranes	Received from LK
3	Meeting minutes from opening offers	Received from LK
4	Email from Mr. Levanič to Mr. Bunyan about Post Panamax cranes	Received from LK
5	Email from Mr. Topič to Mr. Bunyan about the offer for Post Panamax cranes	Received from LK
6	Purchase request no. 10010253	Received from LK
7	Meeting minutes from opening offers	Received from LK
8	Purchase contract no. 308107/45-10003	Received from LK
9	Email from Mr. Cah to Mrs. Kohek about Post Panamax cranes	Received from LK
10	Request for offer for two additional container cranes Post Panamax size	Received from LK
11	Purchase request no. 10012810	Received from LK
12	Purchase of two Post Panamax container cranes	Received from LK
13	Purchase contract no. 308004/45-12672	Received from LK
14	Economic analysis	Received from LK
15	Selected MB meeting minutes	Received from LK
16	Selected SB meeting minutes	Received from LK

Appendix A.8 – Grafist

Binder Ref.	Document title	Comment
1	Lease agreement	Received from LK
2	Request for preparation of landfill	Received from LK
3	Commission opening	Received from LK
4	Hand over protocol	Received from LK
5	Agreement no. 677010 / 45 - 8341	Received from LK
6	e-mail from Blažič Marko to Mrs. Čok Ines	Received from LK
7	email from Mrs. Licen Andreja	Received from LK
8	26th MB Meeting minutes	Received from LK
9	Agreement no. 397019 / 45	Received from LK
10	First progress report	Received from LK
11	Rejection of First progress report	Received from LK
12	Second progress report	Received from LK
13	Third progress report	Received from LK
14	Letter from LK to Grafist	Received from LK
15	Forth progress report	Received from LK
16	A statement from Grafist	Received from LK
17	Letter from Grafist to LK	Received from LK

Appendix A.8 – Grafist (cont.)

Binder Ref.	Document title	Comment
18	Credit note	Received from LK
19	Reply to the letter about lease agreement	Received from LK
20	Annex 1	Received from LK
21	Document from District Court in Koper	Received from LK
22	Withdrawal applications for building permission	Received from LK
23	30th SB Meeting minutes	Received from LK
24	Decision of execution	Received from LK
25	Letter from Mrs. Monika Mavsar (lawyer of Grafist)	Received from LK
26	Letter from Mr. Andrej Andrijanič to Grafist	Received from LK
27	Feasibility study	Received from LK
28	Appeal from lawyer Mrs. Mavsar from Grafist to LK regarding penalties	Received from LK
29	Decision of execution sent to Grafist	Received from LK
30	Letter from Mrs. Monika Mavsar	Received from LK
31	Letter from LK to Grafist	Received from LK
32	Letter from Mrs. Monika Mavsar	Received from LK
33	Letter from LK (MR. Roberto Levanič; Mr. Igor Bertok) to Grafist	Received from LK

Appendix A.9 – Fixed Assets under Construction

Binder Ref.	Document title	Source
1	Fixed assets under construction as at 31/12/2008	Received from LK
2	Fixed assets under construction as at 31/3/2009	Received from LK
3	G/L December 2008	Received from LK
4	G/L March 2009	Received from LK
5	Printouts from Neoarc for selected ongoing investments and contracts (1-13)	Received from LK

Appendix A.10 – Debt Position

Binder Ref.	Document title	Source
1	Selected Supervisory and Management Board meeting minutes	Received from LK / Obtained from Police
2	Selected email communication	Electronic evidence

Appendix B

List of Individuals Interviewed

Appendix C

Electronic Evidence Overview

Appendix C.1 – List of Custodians

Name	Custodian ID
Bojan Babič	BABICB
Marjan Babič	BABICM
Gregor Belič	BELICG
Boris Marzi	BORIS.MARZI
Roberto Levanič	LEVANICR
Milan Pučko	MILANP
Mojca Černe Pucer	PUCERM
Irena Andrejašič Troha	TROHAI
Robert Časar	consent not granted
Aldo Babič	consent not granted

Appendix C.2 – Time period of obtained email evidence (Gap analysis)

Custodian ID	No Emails	First Email	Last Email	Year 2007	Year 2008	Year 2009
BABICB	3 509	2007-03-14 18:10:56	2009-11-03 10:30:31	120	1 201	2 199
BABICM	1 261	2003-10-10 11:38:16	2009-06-27 18:25:38	13	621	602
BELICG	1 264	2008-01-08 11:16:14	2009-06-26 16:25:03	0	96	1 168
BORIS.MARZI	1 631	1998-10-23 09:47:34	2009-06-27 07:00:25	0	100	1 217
LEVANICR	483	1997-06-10 15:19:19	2009-06-28 07:00:08	7	42	426
MILANP	1 603	2007-02-26 10:02:14	2009-06-28 00:00:01	11	227	1 365
PUCERM	4 082	2007-02-09 10:49:36	2009-06-28 00:00:01	1 854	761	1 467
TROHAI	5 141	2006-10-26 09:53:18	2009-09-29 15:14:56	3 371	1 762	7

Appendix D

Detailed Timelines of Key Areas of Concern

Appendix E

Other Appendices

Appendix E.1 – Financial investments of TTI as at 31 Dec 2007

Company	TTI's share	Fair valued	Valuation as at 31.12.07 In EUR'000	Share on total investment value
TI Ferest, a.s.	100%		10 554	0,84%
Rail Cargo Spedition, a.s.	100%	Yes	0	0,00%
Trade Trans Log, Srl.	99%		0	0,00%
Spedition Trade Trans, GmbH	100%		5 433	0,43%
Trade Trans Invest, Sp.	100%		17 362	1,39%
Trade Trans Vagyonkezelo Kft.	60%		5 109	0,41%
TI Ferest, Srl.	85%		11 165	0,89%
Trade Trans Log, s.r.o.	51%		247	0,02%
Spedition Trade Trans Holding, s.r.o.	100%		246 063	19,67%
Trade Trans Log, Sp. z o.o.	51%		11 690	0,93%
Trade Trans Spedition, GmbH	40%		4 274	0,34%
East Express Slovakia, a.s.	50%		13 221	1,06%
Info Trans Logistics Systems, GmbH	22%		17	0,00%
TI Ferest, Kft.	50%		4 543	0,36%
Rail Cargo Spedition, GmbH **	39%	Yes	6 262	0,50%
P.S. Trade Trans, Sp.	50%	Yes	848 227	67,79%
RomReal Immobilienentwicklung, GmbH	50%		49 823	3,98%
Rentrans Cargo, Sp. z o.o.	15%	Yes	17 251	1,38%
Total Long-term financial investments			***1 251 241***	100,00%

Appendix E.2 – Overview of Adriasole's cash-flows

OUTFLOW DATE	Amount in €	Payment description	To
16-Sep-2008	**825 000**	payment according to ontract 01-13092008	Robotina d.o.o.
3-Nov-2008	**995 842**	advanced payment according to contract	Robotina Inženiring
3-Nov-2008	**660 000**	advanced payment according to contract	Robotina d.o.o.
17-Feb-2009	**300 000**	advanced payment according to contract	Robotina d.o.o.
2-Apr-2009	**360 000**	payment according to 010-AS001 contract	Robotina Inženiring d.o.o.
19-Jun-2009	**78 000**	partial payment according to 0010-AS001 contract	Rin Plus d.o.o.
15-Oct-2009	**49 000**	payment of invoice 09-360-000010	Rin Plus d.o.o.
Multiple	**3 480**		SIMBOL Marketing d.o.o.
	3 267 842		

INFLOW DATE	Amount in €	Payment description	From
12-Sep-2008	**2 739 000**	loan contract	LK
18-Feb-2009	**276 120**	VAT return	Tax authorities
25-Feb-2009	**49 791**	capital increase	Altena
	3 064 911		

Note: We have not received bank statements for certain months (10/2008; 01, 03, 05,07,08 and 09/2009). Hence the inflow is lower than outflow.

Appendix E.3. – Overview of Ecoporto's cash-flows

OUTFLOW DATE	Amount in €	Payment description	To
8-Apr-2009	**15 000**	remittance 8-4	Ekološka energija
7-May-2009	**30 000**	remittance	Ekološka energija
26-Nov-2008	**25 000**	remittance	Ekološka energija Koper
21-Jan-2009	**30 000**	remittance	Ekološka energija Koper
2-Sep-2008	**800 000**	BO-8222616-/RFB/PMT OF - remittance cover	Nill-Tech
19-Jan-2009	**260 000**	BO-10151250-/RFB/PAY GOO - remittance cover	Nill-Tech
23-Jun-2009	**10 000**	BO-13134836-payment of invoi. - remittance cover	Nill-Tech
17-Aug-2009	**5 000**	cash payment Peter Bolčič (610 Blag 01)	Peter Bolčič
5-Jan-2009	**134 400**	advance payment according to contract 181208	Robotina
8-Jun-2009	**61 200**	payment of invoice	Robotina d.o.o.
28-Jan-2009	**15 000**	payment of invoice 72/09	Starman Janez
Multiple	**4 509**		Rituper Boštjan
Multiple	**20 200**		Cash payments
Multiple	**9 048**		SIMBOL Marketing
	1 419 357		

INFLOW DATE	Amount in €	Payment description	From
29-Aug-2008	**1 370 000**	loan transfer	LK
27-Feb-2009	**21 248**	capital increase for Ecoporto	Ekološka energija Koper
30-Apr-2009	**10 000**	remittance (610 Blag 01)	Peter Bolčič
27-May-2009	**30 000**	remittance 27-5	Ekološka energija Koper
	1 431 248		

Appendix E.4 – Relationship map related to Eco Companies

Appendix E.5 – Grafist – Overview of penalties paid

Amount in EUR	Document ref.	Document received	Date of payment
40 000	06122-1335/06-26	10.9.2008	10.9.2008
80 000	06122-1335/06-34	24.9.2008	26.9.2008
80 000	06122-1335/06-47	23.10.2008	28.10.2008
80 000	06122-1335/08-61	14.11.2008	17.11.2008
80 000	06122-1335/08-76	22.12.2008	23.12.2008
80 000	06122-1335/09-105	12.5.2009	14.5.2009
80 000	06122-1335/08-107	12.5.2009	14.5.2009
80 000	06122-1335/08-101	12.5.2009	13.6.2009
80 000	061122-1335/08-145	1.8.2009	o/s
680 000	total		