



Editorial

Judging by the content of this edition of Notice, Luka Koper is enjoying a bright summer: growth in both throughput and revenues over the first half of the year is most encouraging, share in the Austrian market is increasing, and the National Spatial Plan for the future development of the Port of Koper has finally been adopted. Such results are certainly pleasing, and they are the result of hard and persistent work in challenging economic and market conditions. Nevertheless, such successes also engender new challenges, especially with regard to development.



The government's endorsement of the National Spatial Plan, the primary document underpinning the future expansion and development of the Port of Koper has been a long time coming. Now we know for certain that we have an additional 124 hectares available for the needs of port operations, land which shall be crucial to the future development of logistics provision through the Slovene corridor and the success of our economy. Every euro of turnover in port activities generates an additional 1.12 euro of value added for the nation, and the employment of a further 1.6 people; such were the conclusions of a survey undertaken by Dr. Jozef P. Damijan of the Institute for Economic Research in Ljubljana. In his work, Dr. Damijan used similar methodology to Belgium's central bank in its assessment as to the macroeconomic effects of Belgian ports. The multiplier effects of Slovenian port operations are at a similar level as those in Belgium, which also confirms that efficacy of Slovenia's sole seaport and its comparison with those along the northwestern seaboard of the European continent in countries which have a deep-rooted maritime tradition.

third pier at Koper; indeed, any such a project will be a most challenging and complex investment. Firstly one, or more, appropriate strategic partners will need to be chosen, and a business model for their participation in the project shall also have to be sought. In addition, the third pier would necessitate a more powerful rail link. The National Spatial Plan also provides for an extension of Piers I and II, and an eastward expansion into the immediate hinterland of the port (more details of this are to be found on the company website). In the meantime, and in order to deal with anticipated further rises in container freight prior to the construction of a third pier, the further seaward extension of the quayside at the existing Container Terminal would appear to provide a most logical and eminently feasible solution.

Decisions as to the development of the Port of Koper are both strategic and political; all shall involve the acquiescence of Luka Koper's majority shareholder and owner, the state. In its decisions the government will not be granting favours to the company, but rather realizing the vision of Slovenia as an entrepôt and logistics platform for Central and Eastern Europe. In a short while Croatia shall join the European Union; the Port of Rijeka already has a strategic partner, and expansion of its container terminal has begun. Italy too has not been idle, and, despite their distance, the great ports of northwestern Europe have a strong presence in all our hinterland markets. Therefore, our country too needs to put words into action, in order to create the conditions necessary for the Port of Koper to flourish.

With the adoption of National Spatial Plan, we shall face no more excuses from clients who express scepticism when encouraged to direct greater volumes of business through Koper. Over the coming weeks we will complete all necessary analyses and calculations based on a revised commercial strategy, which is in the final stage of preparation. Today, however, I can confidently claim that future development shall be predicated on cargos that are economically viable and environmentally acceptable. One such cargo is container freight; as the world trend towards containerization continues apace, this sector has recorded especially impressive growth. This does not necessarily and in itself herald the immediate start of construction of a

Dr. Gregor Veselko,
President of the Management Board

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LUKA KOPER

Port of Koper

Overview of cargo throughput and revenues by cargo types

In the first half of 2011, 8.36 million tonnes of cargo passed through the Port of Koper; this is a year-on increase of eight percent, whilst the parent company's operating revenues recorded a sixteen percent increase on the same period last year.

Cargo throughput (tonnes)			
	January - June 2010	January - June 2011	Index 11/10
General cargos	736,715	722,298	98
Container freight	2,050,954	2,745,639	134
Vehicles	243,605	307,027	126
Bul kand break bulk	3,413,109	3,196,645	94
Liquid cargos	1,336,440	1,393,413	104
Total	7,780,823	8,365,022	108

Cargo throughput (units)			
	January - June 2010	January - June 2011	Index 11/10
Containers (TEUs)	221,841	302,345	136
Vehicles (units)	175,394	215,329	123

Luka Koper d.d. operating revenues January - June 2011*			
(in thousands EUR)	January - June 2010	January - June 2011*	Index 11/10
General cargos	15,685	16,706	107
Container freight	10,726	16,810	157
Vehicles	5,926	6,582	111
Bul kand break bulk	15,206	16,750	110
Liquid cargos	2,877	3,519	122
Other	7,667	7,250	95
Total	58,091	67,618	116

* incomplete and non-audited data

Interview: Matej Justin, Alta Invest d.d. analyst



How long have you been involved in market analyses, and which markets and sectors do you cover? How long have you been following Luka Koper?

I became involved in market analysis in 2008, and have been covering Luka Koper since 2009, making analyses of the company's quarterly performance. The principal sectors I cover are industry and raw materials, which are also key to Luka Koper's business. Indeed, due to increasing issues on the supply side, commodities are becoming evermore significant. China, which now accounts for

some 40 percent of global raw material demand, plays a very important role.

In your opinion, what are the strengths and weaknesses of Luka Koper's current financial situation?

Luka Koper has contracted huge debts over the recent years as a consequence of extensive infrastructural investments, some of which have proven to be bad and consequently had to be written off. Another issue is the evaluation of Intereuropa in which Luka Koper has a large holding; thus Intereuropa's

troubles will exert a negative impact on the company's profit. Overburdened rail connections are yet another issue. On the positive side, investments anticipated over the coming decade will considerably contribute to Luka Koper's attraction to clients. Pier III – which will significantly increase the cargo throughput capacities and thereby the company's potential – should be developed simultaneously with the construction of the second railway track. Koper's location makes it an excellent gateway to a number of European markets, and this is undoubtedly Luka Koper's principal competitive advantage. Further to all of this, the company has recorded considerable growth in cargo throughput in the past.

Consequent to a satisfactory performance and the disposal of some investments, the indebtedness of Luka Koper is anticipated to decrease over the coming years which will result in a reduction in interest costs, which in 2010 amounted to 8.6 million euros (21% of EBITDA).

What is your commentary on the current price of the LKPG share?

Luka Koper is valued on the basis of comparison with comparable companies, as well as an analysis of anticipated discounted cash flows in the future. We would value the share in the region of € 19.50 euro, so with it trading at around € 12 our recent recommendation is to buy. At present, share value can be considerably attributed to the negative sentiment at the Ljubljana Stock Exchange, which has been bearish for quite some time now. Any turnabout in the fortunes of Luka Koper shares will require a turnabout in sentiment at the Ljubljana Stock Exchange.

Recently, Slovenia's government adopted the National Spatial Plan for the Port of Koper, something which shall enable the development in the longer term. As an analyst, what significance do you attribute to the Plan's official adoption?

The adoption of the document is undoubtedly positive, although any short-term impacts cannot be anticipated. Any expansion of the port will not yield any effects unless transport infrastructure is improved. If everything goes according to plan, tangible accomplishments could be realised in the second half of this decade.

What is your view as to any eventual reduction in the state's holding in Luka Koper, and what consequences might this have?

A reduction of the state's holding in any company is good news. It would be favourable for governments not to exercise this majority as they would no longer, upon every election, be able to appoint personnel on the basis of political sympathies. In the event that the state decided to dispose of its holding, several offers might be anticipated as a consequence of the port's location and important geo-strategic position. In addition, the share-price realised in any such disposal would be considerably higher than that currently quoted by the stock exchange.

Disclosure:

Author of the article does not hold shares LKPG.
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Koper, Austira's gateway to the World

Every year, the Austrian transport magazine Verkehr publishes an analysis of Austria's overseas trade. According to its most recent investigation, published on 10th June 2011 – and available online at http://www.verkehr.co.at/fileadmin/user_upload/Specials/Seehafenbilanz_11.pdf, - Luka Koper has reclaimed the title of Austria's most important port, followed by Rotterdam, Hamburg, Antwerp, Bremen, Constanta and Rijeka.

After Slovenia, Austria is Luka Koper's most important market and accounts for nearly one third of all cargo throughput; it is followed by Hungary with 9%, Slovakia and Italy with 5% each, and the Czech Republic and Germany each with some 2% of total trade conducted through the Port of Koper.

Austrian overseas trade by port in 2010, compared to 2009 (tonnage measure)

Port	Exports in 2010	Imports in 2010	Total in 2010	Percentage of total	Total in 2009
Koper	1,651,202	3,296,158	4,947,360	33	3,349,277
Rotterdam	695,000	2,865,000	3,560,000	23	4,070,000
Hamburg	1,715,679	1,136,153	2,851,832	18	2,401,753
Antwerp	951,512	1,008,354	1,959,866	13	1,829,831
Bremen	1,146,600	92,225	1,238,825	8	1,135,000
Konstanta	35,238	556,770	592,008	4	249,187
Rijeka	226,873	33,286	260,159	1	286,944

Source: Verkehr, Austria





The Port of Koper held the number one position until 1998, when its place was taken by Rotterdam. As a result of investments in port infrastructure, the provision of reliable quality services, intensive marketing and the development of good relations with customers and logistics providers in the European hinterland, Luka Koper has been steadily increasing its business over recent years. This upward trend was particularly intense as regards bulk and liquid cargos. Thanks to new direct services with the Far East and improved railway connections, Koper has also succeeded in considerably increasing container freight throughput; even in 2009, the worst year of the recession, this sector continued to grow. In addition, break bulk cargo is traditionally strong as regards the Austrian market.

Austrian container freight throughput via the Luka Koper in 2008, 2009 & 2010

Year	Tonnes	TEUs
2008	4,276,535	33,041
2009	3,349,277	40,385
2010	4,947,360	64,361