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Dr Gregor Veselko, President of the Management Board

## Dear Readers,

this issue of Notice provides some insight into just how unpredictable port operations can be, particularly in terms of throughput, as the dynamics of the business are constantly changing. The port is but one link in a logistics chain, the evolution of which affects our business. Overall, Luka Koper recorded the same growth in throughput as in the first quarter of 2012 as well as the same period last year; however, the ratio between types of cargo is different. Such fluctuation is most apparent with regard to container freight, the launch of a new direct shipping link to the Far East apparently failed to compensate for the loss of an existing service which was wound up late last year.

We had been counting on being able to provide a deeper navigable channel into the port. However, as a consequence of various complications, work which the state should have started early in the year is now anticipated to commence later this month. In practice this means that container ships carrying more than 6,500 units must first unload in Trieste, due to which Koper is losing its competitiveness.

One opportune advantage of the Port of Koper lies in its versatility: when there is a downturn in one type of cargo, spare capacity is more easily taken up by another, which may be even more profitable. Indeed, compared to the first quarter of 2012, the company increased revenues in relation to most cargo groups - vehicles, dry bulk, break bulk and general cargos were all markedly up, while other categories only trailed by a single percentage point.

Operating revenues in the first half of the year were three percent higher than last year. Although it is too early for accurate predictions of half-yearly performance - indeed, the accounting process is not yet complete - it can be seen that the figures are an improvement on last year. Over first half of 2011 the investment in Intereuropa was partially impaired, while for this year we do not anticipate any major

change in this area. In its past Luka Koper recorded strong results as the consequence of gains from its financial investments and this is no longer the case. Today we can only count on our own resources and the core business - successful port operations which shall decrease indebtedness and continue to provide resources to invest in development.

Labour costs continue to remain an issue, and due to the escalation of basic salaries and the necessary employment of additional operational staff with higher than average salaries, this is an issue which may grow.

Higher costs per unit were registered in relation to the provision of port services together with maintenance and fuel costs. Therefore, the company is now making much greater efforts to search for new markets, new products together with information and technical process improvements within the port, all with the aim of increasing revenue and reducing costs. Unfortunately, fortunes cannot be revived overnight, no matter how hard some of our stakeholders may wish. It is forever necessary to consider the situation in markets worldwide, and as the global recession continues, even our partners in the hinterland markets remain cautious in making any predictions for the future.

Global trends can be adapted to through increased co-operation, and in our case this also extends to co-operation between ports. The North Adriatic Ports Association - NAPA - which from 1<sup>st</sup> July is re-chaired by Koper, is an excellent demonstration of how a crisis can also provide an opportunity to foster new logistics channels. The Adriatic route is becoming evermore visible and - due to its providing shorter transit times between the Far East and Central Europe - attractive. Shorter and quicker routes also imply cost savings which are far from negligible considering the overall amounts.

Luka Koper today enjoys healthy foundations for growth, but is in need of a capital injection to achieve a qualitative leap; in this particular area,



July 2012



**LUKA KOPER**

**Port of Koper**

our neighbours do not sleep. While we support capacity increases in relation to all NAPA members, since such promotes the competitiveness of the Northern Adriatic route, delays cannot be afforded. And it is this fact which brings me back to the initial idea: the port is but one link in a chain. However promising a port's operations may be, if it is not serviced and supported by sufficient infrastructure it shall stagnate in the long-term.



## Overview of cargo throughput and revenues by cargo type

### Cargo throughput (in tonnes)

	January- June 2012	January- June 2011	Index 12/11
General cargos	718,032	722,298	99
Container freight	2,702,684	2,744,060	98
Cars	339,456	307,027	111
Liquid cargos	1,497,868	1,393,413	107
Dry bulk	3,778,834	3,196,645	118
<b>Total</b>	<b>9,036,874</b>	<b>8,363,443</b>	<b>108</b>

### Cargo throughput (in units)

	January- June 2012	January- June 2011	Index 12/11
Containers (TEU)	292,727	302,345	97
Cars (units)	241,771	215,329	112

### Luka Koper d.d. operating revenues January – June 2012\*

Operating revenues ** (in 000 euros)	January- June 2012	January- June 2011	Index 12/11
General cargos	16,513	16,703	99
Container freight	16,723	16,355	102
Cars	8,238	6,580	125
Liquid cargos	3,453	3,520	98
Dry bulk	17,166	16,757	102
Other operating revenue	7,057	7,264	97
<b>Total operating revenues</b>	<b>69,150</b>	<b>67,179</b>	<b>103</b>

\* Provisional non-audited data

\*\* Operating revenues consist of net sales revenues and other operating revenues, but excludes other revenues. Interim reports in 2011 also disclosed other revenues. Other revenues in the first half of 2011 amounted to 22,800 euros, while in the first half of 2012 they amounted to 14,400 euros; other revenues have been excluded herein for reasons of comparability.

# Koper Retains Pre-eminent Position in the Austrian Market

Austria has traditionally been a major market for the Port of Koper. Austrian cargos are handled at almost all of Luka Koper's terminals, though bulk and liquid cargos, container freight, vehicles and general cargos together comprise the vast majority.

The Austrian transport and logistics weekly Verkehr publishes an annual analysis of Austria's overseas trade through seaports. The Port of Koper was Austria's leading port until 1998, when Rotterdam gained first place, a position which it held until 2010 when Koper again became pre-eminent as regards Austrian cargo, a position which it also retained last year. As regards throughput, the Austrian market was even greater than the domestic one in 2011. Total throughput for Slovenia amounted to 5,264,739 tonnes, a year-on increase of 351,206 tonnes, which is a smaller rise than for the Austrian market.



**In relation to this news, we interviewed Mr Alojz Fabjan, Luka Koper's representative for the Austrian market**

## 1) How long have you been Luka Koper's representative in Vienna?

I started the current mandate in Austria last April, and shall serve another two years - to April 2014 - though I was also Luka Koper's representative in Vienna between 1998 and 2003.

## 2) Austria has longstanding logistics connections with northern European ports. What importance does the Port of Koper have, and how recognizable is it among Austrian logistics providers?

Austria enjoys very good logistical links with northern ports, and especially good and regular rail links; these ports also offer the choice of a wide range of direct shipping link options. If one looks solely at Austrian container freight, 78%

### Austrian Overseas Trade – European port of entry/exit

Port (with 2010 ranking)	Total tonnage throughput in 2011	% share of Austrian market in 2011	Total tonnage throughput in 2010
Koper (1)	5,615,945	32 %	4,947,360
Rotterdam (2)	3,650,000	21 %	3,560,000
Hamburg (3)	3,053,239	17 %	2,851,832
Antwerp (4)	2,089,348	12 %	1,959,866
Constanța (6)	1,512,501	9 %	592,008
Bremen (5)	1,451,718	8 %	1,238,825
Rijeka (7)	271,345	1 %	260,159

(v oklepaju mesto, katerega je luka zasedala v letu 2010)

is shipped via northern ports (Hamburg - 288,000 TEUs, Bremerhaven - 125,000 TEUs, Rotterdam 54,000 TEUs); indeed only 22% is conveyed south via the ports of the Northern Adriatic. Last year Luka Koper handled 95,000 TEUs for Austrian clients, a figure which represents approximately 16% of the country's total shipped container freight.

## 3) Over recent years, the Port of Koper has regained first place as an entrepôt for the Austrian market. So exactly how does Luka Koper overtake the competition? Does it attain the right balance between service and price, or is reliability the key factor?

Handling 5.6 million tonnes of cargo from all over Austria, Luka Koper has overtaken the Port of Rotterdam, which last year handled 3.65 million tonnes of Austrian freight. It can be said that Koper enjoys recognition in the Austrian market due to its reliability and quality of work. The largest increase has been recorded in relation to container freight, and between 2007 and 2011 the annual volume of cargo Austrian containers rose from 24,000 TEUs to 95,000 TEUs. Nonetheless, there is still potential for further growth.

## 4) Where do you see the greatest threat to continued growth in the Austrian market?

The container freight business offers the greatest opportunity for further

growth, but if we want to increase market share, we must develop port infrastructure and construct a second rail track. We are already lagging behind our competition in the construction of such infrastructure projects, so there remains the possibility that the hard-gained trust we have earned from customers will evaporate. Nonetheless, we should work to attract new shipping lines through the provision of direct services as well as an increase in the number of regular block train connections with the Austrian market.

## 5) International trade is highly dependent on economic conditions. How do you see the development of Slovenia's northern neighbour, what opportunities remain for the Port of Koper?

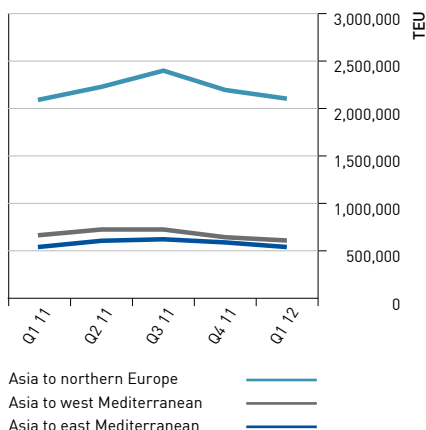
Austria is a stable country, but definitely felt the crisis. The country has, however, already implemented timely measures to mitigate the consequences. Between January and April 2012, Austria's imports rose by 1.5% to EUR 43.2 billion, at the same time exports increased 2.4% to EUR 40.7 billion, thus the balance of trade gap was reduced by 11%. The focus has been to increase exports beyond the EU especially, and trade through Northern Adriatic ports - and Koper in particular - have benefitted from this.

# How Successful Are European Ports This Year?

According to the European Seaports Organisation (ESPO), European ports grew at a slower pace (+1.7%) in the first quarter of this year than they had in the first quarter of 2011 (+4.7%). Significant differences can, however, be seen between ports, as well as between categories of cargo: granular, bulk and general cargo were, on average, up 4.1%, though liquid cargos (-2.7%) and Ro-Ro (-4.1%) fared badly. Container freight turnover increased on average by 3.8%, which is significantly less than a year previously when growth was 8.3%.

Cargo flows from Asia are an important factor influencing the business of European container terminals. Year-on growth in the number of Asian containers arriving at Northern European ports in the first quarter of 2012 was a mere 0.7% above the same period last year; overall, Western Mediterranean ports suffered a -8% decline, while Eastern Mediterranean ports handled about the same amount of Asian container freight as they had a year previously.

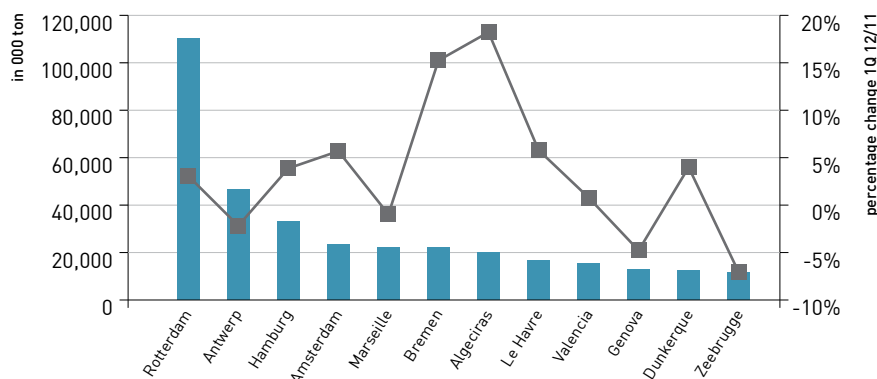
Container freight traffic between Asia and Europe (in TEUs):



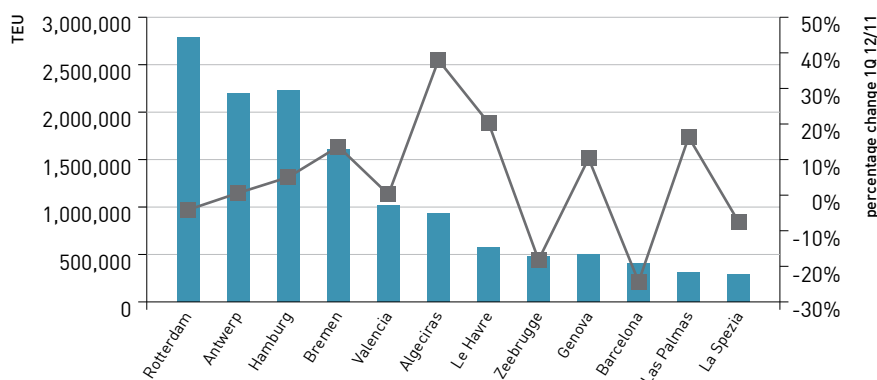
## Global Trends in Container Freight

In 2011, the world's ports handled 562 million TEUs. Given that global economic growth is anticipated to be 3.4% this year, and 4.1% next year, the growth in global container traffic is estimated

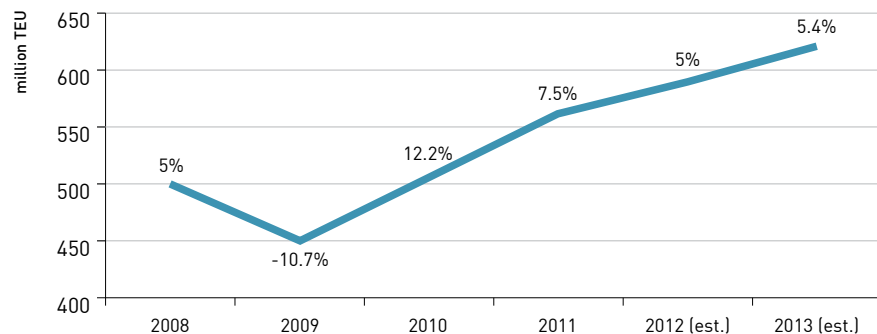
Total tonnage throughput at major European ports in the first quarter of 2012:



Container freight throughput at major European ports in the first quarter of 2012:



Container handling activity and % change:



Source: Container Trades Statistics Magazine, June 2012

to rise at a rate of 4.5% to 6.5% per annum, much of which shall pertain to the further expansion of Chinese ports. Ever improving infrastructure, together with the introduction of larger, more modern and environmentally friendly container vessels shall also exert

positive influences on the continuation of the trend towards the containerization of increasing amounts of cargo. At the same time, however, higher oil prices, stricter requirements for shipowners and further environmental controls may slow growth.

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