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Gašpar Gašpar Mišič, Management Board President of Luka Koper



Dear Partners,

Because of the difficulties faced in fully understanding the nature of our operations, which are atypical and unlike any other industry, Luka Koper has long been publishing an online quarterly bulletin aimed at the investment community. As the country's only seaport, it is impossible to compare the performance of Luka Koper with any similar company in Slovenia; at the same time, its specific organisation makes it very difficult to draw comparisons with ports abroad. As you are undoubtedly aware, the Port of Koper doesn't have a port administration, but rather a company - Luka Koper d.d. - which is entirely and solely responsible for port administration, operation and development. This arrangement provides us with more flexibility, which has been a well proven competitive advantage over neighbouring ports. At the same time, however, the company is burdened by its having to fully provide all necessary investment into port infrastructure.

2014 will be a year of red alert for Luka Koper, a year in which investments missed in years past shall finally be accomplished. A number of infrastructure projects - in particular with regard to the container freight business - have remained unrealised since 2011, and our commitments to a number of business partners of strategic importance to the future of Luka Koper have likewise not been honoured. The seabed dredging project, for example, should have been completed years ago and, equally, issues concerning vessels forced to instead call at the Port of Trieste to unload should have been avoided. If these investments had been completed in due time, the company would have surpassed the record 600,000 TEU threshold well before the last day of 2013. Instead we are this year facing the completion of preparations of the landfill sites for dredged silt disposal, and thence the deepening of Basin I, the construction of additional storage areas at the Container Terminal, the

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**LUKA KOPER**  
Port of Koper

acquisition of essential machinery used in handling operations through protracted public procurement procedures, which, due to the specifics of the equipment and consequent lengthy delivery terms, further delay their introduction.

Although the focus shall be primarily on the requirements of the Pier I Container Terminal, the needs of other terminal operations, equally important to the development of Luka Koper's business shall by no means be neglected. The business plan for 2014 is accordingly ambitious, but so are the objectives: to remain the largest container terminal in the Northern Adriatic, to achieve primacy in vehicle shipments in the Mediterranean, to increase market share in all its hinterland markets, to penetrate important Asian markets – and in particular China, a country which offers almost infinite opportunities.

This year we will invest special effort in the Chinese market. In March we anticipate the visit of an important delegation from the city of Ningbo, a city of seven million people located to the south of Shanghai. This city, which records a most enviable nine percent economic growth per year, also has a port handling some 13 million TEUs per annum. This will be a return visit, as in late December Luka Koper's representatives visited Ningbo, Shanghai and Hong Kong, as well as met with potential clients and authorities, not only from the sphere of shipping and port operation but also in the construction of transport sector particularly with regard to rail infrastructure.

In 2014 we shall also be attending Asia's largest logistic fair - Transport Logistics in Shanghai – at which Luka Koper will be represented in conjunction with its fellow members of NAPA - North Adriatic Ports Association. We firmly believe that Northern Adriatic ports must work together in overseas markets to promote the southern gateway to the continent. In addition to its yielding benefits to the countries of Central and Eastern Europe, joint promotions of the Northern Adriatic route to Europe will facilitate the strengthening of the supply chain among the countries of the Mediterranean, as well as the Middle

and Far East. Indeed, the potential of our ports is enormous. According to the estimates of UK-based freight strategy specialists MDS Transmodal, which conducted a study for NAPA as part of the ITS Adriatic Multi-port Gateway project, the Northern Adriatic enjoys a 6 million TEU potential by 2030, and Koper could be handling up to one third of this total. However, in order to enjoy this potential, capacities at the Container Terminal have to be augmented, whilst rail service provision between the port and its continental hinterland markets must also be improved. Currently, all of the North Adriatic ports achieve less than one-third of their abovementioned potential, hence we all have much to do over the coming years.

I look forward to the months ahead because I am convinced that through further pursuit of our objectives we shall achieve enviable results. I wish my term as head of the company to continue to be characterised by the motivation and endeavour that ultimately led to success in 2013. Despite value write-downs consequent to the failed investments of the past, the company's operational performance was a good one; without the said impairments the Luka Koper Group would have generated 18 million euros in net profit. I would also like to point out that in Q4 the company generated 36.2 million euros in total revenues, its largest ever amount per quarter. Such a result is undoubtedly attributable to the measures implemented after my arrival; measures which improved the efficiency of business processes. In addition – and despite external pressures that followed my appointment as Management Board President – all means necessary to get key development projects underway were implemented in less than four months. During this time we have managed:

- the successful launch of all projects related to the deepening of Basin I;
- to improve communication and collaboration with the Slovenian Maritime Administration; through minor interventions and without resort to dredging, the company has acquired a permit for the berthing of ships with larger draught requirements – up from 11.4 m to 11.8 m;

- the commencement of construction of the Pier I hinterland extension at the Container Terminal; there shall ultimately be an additional 6,840 m<sup>2</sup> of storage area;
- to implement marketing activities as well as intensify contacts with all business partners, both local and foreign;
- to improve and enhance IT connections with business partners;
- to foster closer collaboration and partnership relations with the local community; today Luka Koper truly lives with the community in which it operates, respects and supports it, and hence benefits from the reciprocity that such an outlook engenders;
- to stabilise relations within the company as well as improve communications with all stakeholders;
- to apply for new European projects and strive to attain funding in accordance with development needs of the Port of Koper;
- to conclude an agreement with the national railway operator Slovenske Železnice to increase the number of trains serving the port, as well as extend train compositions;
- the elaboration of preliminary designs for three new entrances to the port zone; when implemented these shall relieve internal transport and logistics as well as decrease overall investment costs going forward;
- to reassess costs and development priorities in the context of the National Spatial Plan; for example: a larger extension of both existing piers than is envisaged by the NSP would allow the natural attainment of the requisite depths necessary for larger vessels, and thus avoid higher dredging costs in the future;
- to reanalyse the management and expert support provision to processes at the port in order that a plan for their gradual renewal and optimisation may be elaborated and implemented, thus ensuring increased operational efficiency.

I am confident that we are on the right track – we merely have to persist. And if there's one thing that Luka Koper does have, it is persistence, together with the competence and resources that shall ensure our success.

# Overview of throughput and revenues by cargo type

Cargo throughput in tonnes			
	2013	2012	Index 2013/2012
General cargos	1,659,405	1,438,833	115
Container freight	5,849,694	5,292,047	111
Vehicles	662,169	674,692	98
Liquid cargos	2,840,588	3,194,636	89
Dry bulk	6,987,806	7,280,490	96
<b>TOTAL</b>	<b>17,999,662</b>	<b>17,880,698</b>	<b>101</b>

Cargo throughput in units:			
	2013	2012	Index 2013/2012
Containers (TEU)	600,441	570,744	105
Cars (units)	463,375	479,820	97

Luka Koper d.d operating revenues for January – December 2013 period*			
(in 000 euros)	2013	2012	Index 2013/2012
General cargos	32,254	31,300	103
Container freight	37,990	32,485	117
Vehicles	14,996	16,178	93
Liquid cargos	7,437	7,047	106
Dry bulk	31,462	33,552	94
Other operating revenues	12,668	12,767	99
<b>Total operating revenues</b>	<b>136,808</b>	<b>133,329</b>	<b>103</b>

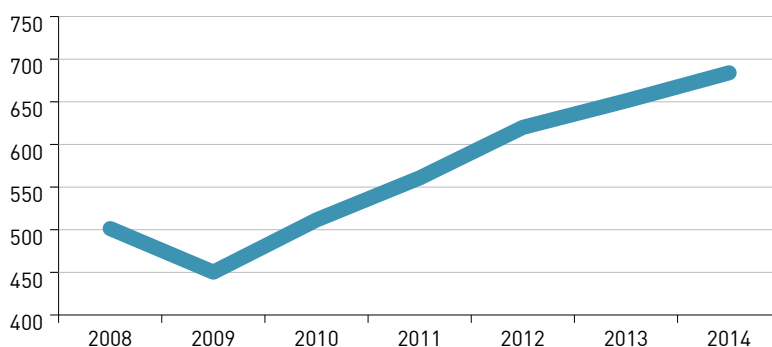
\*incomplete and non-audited data

## A positive outlook for 2014

Analysts monitoring the container freight business summarise 2013 and anticipate trends in the year ahead.

Last year, global trade flows were influenced by economic growth in the developed world, which was greater than anticipated; developing countries, however, failed to meet expectations. Consequent to regulatory concerns, there are many unknowns regarding the commencement of the pooled operations of the world's three biggest container shippers - Maersk, CMA-CGM and MSC - the so-called P3 alliance, which has now been postponed to the second half of 2014.

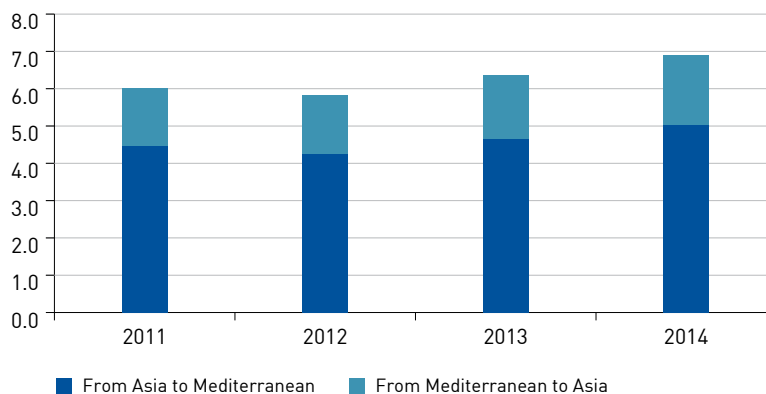
Global container freight through ports in million TEUs:



Source: Containerisation International, Drewry Maritime Research

In general, the analysts report a positive outlook, and anticipate growth in the container freight sector during 2014, both globally as well as in relation to Asia-Europe cargo flows, which are of particular relevance to the Port of Koper. Furthermore, estimated growth in relation to Asia-Mediterranean container freight amounts to 10.2 percent, whereas as Asia-Northern Europe growth is estimated at 4.3 percent.

Asia – Mediterranean tradelane container freight in million TEUs:



Source: Containerisation International 11/2013

## The untapped potentials of the Northern Adriatic

**On 10th December last year, Luka Koper and the Chamber of Commerce and Industry of Slovenia jointly organised a Conference entitled The Future of Slovenian Logistics and its Contribution to Regional Development.**

The Conference participants unanimously concluded that Slovenia's transport and logistics sector enjoys hugely important development potentials; however, their attainment and, with that, the development of the Slovenian economy, can only be realised through investment in infrastructure.

Mr Chris Rowland of MDS Transmodal presented the findings of a study addressing the potentials of the Northern Adriatic in relation to container cargos. The model forecasting trends is based on different assumptions as to market development. The key assumption

is that the shipping companies and logistics operators shall seek out the most cost-effective route between manufacturer and customer. According to the study and given certain conditions, container throughput in Northern Adriatic ports may amount to 5.9 million TEUs per annum by 2030, which would establish more of a balance between the so-called southern and northern ports of the

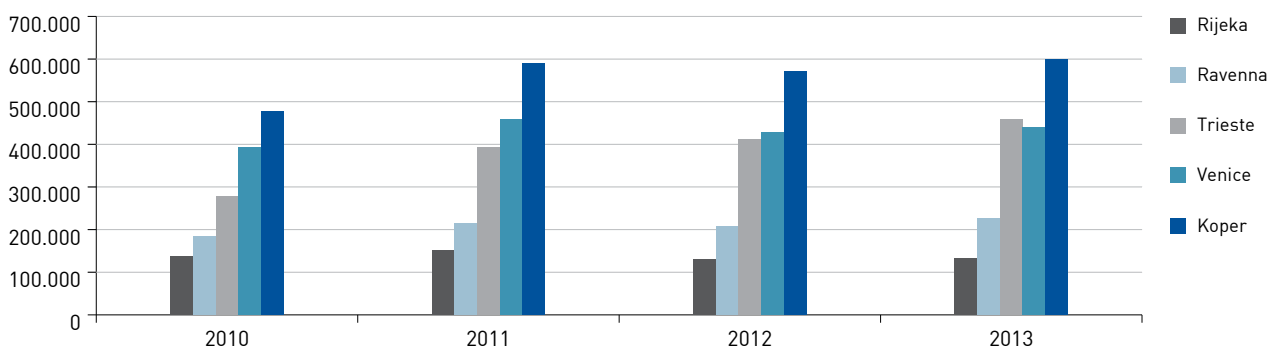
European continent. In order to meet this goal, it is essential that adequate draughts are facilitated in all North-Adriatic ports, and that the capacity of container trains is increased (to at least 750 m in length), as well as that the EU's rail freight market is further liberalised through the entry of new private operator providers.

Projection of container freight throughput anticipated in the study:

	Throughput 2012	Throughput 2030	Increase 2012 - 2030
Northern Adriatic ports*	1.8	5.9	+ 227%
Atlantic and Northern European ports	20.3	28.9	+ 42%
Tyrrhenian Sea (Italy) ports	3.6	6.5	+ 81%
Black Sea ports	0.3	0.6	+ 100%
Other European ports	5.6	10.5	+ 88%
<b>Total</b>	<b>31.6</b>	<b>52.4</b>	<b>+ 66%</b>

Source: MDS Transmodal, the complete study is available [here](#)  
 The study co-funded by the EU (TEN-T programme) was made within the ITS Adriatic Multi-port Gateway project.  
 \* Cargo throughput figure includes the ports of Ravenna, Venice, Trieste, Koper and Rijeka.

Container throughput in Northern Adriatic ports 2010-2013 (TEUs):



\*data for Ravenna is incomplete





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# Impressions form the port



Luka Koper has been informed by the Slovenian Maritime Administration that two new buoys were placed at the entrance to Basin 1, these fulfil the requirement of the Maritime Administration's decision allowing the entry of ships with a draught of 11.8 m (hitherto 11.4 m) under special conditions. Such shall not significantly contribute to any increase in throughput at Luka Koper's Container Terminal until the seabed is deepened to -14 metres, which is anticipated this April. Nonetheless, the somewhat larger draught facilitated shall aid the loading of the largest container vessels; on average some 400 TEUs are loaded/unloaded per ship.



The creation of a landfill site for the disposal of materials dredged from Basin 1 is continuing as planned. The value of this investment amounts to 2.9 million euros.



In mid-January, the tubular piles that shall be used in the construction of the extension of Pier I arrived from Turkey. In addition to providing storage for an additional 672 TEUs, these new areas will at the same time help in improving the in-port traffic regime. 273 piles will be driven 50 metres into the bearing strata beneath the seabed. This 8.5-million euro investment in the seaward extension of the south section of Pier I forms part of a larger project aimed at increasing capacities at the Luka Koper Container Terminal.

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