



**Summary of Luka Koper d.d. and the Luka Koper Group
Business Strategy until 2030 and the Company's and
Group's Strategic Business Plan 2016 – 2020**

August 2015

1. Introduction

In anticipation of the expiration of its current strategic plans, Luka Koper has prepared ***Luka Koper d.d. and the Luka Koper Group Business Strategy until 2030 and the Company's and Group's Strategic Business plan 2016 – 2020***. It is an ambitious plan based on our own experience and performance as well as external business and institutional environment which has a significant impact on our operations.

It should be pointed out that after 2009 when confronted with a throughput decline due to recession, the crisis of the business system and constant changes in the management, the Group has almost fully recovered in terms of business performance. In addition to positive business results (with record net sales revenues and net profit of the parent company in 2014), the Group has considerably reduced its debt and investment risk. It made some key steps in the improvement of business performance and market positioning which makes an excellent starting point for the future. In 2014, the company had a record throughput and it strengthened its position as:

- port no. 1 for the supply of the Austrian market in terms of total cargo throughput,
- port no. 1 for the Slovak and Hungarian markets, as well as the leading cargo freight port in the Northern Adriatic,
- the second port in vehicle throughput in the Mediterranean,
- the leading port for other cargo types on the southern route from/to Europe (timber, livestock, soy, alumina, iron products).

Considering modest investments in the new port facilities after 2009, the port capacities are mainly well utilised. Two important competitive advantages of the company's operation include the model of port management (defined with the current Concession Agreement until 2043) and the organisation of work within the port. The National Spatial Plan adopted in 2011 outlined the possibility of port expansion. Despite opportunities offered by the business environment, the timely construction of an additional railway link with the hinterland and further modernisation of the current single-track railway between Koper and Divača are still under question. More than 70% of port's turnout is generated through the supply of the hinterland markets hence its competitiveness depends on the reliable and regular railway connections. The company anticipates strengthening its position on these very markets hence the growth of port activity is highly related to the railway capacity.

To provide more transparency in future decisions and for the purpose of risk management, the company studied 2 scenarios which take a different course after 2020:

- The development scenario which anticipates the timely construction of the additional railway connection so that the port will be able to exploit the market potentials and make intensive investments in the new port infrastructure facilities. This scenario which provides grounds for a long-term development and the implementation of our vision will have potential also after 2030 when it will be further upgraded.
- The alternative scenario where the railway capacity of a single-track determines the maximum volume of the cargo throughput. After 2020, Luka Koper's development will be hindered by the railway capacity therefore instead of investing in new facilities the company will have to make best use of the available capacities. This scenario does not provide the development compliant with our vision, but makes Koper one of the regional ports in a significantly worse market and competitive position than today with a serious risk of turnout decline.

The company strives for the development scenario and accordingly set its vision, mission and strategic guidelines until 2020, as well as the strategic priorities and objectives until 2020.

2. Vision, Mission and Strategic Guidelines until 2030

Vision: Luka Koper to become a leading port operator and global logistics solutions provider for the countries of Central and Eastern Europe.

Mission: To offer a reliable port system, developing and promoting global logistics solutions to the heart of Europe by meeting the requirements of economy and most demanding clients.

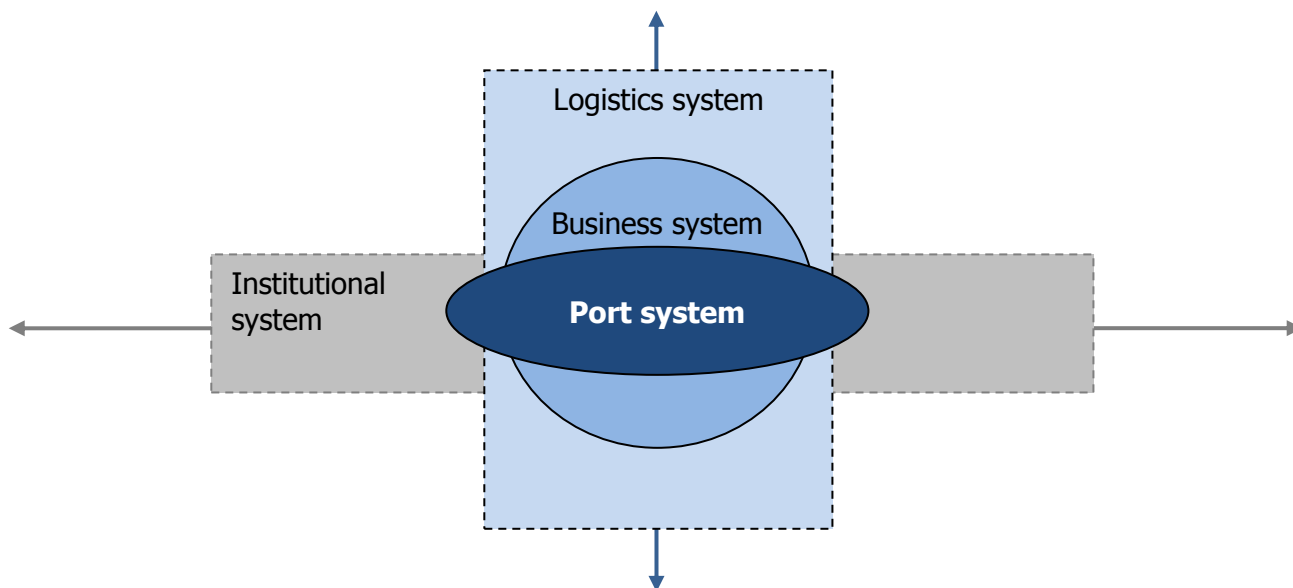
5 strategic guidelines:

Responsive, modern and competitive port operator	Reliable and efficient provider of quality port services	Long-term stable and successful business system	Promoter of complete logistics solutions	Diligent institutional stakeholder of sustainable development
Realisation of identified market potentials through market management and partnerships with clients	High operational efficiency through the improvement of process productivity, synergies between terminals and optimal utilisation of facilities	Consistency between basic activity and support functions, improvement of product profitability and increase of assets	Joining different links in the logistics chain and the port community in order to provide complete transport solutions	Long-term sustainable development of natural and social environment and support to the port's development in a broader regional and international arena

3. Strategic Priorities and Objectives 2016 – 2020

3.1 Strategic priorities 2016 - 2020

Due to the fact that the company operates in a business environment which is determined by the industry specifics and considering the nature of port operations, we will continue to do our best to maintain appropriate balance between four systems: the port, logistics, business and institutional system. In the forthcoming period, we shall primarily focus on the port and business systems which will be in constant interaction and partnerships with the logistics system (due to the complete provision of services along the logistics chain). At the same time, the business conditions will significantly be influenced by the institutional system which should be given special attention (in order to gain support for the port's development).



With reasonably balanced port, business, logistics and institutional systems and considering the external and internal business conditions, the **STRATEGIC PRIORITIES 2016 – 2020** include the following:

Business (port and logistics) aspect:

1. **Market potential and realisation** => turnover increase, market management and partnerships
2. **Operational efficiency** => increase productivity, efficiency and competitiveness of services
3. **Optimal utilisation of facilities** => timely provision of new facilities (infrastructure, equipment)
4. **Complete logistics** => integrated products (shipowners, freight forwarders, logistic providers + port community and institutions)
5. **Internal consistency of the business system** => consistency between basic activity and support functions, good business performance

Concern for the institutional and environmental aspect:

long-term and sustainable port development => respect for natural and broader social and economic environment

3.2 Strategic Objectives 2016 - 2020

STRATEGIC OBJECTIVES		VALUES v 2020
Financial results		Net sales revenues: 218 million € EBITDA margin: 39% ROE: 10% Net debt/EBITDA ration < 3 Absorption of EU grants 20 million €
Market aspect	Annual throughput	> 24.3 million tonnes > 1 million TEUs > 850,000 vehicles > 70,000 passengers > 1 million tonnes of additional container stripping and stuffing services
	Market positioning	<ul style="list-style-type: none"> - exceed 35% share of container freight in the Northern Adriatic; - remain Austria's port no. 1, - remain Hungary's and Slovak's port no. 1 in container freight - become port no. 1 in vehicle throughput in the Mediterranean
Port aspect	New storage facilities	<ul style="list-style-type: none"> - at least 10,000 m² of new covered storage area - at least 10,000 of new car parking lots - jet fuel
	New berths	<ul style="list-style-type: none"> - simultaneous berthing of two mother vessels (container freight) - additional Ro-Ro infrastructure in Basin III (vehicle throughput) - renovation of at least 1 berth in Basin II to ensure smoother handling
	Improve road access	<ul style="list-style-type: none"> - new entrance in order to increase throughput and relieve traffic congestion
	New rail capacity	> 7 km within the port zone
Optimal use of a single track railway		<ul style="list-style-type: none"> - on average 82 freight trains per day, i.e. 14.2 million tonnes of cargo by rail

4. Implementation of Strategic Objectives

The implementation of strategic objectives will be focused on the **port system** with market-oriented activities, the **realisation of market potentials** and **timely provision of capacities**.

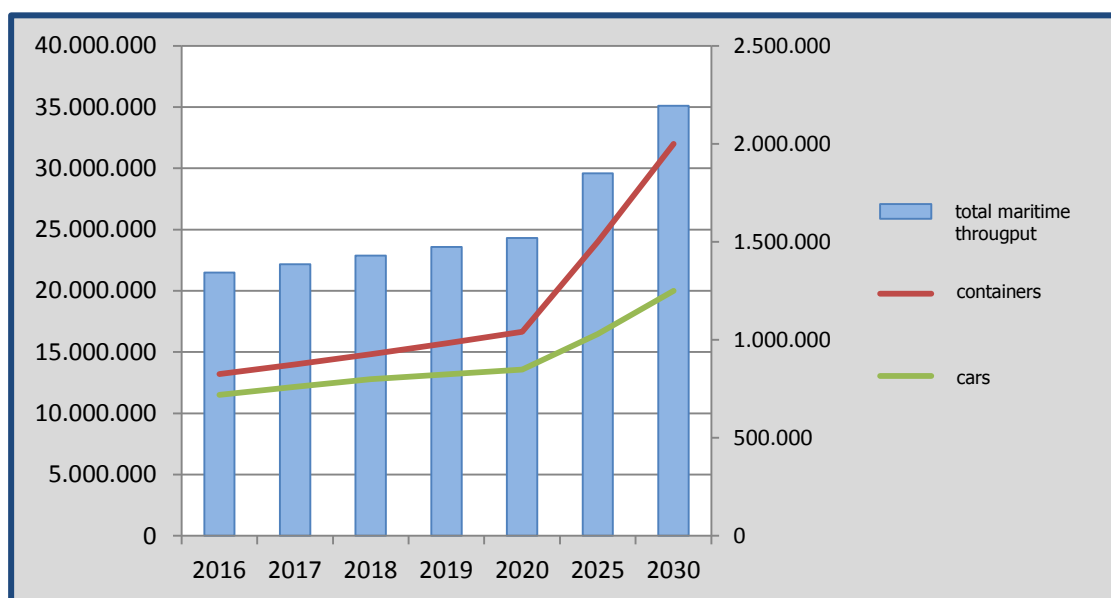
4.1 Cargo throughput and range of services

Due to the uncertainties regarding the construction of the second track on Koper – Divača line, the company studied two scenarios: the development and alternative scenario.

Throughput	Plan 2015	Estimation 2020	Development: 2030	Alternative: 2030
Total (tonnes)	20,101,750	24,300,000	35,100,000	27,400,000
Containers TEU)	730,000	1,000,000	2,000,000	1,300,000
Vehicles (units)	525,000	850,000	1,250,000	865,000

The development scenario that the company will strive to accomplish anticipates the following:

- Total cargo throughput is estimated to exceed 24 million tonnes in 2020 and approach 35 million tonnes in 2030.
- Based on further containerisation of cargo and a favourable network of regular railway connections with hinterland markets, we can expect future growth of container freight that will, according to the estimated market potentials, amount to 1 million TEUs per year by 2020 and 2 million TEUs per year by 2030.
- The growth of container freight anticipates the growth of container stripping and stuffing, i.e. the warehouse processing which is an opportunity for value-added services.
- Vehicles are another important cargo type with the prospect of increasing the annual throughput and exceed 850,000 vehicles by 2020, and approach 1.25 million vehicles by 2030.
- Although certain cargo types are a clear priority, based on current estimation we don't anticipate abandoning other types of cargo in the forthcoming period. The port will continue to handle various cargos mainly to maximise the advantages of the current facilities and long-standing clients (including liquid, bulk and general cargos) and the diversification of its range of services risk mitigation).



Considering many challenges in the port, the key priority of Luka Koper will be its basic activity. The non-fruitful external projects will require further attention whilst those complementary to the port's basic activity should be supported.

4.2 Port capacities

Based on the current 80% utilisation of the port capacities and consistent with the market expectations, potentials and company's objectives, our activities will be focused on the provision of additional facilities in particular for container freight, vehicles, new open storage areas and public infrastructure. The latter is related with the possibility of EU funds absorption.

In the period **2016 - 2020** the company anticipates to allocate **300 million €** in the development investments.

- Development of Pier I for container freight:
 - extension of Pier I (southern section),
 - redevelopment of the current capacities (deepening, extension of container blocks, deposit, tracks, berths' reconstruction),
 - required equipment.
- Redevelopment of Basin III for vehicle handling:
 - Ro-Ro berth and temporary use of storage facilities at the base of Pier III,
 - gradual arrangement of disposal sites in the immediate hinterland of Basin III,
- New covered storage area (liquid cargos – tanks, bulk and general cargos – flat stores),
- New port entrances: Bertoki and Sermin (in order to relieve road traffic congestion which will require construction of a flyover),
- Redevelopment of berths in Basin II: livestock, south section of Pier II.

Based on the Development scenario, the company will allocate about **400 million €** in the development investments (infrastructure and equipment) in the period **2021 - 2030**

- extension of Pier I (northern section), additional storage areas on Pier I and its immediate hinterland, and container-handling equipment,
- additional vehicle storage facilities in the area of Ankaran Bonifika, together with additional berths,
- extension of Pier II that will in stage 1 be aimed at vehicle storage whilst after 2030 new options will be investigated based on market demands, as well as further growth of container freight,
- additional covered storage areas intended for container stripping and stuffing as well as distribution,
- simultaneous provision of: rail tracks, road accesses, seabed dredging and sediment disposal sites.

Despite ambitious development plans of our competition both in the field of port operations and railway connections, we believe – should we timely provide the required facilities – to have every possibility to maintain and strengthen our market position until 2030 in the line with the development scenario.

5. Conclusion

Despite some turbulence in the Luka Koper Group business system over the recent years, it managed to rehabilitate its operations, utilise the available port capacities to a considerable extent and exploit market potentials.

The activities within the new strategy are **focused and concentrated in the port** which remains multipurpose but with the intention to strengthen the market position mainly through two strategic cargo types: container freight and vehicles.

Accordingly, the company will strive to realise the strategic objectives in the following areas:

- financial operation – through achieving set performance indicators,
- market – cargo throughput and competitive market positioning,
- port – timely and economical provision of new facilities which will require intensive investments.

We expect to fully exploit the single-track railway connection between Koper and Divača by 2020 and that meanwhile all the necessary activities will be taken for the construction of the second track or at least enhance the existing railway infrastructure.

In **striving to realise the development scenario** in the field of the company's basic activity, we will give priority to:

1. ambitious business results that will provide autonomous funds for the development of facilities as well as meet the shareholders' expectations,
2. maintain the current model of port management,
3. stability of competent company management and promotion of a proactive organisational climate directed to good performance of motivated employees and positive social dialogue,
4. final company's rehabilitation as to non-strategic financial investments,
5. a 'neutral' relation to the global logistics providers in order to increase the market share (provision of multiple port services for all cargo types and risk mitigation through client diversification) and competitive business conditions for all partners,
6. increase of operations' productivity and efficiency, and preservation of the current model of work organisation in the port,
7. a well-regulated business system and support functions,
8. efficient project management in order to timely provide new facilities which is one of the priorities until 2020,
9. highest environmental standards, including efficient energy use,
10. constructive dialogue with the institutions which are expected to support the port's development.