

Koper, 23 August 2017

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## Re: Reply to letter from VZMD dated 22 August 2017

Regarding the letter from shareholder VZMD (Pan Slovenian Shareholders' Association) dated 22 August 2017, in which the Company's management board is asked to take a position regarding the information presented by the representatives of shareholder SDH (Slovenian Sovereign Holding) at the Luka Koper 28<sup>th</sup> AGM on 30 June 2017 and stemming from a study commissioned by shareholder SDH (Slovenian Sovereign Holding), the Company's management board is making the following comment.

We received from shareholder SDH the study "Port of Koper – Economic Analysis and Economic Opportunity" prepared by the McKinsey consulting firm. The study reviews our operations and presents findings not only for 2016, but for a longer period, from 2002 onwards. The study's findings do not indicate any negative deviations in 2016; on the contrary – record business results were reported. These findings can therefore objectively not be used as a basis for deciding on discharging the management board.

We are pleased the study has highlighted a number of positive findings not mentioned at the AGM:

- The study has confirmed the key performance indicators for the Company and the Port to be above average in comparison with port operators that the authors of the study used for benchmarking, and that they have significantly improved in recent years. It is particularly worth pointing out the above-average financial results, resulting in high profitability, and an above-average turnover growth, especially in the container segment, where Koper overtook all neighbouring ports, taking the lead and winning a major market share. Extraordinary progress was also made with the throughput of cars and in certain other segments.
- The study concludes that the Port's competitive advantage is, among other things, the above-average quality and efficiency of port services (especially compared to Trieste and Rijeka).
- The study assesses the Port management model in positive terms, it being efficient and market-oriented, and proposes it be maintained.
- The study reveals outsourcing of external port service providers to be a common practice in most ports (the Port of Koper uses the so-called EPSP model), and it assesses it as being appropriate for the future.

To facilitate a better understanding of our answers to the questions of the VZMD, it is necessary to draw attention to the methodological inconsistencies of the study:

- Certain sources of data and information are unreliable, calculations and findings are often incorrect, inconsistent, approximate and, in individual cases, even amateur.
- Port entities (terminals, ports, etc.) used in the study are not comparable in terms of: business activity; the structure of turnover; port management models; the method of financing port facilities; tax advantages, burdens and legislative frameworks; geographical setting; and other operating conditions. Moreover, the analysis does not always use the same entities and the same time intervals or periods throughout.

- The assumptions and findings presented in individual chapters of the study, particularly regarding the need for investments and capacity utilisation and throughput projections by 2025, are contradictory.
- The review of the overall business operations of the Company/Port lacks a balanced approach, since the vast majority of comparisons and analyses relate only to the container segment, with the findings and measures nevertheless referring to the entire Company/Port.

It follows from the above that the study interprets certain deviations incorrectly, meaning that the conditions of the Company's business and industry were not taken into account. The study's critical findings can therefore not be taken as relevant and should not in any way be publicised as a way of assessing the Company's operations.

Shareholder VZMD expects the Company management board to take a position regarding statements made (based on the said study) by the SDH president of the management board Lidia Glavina at the 28<sup>th</sup> AGM of Luka Koper:

"It has been established that Luka Koper has the lowest prices of services in the region."

"Operating indicators indicate an excess of equipment or that equipment is under-utilised."

"Their ability to implement investments is questionable, since in the near past Luka Koper was not able to carry out all planned investments, or their implementation was delayed."

- **IT IS NOT TRUE that Luka Koper has the lowest prices of services in the region.** Firstly, the study finds that "Koper seems to have lower prices of port services charged to the end user". The study did not analyse the prices of container throughput agreed between ports (terminals) and shipowners, rendering the findings professionally unfounded. In addition, the study is based solely on the data for the container segment, making the findings misleading as they indicate that Koper has the lowest prices of port services in the region across all cargo groups.
- **IT IS NOT TRUE that Luka Koper has an excess of equipment or that equipment is under-utilised.** The study's calculations refer only to the container segment, and it is not clear which terminal equipment they are comparing – we assume the yard trucks. However, the presented values for yard trucks do not include the actually available terminal machinery and therefore input data are inadequate, while the calculations and findings do not take into account the characteristics of the operation of the terminal and the fact that machinery is also used for other services and processes outside the container terminal. In an amateur way the study concludes that the use of shore cranes is non-optimal and supports this using a single photograph, based on which the incorrect conclusion is drawn that only one crane is in use, while in fact there are two active ones. This finding also reveals a lack of understanding of the method of determining the number of cranes in the shipping process, since economy and operational efficiency are pursued on the basis of different criteria (length of the ship, number of planned handling events, etc.). On the other hand, the study has confirmed the good utilisation of critical infrastructure and the urgency of investments in new facilities, particularly berths, gateways, warehousing areas.
- **Doubting Luka Koper's ability to implement investments is UNFOUNDED.** The experience of 2016 shows the Company is capable of carrying out investments efficiently, with more than 80% of investment value from the annual plan having been realised. Delays are mainly due to complex and lengthy administrative procedures and thus a delayed issuing of approvals.

SDH representatives emphasised at the AGM that the reason for the Company's relatively good results and throughput growth was the booming economy, which is not the case, since the neighbouring ports' results and turnover have not improved with the same dynamics. Moreover, throughput growth has been substantially higher and faster from economic growth in our catchment area (comparison of GDP and trade growth in Slovenia and hinterland countries).

Regardless of the misleading interpretations and doubts about the Company's performance, we believe shareholders will maintain their confidence in the Company's actual and audited business results and strategic opportunities.

Company management board