
A Concession Agreement for a Secure Future

On the basis of half a century of symbiotic success and development, the Port of Koper and Luka Koper today set forth on a project full of great opportunities and challenges that will ensure a bright future. Koper's strategic location at the head of the Adriatic - the northernmost reach of the Mediterranean Sea - and the shortest sea route to the landlocked countries of Central Europe, underscores its position as an excellent maritime gateway to many of the European Union's newest member states, which are themselves undergoing record economic growth and rapidly increasing international trade. Luka Koper's role as one of the leading and most reliable maritime hubs linking countries such as Austria, Hungary, the Czech Republic and Slovakia with dynamic economies of the Middle and Far East is becoming ever greater and, accordingly, increasingly more important.

The anticipated further expansion in international trade - and of container throughput in particular - will continue to provide huge opportunities for the development of Luka Koper as well as its customers and business partners, both within its European hinterland as well as abroad.

Investment in Development and Infrastructure

In response to the growing demand for port services, Luka Koper has embarked on an expansive and financially demanding investment cycle, which was inaugurated in 2007 and is to be completed in 2015. 2008 has seen the extension of the container quay at Pier I, the construction of new garage parking facilities for vehicle exports and imports, as well as the purchase of modern handling machinery and equipment. Slovenia's national spatial plan for the entire Port of Koper area provides a solid basis for the expansion of infrastructure and facilities, which will successfully deliver ever more efficient port services for decades to come.



Marjan Babič, M.Sc. – Member of the Management Board

The optimum exploitation of the Port of Koper also requires efficient transport connections and logistics service provision. Luka Koper is enhancing its position in Central Europe through the development of modern logistics and distribution centres in Sežana and Beltinci (Slovenia), as well as in Hungary and Romania. Upon the client's request, goods may be collected and processed at these centres, as well as transported by road or direct rapid rail link via the Port of Koper. Owners, shippers and their agents are accordingly provided with additional competitive advantages by way of such services.

Concession Agreement Significantly Reduces Profitability Risks

Luka Koper's future development is also underwritten by the conclusion of concession agreement with the Republic of Slovenia for the provision of port services as well as the management, development and maintenance of the Port of Koper. This new agreement clearly determines all rights and obligations pertaining to investments in port infrastructure, whilst a model of uniform port development and management, which provides flexibility to market conditions as well as optimum organisation of operations, is



also being implemented. The amount of the concession fee, which includes eventual levies for building and water rights, eliminates pertinent risks pertaining to the company's future operation. The agreed concession fee, calculated in relation to generated revenues, encourages both contracting parties to develop and efficiently exploit port facilities. The anticipated 8 to 10% annual growth rate in Luka Koper's operating revenues - whilst at the same time maintaining operational profitability - is most certainly attainable for years to come.

Positive Performance Anticipated to Continue

Luka Koper's performance during the first half of 2008 was most satisfactory, and witnessed a significant increase in cars and container freight - which are in the long-term the most important single elements of cargo operations. Operating revenues were also 14% ahead of the same period in 2007 and provide further proof that the company continues to successfully accomplish its development objectives. Hikes in terms of expenses, which can - in particular - be attributed to global rises in raw materials markets, were efficiently mitigated by operational efficiencies. The overall result is a year-on increase in operating profits of 21%, a 6% increase in return on sales, and an 8% rise in value-added per employee in comparison with the first two quarters of 2007, even taking in consideration a year-on rise of 4% in the number of employees.

Slovenia's Minister of Transport Mr Radovan Žerjav, and Mr Robert Časar, President of the Luka Koper d.d. Management Board, have on 8th September signed the concession agreement for the provision of port services, as well as the management, development and maintenance of infrastructure at the Port of Koper.

Eagerly expected for several years, the concession agreement between the Republic of Slovenia and Luka Koper d.d. determines the mode of calculation of the concession fee, the rules of governance, the management and operation in the Port, as well as the rights and obligations of contracting parties upon the suspension or termination of the concession relationship. In addition, it encompasses the agreement of the contracting parties on the mode and dynamics of investment into infrastructure together with provisions as to the assurance of openness regarding port operation.

In compliance with the provisions of the Maritime Code, the concession agreement is concluded for a period of 35 years, which is long enough for the concessionaire to accomplish its infrastructure development plans on the basis of which Luka Koper shareholders will be guaranteed a safe and reliable long-term return on their investment.

The agreed concession fee amounts to 3.5% of the company's operating revenues, reduced by the amount of collected fees. The fee also

encompasses water rights, water taxes as well as other duties related to the use of territorial waters pertaining to the Republic of Slovenia. The concessionaire shall pay the balance of the concession fee in equal proportion - 50:50 - to the state and to the municipality of Koper.

The concession agreement is the result of several years of harmonisation between the government and Luka Koper, and marks the culmination of negotiations which began following the company's denationalisation in 1996. The lease agreement for port infrastructure, concluded in 2000, provided a stop-gap agreement, and the adoption of the Maritime Code RS in 2002, together with its implementing regulations, provided a legal basis for the conclusion of a full concession agreement.

During the process of negotiation and reconciliation of the agreement text, the contracting parties managed to harmonise various interests, as well as provide framework conditions which guarantee the interests and influence of the state as regards the only commercial port in the country. At the same time the agreement simultaneously provides Luka Koper, as a public limited company, the grounds and conditions for its continued successful operation. The common goal of both parties was to guarantee the future and further development of the Port and its infrastructure, as well as operations of the country's sole maritime gateway.

Increasing Container Freight



Worldwide container transport is currently increasing at an annual rate of 15%. At Luka Koper, the premier port for the countries of Central Europe, the level of growth is even more intense. This demand is reflected in an increasing burden on the existing space and facilities, for which reason in late 2007, the company initiated an extension of Pier I, an investment that shall also facilitate an expansion of the Container Terminal.

New Cranes for Larger Vessels

In order to meet the ever-rising demand of container shipping, ever-larger vessels are being constructed, the largest of which carry as much as 14,500 TEUs. Further to which, the Port of Koper's own record was also broken this May with the berthing of Sea Land Quality, and the handling of 3,000 TEUs in less than two days. As a result of the increasing frequency of large container ships calling at the Port of Koper, Luka Koper is to purchase four new post-panamax cranes capable of handling vessels with greater draughts as well as capacities of up to 8,000 TEUs.

198 Piles to Carry New Pier Extension

The 146-metre seaward extension of Pier I is being constructed on 198 steel piles driven by pneumatic hammer deep into the seabed. Indeed, approximately two thirds of their 40- to 45-metre length extends beneath the seabed. The pile tubes are then filled with concrete to create solid pillars on which the quay's platform superstructure is constructed.

A Doubling of Container Throughput

The construction of first 50 metres of quay will be completed in mid-September, whilst the full 146 metres will be finished by late November.

Together with the creation of the new quayside, the infill of new hinterland area of the Pier will provide the Container Terminal with valuable areas for container manipulation and storage, and accordingly provide a doubling of container-handling capacities at Koper.

€ 120 million Investment

The cost of the extension of Pier I, the infill of the hinterland area, together with the purchase of the requisite cranes and other handling equipment, will amount to some € 120 million. Financial analyses as well as the calculation as to the feasibility of these acquisitions, both point to the decision to invest in an increase of container terminal capacities at the Port of Koper being a correct one. The investment, which is primarily of an infrastructural nature, is - on the basis of an internal yield rate of nearly 10 percent - anticipated to pay for itself within 19 years.

A Little More About Containers

The use of standard containers has led to drastic changes and rationalisation in the methods and technologies used in transport and logistics, while the modularity of containers have made them suitable for transporting a great variety of cargos by road and rail as well as, of course, by sea.

The evolution of container freight can be traced back to collier barges working the canals of late-18th century England. The modern, standardised inter-modal container was, however, first exploited by the US military for supplying overseas deployments during the Second World War, since which time containers have been increasingly used in maritime trade, whilst simultaneously triumphing in the service of inland transport logistics. Today some 90%

of non-bulk and non-liquid cargos are shipped in containers, and consequently continue their journey by land from the port to their destination of use or redistribution. Nowadays, approximately 18 million containers perform some 200 million journeys per year.

Consequent to their various purposes and requirements, there are various types of container, each of which has an accurately predetermined form, size, load capacity and equipment. The finish - the paint that prevents it from rusting - is optional and usually bears the logo of its owner, i.e. the transport company. Further to this, each container has its own individual identification number, similar to a car number plate, which enables its recognition amongst a multitude of those which look alike, and ensures that coffee-roasting facilities aren't supplied with toys, and a toy store isn't overwhelmed with several lifetimes' worth of coffee beans! The IT solution called Cosmos is at the basics of management of the Container terminal in Koper.

The basic twenty-foot container is 6.1 metres long, a little under 2.5 metres wide, and a little over 2.5 metres high; at the same time it is a comparative unit used in describing container freight volumes - the TEU (twenty-foot equivalent unit). The use of imperial measurements (feet and inches) in denoting containers can be attributed to the fact that first such standards were created in America, and that in transport - and in particular intercontinental maritime trade - these basic measures are still very much the norm. Today, the most common container type is exactly 40 feet long, and accordingly exactly equal to two TEUs. It can transport up to 30 tonnes of cargo, including all types of goods in solid form, and there are also special containers for liquids, as well as frozen or chilled goods (reefer containers) that feature their own in built refrigeration units and systems. These are aimed at the transport of highly perishable goods, such as, for example, bananas from Central America and oranges from Israel.

NOTICE is the E-newspaper of Luka Koper d.d., and is primarily intended for investors. The Editor-in-Chief of Notice is Mr Sebastjan Šik, and it is published by Luka Koper, d.d., 6501 Koper, Slovenia. Phone: +386 5 66 56 100, Fax: +386 5 63 95 020, E-mail: portkoper@luka-kp.si, Website: www.luka-kp.si. Contact: **Mr Rok Štemberger**, phone: +386 5 6656 140, fax: +386 5 639 50 20
