
A Successful Performance in 2008

Last year, Luka Koper d.d. exceeded the 16 million tonnes threshold in cargo throughput; this record amount established a new milestone in the history of our port. If we merely focus on the fact that throughput growth has been regularly recording increases of a million tonnes per annum, such an achievement seems reasonable. Although global economic conditions have undoubtedly been favourable, the company's consistently excellent performance is also a reflection of our partners' recognition of Luka Koper as a reliable, efficient and trustworthy provider of port and logistics services. In conjunction with the infrastructure investments launched last year, such ongoing partnership is also our guarantee for further increases in our competitive edge, and the smoothest possible course in weathering the imminent recession.

Koper's Container Terminal had exceeded its annual target of 320,000 TEUs of cargo by November last year, and total volume at year's end surpassed 353,000 TEUs, which is a year-on increase of 16 percent. Container freight is considered one of the most desirable cargos in any port, and this most excellent level of growth fills us with optimism for the future. At the moment we are very close to the completion of the extension to Pier 1, a 146-metre container quay replete with four new post-panamax cranes; by mid-2009 this quay will be able to accept vessels with capacities of up to 7,500 TEUs, whereas of today we are limited to 4,000 TEU freighters. Larger vessels with higher capacities are becoming evermore-regular visitors to the Northern Adriatic, and those ports lacking the necessary infrastructure to handle them will simply fall out of the game. The greatest and most immediate challenge is the impending downturn in global trade, during which container freight through the Port of Koper is anticipated to decrease by between 15 to 20 percent. This said, however, containers are our long-term future.

Similar problems are being faced in the

field of general cargos, which recorded a 23 percent decline in 2008. This downturn occurred as a consequence of increasing amounts of cargo being transported in containers, as well as large decreases in steel stock and components for the automotive and electronics industries. On the other hand, timber throughput was up by 2 percent, and fruit and perishables up by a dazzling 212 percent. Investments in the modernisation of the banana-ripening unit, together with new air-conditioned warehousing in Koper as well as at the new Sežana terminal, have obviously borne fruit. Notable results were also accomplished as regards vehicles. Throughput increased by 9 percent last year to a total of nearly 569,000 units, which places Koper among the leading car terminal operators in the Mediterranean. During these harsh times, which most certainly impact every operator in the automotive sector, the client remains our number one priority. In recent weeks we have been facing serious space problems at Koper, due to the fact that some 55,000 vehicles were in storage within the free zone, way beyond the regular level. We take it as a measure of success that we didn't have to reject vessels – as some other ports did – which would further financially impact the cargo owners. This is just one of the ways we have proven our reliability to the customer, and have looked to preserve their trust through this period of crisis. The situation as regards dry bulk cargo, which accounts for 50 percent of total tonnage throughput at Luka Koper, sustains more optimism. Last year's throughput was according to plans, and estimates for 2009 don't anticipate any decrease. This also holds true for liquid cargos, which last year recorded a 51% increase. The investment in three new storage tanks for aviation fuel has proven to be a good one, and we are already planning a new investment partnership, which shall provide new long-term stable business for the company. Forecasting is definitely a most ungrateful task, but based on available



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Port of Koper

data and information we face 2009 with relative optimism. Luka Koper d.d. has a deal of room for manoeuvre before any realisation of a worst-case scenario. In addition to the constant monitoring of costs and the rational allocation of labour, we have already anticipated the cessation of all less important investments and – if necessary – the discontinuation of contracts with external providers of port services. Although any recession will present all of us with major operational challenges, particularly as regards the identification of new markets and trade flows, the continued and future prosperity of Luka Koper d.d. is assured.

Robert Časar
predsednik uprave



Interview: Andraž Grahek Asset Manager at KD Funds, Ljubljana



World capital markets have certainly been experiencing some turmoil, but experts differ considerably in their estimations as to the depth of the current crisis, as well as its probable duration and repercussions. Some are comparing it to the great crash of 1929, and now anticipate another great depression, whilst others believe that the worst is now behind us. What is your opinion and forecast?

Any historical comparison with the great depression of 1930s would be naïve, and ignores the fact that today we no longer live in a world where the volume of money in circulation is dependent upon or related to the gold standard. Accordingly, the response time of monetary and fiscal policies is much faster, the markets also respond more rapidly, and discount potential signals as to the economic cycle; by way of this, its overall burden is more easily mitigated by the economic superpowers than was the case in the past. I believe that we have to make a distinction between the lack of liquidity and the financial crisis which this precipitated, and its impact on economies together with the behaviour of subjects within. Today money is not circulating in the financial system,

instead subjects – in fear of the crash and its repercussions – are withdrawing from markets and accumulating it, which has resulted in a collapse of market indices and, as a consequence of the liquidity squeeze, skyrocketing costs for borrowing. The second perspective pertains to accepting the fact that in such an insecure environment all players must adapt and retrench their operations accordingly – they reduce spending, indebtedness, investment, recruitment, and at the same time look to internal reserves. This inevitably leads to a decrease in both consumption and commerce, which in itself partially determines the path of the economy in the medium-term.

In my opinion the liquidity crisis will ease over the next six months, and money will begin to circulate again. Although the negative impacts on economic activity will persist for some time, I still believe that the bleakest scenarios considerably undervalue the ability of an economy to weather any recession and enter a period where there again exists prospects for potential growth and development. I would rather not speculate as to the duration of this cycle, but I would expect the major portion of the world's largest

economies to move from stagnation to moderate growth during 2009

What, in your opinion, will be the impact of the financial crisis and any consequent recession on the port and logistics sector?

Any diminution of liquidity results in a downturn in economic activity; cyclical branches – and here we must include shipping and its related transport and logistics sectors – are particularly subject to such downturns in international trade. Such is also evident in the collapse of shipping prices from their record levels set this spring. Nevertheless, I believe that we have in recent months witnessed a shock that has led to impulsive, even extreme, responses from the market, which reflect neither the structural situation or the processes which have transformed the world economy over the last decade. In my estimation, ports will – in both the medium and long-term – undoubtedly play an important strategic role in a global economy in which the significance of international trade is increasing.

Will the monetary injections and fiscal stimuli – the spending programmes

predicated on substantial borrowing - that many governments and central banks are now undertaking bring about the desired results - i.e. a more rapid way out of this financial crisis?

I am sure that such injections of liquidity will help us get out of this situation more rapidly and, in particular, assist in the restoring of trust in the global financial system. Finance and the operation of capital markets have for centuries been based on confidence and trust. When trust vanishes, so does the money; people tend to react impulsively, sometimes with panic and even hysteria. I believe that financial markets will regain trust gradually, therefore we can't expect the measures to work overnight, or believe that the healing process is now at an end.

What do you think will be the first signs of this crisis coming to the end?

The very first signs will include a considerable shrinkage in interbank interest rates, and in particular the extreme gap between the interbank rates and the actual target rates set by central banks. This should be followed by a decrease in surpluses as to the yields in both the corporate and government bonds markets. Consequently, the extreme fluctuations engendered by fear in the stock markets should calm, and this in itself would slowly facilitate the formation of a healthier relationship between risk and yield and attract long-term capital back into equity investments.

What lessons might investors learn from this experience?

Firstly, we should not forget the lessons already learned in previous crises. Secondly, the words of one of the greatest investors of all times, Warren Buffett, also come to mind: "Be scared when everybody around you is greedy, and be greedy when everybody around you is scared." And thirdly one of the greatest economists of all times - John Maynard Keynes - once said: "the market can remain irrational longer than you can remain solvent..." which teaches us that although financial crises often provide once in a lifetime investment opportunities, the healing process cannot be avoided, but merely identified and accepted.

Brief history of vehicle throughput at the Port of Koper

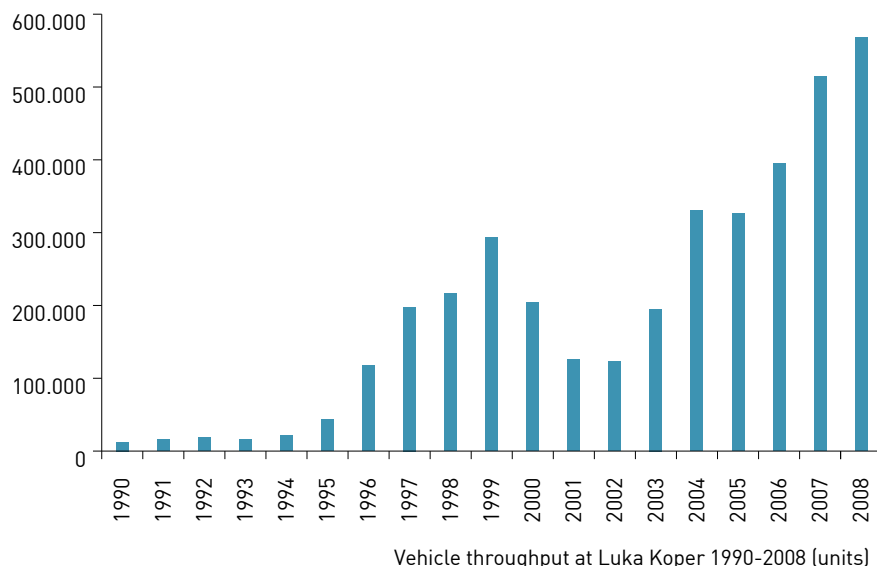
Vehicles rank among those types of cargo that have witnessed tremendous growth over recent years. Although they account for a mere five percent of total throughput tonnage at Luka Koper, automobiles generate a significant portion of company revenue.

The Port of Koper received occasional vehicle shipments back in the 1980s, whilst in the early 1990s hinterland markets increasingly opened up to passenger car imports from the Far East. Luka Koper seized upon the opportunity and successfully entered the market. The first vessel, loaded with Hyundai cars, berthed at Koper in April 1990, and total throughput for that year amounted to 12,027 units. The rapid development of the automotive industry

together with increased purchasing power in the markets of Central Europe facilitated a steep increase in the number of cars handled, and this period was also marked by increasing demand for ever shorter handling times and services of the very highest quality. The development of infrastructure also followed this trend: Luka Koper provided new protected parking places and in 1999 commissioned a six-storey parking garage capable of housing 3,350 vehicles. The latest important investment is a recently completed multi-storey facility with 2,750 places; at the same time a viaduct has been built to connect the garage with the quayside to facilitate safer and more rapid handling.

A shipping and distribution hub for more than twenty manufacturers

When any new car is driven away by its happy owner, it has already travelled quite some kilometres - a good many vehicles have been shipped from overseas, and almost have been freighted by rail. Luka Koper manages two main flows of vehicles:



European imports mostly emanate from the Far East, South Korea, Japan and China; whereas exports shipped from Koper, attributed to plants dispersed throughout Europe, are invariably destined for countries in the Mediterranean Basin. Maritime connections have also been established with important manufacturing centres in Spain and Turkey, and as such represent implementation of the EU's Sea-Highways initiative, which aims to redirect cargo away from the continent's overburdened highway network to vessels running regular freight services in the Mediterranean. Smaller quantities of used vehicles are also shipped to Syria and the Middle East. In terms of the volume of vehicles handled and equipment, Koper competes with the largest and most significant terminals in Europe, such as Barcelona, Germany's Bremerhaven as well as the rapidly developing port of Illichevsk in the Ukraine.

The procedure for automobile handling is actually a fairly simple one. Specialised car carrier vessels perform the major portion of shipments, and these mobile multi-storey floating warehouses are used to transport up to 6,000 vehicles at a time. Cars are unloaded and loaded by trained drivers who take them to and from prior-determined positions in the port; due to their white overalls and protective gloves these drivers are recognizable from quite a distance. Handling operations are facilitated by IT-support, which prevents any unnecessary wasting of time and provides information on the location of each individual car at a given time. An electronic record with a bar code system is maintained from the moment a vehicle is unloaded from a vessel, which allows its journey to be followed from the moment it leaves the port area. Further to this, Luka Koper provides a range of ancillary services on behalf of its clients - including pre-delivery inspections, de-waxing, cleaning and preparation of vehicles for further transport - together with a vast variety of logistics and forwarding operations.



The newly constructed viaduct which connects the rooftop of the garage to the quayside will importantly improve the efficiency of the terminal.

Realisation of plans for 2008

Some 526,000 vehicles passed through the Port of Koper in 2007, and this year the number will reach about 550,000. There was a slowdown in turnover in December as a consequence of the credit crunch, and this downturn in demand is reflected in a larger occupancy of the port's storage facilities due to the fact that vehicles are now leaving more slowly.

Accordingly, the number of cars in temporary storage at Koper may amount to 55,000 at a time, but through successful co-ordination with agents and forwarders the situation is in hand. It is estimated that conditions will improve by the end of spring 2009, by which time manufacturers will have adapted their production to the decline in demand. In marketing the services of Luka Koper's car terminal, the company is planning some measures that will - despite the general downturn in sales - contribute to ensuring that key clients continue using Koper throughout any recession. The provision of shipping and ancillary services for a number of niche and specialised vehicles is also under consideration.

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