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# Seaports Engendering Development

Luka Koper d.d., which operates the Port of Koper in Slovenia, completed fiscal 2008 with a record cargo throughput, a ten percent growth in operating revenues and a six percent rise in operative cash-flow. This said, however, the commercial and developmental significance of Slovenia's sole seaport far surpasses the mere operational performance of Luka Koper, and, in itself, overseas trade necessarily embraces a number of forwarding, transport, trade, financial and other services. The intensive investments in new quaysides, container handling equipment, storage facilities and other infrastructure also generates employment and revenue for construction enterprises and other sector-related companies. Those ports which provide an efficient and competitive operation, as well as enjoy a favourable location, will also be the most successful in facing the challenges and uncertainties of a global recession. Koper is such a port: over the first three months of 2009, cargo throughput volumes in some segments have increased on 2008 levels.

The basis of the competitive edge of any port is provided by the adequacy of its facilities and infrastructure. For this reason the Management Board of Luka Koper d.d., endorsed by its Supervisory Board, decided upon intense investment in new and modern plant and equipment which shall ensure the long-term competitiveness of the Port of Koper. A total of € 275 million has been allocated to investments in infrastructure and related projects during 2007-2008; it is these same assets that shall form the basis for ongoing profitable operations over the coming three decades.

Harsh conditions on world markets have presented the company with new challenges, particularly as regards the provision of long-term sources of financing for the anticipated investments. In mid-2008, under the title Seaports Deliver Prosperity, the American Association of Port Authorities (AAPA) began actively promoting the opportunities and benefits of investment in port facilities. These rewards, such as the preservation and creation of new employment opportunities, together with the fostering of commercial activity and international trade, have become even more significant within those efforts aimed at diminishing the effects of economic crisis. Indeed, the AAPA was

delighted with the decision by the US Congress to include port investments in the stimulus bill (2009 American Recovery and Reinvestment Act) which was signed into law by President Barack Obama on 17<sup>th</sup> February.

Over the recent years, Luka Koper has taken on the full burden of financing the investments in port facilities. As a result – and in particular as a consequence of a general ignorance as to how these issues are managed abroad – the company has been criticised for excess investment, causing it to become over-leveraged. It seems obvious that those who make such appraisals are not yet fully aware of the significance of this country's sole seaport and in particular the exceptional development opportunities which it enjoys as an entrepôt to the world, not only for the Slovenian economy but also for a vast swathe of Central and Eastern Europe. Indeed, Luka Koper d.d. has increased its debt-financing, which nevertheless remains below forty percent in the structure of financing sources. By way of comparison, the indebtedness of Gothenburg - Scandinavia's largest port, which is organised in a similar manner to Koper - has ranged between 60 and 65 percent over the recent years. Luka Koper d.d. is fully capable of servicing



**LUKA KOPER**  
Port of Koper

its existing as well as additional debts. Nonetheless, long-term borrowing will be necessary. In this respect the company counts on the support of its principal shareholder, the state, to provide guarantees as well as the option of a capital injection. The concession agreement between Luka Koper and the Republic of Slovenia has been concluded for a period of 35 years, and by way of this accord the company has undertaken to rise to the challenge of investing in the future of the Port of Koper and ensuring the provision of all necessary port facilities.

Marjan Babič, M.Sc  
Member of the Management Board



## Comparisons of Port Efficiency – The management model is of crucial significance...

**The media sporadically publishes comparisons of the efficiency of ports which, on occasions, fails to consider the complexity of such logistics-related operations. When it comes to making any such evaluations, it is also necessary to examine the model as to the port's organisation and management.**

When endeavouring to make comparisons with their competition, enterprises most often use benchmarking – a tool which allows a company to identify those fields in which it lags behind its competitors, as well as those areas that could be improved in order to enhance performance. The criteria most often used in comparing ports include location, technical facilities and infrastructure, together with communications (transport links). These factors consequently influence prices as well as the quality of services, transit times and flexibility. It is consequently a lot more difficult to compare ports from a financial

perspective due to the diversity in their modes of organisation, which, in turn, significantly underlies commercial performance. An additional issue that must be dealt with is the accessibility of data, which often has to be extracted from consolidated databases.

The organisational model most often applied worldwide is port administration, in which instance a port authority appointed by the state or region grants concessions to individual terminal operators. A typical example is the German port of Hamburg, where the port administration, in compliance with a special law, is in charge of Port management, maintenance, infrastructure investments as well as a portion of promotional activities. Port administration is financed by concession fees paid for the use of terminals, as well as dock dues and charges emanating from cargo handling at terminals. Ten terminal operators within the Port of Hamburg together handle freight of every conceivable type, and total cargo throughput is some 140 million tonnes per annum. The concession fees collected are used by the port administration for investment in port infrastructure; namely, the

construction of new facilities and the maintenance of existing ones - which is also a key difference between the ports of Hamburg and Koper. As a single uniform commercial entity, Luka Koper combines both commercial and management aspects of operations, and thus - using its own resources - fully finances maintenance and the construction of new infrastructure. Indeed, it is the construction of infrastructure and its consequent depreciation which significantly effect the performance of Luka Koper d.d. as an enterprise. Accordingly, any superficial comparison of Luka Koper with individual terminal operators from other ports makes little sense. This year our company is allocating a total of 99 million euros in investments, of which 19 million euros shall be invested into port infrastructure, while the remaining portion is earmarked for development and the provision of port services.

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# New Methanol Terminal at Koper

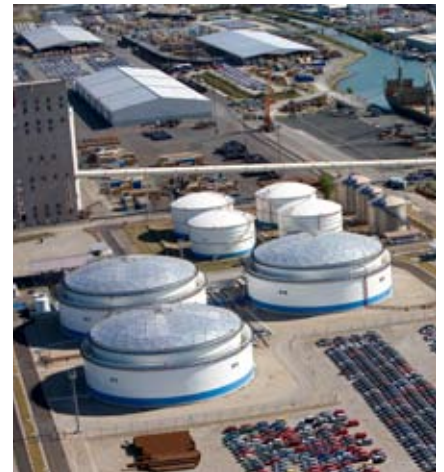
Luka Koper 's cycle of investments in key port infrastructure is set to continue throughout 2009: the development of quayside hinterland areas and the acquisition of new cranes at Container Terminal are well underway, as is the second phase of multi-storey garage warehouse and the construction of the new Methanol Terminal.

Two terminals operating within the context of Koper's European Energy Terminal specialise in various fuels and other raw materials for industry. The Dry Bulk Terminal deals primarily with coal and iron ore, whereas the Liquid Cargo Terminal handles and stores an assortment of chemicals

and petroleum derivatives, including avgas and fuel oils. During 2009, as a consequence of increased demand for storage capacities, Luka Koper is to develop dedicated terminal facilities for alcohols, especially methanol. In addition to its use as a fuel, methanol is a compound used in industry for the production of formaldehyde, plastics and paints.

This investment, replete with the requisite infrastructure for the acceptance, storage and dispatch of methanol, is estimated at € 15 million, whilst all indicators as to its economic feasibility clearly demonstrate viability under any scenario of a general downturn in manufacturing and commerce. Namely, this venture is underwritten by the conclusion agreements with clients, thus ensuring full occupancy of the 31,360 m<sup>3</sup> facility in the long term. A little over a year ago Luka Koper commenced the handling

and storage of aviation fuel at the Port of Koper, and today it supplies Vienna's Schwechat Airport with avgas. As an integral part of this venture, Adria Transport - a company in which Luka Koper holds a 50% stake - provides a rail link between Koper and Vienna three-times a week.



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## Encouraging Cargo Volumes in the First Quarter



Despite the global recession, which has impacted practically every sector of the economy, Luka Koper d.d. can

be relatively happy with cargo volumes over the first three months of this year. Throughput in March amounted to 1,148,214 tonnes, thus the total volume of cargo handled in the first quarter of 2009 totalled 3,712,353 tonnes; this is 1% ahead of the anticipated volume and 9% down on the same period last year. Nonetheless, due to continuing pessimistic predictions of recession, Luka Koper is not in a position to be confident about growth.

As is the situation with ports worldwide, Koper has recorded its largest downturn in the throughput of vehicles. Volume amounted to 62,333 units in the first quarter, which is a 62% decrease on the same period last year. In the context of this it should also be pointed out that the Company managed to acquire new business during this period, and

that other Mediterranean ports have recorded even larger falls than Koper.

The crisis in the motor vehicle and steel industries has also resulted in the downturn in general cargo throughput, although the average increased as a consequence of growth in timber and fruit, the volumes of which respectively increased by 9 and 7 percent in comparison with the first quarter of 2008. A decrease in throughput has also been recorded with some types of dry bulk cargo. The performance of the Container Terminal remains excellent. A total of 85,867 TEUs handled is 3% ahead of the same period last year, and 7 percent ahead of expectations.

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