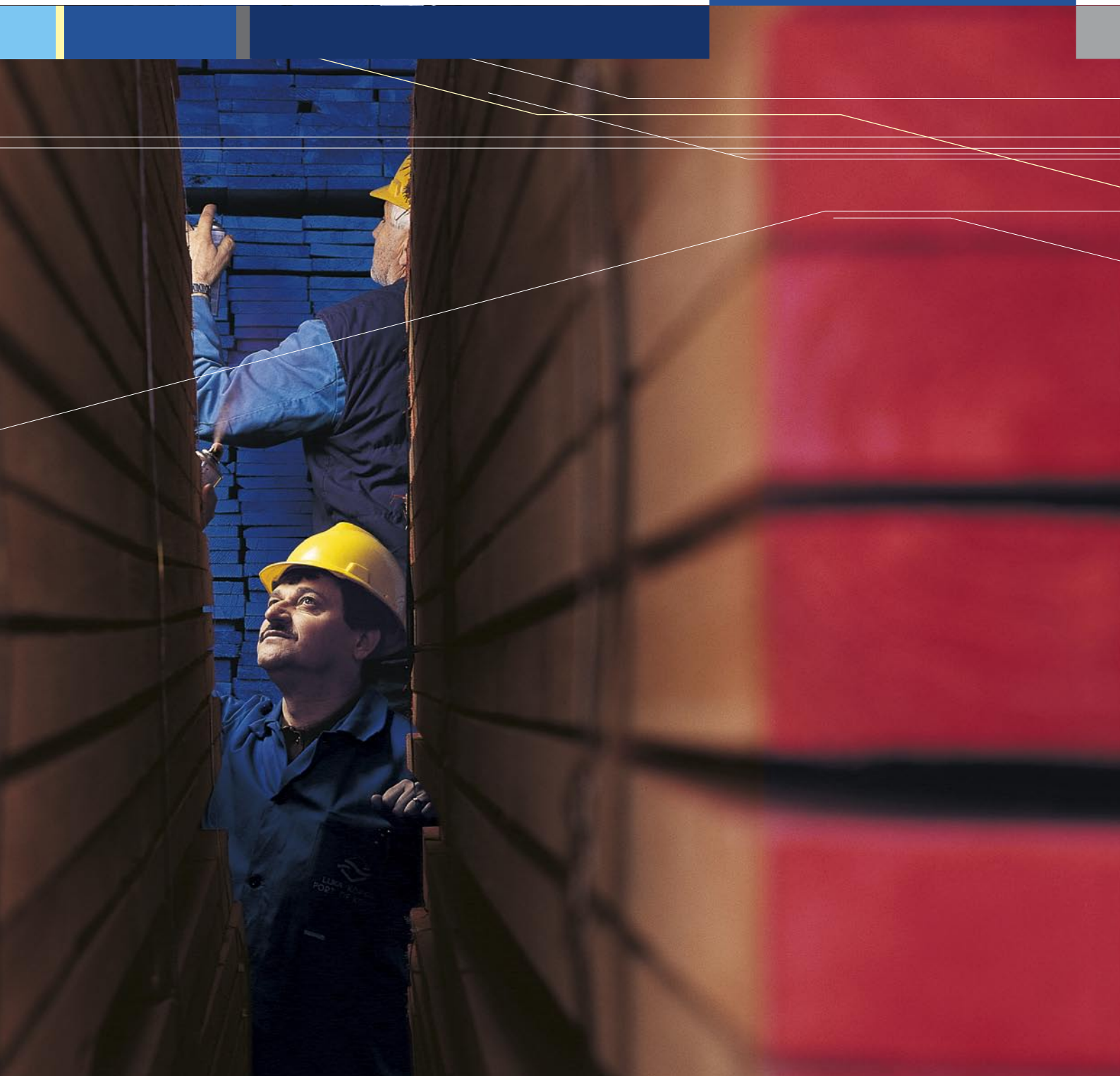


2004 Annual Report



LUKA KOPER





Luka Koper – A European Logistics and Distribution Centre

The world is a network of paths, traced by people and transport means. The paths are like invisible threads that become visible to the eyes only where there is a reason for making a stop. One such place is Luka Koper. Transport routes flow through the port. Through the Northern Adriatic, they connect the seas and continents of the world with the central part of Europe and farther to Southeast, West and East.

We are here to take care of goods that stopped at our place to give them the proper form, packing, labelling, colour and all the documents needed to be dispatched, after having received added value and to find the shortest way to their destination. We can also store the goods to send them on their way at the right time.

Then the journey continues. Another invisible thread is outlined on the terrestrial globe.

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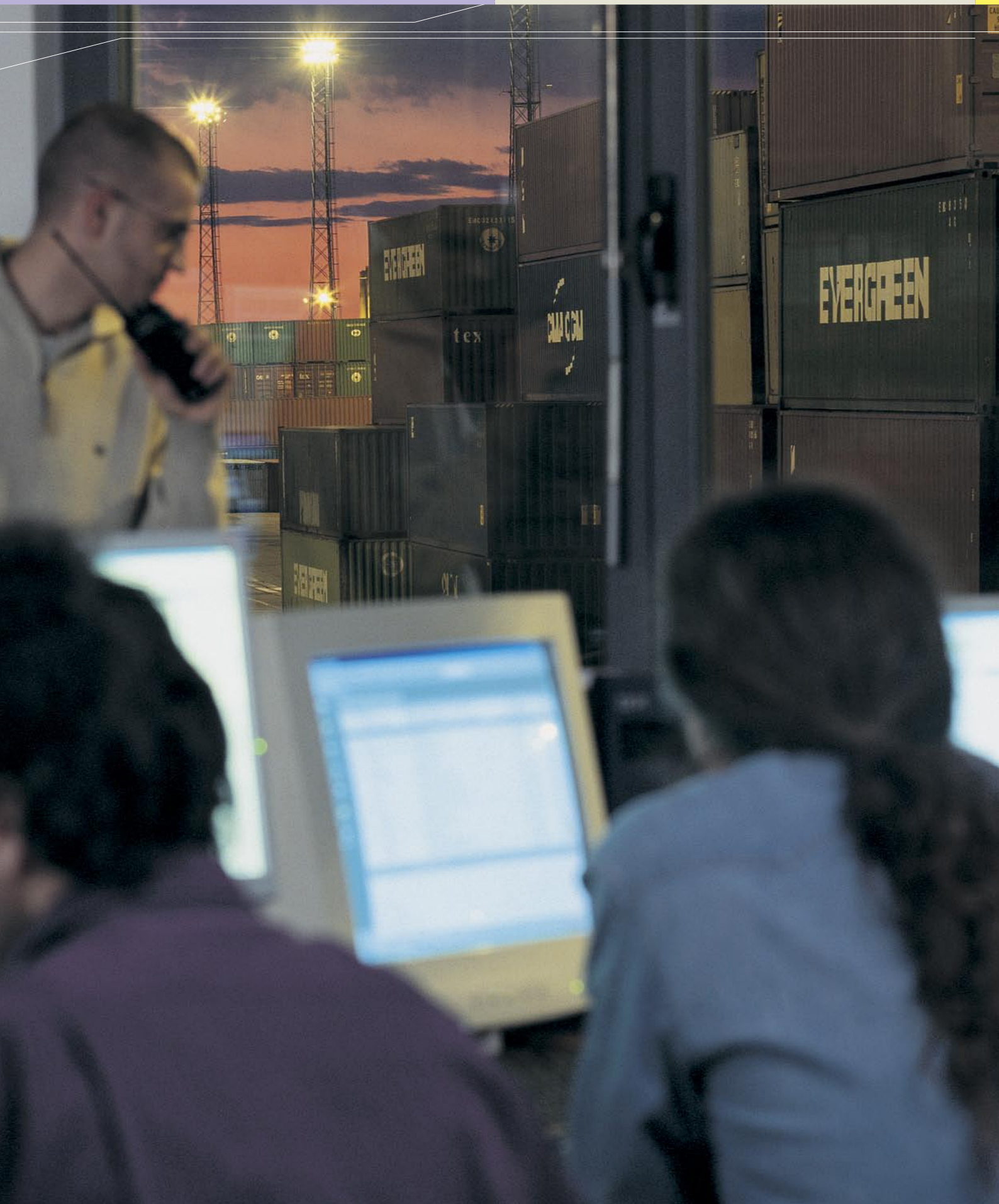
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MSC GIULIA
PANAMA



"We throw a glance at the computer screen and in any moment we can tell where should which container be placed. In the past year, we had over 150,000 containers. Crane operators, foremen and drivers are in constant contact between them. We are stuffing or stripping an increasing number of containers and sending the goods as requested by our customers."



Selected Performance Indicators of Luka Koper, d.d.

	2000	2001	2002	2003	2004
Operating revenues (millions of SIT)	12,817	12,854	12,967	14,506	16,733
Cargo (millions of tons)	9.32	9.35	9.43	11.04	12.40
Net profit (millions of SIT)	2,900	3,638	4,494	3,885	4,182
Equity (millions of SIT)	47,151	52,666	55,636	57,610	60,612
EPS (SIT)*	207.2	259.9	321	277.5	298.7
Return on equity (%)	6.5	7.29	8.3	6.86	7.07
Added value per employee (thousands of SIT)	13,679	13,121	12,449	13,029	14,038
Number of employees on 31 December 2004	632	633	630	647	650

*All shares were considered in calculating the earnings-per-share ratio (EPS).

Company Profile

Name:

Luka Koper, Port and Logistics System, joint stock company

Abbreviated name:

Luka Koper, d.d.

Registered office:

Vojkovo nabrežje 38, Koper

Entered in the register of:

The District Court of Koper, entry number 066/10032200

Registration number:

51144353

Tax number:

89190033

Share capital:

SIT 14,000,000,000

Number of shares:

14,000,000

of which 7,140,000 ordinary shares

6,860,000 preference participating shares with limited voting rights

Nominal value of shares of both classes:

SIT 1,000

Quotation of shares:

Ljubljana Stock Exchange, quotation of ordinary shares on the stock exchange

Share symbol:

LKPG

Management Board:

Bruno Korelič, B.S.Econ., Chief Executive Officer

Chairman of the Supervisory Board:

Miha Kozinc, LL.B.

Organizational Structure of the Luka Koper Group

Parent company	Profit centres	Subsidiary companies	Associated companies
Luka Koper, d.d.	PC General Cargo Terminal	Luka Koper INPO d.o.o. 100 %	Autoservis, d.o.o. 49 %
	PC Fruit Terminal	Logistic Service d.o.o. 100 %	Adriafin, d.o.o. 39 %
	PC Container and RO-RO Terminal	Luka Koper Pristan d.o.o. 100 %	Actual I.T., d.o.o. 26 %
	PC Car Terminal	Luka Kopar Beograd d.o.o. 90 %	Kopinvest., B.V. 25 %
	PC Timber Terminal	Adria Tow d.o.o. 50 %	Intereuropa, d.d. 23 %
	PC Dry Bulk Cargo Terminal		Golf Istra, d.o.o. 20 %
	PC Liquid Cargo Terminal		
	PC European Energy Terminal		
	PC Alumina Terminal		



On the Threshold of a Structural Shift

The first decade following the transformation of Luka Koper into a stock company has been characterized by accelerated growth arising from our consistent market-oriented operations. We have adapted our business policy and all our business activities to identifying and satisfying the needs of buyers of our services. Our competitive advantages derive primarily from the increasingly more harmonized performance of all members in the chain of services offered by the international commercial port and logistics provider. This is complemented by our favourable position in the northern Adriatic as well as our integral and individualized treatment of customers. The market orientation in our internal organization is supported by the decentralized operation of profit centres.

The year 2004 witnessed an important shift in our operations. The highest growth in cargo throughput was registered by cars, containers and logistic services. This result is not accidental, but strategic and planned. It reflects our effective response to major trends in this sector and points to the increasing volume of cargo handled with a minimum impact on the environment and higher added value. The year 2004 has therefore paved the way to our planned structural shift to quality cargoes and complex services, which is in the interest of all participants – owners, the Management, employees and the environment.

A European Logistics and Distribution Centre

Slovenia's accession to the European Union was one of the major events of the past year, which also left its mark on the business operation of Luka Koper. As expected, it has placed us on an

equal footing with other European ports, yet at the same time thrown us into the midst of even fiercer competitive conditions in which we will have to prove our worth.

I can therefore say with all the more satisfaction that we managed to achieve our fundamental strategic development orientations in 2004 and concluded the year with good business results. Operating revenues increased by as much as 16 percent and exceeded the plan, the same applying for net profit and added value per employee. The volume of cargo handled also rose high above the planned figure. The slightly lower operating profit may be attributed to certain factors over which we had no control, such as higher fees for building land use and higher prices of energy.

The LKPG share registered stable growth and rose 11.74 percent. In comparison with other securities listed on the Ljubljana Stock Exchange, the dividend yield was among the highest recorded in the past year.

Expansion of Logistic Services

In the current business environment of the European Union, our potentials acquired in past years are rapidly gaining value. A geographic position in the very heart of Europe, a location at the crossroads of important transportation routes and infrastructural connections with inland markets, as well as a developed port infrastructure represent a sound basis for the Company's further development. This is because Luka Koper, d.d. combines the business activity of marketing, the sale of port facilities and the uniform management of port infrastructure. Our efficient organization, which is also characteristic of many small ports in EU, allows for the excellent coordination of all phases of cargo flows. The customer is thus provided with an integral logistic service at a single location and in a very short period of time, which is one of our key competitive advantages.

Our company was among the first to develop logistics activities at the European Energy Terminal. As an experienced terminal operator conducting all operations – from the arrival of a ship, unloading and loading, to the dispatch of wagons – we have managed, through good coordination and a reduced number of mediators, to speed up operations in our port and thus further reduce any potential impacts of cargoes on the environment.

Luka Koper's newly acquired status of a European border inspection post (BIP) has contributed to the successful continuation of the process of upgrading our basic port services by providing support to all members in the logistic chain. In this way the Port of Koper has in reality become a "one-stop shop" where customers can satisfy all their needs at a single location, from required inspections to complete procedures for the import of goods for any EU state.

Immediately after acquiring this status in the beginning of May 2004, we conducted our first customs examination of cargo at the Fruit Terminal. It was precisely here that, owing to several new cargoes intended for EU markets, we soon began to feel the positive effects brought by the status of a European port. We entered into new car deals and increased our volume of operations in this segment by 70 percent.

Growth of Container Traffic High Above the World Average

With the establishment of the T.I.C.T. company three years ago, we assumed the management of Pier VII in the neighbouring Port of Trieste for the purpose of taking advantage of the opportunities brought by the growth of container traffic throughout the world. However, the parent port was not quite ready for its development on a large scale. In 2004, we decided to sell our equity share in the T.I.C.T. company. In our opinion, the Management and the Supervisory Board adopted this decision at a time when this company's business results did not yet have any significant effect on the business results of Luka Koper, d.d..

The sale of the T.I.C.T. company has renewed our ambitions for the expansion of high-quality container traffic in the Port of Koper. We firmly believe that, as the operator of a major terminal, we have substantially strengthened our reputation and recognizability among leading international shipowners. The effects are evident in the new regular container routes established in Koper in the past two years. Valuable experience has been acquired in managing the container terminal within the scope of the European Union. All of this represents an important experience for the further development of Luka Koper, d.d..

Experts have emphasized the advantages of the northern Adriatic for the transport of containers from the Far East. With a 21 percent growth of container traffic in the past year, our port has once again greatly surpassed the world average in this segment. The share of container traffic in the cargo structure is steadily increasing from year to year, and the existing facilities of the container terminal are limited. For this reason activities were begun in 2004 for the construction of a container terminal at Pier III.

This project caused considerable controversy and apprehension among inhabitants living close to the Pier III area. Owing to their opposition, the construction of the new container terminal has been temporarily postponed. We are convinced that through dialogue and by strengthening trust in the principles of sustainable development observed by Luka Koper, d.d., we shall find reconciled solutions while observing the highest environmental and physical planning standards which will not aggravate the living conditions of the local population or restrict the development of port activities.

Coal and Iron Ore Cargoes will Gradually Decrease

The development of Luka Koper, d.d. can only be the fruit of consensus among its key participants, including the local community.

In past years we have been building a continuous dialogue with citizens and local inhabitants, presenting development projects and supporting the development of sports, educational, cultural and other activities.

Regular measurements of environmental impacts in the past year have shown that air pollution throughout the year on average does not exceed the allowable limits. The same results were obtained in measurements performed by a government institution. We are reducing direct impacts on the environment by implementing numerous measures which, at the European Energy Terminal alone, have cost us more than one billion SIT in the past three years.

Our commitment to reducing environmental impacts is embodied in our strategic development plan adopted last year.

In 2004, we continued to evaluate investments in equipment and technology from the environmental aspect and implement measures for preventing their impacts on the environment.

Owing to the increasing share of containers and vehicles, the planned changes in cargo structure are being introduced.

Although the existing coal quantities cannot be reduced in the short run due to long-term contracts, we are planning to gradually reduce the quantities of warehoused coal and iron ore by 5 percent in the period from 2015 until the end of 2025.

Through investments in a protective barrier, sprinkling system and other activities we will meet the requirements of EU directives and reduce emissions by 50% up to the year 2010.

Consideration for the needs of the community is one of the Company's fundamental strategic orientations, as demonstrated in our support to educational institutions, cultural and sports organizations on the local and national levels. We cooperate with the University of Primorska and other Slovene universities both as donors and as partners in research activities.

Our Strategic Steps up to 2015 are Outlined

In 2005, we will continue our open dialogue with the local community. State representatives have expressed their support for our development plans. Positive shifts have also occurred in the area of infrastructural connections with inland regions: the modernization of the Koper-Divača railway line is scheduled in the next two years, followed by the construction of the second railway track.

Dynamic changes in international logistic and transport flows and EU expansion have called for the harmonization of our development strategy. Our Strategy of Development up to the Year 2015, prepared in 2004, lays down the principal strategic steps which will guide our Slovene port in upcoming years

towards attaining the position of a leading logistic, distribution and transport system for the countries of Central and Eastern Europe.

So far, the activities of the Port of Koper have had enormous multiplicative effects on the development of the Slovene economy, which may be further intensified through the well-planned exploitation of its development potentials. Our endeavours in 2005 will be oriented towards preserving our current sources of competitive advantages and positive influences on economic flows in the region. The year ahead us will be decisive for the future of the port of Koper and Luka Koper, d.d..

The knowledge, development and endeavours of our employees will continue to be of key importance for the growth of our company, and I thank them for their contributions. My thanks also go to our shareholders for their trust and support.



Bruno Korelič, B.S.Econ.
Chief Executive Officer

Report of the Supervisory Board

In 2004 the Supervisory Board of the stock company Luka Koper, d.d. had five meetings in its previous composition (Miha Kozinc, Chairman, and Aldo Babič, Karmen Dietner, Tatjana Jazbec, Robert Jerman, Branko Mahne, Tomaž Može, Alverino Pavletič and Dino Pucer as members). A new Supervisory Board was elected by the General Meeting at its 9th regular session held on 14th July 2004, and had three regular meetings until the end of the year. The Supervisory Board was elected for a term of four years and comprises the following members: Miha Kozinc, Igor Jakomin, Borut Jamnik, Tatjana Jazbec, Robert Jerman, Tomaž Može, Alverino Pavletič, Boris Popovič and Janez Požar. Miha Kozinc was elected Chairman of the Supervisory Board at its constitutive meeting held on 30 August 2004.

The Supervisory Board conducts its activities in accordance with applicable law and the Articles of Association of the Company, giving due consideration to the Rules of Procedure for the Work of the Supervisory Board. In the past year, the Management Board regularly reported to the Supervisory Board on the implementation of adopted resolutions. The Supervisory Board followed all current business events in the Company and was informed on issues relating to the Company's relations with the State and the municipality regarding concessions, building and land use fees, taxes, building permits, Pier II, and the construction of a modern railway connection. The Supervisory Board also discussed the Audit Report prepared in February 2004 by the Agency of the Republic of Slovenia for the Audit of the Ownership Transformation of Companies. The Agency did not determine any violations and confirmed in its report that the ownership transformation of Luka Koper, d.d. had been conducted in conformity with the law.

At the end of February 2004, the Supervisory Board discussed and adopted the Company's Annual Report for the year 2003 and the Auditor's Report for the stock company and the Luka Koper group prepared by the independent auditors Deloitte&Touche Revizija, d.o.o.. On 14 July 2004, the General Assembly of Shareholders approved the proposal of the Management Board and the Supervisory Board of the Company for the allocation of distributable net profit in the amount of SIT 5,495 million and discharged the Chief Executive Officer and members of the Supervisory Board of their duties in the 2003 business year. On the same day, the shareholders also approved the Supervisory Board's proposal for the auditing of financial statements of Luka Koper, d.d., and the Luka Koper group for the year 2004.

As its auditor, the Company appointed the auditing company Deloitte&Touche Revizija, d.o.o..

The Supervisory Board approved the 2004 business plan of Luka Koper, d.d. at its last regular meeting held in December 2003. Throughout the year, the Supervisory Board monitored the attainment of business goals set by the stock company and its subsidiaries. On the basis of detailed written reports and the availability of the Management Board for additional explanations, the Supervisory Board was informed on any digressions from the goals embodied in the business plan and on the financial position of the Company. In accordance with the Company's Articles of Association, the Supervisory Board regularly discussed any digressions from planned investments and any planned sales of fixed assets. The most important unplanned investment in a basic activity to be approved by the Supervisory Board was the purchase of a container ship to shore crane in the amount of EUR 4.4 million. The decision to purchase a crane was primarily due to the exceptional growth of ship cargo containers, which is why this technological adjustment to shippers' needs for greater productivity in cargo handling was urgently necessary. An important contribution of Luka Koper, d.d. to the attainment of the Municipality of Koper's development plans was the signing of an agreement on the construction of a northern by-pass road and the acquisition of real estate in the port area and in the northern by-pass area. The agreement was concluded with the consent of the Supervisory Board.

In the area of financial investments, the Supervisory Board approved the increase of the Company's capital investment in IEDC - Poslovna šola Bled, d.o.o., the capital increase of Aerodrom Portorož, d.o.o., and the sale of Luka Koper's 39 % equity participation in Finor, svetovanje in opravljanje finančnih poslov, d.o.o. The Supervisory Board approved the establishment of Adria Transport, d.o.o. jointly with the Austrian company Graz-Koflacher Bahn und Busbetrieb. Each shareholder shall have a 50-percent share in the company, which will be engaged in the organization and performance of rail transport activities. The decision on the establishment of this company is in line with the Company's development strategy and orientation towards upgrading its activities and developing from a port into a logistic system. The Supervisory Board also approved the Management Board's proposal to provide humanitarian aid to persons affected by the Posočje earthquake in the form of a donation for the construction of a residential building for the Zornik family from Čezsoča.

At its meeting held in December 2003, the Supervisory Board approved an agreement under which, at the beginning of 2004, the T.O. Delta company from Livorno became a shareholder of the associated company T.I.C.T., which manages the container terminal at Pier VII in Trieste, with a 30-percent ownership share. The business operation of T.I.C.T. did not improve with the new ownership structure, as the pressures exerted by the

new shareholder and its economic and political interest groups continued to intensify. It was therefore necessary to adopt a decision on the early execution of an option contract with the T.O. Delta company. By selling its shareholding, Luka Koper withdrew from the T.I.C.T. company with the consent of the Supervisory Board.

At its regular meeting in October, the Supervisory Board discussed and approved the Strategy of Development of Luka Koper up to the year 2015. In planning its future development, the Management Board of the Company proceeded from the challenges and opportunities brought by Slovenia's accession to the European Union and the changes in the increasingly more globalized market of transport and logistic services. The strategy is ambitiously planned in all business areas: marketing, organization, human resources management, investments, financial assets management, and environmental protection.

At its last regular meeting in December 2004, the Supervisory Board discussed and approved the Company's business plan for the year 2005. Through effective marketing activities and new business operations, the Company plans to attain a volume of 13 million tons of handled cargo. Growth of operations is foreseen in all groups of goods, particularly containers and vehicles. Revenues in the amount of SIT 18.8 billion are planned in 2005.

The Supervisory Board discussed the 2004 Annual Report of Luka Koper, d.d. at its regular session held on 28 February 2005. Enclosed with the Annual Report was an Auditors' Report on the unconsolidated and consolidated financial statements of Luka Koper, d.d. and the Luka Koper group, prepared by the auditors Deloitte&Touche Revizija, d.o.o.. It was established that the Annual Report had been compiled in accordance with applicable legal regulations and that it clearly presents the business operation and development orientations of the Company, as well as the actual state of assets and financial position of the Company. The Supervisory Board assessed the business operation of the Company as successful and approved the Annual Report without comment. The Supervisory Board discussed and positively assessed the report of the independent auditors Deloitte&Touche Revizija, d.o.o.. The distributable net profit for the year 2004 amounts to SIT 5,786 million. The Supervisory Board approved the Management Board's proposal for the allocation of profit and proposes to the General Meeting of Shareholders that SIT 2,201 million be allocated from the distributable net profit to shareholders and SIT 2,000 million to other reserves, whereas the allocation of SIT 1,585 million shall be decided in subsequent business years.

Luka Koper, d.d. is a successful company with clear goals and ambitious plans. It is distinguished by a striving for business excellence reflected in the continuous acquisition of new skills, the use of new operating and information technologies, the improvement of business processes and business operation

based on the principles of sustainable development. The year 2004 is yet another of our successful business periods. The Management Board's successful management of the Company is being followed by all employees of the Company, which is a guarantee that the Company will continue to achieve good business results in future.



Miha Kozinc, LL.B.
Chairman of the Supervisory Board

Corporate Governance



Luka Koper, d.d. is managed in accordance with the Commercial Companies Act as the fundamental statutory act regulating this field of activity in the Republic of Slovenia and in accordance with the Articles of Association of Luka Koper, d.d.. The Company observes the provisions of the Corporate Governance Code. In September 2004, the Company adopted its Declaration of Conformity to the Corporate Governance Code.

Exercise of Shareholders' Rights

The shareholders exercise their rights relating to matters of the Company at general meetings of shareholders.

The holders of all classes of shares and their representatives as well as the members of the Supervisory Board and the Management Board have the right to participate in general meetings of the Company. The holders of ordinary shares and their representatives have voting rights. The holders of preference shares and their representatives have voting rights in the cases set forth in the Articles of Association of the Company. In 2004, the Management Board convened the 9th session of the General Meeting of Shareholders, which was held on 14 July, 2004. The General Meeting approved the proposed allocation of distributable net profit and the appointment of an auditor, and elected a new 9-member Supervisory Board owing to the expiry of the terms of office of its previous members. The General Meeting discharged the Management Board and the Supervisory Board of their duties in 2003. No challenging actions were announced.

Informing Shareholders and the General Public

The Company encourages the participation of shareholders at general meetings by publishing notices in its bulletin, *Luški delničar*, which in the past year was sent to every shareholder three weeks before the general meeting.

Notices of general meetings and price-sensitive information were also published via the Seo-net stock exchange information system, printed and electronic media, and on our web pages.

Report of the Agency of RS for the Audit of Ownership Transformation

In 1999, the Ministry of Finance authorized the Agency for the Audit of Ownership Transformation to audit the ownership transformation of our Company. In February 2004, the Agency submitted a report on the audit performed, establishing that no irregularities in the ownership transformation process had been found. All procedures and activities had been conducted in a professional manner, in accordance with applicable laws and government resolutions.

The Management Board

Luka Koper, d.d., has a one-member Management Board. It is represented by the Chief Executive Officer, who is appointed by the Supervisory Board for a term of five years with the possibility of re-election.

Since the Company's transformation into a stock company in 1996, the Management Board has been headed by **Bruno Korelič**, B.S.Econ., who began his current term of office in 2001.

The powers of the Management Board are set forth in the Articles of Association of the Company, and its remunerations are determined by the Supervisory Board. The earnings of the Chief Executive Officer and employees according to individual employment contracts are disclosed in the Notes to the Financial Statements.

On 31 December 2004, the Chief Executive Officer, Bruno Korelič, owned 363 shares of Luka Koper, d.d. In 2004, the Chief Executive Officer first sold 5,000, and then 9,400 shares held in the Company.

In 2004, the Management Board adopted resolutions aimed at increasing the value of the Company's assets and implementing the outlined development strategy, and strove to benefit the interests of all shareholders.

Other Senior Management

- Deputy Chief Executive Officer

The Deputy Chief Executive Officer is proposed by the Chief Executive Officer and approved by the Supervisory Board. In the Chief Executive Officer's absence, the Company is represented by his Deputy. **Vitomir Mavrič**, B.S.C.E., was appointed Deputy Chief Executive Office in 2001. Mr. Mavrič is responsible for the areas of investments and purchasing, technical control, electronics, port infrastructure, and health and environmental protection.

- Assistants to the Chief Executive Officer

The Chief Executive Officer selects and appoints his management team, which comprises employees with special authorizations and responsibilities in the Company.

Individual areas are managed by:

Marjan Babič, M.S.Econ., Economics and finance,
Ernest Gortan, B.S.E.E., Marketing and logistics,
Metka Sušec Praček, M.Org.S., Human resources development, organization and quality.

At the end of 2004, the status of Assistant CEO Gordan Ban, who as Director of the T.I.C.T. company was responsible for the area of container logistics, was abolished. Mr. Ban has been assigned to the position of Procurator responsible for relations with ship-owners in Luka Koper, d.d..

- Directors of Profit Centres

The Directors of Profit Centres (PCs) manage the business operations of individual terminals, and are appointed by the Chief Executive Officer. In 2004, the Profit Centres were managed by:

Andrej Andrijanič, B.S.Econ., Director of PC Car Terminal,
Marko Babič, B.S.Econ., Director of PC Fruit Terminal,
Andrej Cah, B.S.Econ., MBA, Director of PC Container and RO-RO Terminal,
Franc Cedilnik, B.S.Tr.Tech., Director of PC Timber Terminal,
Nevio Dolenc, Machine Technician, Director of PC Alumina Terminal,
Pavle Krumenaker, B.S.M.E., MBA, Director of PC Dry Bulk Cargo Terminal,

Dragomir Matič, B.S.Tr.E, Director of PC General Cargo Terminal,

Bojan Tomišič, B.S.Tr.E., Director of PC Liquid Cargo Terminal,
Branko Vodopija, Mech.Eng., Director of PC European Energy Terminal.

We operate according to the Principles of Total Quality Management

Luka Koper, d.d. is implementing its development orientations, business policy and goals with the help of a total quality management system. All areas of business and our subsidiaries are included in this system, and the principles of management of the entire group are set forth in the Quality Management Manual. The Quality Council, chaired by the Chief Executive Officer, holds regular meetings and is responsible for monitoring and developing the total quality management system. In 2004, the Company introduced coordination meetings chaired by the Chief Executive Officer, where operational issues are jointly resolved by the Management Team and the Directors of Profit Centres and subsidiary companies.

The Supervisory Board

The Supervisory Board of Luka Koper, d.d., comprises nine members. In accordance with Article 18 of the Company's Articles of Association, three members of the Supervisory Board are proposed by the Republic of Slovenia and one member each by the Municipal Council of the Municipality of Koper, the funds of the Republic of Slovenia, and other shareholders. Three members representing the employees of the Company are elected by the Employee Council of Luka Koper, d.d..

The members of the Supervisory Board are elected by the General Meeting of the Company for a term of four years. In 2004, the term of office of the previous Supervisory Board expired and a new Supervisory Board was elected at the annual general meeting. The term of office of the newly appointed Supervisory Board expires on 26 July 2008. Its members are:

- **Miha Kozinc**, LL.B., Chairman, Representative of small shareholders,
- **Tatjana Jazbec**, B.S.Econ., Deputy Chairman, Representative of employees,
- **Igor Jakomin**, Ph.D., Member, Representative of the Republic of Slovenia,
- **Borut Jamnik**, B.S.Math., Member, Representative of the Funds of the Republic of Slovenia,
- **Robert Jerman**, B.S.Tr.Tech., Member, Representative of employees,
- **Tomaž Može**, B.S.Econ., Member, Representative of the Republic of Slovenia,
- **Alverino Pavletič**, B.S.Tr.Eng., Member, Representative of employees,
- **Boris Popovič**, Sec.sch. graduate, Member, Representative of the Municipality of Koper,
- **Janez Požar**, M.Tr.S., Member, Representative of the Republic of Slovenia.

On the last day of 2004, the following members of the Supervisory Board held shares of Luka Koper, d.d.: Tatjana Jazbec - 1,435 shares, Robert Jerman - 704 shares, Miha Kozinc - 197 shares, and Alverino Pavletič - 3,167 shares. The other members of the Supervisory Board did not own shares of the Company on the above-mentioned date.

The amounts of remuneration and meeting attendance fees to members of the Supervisory Board are presented in the Notes to the Financial Statements.

The functioning of the Supervisory Board is set forth in the Rules of Procedure for the Work of the Supervisory Board of Luka Koper, d.d. In accordance with Article 21 of the Articles of Association of the Company, the Supervisory Board constitutes a quorum if at least half of its members are present at a meeting. Resolutions are validly adopted by a majority vote. In the event of a tied vote, the Chairman's vote is decisive.

In addition to the powers vested in the Supervisory Board under the Commercial Companies Act, Article 22 of the Company's Articles of Association grants to the Supervisory Board the power to approve those transactions concluded by the Management Board whose value exceeds 5 percent of the Company's share capital, and to give subsequent approval to the Management Board for the conclusion of transactions related to investments and the purchase or sale of fixed assets, irrespective of their value, if such transactions are not included in the Company's development or business plan.

Participation of Employees in the Management

In accordance with the Law on Employee Participation in Management, the employees of Luka Koper, d.d. are entitled to participate in the management of the Company. The principal role in such participation is played by the Employee Council, which exercises the rights of employees by determining their needs and interests and proposing various initiatives to the Management Board. The Employee Council also elects three representatives of employees to the Supervisory Board of the Company.

In 2004, new members were elected to the Employee Council. Thirteen members of the Employee Council were elected for a four-year term. Bojan Cerovec was elected Chairman of the Employee Council.

Auditing and Internal Control System

In accordance with the proposal of the Supervisory Board, the General Meeting of the Company appointed as its external auditor for 2004 the auditing company Deloitte & Touche Revizija, d.o.o. from Ljubljana.

For the purpose of protecting the interests of shareholders and the assets of the Company, Luka Koper, d.d., has set up an internal control system. The operation of this system is monitored and evaluated by an internal auditor authorized to perform the internal control function and advise managers on all levels regarding the correctness and orderliness of operations performed by the Luka Koper group. Internal Audit operates within the framework of the Office of the Chief Executive Officer of Luka Koper, d.d..

The Internal Audit Report for 2004 is presented in the section Analysis of Business Performance.

Declaration of Conformity with the Corporate Governance Code

The Management Board approved the following Declaration of Conformity with the Corporate Governance Code for 2004:

The Company was managed according to the principles of the Corporate Governance Code, with the exception of certain digressions relating to individual items of the Code.

Item 1.2.6.: The Company did not publish notices of general meetings, proposed resolutions and other materials for the General Meeting on its web pages in 2004. A website renewal project is currently being prepared and will enable the posting of such information.

Item 1.2.8.: The Company has not published relevant information about the members of its Supervisory Board (education, previous experience, age, membership in the supervisory boards of other stock companies, etc.). Such information on the members of the Supervisory Board will be provided upon the renewal of the Company's website.

Item 2.3.10.: The Company does not have a specific act on the restriction of trading in shares of the Company and in shares of affiliated companies. The treatment of confidential information in the Company is regulated by the Regulations on Business Secrets, while the reporting of members of the Management and Supervisory Boards on trading in the shares of the Company is regulated by the Decision on Reporting of Transactions of Persons with Direct Access to the Internal Information of the Agency for the Securities Market.

Item 3.1.2.: The Company informed the members of the Supervisory Board on the provisions of the Code and notified the Government of the Republic of Slovenia that its resolution on the conduct of members of the Supervisory Board who are proposed by the Government of the Republic of Slovenia is contrary to those provisions of the Code which stipulate that each member of the Supervisory Board is to assume full personal responsibility for the performance of his/her tasks.

Item 6.1.4.: The presence of an auditor at general meetings of shareholders was not required in the past. The Management Board of the Company undertakes to ensure that the provisions of this item of the Code are observed in future.

Items 7.4.1. and 7.4.2.: The Company has not presented on its web pages all of the information or documents specified in these items of the Code. A website renewal project is being prepared by the Company, where special attention will be devoted to the area of informing the public.

Milestones in the History of Luka Koper

- 1957** - On 23rd May, the Port of Koper is established.
- 1958** - On 7th December, the first transoceanic ship Gorica lands on the first 135 metres of operational shore.
- 58,000 tons of cargo is transported, primarily for the Slovene and Yugoslav markets.
- 1960** - The volume of handled cargo is doubled and attains 123,000 tons.
- 1963** - Luka Koper acquires the status of a free-trade zone.
- 1967** - The first train arrives at the port, marking the beginning of market penetration into the area of transit services, particularly for countries in the mainland.
- 1974** - Period of expansion highlighted by the enlargement of the port shore by an additional 120 metres, warehouse facilities by an additional 12,000 sq. metres of closed area and 45,500 sq. metres of open area.
- The first regular shipping line for the Mediterranean is established.
- The first larger quantity of containers, approx. 100 TEU, is transported.
- 1982** - The second phase of construction of the container terminal is completed.
- 1984** - The coal and iron ore terminal begins to operate, Luka Koper develops into a distribution center for coal and iron ore.
- 1988** - A silo for the transport and storage of grains and animal fooder with a capacity of 60,000 tons is constructed.
- 1996** - The construction of a car terminal opens a new chapter in the development of services.
- The Company's ownership transformation into a stock company is completed.
- In November the share of Luke Koper, d.d. is included for the first time on the official listing of the Ljubljana Stock Exchange.
- 1997** - Luka Koper, d.d. receives the ISO 9002 Quality Certificate. The Company appears for the first time on the Internet with its website: www.luka-kp.si.
- 1998** - A livestock terminal comprising 4,442 sq. metres of covered area is constructed.
- A modern waste handling centre is set up.
- Business operation is harmonized according to the EFQM model.
- 1999** - New parking garages is acquired for 3,350 cars.
- 2000** - The total volume of cargo handled by the Company surpasses, for the first time, the figure of nine million tons.
- Luka Koper, d.d. is the first European port to receive the ISO 14001 environmental certificate for the performance of all activities. The Company expands its quality systems and acquires the ISO 9001 certificate.
- 2001** - The Company intensively upgrades and modernizes its infrastructure at Pier II.
- 2003** - Container services are strengthened with the regular routes of several shipping companies for the Far East.
- The volume of handled cargo exceeds 11 million tons.

Significant Events in 2004

January

- The Fruit Terminal was organized into an independent profit centre.
- A new shareholder, T.O. Delta S.p.a. from Livorno, entered the T.I.C.T. company.

February

- The Container Terminal acquired its fourth transtainer, a rubber-tyred crane for the container yard, thus accomplishing one of our major investments in the past year.

- The Company participated at the meeting of the Local Community of Ankaran on the topic of proposed amendments to the spatial components of urban planning documents of the Municipal Assembly of Koper for the expansion of urban areas.
- The Company actively participated at the "Fruit Logistica" fair in Berlin.

March

- Representatives of the Company attended the "Bulk Terminal Operations« conference in Rotterdam, where they presented our dry bulk terminals.
- The Company awarded, for the first time, a scholarship to an outstanding secondary school student for study at the Collegio del Mondo Unito dell'Adriatico Duino in Italy.
- Luka Koper, d.d. was visited by Israeli Transport Minister, Avigdor Liberman.
- The Company organized a rescue exercise, Amoniak 2004, and verified the ability of employees to respond in emergency situations.

April

- The Croatian shipping company, Lošinjska plovidba, opened a regular feeder line between Gioio Tauro and Koper.
- The Company hosted the 43rd international conference of the Ship Planning Message Development Group (SMGD), which is responsible for developing and promoting standards for the exchange of information between terminals and shipping companies.

May

- The Joint Services of the Government handed over new facilities in the port area to inspection services conducting inspections of products of vegetal and animal origin before entry into the European Union. The Company thus acquired the status of a border inspection post (BIP) for goods entering the European Union, and immediately conducted its first customs examination at the Fruit Terminal.
- Competitors taking part in the largest international cycling race, Giro d'Italia, rode through the Port of Koper.

June

- The registration of the Port of Koper Border Veterinary Station was published in the Official Journal of the European Union.
- Representatives of the Company attended the "TOC 2004 Europe" conference in Barcelona and presented the organization of logistics for perishable goods.
- Representatives of the Company attended the "Fresh 2004" conference on fruit and vegetable business in Mestre, Italy.
- The Security Plan of the Port of Koper was approved. Our port is among the first European ports to have harmonized its security with applicable international regulations.
- Luka Koper, d.d. purchased shares in Intereuropa, d.d. and increased its stake in this company to 22.88 %.

August

- The construction of a bowls hall was completed in Koper and will be managed for a period of thirty years by the Luka Koper Sports Society.

September

- The renewed European Energy Terminal was opened. The Company devoted special attention to the environmental aspect and utilized one sixth of the funds allocated for this project for environmental improvements.
- With the goal of uniting car warehousing areas, we began to move the Timber Terminal to a new location on the Pier II.
- A container block train connection was established between the Port of Koper and Graz in Austria.
- An agreement on the hand-over of the oldest shore areas owned by the Municipality of Koper was signed.
- An agreement on the promotion of business cooperation between Egypt and Slovenia was signed with Egyptian partners.
- A new COSMOS information system was installed at the Container Terminal.

October

- The Company received a recognition for the best annual report in terms of content, and a recognition for third best annual report for 2003, awarded by the Finance daily newspaper.
- The Company adopted the Strategy of Development up to the year 2015.
- A letter of intent was signed between Luka Koper, d.d. and the Port Authority of Barcelona for the purpose of enhancing cooperation.
- The Company traditionally presented its activities at the "Coaltrans Europe" fair in Barcelona.
- Luka Koper, d.d. organized, for the first time, the international conference "Port Management and Logistics" in Portorož.
- The Company's representative office in Belgrade was reopened.

November

- The Company's majority shareholding in the T.I.C.T. company was sold to T.O. Delta.
- A new ship service line was opened on the Koper-Egypt route.

December

- The Windows XP operating system and the Office 2003 programme began to be installed on all work stations in the Company.
- In line with the new Environmental Protection Act, the Company appointed an Environmental Manager.
- The PC Dry Bulk Terminal received a certificate for the handling of non-genetically modified soya according to the requirements of the BRC standard.
- The Company concluded the year 2004 with a record total cargo volume exceeding 12 million tons.



“The cars are disappearing one by one into the hull. There is no stopping. Cars are dewaxed at the mechanic workroom. A lorry is loaded and sent on its way. The train is already here: let us go. Quickly, safely and reliably, the train is being loaded. One by one, we are taking our places behind the wheel. We drive the cars onto the wagons, step down the ladder and go into another car. And we did it 330,000 times in 2004 only.”



Business Report

Our Mission

As a provider of port and logistic services on the shortest route to the heart of Europe, we offer the easiest way of establishing business connections.

Our Vision

Luka Koper, d.d. will become the main logistics and distribution system for the countries of Central Europe.

Our Values

The accomplishment of our mission and vision is founded on our adopted values, which are the basis of the Company's current and future development:

- knowledge,
- enterprise,
- partnership,
- responsibility and
- respect.

Guided by these values, we are accomplishing our goals with the help of well-planned strategies in the areas of marketing and development of services, organization and human resources management, technological development, financial assets management, and a positive attitude towards the general public.

Business Policy

The development of Luka Koper, d.d., and the Luka Koper Group is based on the implementation of a joint business policy, which is defined on the basis of four key directions:

Entrepreneurial corporate culture

- decentralized organization
- open communication
- cooperative management of change
- sharing of joint achievements
- managers acting as advisors

Commitment to excellence

- comprehensive offer
- business excellence model
- environmental management system
- assurance of health and safety at work

Target management

- harmonized personal and entrepreneurial goals
- participative and transformational leadership

Common values

- knowledge
- enterprise
- partnership
- respect
- responsibility

Development Strategy

The Strategy of Development up to the Year 2015 is Outlined

In the second half of 2004, Luka Koper, d.d. adopted the "Strategy of Development up to the Year 2015", which focuses on the following key strategic directions:

- We are developing into a recognizable provider of logistic services.
- We are developing an efficient port system and distribution center.
- We are creating a long-term successful and harmoniously developing business system.
- We are giving priority to sustainable development.

The development and business growth of the Luka Koper Group will be the result of a harmonious blend of development endeavours in the areas of customer relations, human resources management and organization, technological modernization, and coexistence with the environment.

The adoption of a new list of development orientations and activities in the period up to 2015 was guided by the need to reconsider our challenges, opportunities and future development. This was primarily influenced by factors such as Slovenia's accession to the European Union, important shifts in the markets of transport and logistic services, and the increasing globalization of production and commercial activities.

We shall be implementing our development strategy in individual business areas in the following directions:

Marketing strategy: Luka Koper – synonym for high-quality logistics provider

The implementation of a market strategy is based on the upgrading of port services and strengthening the offer of specialized terminal services such as cargo handling and warehousing. Through the development of new activities along the entire logistics chain, we are offering our business partners integral transport and logistic support.

We ensure an active presence on target markets in the mainland and overseas, and cooperate with complementary suppliers in our activities and with other port systems in the Northern Adriatic.

Organization Strategy: rational management and efficiency

We are developing a rational and efficient organization and implementing the group model of management, matrix organization structure, effective cooperation among development, support and contracting units, and properly defined job positions. The Company will establish connections with strategic partners on the basis of needs and cost-benefit analyses.

Strategy of human resources management: long-term orientation

In the area of human resources management, we are working towards the long-term goal of optimal staffing and a structure ensuring the fulfillment of requirements and needs of the work process. We are hiring young, highly qualified employees and individuals specialized in our activities. We are following the principle of creating an internal structure of key employees and a base of human resources potential for further development. Whenever necessary, we shall collaborate with external providers of services.

In the areas of work performance management and career and professional development, preference will be given to an individualized approach. We shall continue to develop material and nonmaterial remuneration systems.

Strategy of technological development: we are introducing advanced, environment-friendly technologies

Luka Koper, d.d. is responsible for the maintenance of port infrastructure, such as shores and navigable routes, which are owned by the Republic of Slovenia and used by the Company in accordance with a lease agreement for operational shores and land. On the basis of the Maritime Code, the Slovene Government passed on 29 November 2002 a decree on the granting of concessions which stipulates that the first concession shall be granted to Luka Koper, d.d. and that mutual relations between the Republic of Slovenia as grantor of the concession and Luka Koper, d.d. shall be regulated by a special agreement specifying the use of land, construction on land plots, and other issues related to the use of infrastructure.

Owing to technological modernizations, we are increasing productivity, improving the quality and reliability of services and reducing impacts on the environment. We are developing partner relations with reliable and quality suppliers.

The implementation of our development strategy is inseparably linked to the development and completion of infrastructural links with the hinterland in the shortest possible time. This includes the motorway network, the second railway track on the Koper-Divača line (by not later than 2012), the modernization of railway infrastructure, the preparation of roads for higher speeds, and the integration of the Slovene traffic network in European traffic connections (trans-European transport corridors 5 and 10, maritime highways).

Sustainable and balanced development: active coexistence with the environment

In the future, business processes will continue to be controlled with the help of a system ensuring the constant and systematic improvement of work quality, reduction of impacts on the environment, and the maintenance of a safe and orderly working environment.

By actively cooperating with organizations in the sectors of economy, culture, science and sports, we are contributing to the improvement of living conditions in the local and broader community. We are striving to achieve a level of development that is harmonized with development plans on the municipal and State levels, both from the spatial and economic aspects.

Guidelines for the Next Decade

- In upcoming years, the Company will, in addition to increasing its cargo volume, continue to increase the share of container cargoes and thus attain a structural shift.
- The constant growth of revenues and operating profit is expected in the next ten years. Due to the foreseen intensive investment activities, the return on equity is expected to decrease over the next five years, to be followed by a rise above the current rate of return.
- The largest investments in port facilities will include the construction and arrangement of a multimodal and container terminal for 450,000 TEU at Pier III up to the year 2008, the enlargement of pier facilities, new moorings, and the setup of facilities for the performance of goods distribution services up to 2010.
- The appropriateness and significance of our development orientations must be confirmed by the earliest possible settlement of our concession relation with the State.

Implementation of Development Strategy in 2004

By the preparation of a new development strategy for the upcoming decade, we have upgraded the existing strategy of development up to the year 2010 adopted by the Management Board in 1997.

An increased range of services, improved quality, systematic approaches in the areas of marketing, human resources development, investments, environmental management and other key areas, as well as the growth of profit and value of owners' shares, point to the fact that we have attained the majority of goals set.

In 2004, the Company also made some significant steps these directions:

- we continued to increase the volume of handled cargo, revenues, profit, and added value per employee,
- we increased the share of containers and vehicles in the cargo structure and doubled the scope of logistic services,
- we increased the safety and quality of services,
- we introduced measures for reducing impacts on the environment,
- we upgraded and modernized the information system, particularly at the Container Terminal,
- by acquiring the status of a BIP and through key business moves, we have taken advantage of the positive effects of Slovenia's entry into the European Union.

Plans for 2005

- We will gradually increase the share of logistic services, containers and automobiles and thus attain a major quality shift in the cargo structure.
- We will invest approx. SIT 6.4 billion in the modernization and enlargement of port capacities.
- We will continue to expand the scope of port and logistic services and increase the cargo volume to 13 million tons.
- We shall implement the principles of business excellence in all areas following the European model. By developing and integrated offer of logistic services, expanding our existing activities and acquiring new business, we shall increase operating revenues by at least one sixth.
- We shall attain SIT 20.5 of net profit per 100 units of operating revenues, and generate a total profit of SIT 4.7 billion.
- We shall increase the share of operating profit in operating revenues and ensure the further growth of added value per employee.
- We shall strengthen and broaden the scope of our logistic services and take the best advantage of opportunities offered by Slovenia's membership in the European Union.

The planned development and fulfilment of our goals are based on currently known data on future business conditions and current forecasting possibilities. We shall contribute to the achievement of our goals through the integrated management of financial resources as well as financial and other business risks. The attainment of set goals will be verified according to the European model of business excellence.

Macroeconomic Environment and Current Situation in the Sector

Macroeconomic Environment

On 1st May 2004 Slovenia became a full member of the European Union. The country witnessed continuing economic growth in 2004, with GDP growing 4.6 percent. A higher GDP was also registered by Slovenia's most important trade partners: 1.8 percent in the countries of the Euro area, and 4.4 percent in the U.S..

Slovenia's national competitiveness, measured according to WEF, improved in 2004. The business competitiveness index rose due to the improved quality of the national business environment, coupled by the significantly improved competitiveness of public institutions.

The prices of basic necessities continued to stabilize. Despite its substantial decrease to 3.6 percent in 2004, the inflation rate is still far from meeting the Maastrich criterion of 2.2 percent. High growth rates continued to be recorded in international trade and maritime transport, which has had a favourable effect on our activities. After registering a slightly smaller growth in 2003 (4.5 percent), international trade took an upturn in 2004 and is assessed at 7.5 percent. The highest growth rates were recorded by Asian countries headed by China. The growth of maritime transport attained an annual growth rate of just below 4 percent in the past two years.

Current Situation in the Sector

For some years now, there has been a strong tendency towards the containerization of goods in the areas of transport and logistics. The technology used in the preparation of goods for distribution is being adapted to the volume and shape of containers, and procedures are being developed for transferring goods from one means of transport to another (multimodality). Terminals constructed at logistic knots and at the crossroads of transport routes are developing into distribution centers.

A noticeable trend is also the collection and centralization of information for the purposes of more effective supervision of integrated logistic chains, the connection of its members, the optimization of processes within these chains, and the quality management of transport-logistic services tailored to the needs of customers (one-stop shop).

In line with EU directives, which give priority to competitiveness, the liberalization of the market of controlled services, such as ports and railways, and the privatization of public property are currently in progress.

The transport of goods is being redirected from roads to more environmentally-friendly means of transport. In addition to railways, this represents an opportunity for maritime highways, where goods are transported on ships for shorter distances. From this aspect, the most interesting areas for our port are the Adriatic-Ionic and the east and west Mediterranean regions.

With Slovenia's entry into the European Union, our port has acquired the status of a European port. Having become part of the uniform customs market of the European Union, we are now able to offer our services as an equal partner and at competitive prices. We have also acquired the status of a border inspection post (BIP) for goods entering the European Union, which means that veterinary and phytosanitary inspections may be conducted in Koper and all relevant permits issued.

Increasingly more attention is being devoted to environmental issues, as these are linked to the impacts of large quantities of transported goods and infrastructural interventions required for this purpose.

Analysis of Business Performance

Results of Luka Koper, d.d.

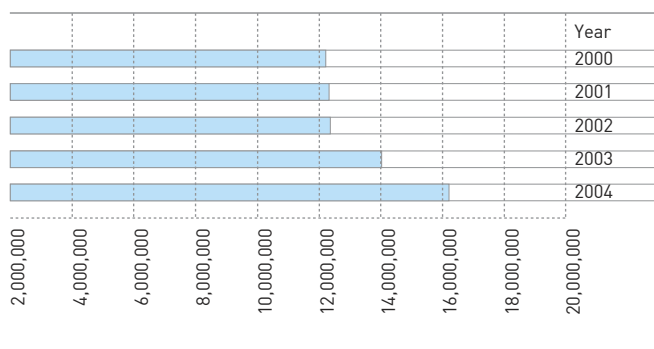
In 2004, Luka Koper, d.d. realized SIT 4.2 billion of after-tax profit. The Company's net profit increased by 8 percent in comparison to 2003, mainly as the consequence of higher revenues and the sale of financial investments.

Operating profit in the amount of SIT 1.5 billion represents over one third of the net profit and is 26 percent lower in comparison with the previous year. Such a result is mainly the consequence of an increase in the building land use fee, higher depreciation and costs of material and services, which increased mainly due to the maintenance of port infrastructure and higher energy prices.

Currency Structure of Operating Revenues

Currency	Amount in currency	Amount in thousands of SIT	Percent	Index 04/03
EUR	41,681,153	9,959,305	59.5	135
SIT	2,622,376,856	2,622,377	15.7	105
USD	21,543,883	4,151,256	24.8	90
Total (SIT)		16,732,973	100.0	115

Growth of operating revenues in the period from 2000 to 2004, in thousands of SIT



Structure of Operating Revenues

The Company's operating revenues continue to grow each year, which means that the Company is successfully realizing one of its fundamental long-term goals. The Company realized SIT 16.7 billion of operating revenues in 2004, which is 6 percent more than planned and 15 percent more than in 2003.

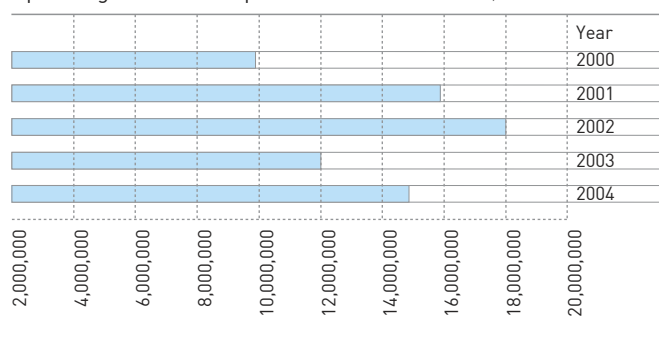
The growth of revenues from foreign markets, where the Company realizes more than four fifths of its revenues, is especially encouraging. Here the Company recorded 18 percent growth in comparison to 2003, while the growth of revenues in the domestic market amounted to 2 percent.

Movements in the exchange rates of the US dollar and Euro have to be considered when analyzing the operating results. 84 percent of the Company's operating revenues recorded in 2004 were charged in these two currencies, which represents a 2 percent increase in comparison to 2003. The average Euro exchange rate increased by 2.2 percent versus the tolar in the past year, while the average value of the dollar decreased by 7.1 percent.

Structure of Operating Costs

The major portion of expenses represents operating costs, which increased by 22 percent in comparison to 2003. The highest increase was recorded under costs of services and allowances. Higher costs of services are mainly the consequence of increased cargo volumes handled, whereas higher depreciation rates in the beginning of 2004 resulted in higher depreciation costs.

Operating costs for the period from 2000 to 2004, in thousands of SIT



Operating costs for the period from 2000 to 2004, in thousands of SIT

	2000	2001	2002	2003	2004	Index 2004/03
Operating costs	10,098,415	16,264,742	18,491,520	12,524,421	15,276,262	122
Costs of material and goods sold	16,242	1,590	398	366	794	217
Costs of material	639,653	670,126	716,735	756,308	872,188	115
Costs of services	3,550,437	3,803,393	3,917,804	4,254,434	5,577,637	131
Allowances	2,703,286	7,944,041	9,529,795	2,222,654	3,038,987	137
Depreciaton	2,503,589	7,895,388	2,603,703	2,171,191	2,982,481	137
Revaluatory operating expenses	199,697	48,653	6,926,092	51,464	56,507	110
Long-term provisions		200,000			116,300	-
Labor costs	2,969,133	3,323,939	3,837,083	4,290,421	4,521,296	105
Other costs	219,663	321,653	489,705	1,000,238	1,149,060	115

Costs of Material

Costs of material represent 6 percent of the total operating costs, which is on the same level as in the past year, even though the amount of costs of material increased by 15 percent. The increase in these costs can mainly be attributed to the increase in energy and water supply costs, as well as auxiliary material costs.

Energy costs increased in comparison to the previous year despite the fact that the Company managed to decrease energy consumption by 2 percent compared to the previous year. The 6 percent increase may be attributed solely to the increase in electricity prices.

The total fuel consumption cost amounted to SIT 301 million, and increased by 29 percent in comparison to 2003. This increase is due to fuel price increases and partly also to higher fuel consumption, which increased by 15 percent versus 2003.

The increase in the consumption volume is comparable to the 12 percent increase in the volume of cargo handled in 2004. The amount of returned excise taxes amounted to SIT 28.8 million. The Company consumed 161,223 m³ of water, which is 23 percent more than in the previous year. One third of the water consumed was sold to ships and other users in the commercial zone. The increase in consumption is the consequence of higher cargo volumes and occasional losses due to deteriorating pipes, which are otherwise regularly repaired and replaced with new ones. Costs of auxiliary material include protective equipment, car tires, pallets and other items. These costs amounted to SIT 153 million in 2004, which represents a 9 percent increase over 2003.

Costs of Services

Costs of services represent over one third of all operating costs. The share of these costs increased in comparison with the previous year by 3 structural percentage points and amounted to 37 percent. The actual amount of costs of services also increased by 31 percent in comparison to 2003 and was equal to SIT 5.6 billion. Labour costs of subcontractors and subcontracting agreements increased by 25 percent due to the increased volume of cargo handled and the reconciliation of prices of external providers of port services (subcontractors). Maintenance costs increased by 33 percent in 2004 and amounted to SIT 1.8 billion. These costs were significantly affected by the increased scope of interventions in port infrastructure. Profit centres allocated a total of almost SIT 960 million for the maintenance of assets. Among others, the largest maintenance and environmental works were performed in the coal and iron ore terminal, and totaled SIT 325 million. The Company also provided quality parking space for vehicle handling.

The Company paid the agreed SIT 20 per ton of cargo handled to the Republic of Slovenia for the lease of operational shore and land, which represented a total of SIT 211 million in lease costs in 2004.

The Company decreased training costs by almost one third or SIT 39 million due to the increased scope of internal training organized in 2004.

Sponsorship funds increased by almost one fifth in comparison to the previous year; i.e. SIT 80 million or almost half of all funds invested in the integral image of the company.

Costs of other services amounted to SIT 842 million, which is 62 percent above the 2003 figure. Almost two thirds, or SIT 539 million, were invested in IT. 2004 was the first period for which the Company recorded these costs under the costs of services group throughout the entire year. The Company transferred the entire area of IT development and maintenance support to Actual - IT, d.o.o. in August 2003.

Depreciation and Revaluatory Operating Expenses

Depreciation amounted to SIT 2.98 billion or 37 percent more than in 2003. Such an increase was foreseen, as the Company increased the depreciation rates for certain classes of fixed assets in 2004. Higher depreciation costs are partially also the result of significant investments in fixed assets in 2004. The Company also recorded SIT 54 million in revaluatory operating expenses from working capital items due to the impairment of uncollectible receivables.

Long-term Provisions

The Company recorded provisions in the amount of SIT 116 million in 2004. These are intended mainly for the payment of tax liabilities of the T.I.C.T. company and the potential payment of liabilities to T.I.C.T. due to the acquisition of its claim towards the Port Authority of Trieste (APT), if the amount is not collected from APT through court action.

Labour Costs

Total labour costs amounted to SIT 4.52 billion and increased by 5 percent in comparison to the previous year. The number of employees increased from 647 to 650 in 2004. No increase in the coefficient was made in 2004 as a basis for the calculation of salaries. The educational structure of employees increased in 2004. This was accomplished by planned human resources management and the enrolment of employees in part-time studies.

The average gross salary in Luka Koper, d.d. amounted to SIT 393 thousand in the previous year, which is 1.6 percent more than in 2003 and 47 percent above the national average. The Company paid SIT 741 million for salary contributions and taxes and SIT 127 million for supplementary pension insurance.

Other Costs

Other costs increased by 15 percent in 2004 and amounted to SIT 1.1 billion. This is mainly the consequence of the 2.6 times higher fee for building land use as compared to 2003. These costs amounted to SIT 979 million.

The Company donated SIT 54 million, which is three times the amount of donations made in 2003. The highest amounts were donated to the Koper Brass Band and to those affected by the earthquake in the Posočje region.

Production costs according to functional groups, in thousands of SIT

	2003	2004	Index 2004/03
Production costs	7.409.716	8.961.852	121
Costs of material	554.756	660.273	119
Costs of services	2.826.232	3.482.066	123
Depreciation	1.255.087	1.944.385	155
Labour costs	2.773.641	2.875.128	104
Costs of sales	442.543	530.362	120
Costs of material	5.569	6.726	121
Costs of services	235.084	273.991	116
Depreciation	11.196	10.183	91
Labour costs	128.715	142.318	111
Other costs	61.980	97.144	157
General and administrative service costs	4.671.797	5.783.254	125
Costs of material	195.983	205.189	105
Costs of services	1.193.118	1.821.579	153
Allowances	956.371	1.084.420	109
Depreciation	904.908	1.027.913	114
Revaluatory operating expenses	4.210	2.448	58
Revaluatory operating expenses of operating current assets	47.254	54.059	18
Long-term provisions		116.300	0
Labour costs	1.388.065	1.503.850	104
Other costs	938.258	1.051.916	129

Financing Activities and Extraordinary Items

The fundamental goals of the Company's financial policy in 2004 were oriented towards the rational management of financial assets, ensuring the most favourable payment ability, and above all ensuring the optimal liquidity, profitability and security of investments. Financing activities in the past year had a moderate effect on the net profit, as income generated from this activity amounted to SIT 3.4 billion.

Total financial revenues amounted to SIT 4.3 billion in 2004.

The highest share of the total financial revenues was contributed by revenues from the sale of financial investments. Interest revenues decreased in comparison to previous year due to

the changed structure of financial investments, characterized by a decrease in funds invested in deposits and loans and the lowering of interest rates.

Revenues from dividends and other shares amounted to SIT 769 million in 2004 and increased by 38 percent over 2003. The increase is mainly the result of revenues from dividends received from the Intereuropa, d.d. company.

Financial expenses decreased by one quarter versus 2003 and amounted to SIT 870 million at the end of 2004. The largest portion of financial expenses represented interest expenses for loans. Revaluatory financial expenses mainly include impairments of long-term investments.

Review of financial revenues and expenses for the period from 2003 to 2004, in thousands of SIT

	2003	2004	in %	Index 2004/03
Financial revenues	3.105.920	4.293.395	100	138
Interest revenues	1.110.875	647.057	15	58
Revenues from dividends and shares in profits of associated companies	557.469	768.806	18	138
Revenues from revaluation of receivables for value preservation	717.617	291.131	7	41
Revenues from loans granted	6.123	3.239	0	53
Gains on sales of investments	655.635	2.513.322	59	383
Other financial revenues	24.108	26.465	1	110
Revaluatory financial revenues due to strengthening	34.094	43.374	1	127
Financial expenses	1.159.531	870.435	100	75
Interest expenses	192.189	420.170	48	219
Expenses from revaluation of debts for value preservation	386.299	221.877	25	57
Expenses from sale of investments				
Other financial expenses	38.716	21.365	2	55
Revaluatory financial expenses from impairment	542.328	207.023	24	38
Profit from financing	1.946.389	3.422.961		176

Extraordinary expenses amounted to SIT 108 million in 2004, and mainly included damages paid to various clients. A major portion is represented by demurrages or delays in the unloading/loading of goods from/onto ships.

Extraordinary revenues in the amount of SIT 89 million decreased by 51 percent in comparison to the previous year. A portion from the bankrupt estate of Komerzialna banka Triglav in the amount of SIT 44 million was recorded under bad debts recovered.

Review of extraordinary items for the period from 2003 to 2004, in thousands of SIT

	2003	2004	in %	Index 2004/03
Extraordinary revenues	181.344	89.095	100	49
Subsidies, grants and similar revenues	10.088	9.873	11	98
Bad debts recovered	14.187	51.413	58	362
Compensations received	138.218	17.347	19	13
Other extraordinary items	18.851	10.462	12	55
Extraordinary expenses	39.293	107.900	100	275
Monetary penalties	300	0	0	0
Damages	38.988	107.844	100	277
Other extraordinary items	5	56	0	1.221
Extraordinary profit or loss	142.051	-18.805		-

Asset and Liability Structure

The long-term financing ratio and the fixed assets to total assets ratio reveal an increase in value in 2004 and confirm the long-term character of assets, which are dominated by fixed assets and long-term investments.

The carrying amount of fixed assets increased by SIT 1.38 billion in 2004; i.e. the carrying amount of buildings increased by SIT 1.2 billion, equipment and machinery by SIT 514 million, and fixed assets under acquisition by SIT 1.3 billion.

The balance of operating receivables increased by SIT 557 million at the end of 2004 in comparison to the end of 2003.

The main increases on the liability side of the balance sheet are disclosed under financial liabilities items (long-term and short-term), which increased by SIT 3.3 billion. Short-term operating

liabilities increased in the same period by SIT 980 million and on 31 December 2004 amounted to SIT 4.2 billion.

The high levels of the equity financing rate and the long-term financing rate exhibit a high coverage of liabilities with capital and long-term liabilities. Both ratios reflect the high financial stability of operations. This is also confirmed by the equity to operating fixed assets ratio, which shows that all fixed assets are financed with the owner's equity.

The short-term solvency ratios indicate that the Company is capable of meeting its obligations with its own sources of funds in the short run.

Financing, investing and short-term liability coverage ratios

Ratio/Year	2000	2001	2002	2003	2004	Index 2004/03
Equity financing rate	0.91	0.86	0.90	0.84	0.82	98
Long-term financing rate	0.93	0.88	0.93	0.85	0.87	102
Operating fixed assets to assets rate	0.73	0.58	0.46	0.45	0.47	103
Long-term assets rate	0.83	0.75	0.80	0.86	0.81	95
Equity to operating fixed assets	1.25	1.49	1.95	1.84	1.75	95
Acid test ratio	1.21	1.56	1.83	0.51	0.90	175
Quick ratio	2.23	1.93	2.63	0.91	1.39	152
Current ratio	2.25	1.93	2.63	0.92	1.39	152

Basic Operating Ratios

Revenue Profitability

The net profit margin (net profit/operating revenues) shows that per every SIT 100 of sales, the Company realized SIT 24.8 of net profit, which is 7 percent higher than planned.

The net profit to total revenues ratio (net profit/total revenues) amounted to 91 percent of the value achieved in 2003. The decrease in the value of this ratio is mainly the consequence of slower growth in net profit versus the growth of operating revenues.

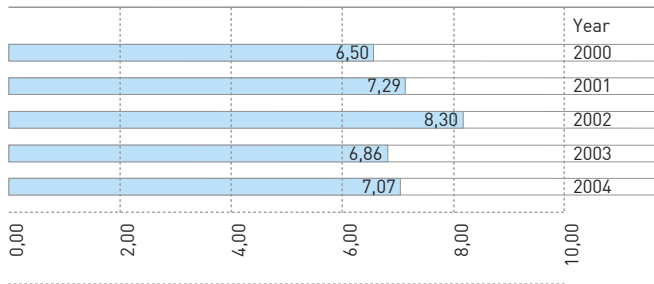
Return on Equity

The net return on equity ratio and the return on owner's capital ratio disclose higher values than in the previous year. The net return on equity ratio (net profit / average value of owner's capital) amounted to 7.07 percent in 2004.

Change of revenues profitability and return on equity

Ratio/Year	2000	2001	2002	2003	2004	Index 2004/03
Net profit margin (%)	22,8	28,3	34,7	26,8	25,0	93
Net profit to total revenues (%)	19,2	16,8	18,3	21,8	19,8	91
Net return on equity	0,067	0,076	0,087	0,071	0,073	103
Dividend to basic equity capital	0,094	0,199	0,121	0,143	0,157	110
Return of owner's capital (%)	6,5	7,3	8,3	6,9	7,07	103

Movements in return on owner's capital for the period from 2000 to 2004



Return on owner's capital in percent

Operating Efficiency

The operating efficiency ratio (operating revenues/operating expenses) was equal to 1.10 in 2004, which is 5 percent less than in 2003. The total efficiency ratio (revenues/costs) equalled 1.3 and was the same as in the previous year.

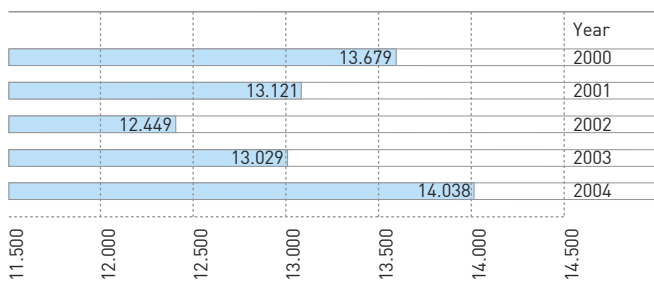
In 2004, the Company realized SIT 14 million of added value per employee, which represents an 8 percent increase in comparison to 2003. In spite of this increase, the added value is slightly lower than planned due to the increase in costs of services and other costs, which was higher than expected.

Efficiency and added value per employee

Ratio/Year	2000	2001	2002	2003	2004	Index 2004/03
Operating efficiency	1,28	1,18	1,12	1,16	1,10	95
Total efficiency ratio	1,27	1,23	1,25	1,30	1,30	100
Added value per employee (in thousands of SIT)	13.679	13.121	12.449	13.029	14.038	108

Note: To enable a realistic presentation, the additional depreciation costs recorded in 2001 and the revaluatory operating expenses of tangible assets for 2002 have been eliminated from the data used for calculation of the operating efficiency ratio.

Growth of added value in the period from 2000 to 2004



Added value in thousands of SIT

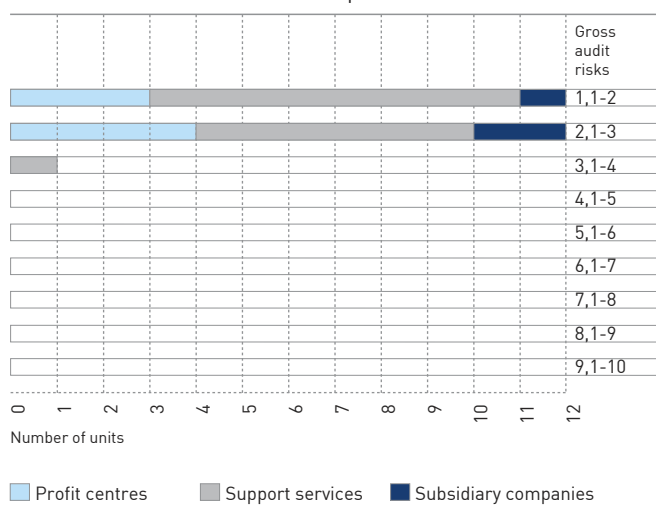
Internal Audit

In 2004, Internal Audit conducted reviews of the Company's operations in accordance with professional principles and standards of internal auditing, the code of business ethics for internal auditors, and rules for the conduction of internal audits as adopted by the Company's Management Board.

The riskiness of an auditing environment is evaluated on a yearly basis according to measures or factors such as financial size and strength of an audit unit, business-operational risk, and the risks arising from the management of the unit.

Audit units are classified into 10 classes based on an evaluation of gross audit risk, which includes operational risk together with the audit component. Most of the units have gross audit risks ranging between 1 and 3 (the tallest columns on the histogram). There are no units with high audit risk; i.e. 7 or higher. In general, the audit risk of audit units was low as at 31 December 2004.

Gross audit risks of audit units as per 31 December 2004



On-going supervision/control is performed by the line management through the engagement of its employees. An internal auditor performs independent audit reviews of basic business functions in all operational-organisational parts of the Luka Koper Group from the perspective of:

- functioning of internal controls in business processes,
- protection of assets and property,
- legality, rationality, correctness of operations, as well as whether operations are in order and up to date,
- rationality and efficiency of business processes and IT systems and the use of IT, including project implementation and completion, and the use of IT systems and other solutions for the development and improvement of operations,
- cost efficiency and effectiveness of funds used and the implementation of adopted developmental goals, business policy, plans and other business decisions,
- reliability, integrity and accuracy of accounting and other data and information, as well as the execution of authorisations for decision-making and use of funds.

The internal auditor conducted 7 internal audits in 2004.

In addition to establishing the current situation, the internal auditor also indicates the deficiencies found and makes recommendations on how to eliminate such deficiencies in business processes and their control mechanisms, as well as recommendations on the possibilities for further increasing of operational efficiency.

The internal auditor made 124 written recommendations within the framework of internal audits performed in 2004. 75% of these recommendations have been implemented, while the remainder are in progress.

Risk Management

Business Risks

Although our activities strongly depend on macroeconomic, institutional and infrastructural factors, the Company has assessed that the current results and new strategic orientations point to the careful management of these risks. The reduction of the Company's business risks and its solid and promising future are predominantly influenced by:

- the introduction of integral logistic services, which will enable the Company to become an equal competitor to other ports and enable it to utilise its competitive advantages stemming from our geographical position;
- the growing competition among land transport providers, which gives our customers greater possibilities when selecting a transporter. This aspect will gain importance after the liberalization of the railway operator market and the entry of foreign service providers;
- the development of partner relations with our customers, which increases their loyalty and ensures the continuation of existing business relations;
- the structure of cargoes according to markets and types reveals the satisfactory geographic diversification of markets and the diversity of cargoes, thus reducing the risks related to economic and political conditions in individual markets;
- the quality of services strongly affects the acquisition and retention of customers. The Company is improving quality by encouraging innovative activities and project collaboration with other providers in the chain and by research-analytical monitoring and measuring of the level of services.

Financial Risks

The Company appropriately controls liquidity, currency and credit risks as well as counterparty default risks.

- Liquidity risk is managed through the regular monitoring of cash flows and the thorough management of maturities of liabilities and receivables. The absence of liquidity problems is confirmed in the credit rating report issued by I, d.o.o., a credit rating company operating under the authorization of Dun & Bradstreet. This credit rating company also awarded Luka Koper the highest possible grade for its payment discipline; i.e. the Payment Key of 80.
- The exposure to currency risks is reduced primarily by the use of internal hedging techniques, which have proven to be the most appropriate. The negative effects of changing values of foreign currency receivables are managed by establishing liabilities in the same underlying currencies. This allows the Company to hedge the fair value of balance sheet items. The Company prepares the calculation of current foreign currency exposure, based on statistical calculations, before establishing foreign currency exposure on the liabilities side. The Company also continued its systematic transition to the Euro, which significantly reduced our exposure to currency risks.

- Changing interest rates do not represent any risks to the Company, as both the structure of our sources of financing and the credit rating of our Company enable us to obtain funding under the most favourable terms. Interest rates are also balanced according to financial liabilities and assets by different maturities.
- Credit risk is managed through an active approach in the conclusion of financial agreements and the use of appropriate security instruments.
- The counterparty default risk is reduced by actively monitoring the credit rating reports of our customers. One of the Company's practices includes the execution of business transactions through agents, so that the Company has very few direct contacts with customers around the world. The Company also makes use of liens on warehoused goods, which is realised if a client does not settle all of its obligations.

Investment Policy

Financial Investments

Long-term financial investments continued to prevail in the structure of financial investments as at 31 December 2004 and represented 34.8 percent of all assets. The main change in comparison to the previous year is the purchase of an equity stake in Intereuropa, d.d. in the first half of 2004. The Company had a 23.2 percent ownership stake in Intereuropa, d.d. at the end of 2004.

Short-term financial investments amounted to SIT 8.2 billion and increased by SIT 3.2 billion in comparison to the 2003 figure. The main reason for such an increase is the transfer of long-term investments, which mature in 2005, to short-term investments. VAT returns amounted to SIT 1.6 billion in 2004, which is 50 percent above the previous year's figure.

Investments in Equipment and Technological Improvements

An investment policy stemming from our developmental strategy was implemented in 2004. This policy was oriented towards the technological modernisation of equipment and machinery for cargo handling and warehousing, expansion of capacities and the development of port infrastructure.

The Company's investment orientation is in line with the latest world trends, which are focused on limiting energy consumption and honouring environmental preservation standards. The Company only invests in transportation equipment with energy saving and environmentally acceptable power aggregates. The technological modernization of handling equipment provides for the better utilization of moorings

Investments amounted to SIT 6.2 billion in 2004, which represents a 36 percent increase in comparison to the previous year. Almost one quarter of all funds were used for investments in the European Energy Terminal.

Major investments in 2004 included:

- the 2nd phase of the arrangement of the warehouse area at the PC European Energy Terminal in the amount of SIT 452 million and the 3rd phase of conveyor belt systems,
- the relocation of the PC Timber Terminal (SIT 427 million),
- the arrangement of areas for the PC Car Terminal (SIT 127 million),
- the rubber-tyred-gantry crane for the PC Container Terminal (SIT 227 million),
- the Kalmar reach stacker (SIT 97 million),
- construction works on the vegetable oil terminal for the acceptance of gas oil and light fuel oil in the amount of SIT 270 million,
- continued investments in the construction of the operative quay at the PC European Energy Terminal (SIT 757 million).

Plans

The Company plans to invest SIT 4.8 billion in 2005, as follows:

- SIT 3.5 billion for connecting handling and warehousing capacities at terminals,
- SIT 821 million for port infrastructure services,
- SIT 417 million for the activities of other services and representative offices.

The Company plans to increase its investments in environmental protection by almost one half, which represents SIT 677 million or 14 percent of funds.

Additional investments are planned in the amount of SIT 983 million, as follows:

- SIT 650 million for the beginning of construction of Pier III,
- SIT 270 million for continuing the relocation of activities and users from the area of the northern bypass road,
- SIT 50 million for preparation works aimed at connecting the existing road infrastructure to a new entrance.

The execution of these investments is to a large extent conditioned by activities involving the acquisition of various permits, approvals and decisions of the local authorities.

Marketing and Customers

Implementation of Marketing Strategy

The Company's good market position, confirmed at the end of 2004, is by all means a reflection of important results achieved and activities performed in various areas in recent years. We implemented our marketing strategy by means of well-planned and long-term oriented marketing activities, which include:

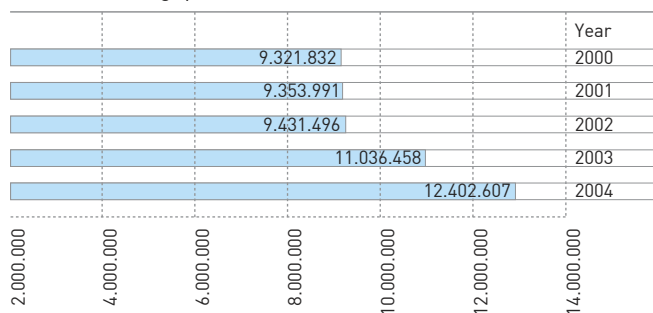
- general promotional activities aimed at strengthening the presence and recognizability of our services on target markets,
- the upgrading of existing services and the introduction of new ones aimed at completing the Company's offer of services.

Maritime Throughput Well above the Plan

The introduction of new services and active marketing, the strengthening of our market position on existing and new markets, as well as the revival of certain trade flows along the Adriatic transport route are the reasons why the Company exceeded the planned figure of 11 million tons in 2004 and handled 12.4 million tons of various cargo, which is 12.38 percent more than in the previous year.

The growth of marine throughput is also significant in comparison with previous periods, as the volume of cargo handled in the past two years has increased by almost 3 million tons. This growth may be attributed primarily to the increase of cargo volumes in the majority of groups, particularly cars and containers, a favourable business environment, and our acquired status of an equal port in the European Union. A significant structural shift was attained in the volume of containers and cars, whose share in the total cargo structure increased considerably.

Maritime throughput

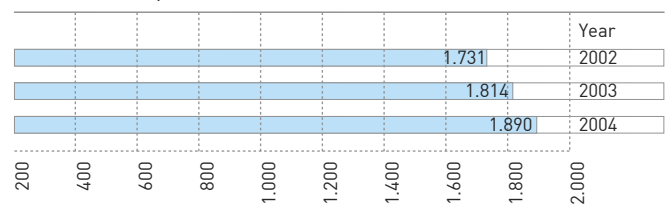


Most Goods Transported by Rail

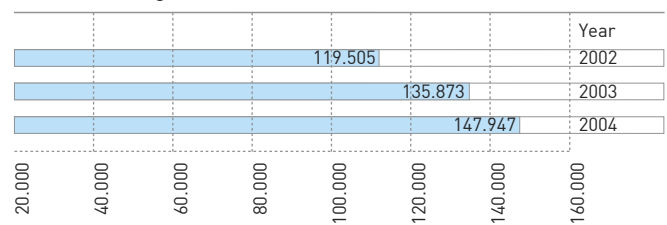
Increased cargo volumes mean more ships, wagons and trucks carrying goods to or from the port in 2004. Rail transport is steadily expanding, which is in line with European orientations.

A transport structure in which almost two thirds of goods are transported by rail was preserved in the past year. This figure is still high above the average in European countries, where only 15 percent of goods arriving at or leaving ports is transported by rail.

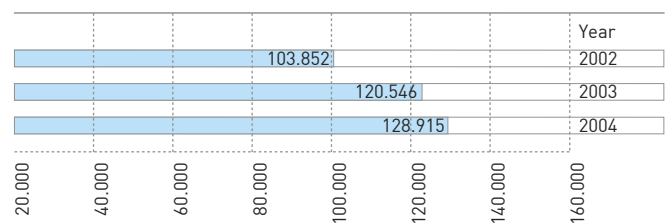
Number of ships



Number of wagons



Number of trucks



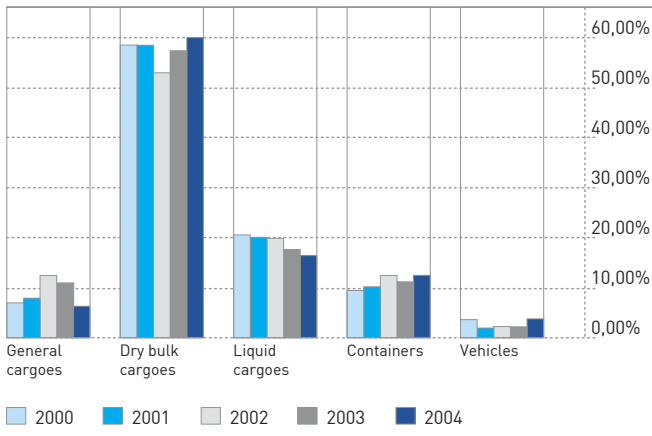
Structure of Cargoes According to Type

Based on the technological procedures of handling goods, cargoes are divided into five main groups: containers, vehicles, general cargoes, liquid cargoes, and dry bulk cargoes.

Although in previous periods the Company had a similar cargo structure according to type as in 2004, a slight decrease in the shares of general and liquid cargoes on account of dry bulk cargoes, containers and vehicles was recorded.

The group of dry bulk cargoes once again registered the highest volume, which is nearing 60 percent of the total cargo volume. Liquid cargoes, which comprise oil and petroleum products, vegetable oils and various acids, are technologically somewhat more demanding, but in terms of quantity still very high, accounting for over 16-percent share. Containers are in third place and increasing steadily, an indication that we are keeping pace with world trends. Containers already account for almost 13 percent of the port's handled cargo.

Shares of cargo types in the total cargo volume



Cargo Structure According to Markets

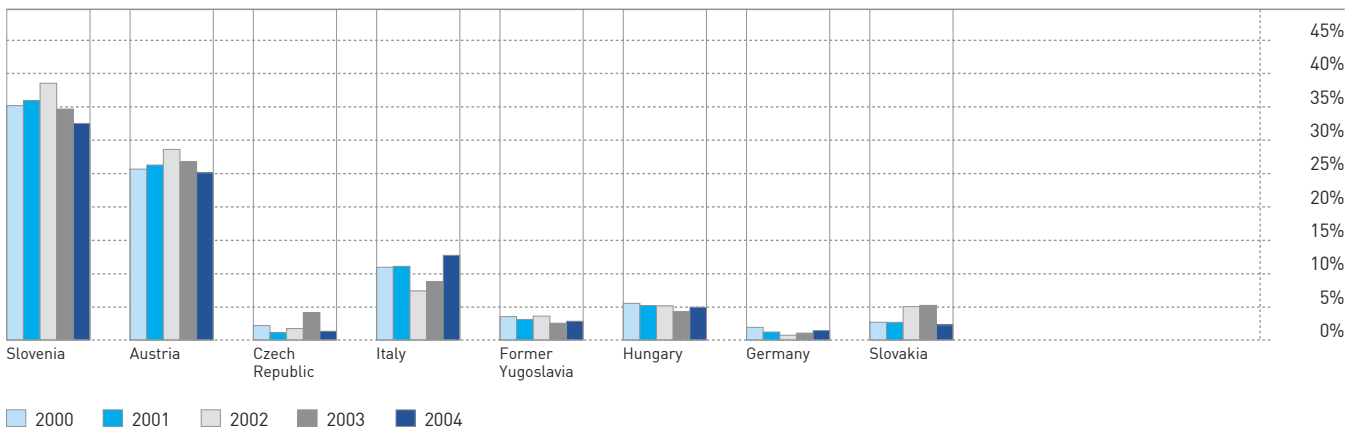
Owing to the growth of traffic in the past year, some minor changes have occurred in the structure of cargoes according to markets. However, the shares of key markets have remained similar to those of previous periods.

A good third of the cargo handled is performed for the Slovene market, while the remaining goods are bound for markets in the immediate and nearby hinterland, among which the Austrian market is traditionally in first place, followed by Italy.

An increasingly more important role is being played by the category of transshipment, i.e. the handling of goods arriving at and leaving the port by ship. The growth of transshipment represents a significant development orientation, and Koper is developing into a major central and northern Adriatic maritime logistic centre of broader importance.

In September the Company reopened its representative office in Belgrade after assessing that the market of Serbia and Montenegro is growing rapidly and offering attractive business opportunities. We have also initiated the planned promotional activities in the Near and Far East and in the hinterland. Slovenia's entry into the European Union has brought us closer to the markets of southern Germany and northern Italy, where we are strengthening the recognizability of the transport route through Koper with intensified marketing activities. Our endeavours on these markets are aimed at emphasizing our status of an equal partner among European ports, and we have already attained significant business results on this account.

Share of throughput according to markets



Containers

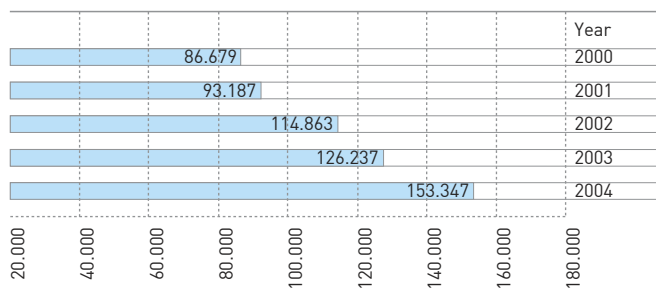
The containerisation of goods is a global trend that is steadily increasing in Slovenia as well. Container handling increased by almost 21.5 percent in 2004, and with the impressive figure of 153,347 TEU (container units) exceeded all previous records, and surpassed by three times the average annual growth on an international scale, which amounted to 7 percent.

The largest share of handled containers, i.e. 40 percent, is intended for Slovene customers, followed by Hungarian customers and customers from the markets of former Yugoslavia and Austria. In the past year, we increased our cooperation with all markets and handled a total of almost 1.6 million tons of goods in containers.

In comparison with the previous year, the Company registered a 45-percent increase in cargo handled for the Slovene market, a 28-percent increase in cargo for the Hungarian market, and more than a 15-percent increase in cargo for the markets of former Yugoslavia.

This high growth was predominantly influenced by the establishment of a new direct shipping line for the Far East (Evergreen, Lloyd Triestino, CMA-CGM), the establishment of a regular weekly block train connection on the Graz (Cargo Center) - Koper route, and good cooperation with 33 container shipping companies.

Containers (TEU)

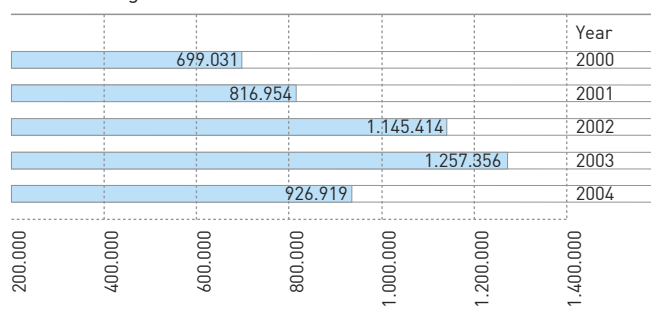


General Cargoes

General cargoes are handled at four specialized terminals: the Fruit Terminal, the Timber Terminal, the Livestock Terminal and the General Cargo Terminal (steel products, paper, cellulose, aluminum semi-products, sugar, coffee, appliances, and similar).

The volume of general cargoes decreased in comparison with 2003, the main reason being the substantially smaller volume of handled steel products for export purposes. The volumes of other general cargoes are approximately on the same levels as in the previous year. Owing to Slovenia's entry in the European Union, the conditions are now favourable for reviving livestock traffic. On the other hand, we have lost certain quantities of bananas due to the quota system applicable for EU countries. In comparison with 2003, container shiffting and unshiffting increased by 80 percent, which is enriching warehouse and additional services relating to goods.

General cargoes

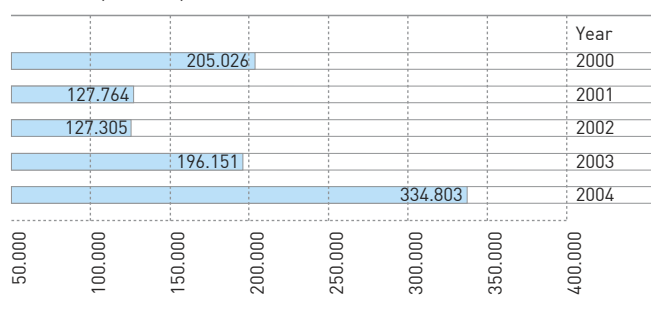


Vehicles

The volume of vehicles has fluctuated considerably over the past five years. The 2004 result represents a commendable achievement and incentive, as vehicles greatly surpassed the planned 10-percent growth. With a 70-percent increase over the previous year, the existing terminal capacities were put to the test, which they withstood without difficulty. The terminal became additionally specialized and acquired new warehouse areas. Additional investments are in progress for the completion of warehouse areas which will ensure the optimization of terminal services.

As expected, the expansion of the European Union has simplified and provided for the uniformity of operating conditions. Contributing significantly to the growth of handled cargo was the Company's renewed business cooperation with the VW Group, for which we have become the key export port for distribution to the Mediterranean area, and partly also for land transport to Balkan markets, as well as increased trade business with other business partners.

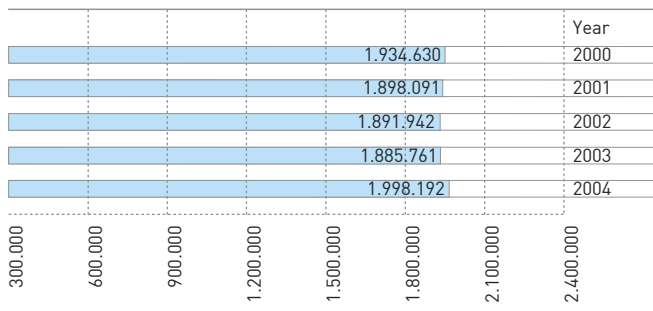
Vehicles (in units)



Liquid Cargoes

The volume of oil cargoes has remained relatively constant over the years and amounts to around 1.80 million tons. Other liquid cargoes increased by 76 percent in comparison with 2003. The growth of cargo handled was decisively influenced by the introduction and stabilization of a new business involving fuel oil. Currently in progress is the modernization and enlargement of the terminal's capacities, which will enable more active marketing and the acquisition of new businesses.

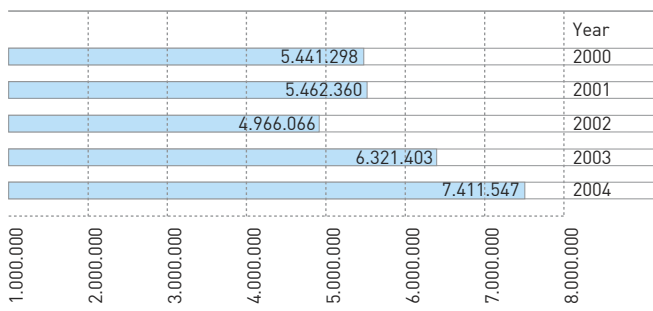
Total liquid cargoes



Dry Bulk Cargoes

Dry bulk cargoes are handled at four terminals: the European Energy Terminal, silos for grain, the Alumina Terminal and the Dry Bulk Terminal, where the main groups of goods include various rocks, minerals, steel scrap and animal feeder. In the past year, the volume of cargo handled increased by more than 17 percent, primarily on account of new business transactions involving coal. Because of increased cargo volumes, the Company constructed additional warehouse capacities, operating quay, and endeavoured to reduce impacts on the environment by constructing an anti-dust curtain.

Dry bulk cargoes



Logistics

The Company is steadily gaining recognition with the provision of logistic services, with which we are significantly complementing our fundamental port activity. This primarily includes customs mediation services, organization of transport, and all the required administrative support for goods being handled in our port.

In 2004, our logistic services supported almost 14 percent of handled cargo which represents approx. 1.75 million tons of goods and more than twice the amount of goods handled in 2003.

Business Excellence

At Luka Koper, d.d. we operate according to the system of total management. Within the scope of this system, we are implementing operating practices based on the model of business excellence. We are ensuring the adequate quality of services by adapting to the needs of business partners and complying with international quality standards and principles of business excellence. We aim at fully mastering business processes by employing highly qualified and motivated employees. The Business Excellence Award of the Republic of Slovenia, granted to our Company in 2002, is an acknowledgement that we are working successfully and that we are on the right path.

Working Towards European Recognition for Business Excellence

Our goal upon commencing to implement the business excellence model was to harmonize our business operations with the best practices of European companies and use them as a model for comparison. Today, we are passing on our positive experiences to others.

An additional challenge is harmonizing our business operations with the European model of business excellence. An important step on the path to the highest European award for business excellence was the performance of a self-assessment, for the first time last year, in individual profit centres and subsidiaries, based on the model of business excellence. It is our firm belief that in upcoming years, we shall succeed in further integrating their synergetic effects, which will have a highly positive influence on business and financial movements.

Integrated in a Uniform Management System

Through the integration of various management systems and the inclusion of subsidiary companies, Luka Koper, d.d. has created an efficient management system. By fulfilling the requirements of various systems, such as the quality management system in accordance with ISO 9001 and the environmental management system in accordance with ISO 14001, ensuring health and safety at work, ensuring the conformity of foods according to the HACCP system, protecting information according to ISO 17799, and the model of business excellence, we are attaining the highest possible effects with the most reasonable use of available resources. Some of the many advantages of such an approach include the spread of positive practices, more integral support of the management system for business goals, optimization of human resources responsible for system management, etc.

Certificate for the Handling and Warehousing of Non-Genetically Modified Soya

In December 2004, our Company received the Non-GMO Certification for compliance with the BRC Standard for the Supply of Identity-Preserved Non-Genetically Modified Food Ingredients and Products. The external certification procedure was conducted by the SGS certification company from Belgium, one of the leading international companies for the inspection, verification, testing and certification of products and services.

The acquisition of this certificate confirms that the PC Dry Bulk Terminal has an established system ensuring the separate handling and warehousing of non-genetically modified soya. The risk of goods being contaminated with genetically modified soy has thus been eliminated. We have therefore contributed to the improved quality of our services by guaranteeing that the identity of goods is preserved, which is one of the principal requirements of the standard.

Plans for 2005

- In 2005, Luka Koper, d.d. will become a member of the European Foundation for Quality Management (EFQM) and participate in the Recognized for Excellence procedure for the purpose of attaining the European Quality Award.
- We shall conduct a self-assessment following the model of business excellence for large companies.
- We shall improve self-assessment in profit centers and conduct assessments of profit centers and companies.
- We shall continue to encourage good operating practices both inside and outside the Company, improve our approach to controlling processes, and implement criteria for measuring the efficiency of key processes.

A Buyer-oriented Approach

Development of New Services

The Company's development orientation towards the expansion of logistic services calls for the continuous development of new services in this area. By establishing a regular container block train connection between Koper and Graz in 2004, we have fulfilled the goal of introducing new railway links with the hinterland.

Together with Austrian strategic partners, we worked intensively on a project involving our entry into the activity of railway operator. For this purpose we established, in the beginning of 2005, a joint company for the organization and provision of railway transport services under the name of Adria Transport, d.o.o. By complementing our existing offer of services with competitive railway transport services to hinterland areas, we will strengthen our competitive position.

Marketing and Promotional Activities

The marketing and promotional activities conducted in the past year have once again confirmed that direct contact continues to be the most effective promotional tool in our branch of business. For several years we have been attending international specialized fairs and symposiums which have both a promotional and an educational value. Due to the specific characteristics of individual terminals, our activities are becoming increasingly more oriented towards specific types of cargoes.

In April 2004, our Company hosted the 43rd international meeting of the Ship Planning Message Development Group (SMDG). Luka Koper, d.d. was also among the initiators and organizers of the international Port Management & Logistics conference held in October 2004. More than 150 participants from 15 countries attended this conference, which exceeded all expectations. In future, regular meetings of international operators and experts in maritime traffic, transport and logistics are expected to be held on the Slovene coast every two years.

The Company regularly hosts numerous political and economic delegations, and informs them on the advantages of the Slovene transport route.

In addition to individual visits to existing and potential business partners, where special mention should be made of our rapidly growing presence on the markets of the Far East, we organized a business meeting in October in Belgrade for the purpose of officially presenting our new representative for the market of Serbia and Montenegro.

Each year the Company prepares an advertising programme combining the proposals of marketing specialists, terminal managers and area managers. Worth mentioning is our increased presence in international publications specializing in transport or specific types of cargoes, particularly those published in our hinterland markets.

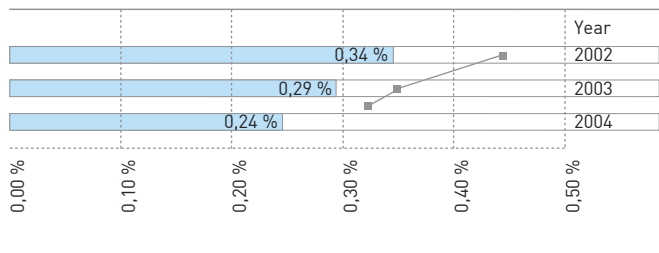
An important promotional and communication tool is our official website. A project involving the renewal of our website is currently in progress. The purpose of this renewal is to bring us closer to our target public, in particular existing and potential buyers, and ensure easier and quicker communications. Our new applications will enable the on-line exchange of information with customers.

Customer Satisfaction

A customer satisfaction survey conducted in 2004 has given encouraging results, and confirmed that our services are meeting the expectations and desires of customers. The opinions of customers improved in all areas in comparison with the 2003 survey.

A significant indicator of the quality of our services is the steadily decreasing number of customer complaints from year to year.

Complaints regarding invoices



Partnership with Suppliers

We are developing partner relations with suppliers, and cooperating with qualified and financially stable suppliers maintaining a high level of quality of their products and services. Special efforts are devoted to relations with suppliers being of particular importance for port and related activities.

Assessments of suppliers were also performed in 2004. On average they received higher ratings, which means that their quality generally increased. This is evident in the higher values of indicators such as delivery dates, prices and number of complaints.

The awards for best suppliers in 2004 were granted to Nautic Service, d.o.o., Primorje, d.d. and Anivo, d.o.o..

The success of our systematic development of partnership with suppliers is reflected in the steadily declining number of complaints to suppliers and the small share of digressions from contractual deadlines.

Growth and Development of Innovations

The effective introduction of improvements is based on the functioning of independent working groups, which examine and approve individual proposals for improvements. The Innovations Committee examines only more complex proposals in which economic added value is calculated. This has enabled us to shorten the award-granting procedure.

A number of changes have been introduced in the functioning of independent working groups, which are aimed at implementing a process of continuous improvement. The groups meet regularly and have clearly set goals that are being achieved through continuous communication, proposals, and the implementation of improvements.

In the past year, employees submitted 232 improvement proposals, which represents 3.6 proposals per 10 employees or 8 percent more than in the previous year.

The most important improvements include modifications in the electronic devices of cranes, improvements in the grab mechanism of cranes and in ensuring traceability in car handling.

In 2005, we expect to record at least 4 improvements per 10 employees.

Information Support

By ensuring efficiency and safety in the provision of support to all business processes and developing IT solutions for integral logistic services, we are achieving our key strategic goals in the area of information support. The application of optimal IT solutions has enabled the quality and timely supply of information to employees on all levels, and enhanced the development and rational operation of the entire Luka Koper group.

Information Support is Provided by an External Partner

In 2004, integral IT support services were provided to Luka Koper, d.d. and its subsidiaries by Actual I.T. d.o.o. from Koper. The key areas of cooperation include the planning and performance of development activities, provision of support for existing solutions, and ensuring the safety of information and other information means. Our external partner also offers support to users and controls the functioning of systems.

We are Upgrading and Improving IT Solutions

In the past year, the Company carried out its planned activities in the areas of information support and optimization of operation, as well as the upgrading of equipment.

The COSMOS software application was installed at the Container Terminal, which will enable the more efficient, coordinated and transparent management of operations.

In line with the ISO 7799 standard, we implemented measures and activities aimed at ensuring the effective supervision, storage, accessibility, accuracy and provision of information. Procedures for accessing data, documents and information systems were improved.

The standardization of work stations and the SAP system for the quality and integrity of information were implemented. A project was prepared and an agreement concluded for the provision of information support in the areas of marketing and operations. The project is scheduled for completion in the middle of 2006.

Plans

The following improvements and innovations are foreseen in 2005:

- increasing the availability of software applications at the Container Terminal,
- installation of the initial segments of renewed IT support for marketing and operations,
- standardization and integration of IT structure,
- renewal of IT support at the Car Terminal,
- rationalization and upgrading of individual segments of IT support.

Human Resources Management

The mission and goal of the Company's human resources and organizational activities is to hire and develop the best employees and motivate them to attain the business vision of the Company. In 2004, we successfully fulfilled these goals by upgrading development in all areas of human resources activities and continuing to introduce improvements in the organization of work.

Practices and procedures relating to human resources management were harmonized to a maximum extent with the requirements of business operations, the needs of employees and the demands of the external environment, particularly legislation.

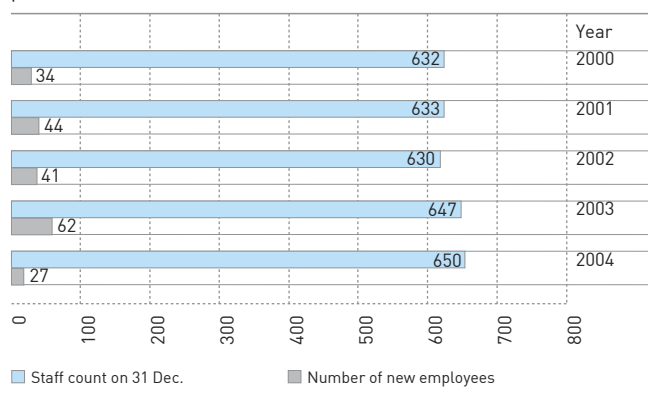
Human resources and organization activities were focused primarily on the following:

- developing the rational and flexible organization of work, particularly in the direction of improving the planning of work, microorganization, and management of working hours,
- organizing the required education and training programmes for employees on all levels,
- improving internal systems of knowledge transfer among employees,
- recruitment and rotation of employees in order to satisfy work requirements on the corporate level,
- improving the system of monitoring the satisfaction of employees and internal customers,
- adapting to novelties in legislation which directly or indirectly influence the existing approaches to human resources management.

Staff Recruitment

On 31 December 2004, Luka Koper, d.d. had 650 employees, which is almost one percent more than on the last day of 2003. The staff count continued to increase in 2004, but less intensively than in 2003, when new employees were hired in order to harmonize our human resources structure with applicable law. In 2004, the Company received approx. 500 job applications, which points to high interest in employment at Luka Koper, d.d..

Staff count on 31 December and number of new employees in the period from 2000-2004



27 new employees were recruited, primarily for professional and managerial positions requiring a VI or VII (college or university) level of education, and for operational jobs.

The most important criteria in selecting new employees were, in addition to fulfilling the requirements of a specific job position, the ability and willingness of candidates to adapt to the corporate culture of the Company and to the demands of the work process (particularly flexible working hours).

The education structure of newly employed workers was higher than in 2003, when more than three quarters of the new recruitments were for contracted works. In this way, the Company fulfilled the need for specific staff with a vocational or secondary school education.

In 2004, employment contracts were terminated for 24 employees, mostly for objective reasons: retirement, transfer to the company from disabled persons INPO, d.o.o. (disability), and death. Only one employee resigned from employment.

The average number of employees in 2004 was 644.8, in comparison with 638 in 2003. The share of terminations is decreasing from year to year, as job turnover dropped from 7.05 percent in 2003 to 3.72 percent in 2004.

Education Structure Improving from Year to Year

Owing to the recruitment of staff with higher levels of education, departures of employees with lower levels of education, and the continuing education of employees, the education structure improved in 2004. The trend of improving education structure is therefore continuing.

In 2004, 26 percent of employees had VI, VII and VIII levels of education with respect to the average number of employees, which is one percent more than in 2003. The number of unqualified and semi-qualified workers fell by 2 percent in comparison with the previous year. In terms of absolute growth, the number of employees with a college or university education increased by six percent in comparison with the previous year, while the number of unqualified and semi-qualified employees decreased by eight percent.

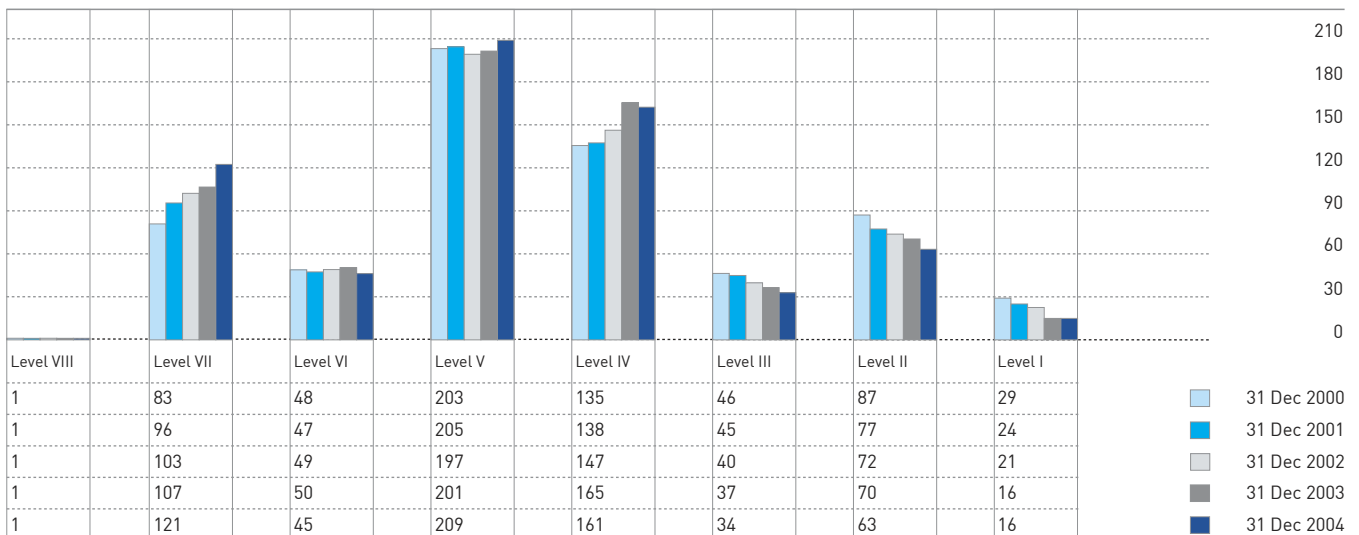
The average age of employees in 2004 was 41.8 years, while the average length of service was 20.5 years. In comparison with the previous year, the average age and length of service increased slightly. The general trend of decreasing age is nevertheless continuing, while the small fluctuations in various years may primarily be attributed to our employees' permanent employment in the Company. By recruiting young, even inexperienced staff, we are attempting to slow down the natural aging process in the Company and provide for the inflow of new ideas and energy.

Employment of Disabled Persons

At Luka Koper, d.d. we devote special attention to employees with limited work ability due to a handicap. To provide these persons with the best possible working conditions and an adapted working environment, in 1995 we established a company for disabled persons, INPO, d.o.o..

In 2004 we actively implemented the Law on the Employment and Rehabilitation of Disabled Persons, and together with INPO, d.o.o. prepared a plan for bringing the management of disabled persons and the operations of the company for disabled persons in line with the new law.

Education structure of employees in the period from 2002 to 2004



In 2004, the Committee for Disabled Persons Pension and Disability Insurance Institution (ZPIZ) in Koper examined the work ability of 11 employees of our Company, of which three were granted the right to disability insurance, one was entitled to occupational rehabilitation, and five were transferred to INPO, d.o.o..

On the last day of the year, Luka Koper, d.d. employed 12 disabled persons: 9 employees with category III disability performing easier work than before their disability, and three employees with category II disability performing jobs with shorter working hours.

Equality of Employees

The Company supports and ensures fair and equal treatment in all aspects of employment. Women and other protected groups are treated on equal terms in all procedures, from the announcement of a job vacancy to job interviews. Equal treatment is, of course, ensured within the range of possibility, as the majority of job positions involve difficult working conditions. The above-mentioned groups also rarely apply for jobs mostly requiring a vocational or secondary technical education.

In 2004, Luka Koper, d.d. had on average 94 female employees, which is 14.6 percent of all employees. At year end, 4 females held senior managerial positions, which accounts for one fourth of all employees in such positions, and one female is a member of the four-member Management Team.

The selection procedure is conducted in a realistic manner. Candidates are informed on the various aspects of employment in Luka Koper and our expectations, which we attempt to harmonize with those of candidates.

Equal treatment is also ensured through regular informing and the encouragement of dialogue with employees. Favoritism and unjust organization in subsequent procedures of human resources management are prevented by the application of clearly defined requirements and criteria for promotion, remuneration, continuing education, and the adoption of other staff-related decisions.

Organization of Work

The organizational structure of the Company is divided into nine profit centres. These are organized according to the cargo which they handle or warehouse, as each type of goods requires a specific work process, technology and technological procedures, which in turn require the appropriate number and qualifications of employees. For this reason, we are closely linking the organization of work with human resources activities in order to ensure the rational and effective flow of work processes.

With the goal of improving work efficiency, some important shifts were made in the past year towards achieving greater flexibility in the organization of work and scheduling of working hours:

- The Fruit Terminal was reestablished as an independent profit centre. This is primarily due to the increased cargo volume following EU expansion and the technical requirements to be met for ensuring the safety of food products according to the HACCP standard.
- We redesigned several job positions on various levels and thus provided for a more transparent organization of work.

- We have embarked on a project entitled "Improving the Organization of Work in Luka Koper, d.d.", for the purpose of assessing the organization of profit centres. Our goals include improving the level of cooperation between units, better utilization of resources, increased productivity, employee satisfaction, and cost control.

Human Resources Development: Education and Career Development

The purpose of staff development is to ensure the appropriate structure and quality of employees. This is realized through education and training programmes, acquisition of work experience and skills, and the motivation of employees. Each employee has his/her own development plan and participates in development activities.

Planning Individual Development

The individual development of each employee is laid down in an individual development plan prepared on the basis of annual interviews as well as during the process of identifying and developing staff potential and successors.

- This year, the managerial staff of all levels once again conducted annual interviews with their subordinate employees, which are a strong motivating factor.
- For the third consecutive year, we conducted the process of identifying and selecting staff members who will take up managerial positions in the Company in the future. 19 potential candidates from the Luka Koper Group were proposed, this time from lower levels of the staff structure, including operational positions. These employees are the best successors for more demanding jobs, as they are well acquainted with operational issues and quick to find the most suitable solutions. 11 of these employees were identified as potentials for further development: 9 in the stock company and 2 in Luka Koper INPO, d.o.o.

Development Activities and Career Development

Individual development plans are implemented through the following activities:

Education and training of employees:

- The effectiveness and success of our oriented employee development was confirmed by a recognition for achievements in developing the concept of a learning organization, awarded to our Company for the second time this year by the Institute of Learning Organization (Institute USP).
- Similar to the previous year, each employee underwent at least one form of education and received on average 29 hours of training, which is 6 hours less than in the previous year. This decline, recorded for the second consecutive year, is primarily the result of a more individualized approach to education and the priority given to internal training. We are nevertheless above the Slovene average which, according to the latest results of a USP study, amounted to 22 hours in 2003.
- To improve the internal transfer of knowledge, we presented in September a tutoring system enabling the transfer of applicable

knowledge on work execution and skills. This method is a form of remunerating employees for the transfer of work experience. The pilot implementation of this system is foreseen in 2005 for the job position of crane operator.

- In order to attain an optimal staff structure, the Company supports part-time study. In 2004, 41 employees were enrolled in part-time study programmes, of which 12 were enrolled for the first time. Three employees have the status of a junior researcher in the economic sector and are preparing their Ph.D. dissertations.

Rotation and vertical advancement of employees:

- To ensure the more flexible management of employees, we are establishing a core of universal operational employees who are rotated by transfer to an equivalent job position in other organizational units. 21 workers, mostly crane operators, were transferred in this way.
- Rotations and vertical advancements are also carried out by the transfer of employees to other job positions in the same or another organizational unit. In the past year, 36 employees were transferred to more demanding or equivalent job positions.
- Staff mobility in 2004 resembled that of the previous year, although an increase was registered in the share of employees assigned to equivalent job positions in other organizational units.

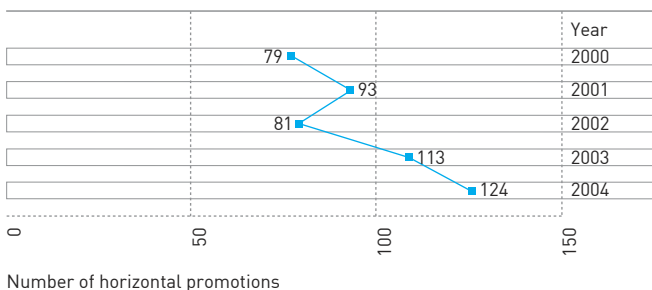
Monitoring Work Performance and Remunerating Employees

The Company has established material and nonmaterial motivational components for strengthening the satisfaction of employees, work achievements, and stimulating employees towards attaining the strategic goals of the Company.

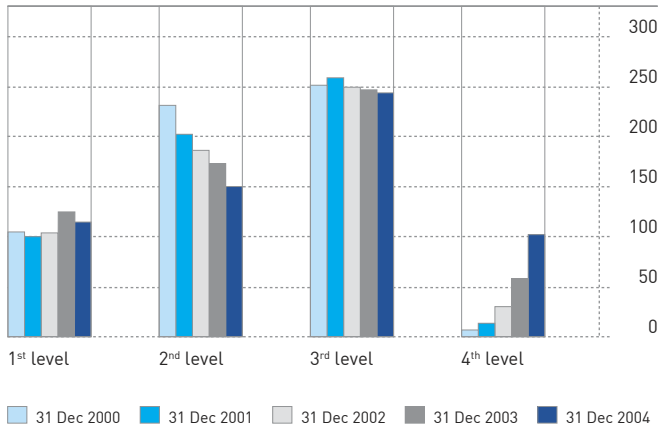
We encourage the acquisition and utilization of skills on the job by monitoring and remunerating individual and collective achievements and through the horizontal promotion system (on-the-job advancement).

The number of promotion proposals received by the Human Resources Department in 2004 is almost one tenth higher than in the previous year. We attribute this rapid rise in employee advancements in the past two years to the increased awareness of unit managers, who realize that human resources development is an important component of management and a precondition for the successful operation of a company.

Number of on-the-job advancements (horizontal promotion)



Number of employees on specific levels of advancement in the period from 2000 - 2004



124 from among 141 proposed employees advanced to a higher level, i.e. 35 employees advanced from the 1st to the 2nd level, 49 advanced from the 2nd to the 3rd level, and 40 advanced from the 3rd to the 4th level. The trend of increasing advancements to the 4th level in the past five years is proof of the continuous personal and professional development of our employees and the application of their knowledge in practice, for which they are also rewarded.

Special attention is also devoted to nonmaterial awards. In the past year, our Chief Executive Officer granted awards to and publicly commended the best manager, five model employees, the best innovator, and the best quality team.

The Company also introduced a number of improvements in employee remunerations in 2004, such as weekend stand-by status.

Solving Housing and Social Issues

For several years, the Company has devoted intensive endeavours to solving the housing problems of its employees, which is why most of them have satisfactory living conditions. In 2004, housing loans were granted to 9 employees, which is 2 more than in the previous year. Social assistance was granted to eight employees on extended sick leave, and to one employee of Luka Koper INPO, d.o.o. with financial difficulties.

Internal Communication and Management

We are providing information and stimulating open dialogue, which are essential for cooperation and partnership relations, through our internal newspaper, Luški glasnik, and Kratke vesti electronic news report as well as via notice boards, electronic mail, the Internet, brochures, pamphlets and manuals.

Our management concept is based on dialogue. The members of our managerial staff serve as models to our employees. As in previous years, our managers conducted annual interviews, held meetings with employees in quality teams, implemented the open-door policy, and provided positive or negative feedback information to co-workers.

Our Chief Executive Officer and members of the Management Team endeavour to maintain continuous contacts with employees. In 2004, our officers made regular rounds of our units and spoke to employees about their work and ideas for improvements and development.

Various forms of collective work represent an important contribution to cooperation and good internal communication between employees. 16 quality teams are currently active in the Company. In 2004, independent working groups were formed for the purpose of solving current problems (38 are currently active). More demanding and complex tasks are solved in the Company using the project approach.

Events for Employees and Leisure Time

In 2004, a number of social gatherings were organized for our employees. The largest is the annual picnic for the employees of Luka Koper, which is held in May. Other social gatherings are organized in individual business units to celebrate birthdays and other anniversaries and before the Christmas holidays. We encourage our employees to participate in sports activities through our support of the Luka Koper Sports Society, which has 400 members. Particularly good results are being achieved by our Boules Section, which in 2004 organized a National Fours Competition for members. Free recreation is offered to employees through the Sports Society. The Company has 16 holiday apartments offering low-price accommodation to employees year round.

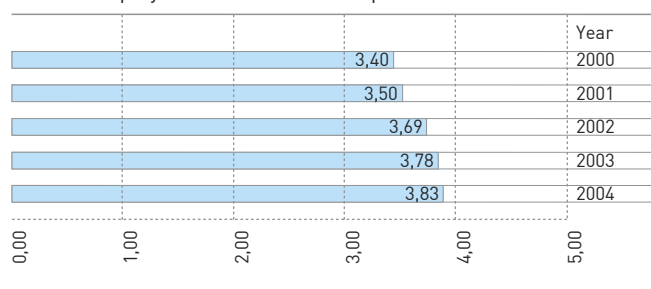
Cooperation with Educational and Scientific Institutions

The Company supports close cooperation between the economic branch and the sphere of education, as well as the development of knowledge in society. Special emphasis is given to research work. Three of our employees have the status of junior researcher in the economic branch and are preparing their Ph.D. dissertations. The Company is also participating in two research projects aimed at increasing the applicability of knowledge in the economic branch. In October 2004, the Company organized the international conference Port Management and Logistics, in which a number of our employees actively participated. Our employees also work as senior lecturers and teaching assistants at the University of Primorska and at the University of Ljubljana.

Employee Satisfaction is Growing

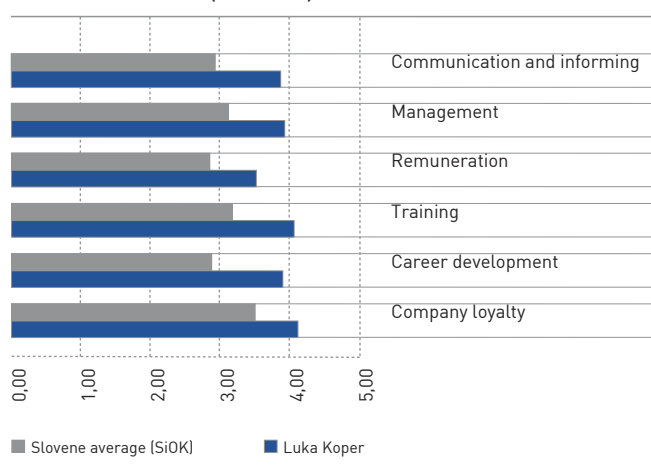
In October, we conducted an annual survey on employee satisfaction and the assessment of managers. For the first time, we also assessed the work and cooperation of support services. The results of the survey confirm the effectiveness of activities conducted in all areas of human resources management as the overall satisfaction of employees is steadily increasing from year to year.

Overall employee satisfaction in the period from 2000-2004



The Company also participates in a comparative project of corporate climate monitoring in Slovene companies, which is being conducted by the Slovene Chamber of Commerce.

Satisfaction with specific aspects of work and the working environment - comparison of Luka Koper and 90 Slovene companies from various sectors (2004 data)



Strengthening Our Safety Culture

The Luka Koper Group attributes high significance to health and safety at work. We are strengthening our safety culture in the workplace and among employees.

In the past year, the Company organized various training sessions on the topic of safety at work. By including the employees of our subcontractors in our courses and workshops, we contributed to the improved quality and safe performance of their work.

The number of injuries has fluctuated in past years; in 2004 we recorded 49 injuries. Absence from work due to injuries at work decreased by 21 percent in the past five years and amounted to 1.38 days per employee in 2004. Absence from work for other reasons has generally remained on the same level since 2000.

Working equipment is regularly inspected and tested, and records of inspections are kept. Specialized organizations are periodically engaged to conduct tests of chemical, biological and physical hazards in the workplace. Based on the results of such tests, adequate measures are taken and appropriate personal safety equipment is provided.

A risk assessment is prepared and a safety statement is adopted for all job positions. Employees regularly undergo all the prescribed medical examinations, and tasks are performed solely by professionally qualified employees who are fit for work. All the prescribed requirements for health and safety at work must also be met by the employees of our external service providers.

Shareholder Satisfaction

Ownership Structure

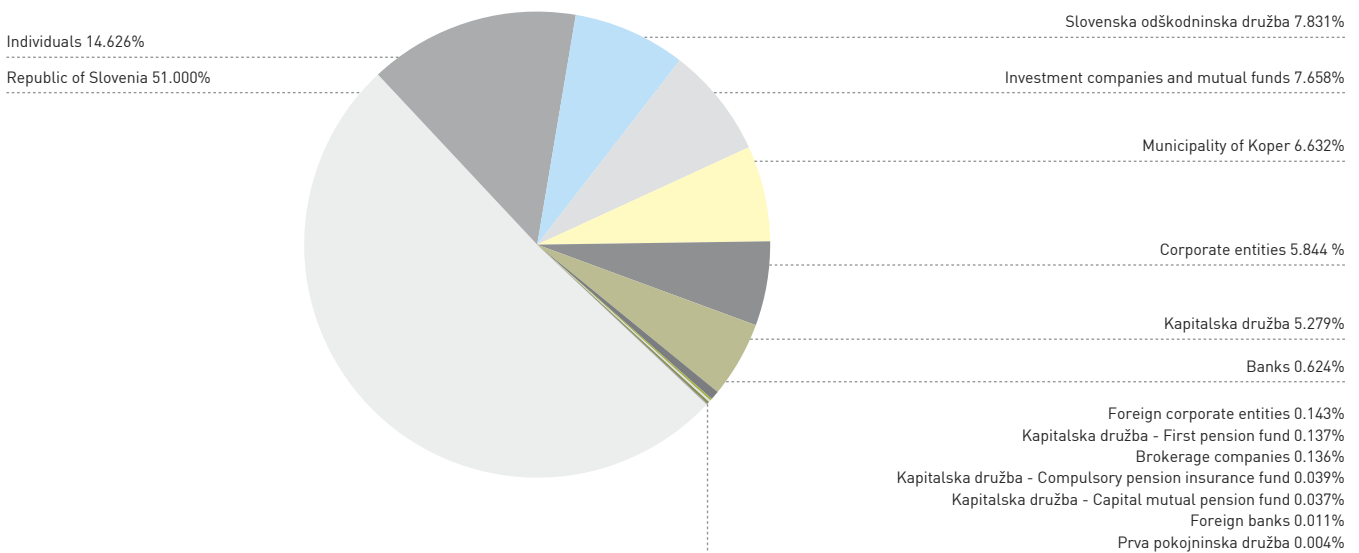
The share capital of Luka Koper, d.d., is divided into 14,000,000 shares with a nominal value of SIT 1,000 each. 7,140,000 are ordinary registered shares traded on the Ljubljana Stock Exchange. The remaining 6,860,000 shares are participating preference shares fully owned by the Republic of Slovenia. The preference shares have fixed and variable portions of return and limited voting rights.

The ownership structure of Luka Koper, d.d. did not change substantially in 2004. The Republic of Slovenia remains the largest owner with a 51 percent share, while Slovenska odškodninska družba holds 7.83 percent of shares. The Municipality of Koper and Kapitalska družba are among the major individual shareholders. The shares of foreign companies and foreign banks are increasing. The number of shareholders has been growing in past years. At the end of 2004, the Company had 9,813 shareholders, i.e. 15.38 percent more than in 2003.

Ten largest shareholders as at 31 December 2004

	No. of shares	Stake in %
Republic of Slovenia	7,140,000	51.0
Slovenska odškodninska družba	1,096,319	7.8
Municipality of Koper	928,480	6.6
Kapitalska družba d.d.	724,347	5.2
Triglav steber I, delniška ID d.d.	180,582	1.3
KD ID d.d.	170,858	1.2
KD Investments d.o.o. - special mutual fund Galileo	151,905	1.1
Zavarovalnica Triglav d.d.	104,756	0.8
Adriatic Koper - Protection Fund	100,332	0.7
KD Investments d.o.o. - special mutual fund Rastko	87,281	0.6
10 largest shareholders - total	10,684,860	76.3

Ownership structure of Luka Koper, d.d. on 31 December 2004

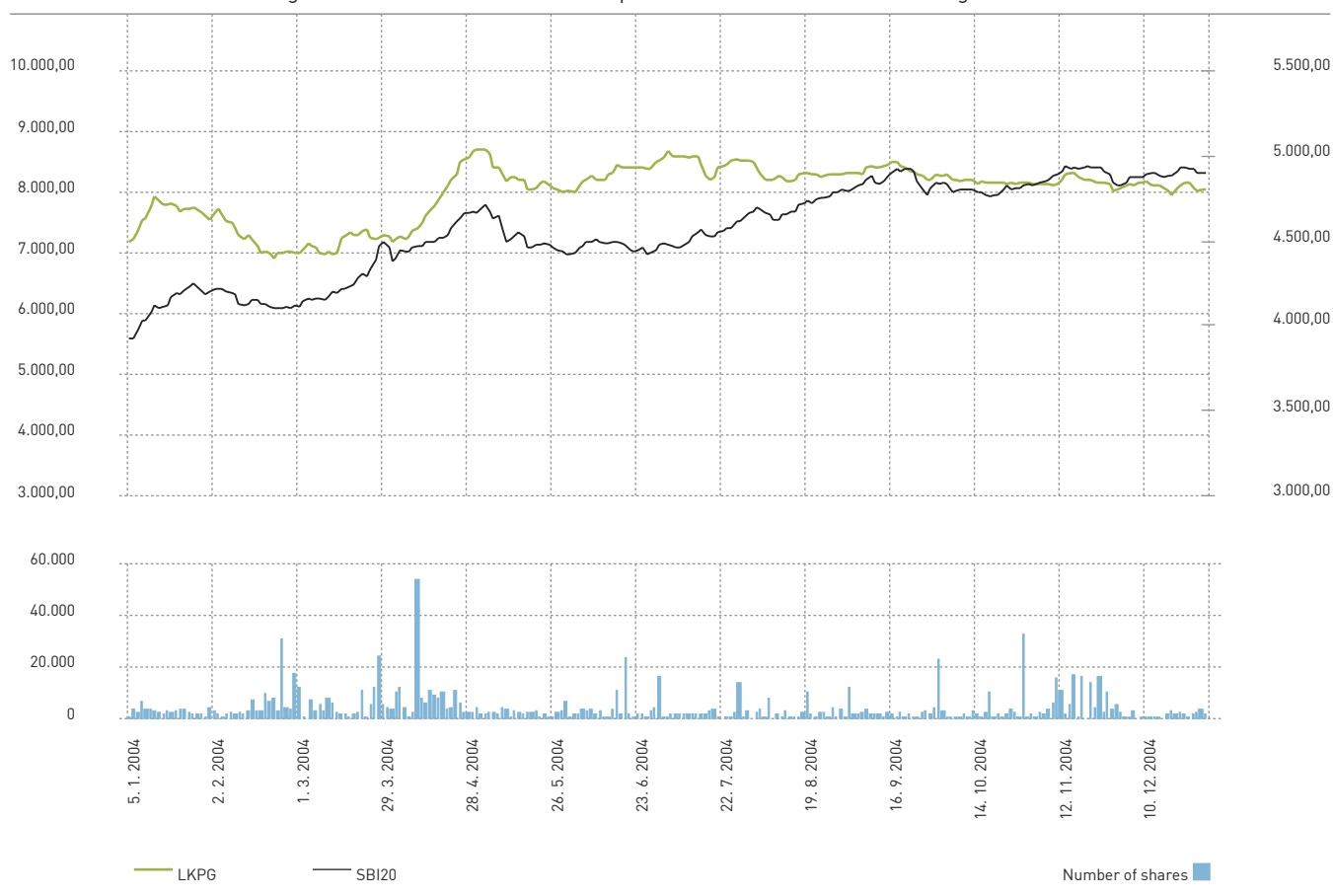


On 31 December 2004, the ten largest shareholders held 76.32 percent of all shares of Luka Koper, d.d.. No significant changes can be noticed among them, only Adriatic Koper – Protection Fund became a new shareholder in 2004 and was listed in ninth place among the ten largest shareholders. Infond ID, which held fifth place at the end of 2003, was not among the ten largest shareholders at the end of 2004.

Trading in Shares

In the past year, a total of 6,132 transactions were carried out with the LKPG share. In these transactions, the owners of 1,006,058 shares, i.e. 14 percent of all ordinary shares listed, changed. The share of Luka Koper, d.d. rose in value 11.7 percent from the beginning of the year. Its uniform price on the first day of trading in 2004 was SIT 7,201.99 and on the last day of trading SIT 8,047.33. Transactions were carried out primarily by investment companies, mutual funds, individuals and companies. The share's average weighted price in 2004 was equal to SIT 7,966.15 and increased by 51 percent over 2003, when it was SIT 5,290.79. The peak price achieved in transactions was SIT 8,900.00, while the lowest price was SIT 6,801.00. The trading volume amounted to SIT 7.908 billion and increased by 77 percent in comparison with 2003.

Price movements and trading volumes of the LKPG share compared to the Slovene Stock Exchange Index in 2004



Selected data on the LKPG share for the past five-year period

	2000	2001	2002	2003	2004
Number of shares	14,000,000	14,000,000	14,000,000	14,000,000	14,000,000
Preference shares	6,860,000	6,860,000	6,860,000	6,860,000	6,860,000
Ordinary shares	7,140,000	7,140,000	7,140,000	7,140,000	7,140,000
Price on the last trading day of the current year	3,001.70	3,245.90	4,594.11	7,217.57	8,047.33
Average book value per share	3,088.00	3,477.00	3,867.96	3,899.45	4,045.66
Net earnings per share (EPS)	207.20	259.90	321.00	277.53	298.69
Price-earnings ratio (P/E)	14.40	11.70	13.30	19.06	26.67
Price to book value ratio	0.96	0.86	1.10	1.36	1.97
Weighted average market price	2,979.00	3,005.80	4,267.84	5,290.79	7,966.15
Dividend yield (%)	4.4	4.9	4.4	4.2	3.1
Total trading volumes with the share (in thousands of SIT)	2,869,612	3,240,877	5,781,739	4,465,161	7,908,248
Dividend per share for the past year	132	150	190	225	245

* The weighted average price of the LKPG share and the average book value of the share are calculated from the monthly averages and used for the calculation of the price-earnings ratio per share and the price to book value ratio.

Dividend Policy

The dividend policy adopted by Luka Koper, d.d. foresees that approximately one half of the net profit is to be distributed among shareholders, while assuring a growing return per share.

At the Company's 9th General Meeting held on 14 June 2004, the shareholders decided that a portion of the distributable net profit in the amount of SIT 5,495,856,894.37 would be distributed among the shareholders as follows: SIT 1,749,300,000.00 for dividends for ordinary shares, SIT 173,767,750.44 for the payment of fixed dividends for preference shares, and the remaining SIT 278,028,400.70 for payment of the variable portion of the dividend for preference shares. The gross dividend per ordinary share for 2003 was SIT 245. The foreseen gross dividend per ordinary share for 2004 is SIT 245, and SIT 65.86 for preference shares.

The Company's Management Board will continue to support a long-term dividend policy in upcoming years.

Luka Koper, d.d. held no treasury shares in 2004.

Dividend per ordinary and preference shares

Year	Ordinary shares	Preference shares
2000	150.00	46.16
2001	190.00	49.83
2002	225.00	56.99
2003	245.00	65.86
2004	245.00	65.86

Financial Calendar For the Year 2005

28 February	Publication of unconsolidated financial statements.
31 March	Publication of consolidated financial statements.
31 May	Publication of a summary of the audited, unconsolidated and consolidated annual report, which is to be published within 30 days after receiving the auditors' report. Publication of interim report for the first quarter.
End of June/ beginning of July	General Shareholders' Meeting. Dividend belongs to those owners entered in the share register of Luka Koper, d.d. on the second day after the General Meeting.
31 August	Publication of a summary of the semi-annual report, which is to be presented by the Company as soon as possible.
September	Payment of dividends.
30 November	Publication of interim report for the nine-month period .





"Today, we received more wooden waste from the PC Timber Terminal. The seller and his buyers are visiting during these days. They were cutting, sorting, packing, binding and bundling on the press and endpainting wood. Our waste handling centre takes care of all the waste at the port. Almost everything is being used once again. We represent just a portion of the joint efforts to minimize the environmental burden."

Report on Sustainable Development

Working towards Sustainable Development

The Company's development policy strives to ensure a balance between business interests and the interests of the local environment, which is laid down in the Strategy of Development up to 2015.

We followed this orientation in 2004 by investments and improvements in the reduction of impacts on the environment, developing dialogue with the local community, and actively participating in projects on the local and other levels which encourage sustainable social development.

Management of Port Infrastructure

The Maritime Code stipulates that port infrastructure includes built-up shores, aquatoriums, breakwaters, accesses to piers, moorings, access routes, railway tracks, entrances, fences, water supply and sewage systems, electric installations, lighting, and other facilities serving the purpose of safe navigation and mooring, as well as the undisturbed performance of port activities and telecommunications installations.

Port infrastructure is the property of the Republic of Slovenia and the local community or entities of private law. The Republic of Slovenia or the local community grants a concession for the management, control and development of port infrastructure to the authority managing a port.

The access routes, railway tracks, entrances, fences, water supply and sewage systems, electric installations, lighting and telecommunication installations in the area of the cargo port of Koper represent an investment of the Republic of Slovenia's property in the share capital of Luka Koper, d.d. Luka Koper, d.d. is obliged to preserve the basic function of these facilities as part of the port infrastructure.

The commercial public service for maritime activities performed by the cargo port of Koper includes the following services:

- regular maintenance of port infrastructure intended for public transport,
- regular collection of waste from watercraft,

- regular maintenance of facilities ensuring the safety of navigation and waterways.

The commercial public service for maritime activities is provided in the following forms:

- by granting of concessions to entities of private law,
- in public companies,
- in the organizational units of ministries.

At the end of 2002, the Government of the Republic of Slovenia passed a Decree on the granting of a concession for the management, control, development and regular maintenance of port infrastructure in the cargo port of Koper. The Decree specifies that the subject and ownership of the port infrastructure will be defined in more detail in the concession agreement. The Decree stipulates, however that prior to concluding a concession agreement, an agreement is to be concluded on the regulation of mutual relations for the period following the ownership transformation of the public company Luka Koper, p.o., as well as a special agreement regulating land use rights, land development, and other issues in connection with the land in the cargo port of Koper which is owned by the Republic of Slovenia.

In 2003 and 2004, Luka Koper, d.d. participated in the preparation of the above-mentioned agreements with all the required enclosures. An agreement with the Republic of Slovenia has not yet been reached, however the Government has not yet entrusted the management of the above-mentioned assets to Luka Koper, d.d.

Social Responsibility: Partnership with the Local Environment

As one of the most important generators of economic development in the local and broader environments, we are continuously linking our development with the development of the environment in which we operate.

In the past year, we actively participated in projects contributing to the quality of life in the local and broader social community.

- In September, Luka Koper, d.d. signed an agreement with the Municipality of Koper on the transfer of 22,000 sq.m. of land and buildings in the oldest, west part of the port for the purposes of constructing a northern bypass and for the needs of the University of Primorska. In the second phase, the Company will transfer to the Municipality of Koper an additional 7,500 sq.m. of land, which will be used for the construction of a passenger terminal.
- The Company financed the construction of a boules hall in Koper, whose management has been entrusted to the Luka Koper Sports Society for a period of thirty years. After the expiry of this period, the facility will become the property of the Municipality of Koper.

- We contributed a significant share of the funds needed for the reconstruction and renovation of St. Jacob's Church in Koper, which is protected as a cultural monument and whose quarters are also used for the rehearsals of the Koper Brass Band.
- We financially supported a variety of sports, cultural and educational activities in the region and earmarked funds for the local communities of Hrvatini, Škofije and Ankaran.

Active Co-existence in a Common Environment

Port activities generate multiplicative effects in the direct and broader environment. It has been estimated that for each unit of value created in this activity, thirteen additional value units are created in Slovenia's entire economic sector. It is also a fact that the life and work of up to 20 percent of the inhabitants of Slovenian Istria are directly or indirectly linked to our activities. These effects are most evident among sea, road and railway transporters, as well as in commercial sales, tourism, the catering industry, and in financial services.

Besides transferring the oldest part of the port to the Municipality of Koper, we shall also improve the quality of life in Koper by the relocation of our main entrance and its direct connection to the motorway, which in 2004 linked Koper with central Slovenia. The construction of this connection is scheduled for completion in 2006.

The Local Community of Ankaran is Opposed to the Construction of Pier III

In 2004, we embarked on intensive activities for the beginning of construction of a new Container Terminal at Pier III. Our activities were intercepted by the opposition of the Local Community of Ankaran. By publishing a special issue of "Luški glasnik" and participating at meetings of the local inhabitants, public confrontations, round table discussions and programmes in the local and national media, we endeavoured to establish dialogue with the local inhabitants and explain our development plans and measures for reducing the impacts of port activities on the environment. In 2005, we shall strive to achieve that our efforts for developing dialogue may bear fruit and that we may find common ground with all interest groups.

Supporting Knowledge and Research Activities

At Luka Koper, d.d., we are well aware that the quality of knowledge in a company is linked to the development of the

company and its knowledge, which is why we are traditionally present in the establishment and operation of elementary schools (sponsor of Gračišče Elementary School), colleges, faculties and scientific institutions.

As an initiator of the establishment of the University of Primorska, we are upgrading our participation in this project with the provision of financial support, the participation of our experts in lectures, co-mentorship in graduation and Master's theses and seminar assignments, and by enabling students to undergo practical training in our company. In 2004, our Chief Executive Officer, Bruno Korelič, was elected Chairman of the Board of Trustees of the University of Primorska.

In 2004, we hosted several groups of students on professional excursions. 11 secondary school students and 10 students from all three Slovene universities, Politehnika Nova Gorica and Gea College underwent practical training in our company. A scholarship was awarded to an outstanding student enrolled at the international secondary school in Duino, Italy.

Alongside educational institutions, we also support individual research organization, societies and specific projects through sponsorships and donations.

Our Retirees are Linked to the Company

The Company cooperates with and financially supports the Retiree Club of Luka Koper. As active members of this club, our former employees have contributed extensively to spreading knowledge about our activities and strengthening the reputation of our Company. Our retirees help to conduct guided tours of the Company, and have also proposed the idea of setting up a port museum with their assistance.

Promoting the Development of Sports and Culture

Donations and sponsorships in the areas of sports and culture are an integral part of our activities. Available funds are allocated in accordance with internal rules and on the basis of criteria such as the social relevance of an activity or project and the credibility of applicants.

For several years now, we have supported the Slovene Olympic Committee and take pride in the achievements of Slovene athletes. In 2004, the Company renewed the contract concluded with this Committee. We are the main sponsor of the Koper Volleyball Club, and provide support to numerous clubs and societies whose members participate in international competitions and in this way contribute to the recognizability of Slovenia. Most of the funds allocated in the past year went to sports such as rowing, sailing, water polo, skiing, volleyball, handball, golf, karate, sport fishing and bowling.

Luka Koper, d.d. was among the sponsors of one of the stages of the world's most recognized cycling races, Giro d'Italia. Part of this race traveled across Slovenian Istria and also through our port. We supported the record-breaking swim of ultra-marathon swimmer Martin Strel, as well as the achievement of one of our employees, who cycled from Budapest to Koper in 24 hours.

Our Company is also active in the cultural arena, and regularly supports the Primorska Summer Festival and the Folkest music festival. We are the main sponsor of the Koper Brass Band, and made a major contribution for the arrangement of its quarters this year. The Company also supports amateur culture societies. Among individual projects that received our contributions are the Kino Otok Izola film festival and the performance of a Turkish artistic group of dancing dervishes in Portorož. The Company enabled the issue of a monograph on Luka Koper, edited by Prof. Dr. Livij Jakomin, and financially supported the setup of an exhibition upon the 40th anniversary of the Koper Philatelic Club.

and the Financial Times. Other visits were received from two reporters from the Japanese media, a delegation of Chinese national television stations, and a team from the Spanish national television station - TVE.

Supporting Health Care and Humanitarian Activities

In 2004, the Company contributed to improving the quality of life in the broader community through donations to humanitarian organizations, societies of patients and civil initiatives in the areas of health care and social work.

A major donation was made for the purchase of a rescue vehicle for the coastal rescue service. Following the earthquake in the Posočje region, we offered our holiday apartments in the village of Čezsoča to those who lost their homes, and financed construction of a residential home.

In Touch with the Slovene and Foreign Public

The Slovene and foreign public are regularly and thoroughly informed on events in our Company through the media, our website and our publications. A proactive relation with the media is maintained through open communication, whereas in case of more important events, press releases are sent, press conferences organized, and the questions of reporters answered without undue delay.

Our website is perceived as an important communication tool for providing information to the broader public and our customers, for whom the electronic newspaper Notice is intended. In 2005, our website will be completely renewed, enabling the greater transparency and accessibility of information. All price-sensitive information intended primarily for investors is published on the Seo-net information system of the Ljubljana Stock Exchange. Luka Koper, d.d. is visited each year by numerous Slovene and foreign journalists. In the past year, foreigners were most interested in how the port of Koper and Luka Koper, d.d. are preparing for the entry of Slovenia into the European Union. We were visited by reporters from the German national television station - ARD, and journalists from the Tribune de Geneve newspaper, the French national TV station - France 2, the Swiss television station - SR DRS, the Ženmin Žibao daily newspaper

Environmental Report

At Luka Koper we are committed to the responsible treatment of the environment and the reduction of impacts on the environment. We observe the Environmental Code of Practice of the European Sea Ports Organization, which defines the cohabitation of a port with its environment. Environmental goals are an integral part of our annual and long-term business plans and strategic orientations.

We are regularly implementing new legal requirements and in 2000 established an environmental management system in line with the ISO 14001:1996 standard.

In accordance with the new legislation, Boris Marzi was appointed Environmental Manager of Luka Koper, d.d. In the past year, the increased sensitivity of the public regarding environmental issues related to our activity was noted. For this reason, we have intensified our efforts to inform the public on numerous measures aimed at reducing environmental impacts and on the results of measurements performed. In the upcoming year, we intend to further intensify our informing activities and increase the number of measuring points.

Attaining Environmental Goals in line with EU Requirements

The environmental awareness of organizational units is manifested primarily by the attainment of annually set goals in line with the new legislation of the European Sea Port Organization. The fulfillment of goals is verified by measurements of the key risk factors, which are performed by specialized institutions, and we are preparing an analysis of improvement programme activities in all terminals.

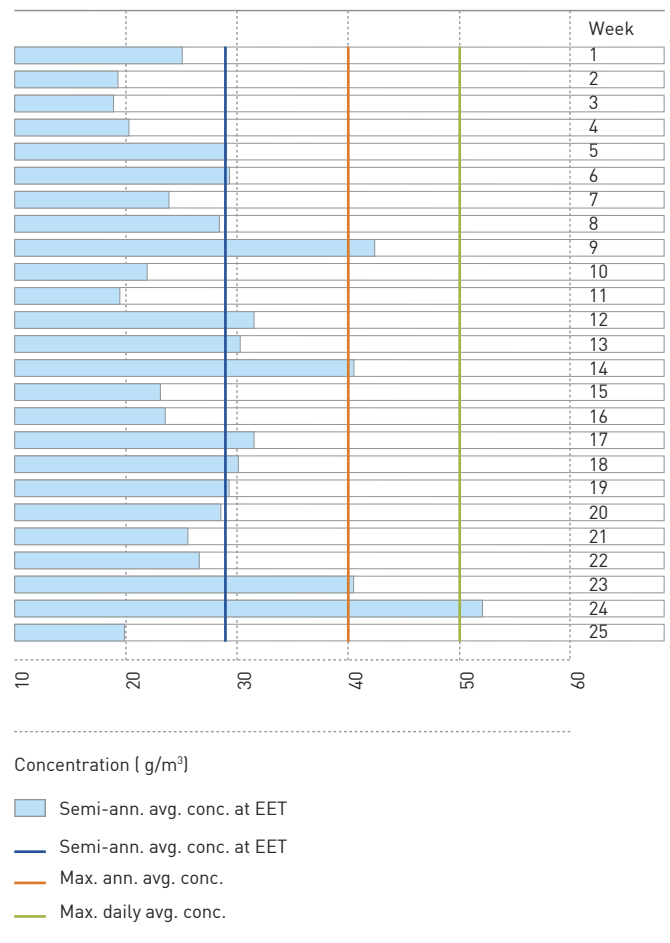
In 2004, the Company implemented the following environmental goals, which have remained our priority goals in 2005:

- Dust emissions into the environment will remain below the legally prescribed limits.

We realize that all emissions into the air cannot be recorded using the emission measurement method because the port does not have any outlets such as a smokestack or opening. For this reason, in addition to meeting the requirements of the ISO 14001 standard, we are also conducting emission monitoring at the border points of the port area, as well as additional studies on the monitoring of air quality at the area of contact with the settlement of Ankaran.

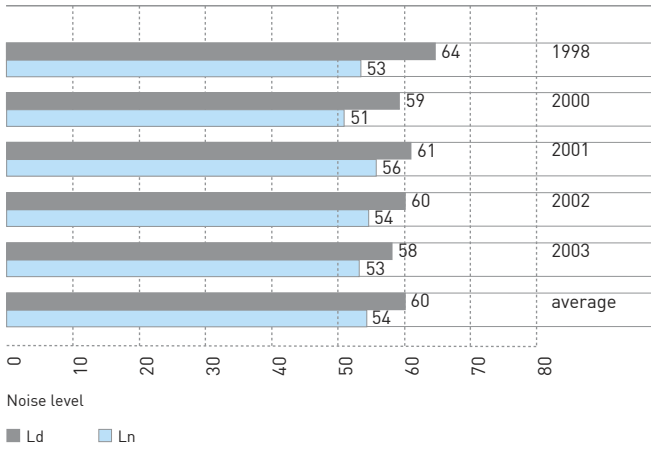
On the basis of average weekly concentrations measured in the second half of 2004, we calculated the half-year average

Average weekly concentrations of inhalable dust in the area of the European Energy Terminal



concentration of inhalable dust in the vicinity of the European Energy Terminal, which amounts to 27.9 µg/m³ and is well below the legally prescribed maximum concentration which, according to Slovene legislation and EU directives, amounts to 40 µg/m³. In comparison with the previous measuring period (April 2003 to April 2004), this concentration decreased by 13 percent.

Comparison of noise level in previous years for the entire area of Luka Koper, d.d.



- Noise emissions will remain on the existing level.
For several years, we have been conducting regular monthly noise measurements at three border points between the port and built-up areas. The noise level is kept on the same level, which is within the allowed limits.

- We are investing in improvements aimed at adapting the port's appearance to the surroundings.

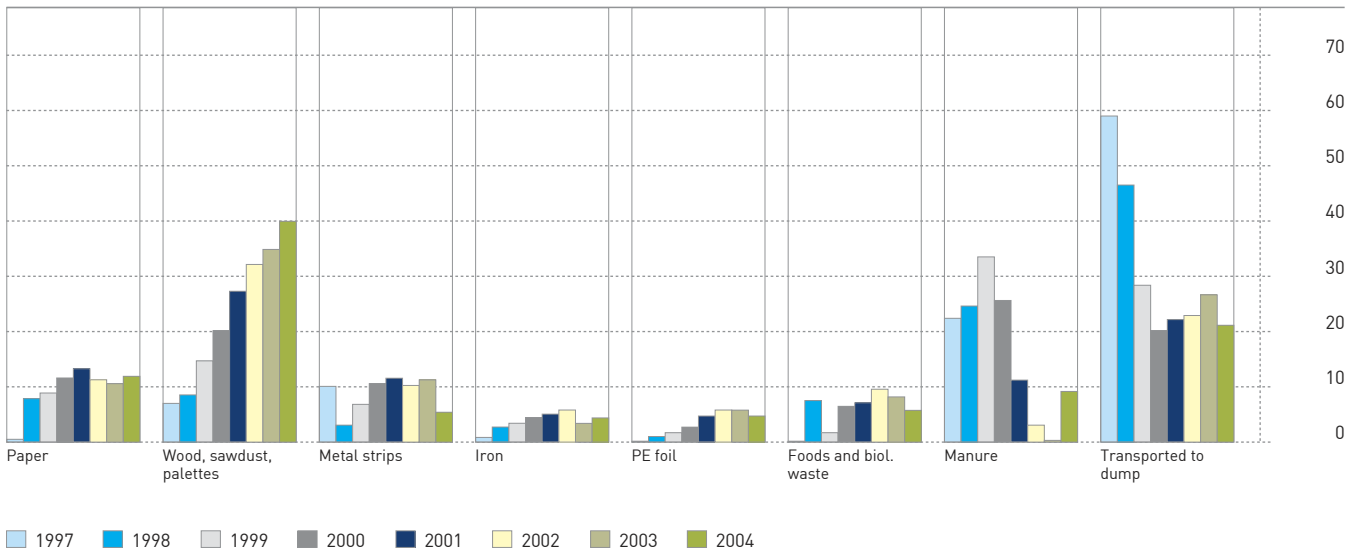
With the erection of an 11-metre-high protective wall on the extreme northern edge of the port, we have provided additional protection against dust emissions and improved the appearance of the area of contact with neighbouring settlements.

- We are reducing the share of unseparated wastes and regularly controlling their dumping.

This goal has been regularly fulfilled in the past five years and the share of unseparated waste is kept well below the limit of 30 percent. In comparison with the previous year, the share of unseparated waste decreased by 5 percent in 2004 and amounted to 22 percent.

Waste collection is conducted at the Waste Handling Centre, where 3500 m³ of biological wastes were processed into compost in 2004. By selling part of this quantity to wholesalers, we are creating added value. The remainder is used for our own needs. The differences in the annual shares of other separated waste are primarily the consequences of changes in cargo quantities in various periods. In the past year, a high increase was registered in the quantity of manure owing to the revival of livestock handling at the terminal.

Comparison of separately collected waste in the period from 1997 to 2005 (m³)



- Public opinion on the impacts of our activities on the environment is being monitored.

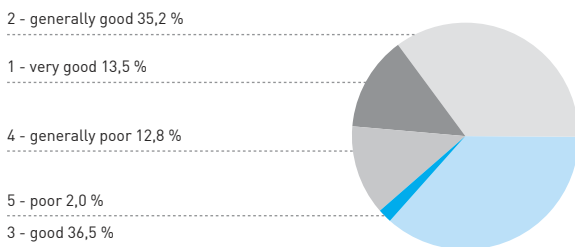
In 2004, we conducted, for the sixth consecutive year, a survey showing how the inhabitants of various places in Koper and its surroundings perceive our Company. 304 randomly selected pollees participated in the survey. The sample was increased by 200 pollees in comparison with the previous year.

In view of legal requirements and the sensitivity of this topic, the survey was expanded to include, alongside our attitude towards the environment, the business results and contribution of the Company to the development of the municipality and State, and our attitude towards employees.

The opinion of the inhabitants is that the Company has a good attitude towards the environment. The average mark was 3.45 on a 5-level scale (3.00 in the previous year).

Attitude of the inhabitants of Koper

In your opinion, what is Luka Koper d.d.'s attitude have towards environmental protection?



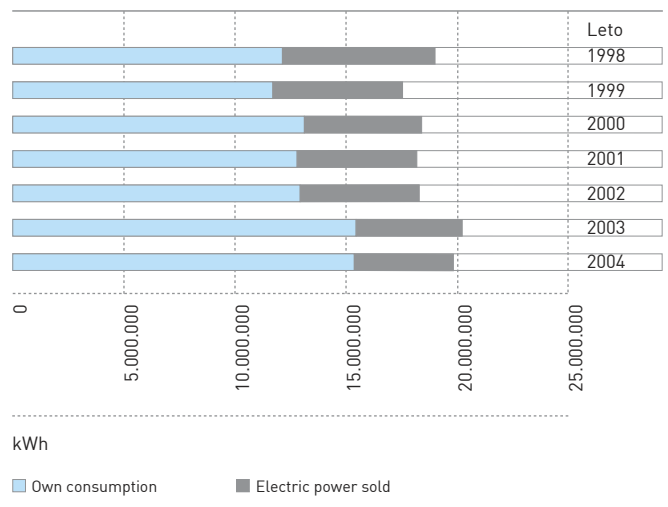
Investing in Environmentally-friendly Technology

More than SIT 400 million was allocated for direct environment-oriented improvements. The largest investments of this kind include the final completion of the protective wall at the European Energy Terminal, AKZ-protection of the gallery of the belt conveyor and steel silo, and the construction of a projecting roof at the Liquid Cargo Terminal, where we also completed the fire protection and pump startup project. We also compiled a safety report for the purpose of preventing major accidents with hazardous chemicals and conducted a project on the monitoring of air quality in the port area.

Reduced Energy Consumption

The Company consumed 20 million kWh of electric power in 2004, which is one million kWh less than in 2003. This proves that we are striving for rational energy consumption in cargo activities.

Electric power consumption by years



Professional Activities and Training

Continuous advancement in achieving our environmental goals is being attained by keeping our employees well-informed on environmental issues. In 2004, the directors and responsible employees of profit centres were trained at a workshop entitled Upgrading of the Environmental Management System ISO 14001.

We are conducting numerous research projects and actively participating in national and international projects aimed at reducing and preventing negative impacts on the environment. We are participating in studies on harmful intakes and on the management of ballast waters in the Slovenian sea, the impacts of aerosols, an environmental protection programme for Slovenian Istria, and in a REMPEC (Regional Marine Pollution Emergency Response Center for the Mediterranean Sea) project.

We are participating in international cooperation projects from the aspect of environmental management, namely INTERREG IIIA and INTERREG IIIB, and the "IONAS" - Ionian and Adriatic and Ports Joint Cooperation project, together with 24 partners. We presented the contributions of our environmental authority on the theme of environmental management at the 3rd GV conference "Poslovna logistika 2004" and at the "Port Management and Logistics" conference in Portorož.

The Company made a contribution to the report of the REMPEC Centre, entitled "Port Reception Facilities, Collection of Wastes from Ships, Waste Water and Oils", which will be submitted to the EU Direction for Transport and Energy.

Environmental Goals in 2005

Strategic Environmental Goals

With the objective of harmonization with international legislation and the implementation of the Luka Koper strategy concerning the introduction of "good practices" in the environmental protection system, we have set the following goals:

- We shall continue to actively develop new methods and models for efficient environmental management and communication with the social environment. Our principal goal is to reduce the average annual concentration of inhalable dust in line with European directives.
- We shall strive to achieve a high level of conformity of Luka Koper's appearance with the surrounding environment in line with the guidelines of European directives for the improving and conserving the quality of air and managing the environment.
- We shall set up two additional measuring points for the purpose of measuring dust emission at border points near the settlement of Rožnik and the Central Purification Facility.
- We shall inform the public on the results of measurements on a monthly basis.

Operational Environmental Goals

- To reduce the share of unseparated wastes from 30 % to 28 %.
- To ensure regular cleaning of the coastal and manipulative areas with adequate equipment.
- To reduce the 2003/2004 energy efficiency index:
 - electricity (KWh/t) by 2 %,
 - water (m³/t) by 2 %.
- To attain the average mark of 3.5 in the public opinion survey on the impact of our activities on the environment.
- To prepare and implement solutions for the established negative influences of port manipulations on the environment:
 - Additional anti-dust systems will be installed at discharge piles and in cranes and machines at the PC European Energy Terminal, which will reduce the raising of microdust. The impact of dusting will be reduced by the further construction of wind barriers equipped with additional sprinklers for watering coal and iron ore. The sources of exceeded noise levels will be located and rehabilitation measures implemented.
 - At the PC Dry Bulk Terminal, all wagon station areas will be closed and equipped with quicklift doors. This will considerably reduce dust emissions into the environment during the loading of wagons and trucks.
 - At the PC Alumina Terminal, all loading stations will be closed and deteriorated filters and filling sets will be replaced.

Operations of Subsidiaries

Luka Koper Pristan, d.o.o.

Luka Koper Pristan, d.o.o. complements the business operations of the parent company, Luka Koper, d.d., by providing support in the performance of hotel and accommodation services. The company was established in 1995 and is fully (100%) owned by Luka Koper, d.d.. Luka Koper Pristan, d.o.o. manages Hotel Garni Pristan and Dom Prisoje in Koper, which in 2004 represented two separate organizational and business units. In 2004, the company was managed by Franko Križman. On the last day of 2004, the company had 6 employees.

In 2004, Koper Pristan, d.o.o. generated SIT 151.3 million in operating revenues and concluded the business year with a net profit of SIT 16.9 million. The ratio of net profit to total revenues amounted to 11.2 percent, and the net return on owner's capital was 2.5percent.

Luka Koper INPO, d.o.o.

Luka Koper INPO, d.o.o. was established in 1995, and has operated with the status of a company for disabled persons since 27 November 1996. It is fully (100%) owned by Luka Koper, d.d. On 31 December 2004, the company had 243 employees, of which 188 are disabled persons. The company is managed by Iztok Faganeli, B.S.M.E. Its activities are performed in four units: the maintenance unit, production & services unit, service unit for Luka Koper, d.d., and in the maritime and communal unit.

In 2004, INPO, d.o.o. generated SIT 1,005.6 million in operating revenues and concluded the business year with a net profit of SIT 100.2 million. The company's net profit to total revenues amounted to 9.96 percent, and the net return on owner's capital was 23.5 percent.

Adria-Tow, d.o.o.

The basic activity of Adria-Tow, d.o.o. is the performance of ship towing services. The company also performs other services such as ship supply, rescue services and assistance to vessels at sea. The company was established in 1992 and is managed by Robert Gerk, B.S.E.E. Luka Koper, d.d. has a 50-percent ownership share in the company.

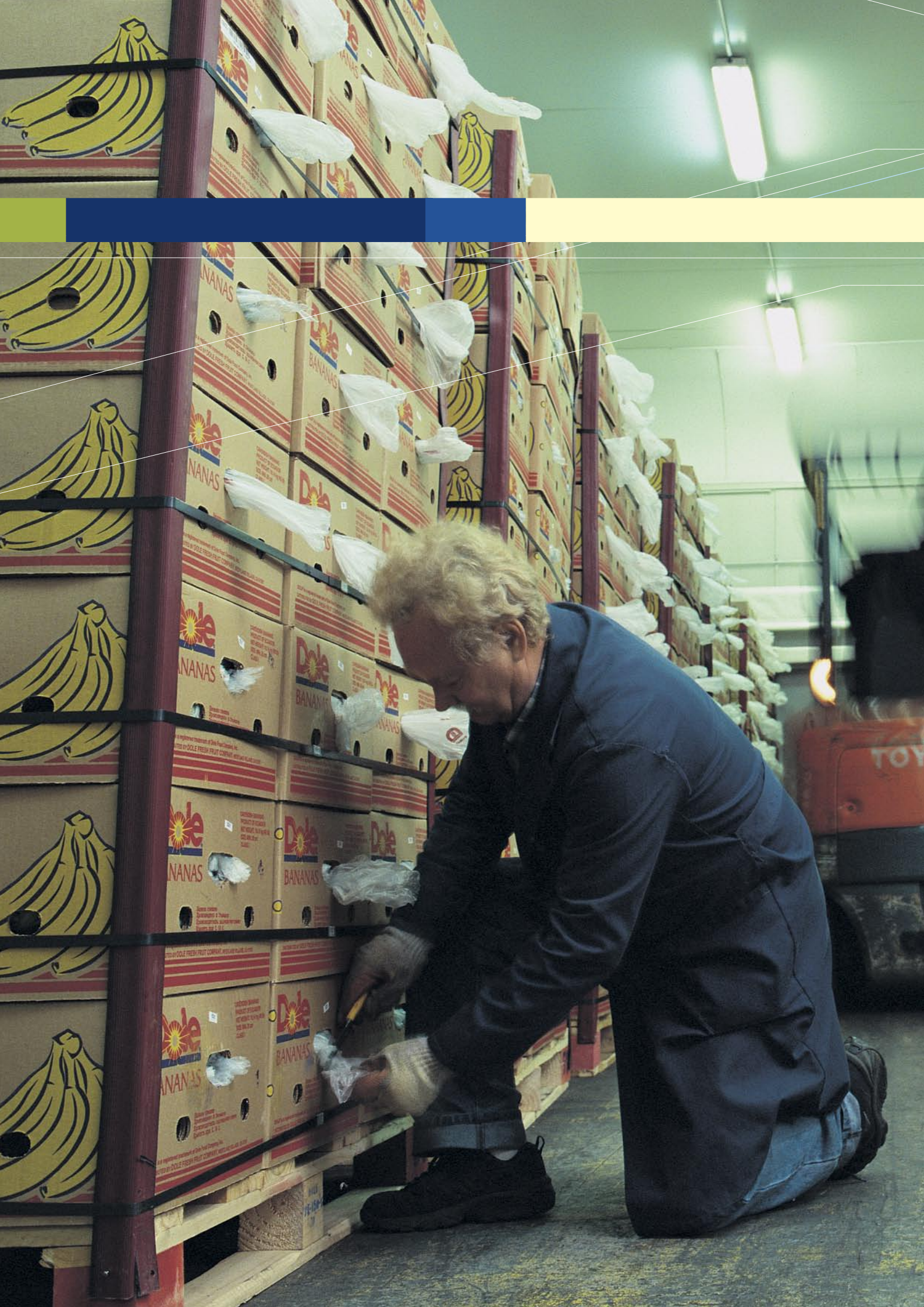
In 2004, Adria-Tow, d.o.o. generated SIT 603.8 million in operating revenues, and concluded the business year with a net profit of SIT 205.6 million. The ratio of net profit to total revenues amounted to 34 percent, and the net return on owner's capital was 63 percent.

Logistic Service, d.o.o.

The company is dormant and did not carry out any operations in 2004. It is fully (100%) owned by Luka Koper, d.d. and was established in 1996 for the transport of containers.

Luka Kopar Beograd, d.o.o.

The company is dormant and did not carry out any operations in 2004. It was established in 2002 for the purpose of strengthening the market position of Luka Koper, d.d. on the markets of Serbia and Montenegro. Luka Koper, d.d. has a 90 percent ownership share in the company.



"Everything has to be right. The correct temperatures and moisture levels. We also regulate the circulation of air. So the oranges remain firm. The vegetables fresh. And bananas do not ripen to soon. We take care that they leave our ripening room as yellow as they should be. We guarantee the safety of foods, since we have all the controls in place. A container with lemons is being unloaded outside and we will store them so they will be ready for distribution at shops in hinterland."





Financial Report

Income Statement

(In thousands of SIT)	Parent Company 2004	Group 2004	Parent Company 2003	Group 2003
Revenues from services sold in the domestic market	2,255,897	2,480,326	2,088,919	2,293,214
Revenues from services sold in foreign markets	13,695,329	14,722,813	11,618,461	12,511,353
Revenues from sales of goods and materials - domestic and foreign markets	1,825	4,065	294	394
Revenues from use and cancellation of long-term provisions	36,339	36,339	52,321	52,321
Revenues from rents	566,489	578,677	579,992	594,027
Other revenues related to products and services - dispatch	168,408	173,842	101,260	101,260
Revaluatory operating revenues	8,650	8,650	64,215	64,286
Capitalised own products	0	224	43	230
OPERATING REVENUES	16,732,937	18,004,936	14,505,505	15,617,085
OPERATING COSTS	15,276,262	16,411,283	12,524,422	13,639,164
Costs of materials	872,188	972,946	756,309	855,906
Costs of services	5,577,637	5,408,452	4,254,434	4,112,326
Allowances	3,038,987	3,268,177	2,222,655	2,466,295
Long-term provisions	116,300	116,300	0	0
Labour costs	4,521,296	5,485,569	4,290,421	5,182,560
Other costs	1,149,060	1,156,378	1,000,238	1,019,316
Costs of goods and material sold	794	3,461	366	2,761
OPERATING PROFIT OR LOSS	1,456,675	1,593,653	1,981,083	1,977,921
FINANCIAL REVENUES	4,293,396	4,461,545	3,105,920	3,155,743
FINANCIAL EXPENSES	870,435	870,952	1,159,531	1,175,463
PROFIT FROM ORDINARY OPERATIONS	4,879,636	5,184,246	3,927,472	3,958,201
EXTRAORDINARY REVENUES	89,095	122,369	181,344	311,456
EXTRAORDINARY EXPENSES	107,900	113,365	39,293	49,579
PROFIT OR LOSS FROM EXTRAORDINARY OPERATIONS	18,805	9,004	142,051	261,877
TOTAL PROFIT	4,860,831	5,193,250	4,069,523	4,220,078
INCOME TAX	679,238	703,338	184,075	213,060
NET PROFIT FOR THE FINANCIAL YEAR	4,181,593	4,489,912	3,885,448	4,007,018
NET PROFIT OF MINORITY SHAREHOLDERS		-95,462		-43,128
NET PROFIT FOR THE YEAR	4,181,593	4,394,450	3,885,448	3,963,890

Balance Sheet

(In thousands of SIT)	Parent company 31 Dec 2004	Group 31 Dec 2004	Parent company 31 Dec 2003	Group 31 Dec 2003
ASSETS	74,164,428	75,155,078	68,857,281	69,908,004
A. FIXED ASSETS	61,025,583	61,772,423	59,641,018	60,444,396
I Intangible fixed assets	610,630	748,988	707,822	752,118
1 Long-term deferred operating costs	0	0	0	0
2 Long-term property rights	610,630	748,988	707,822	752,118
II Tangible fixed assets	34,638,392	36,613,941	31,300,578	33,214,043
1 Land and buildings	26,976,007	27,619,400	25,411,254	26,064,377
A Land	425,739	425,739	73,946	73,946
B Buildings	26,550,268	27,193,661	25,337,308	25,990,431
2 Equipment and machinery	5,209,306	6,262,498	4,695,751	5,879,372
3 Fixed assets in acquisition	2,453,079	2,732,043	1,193,573	1,270,294
III Long-term investments	25,776,560	24,409,494	27,632,617	26,478,235
1 Investments in shares of group companies	1,370,610	0	1,159,001	0
2 Investments in shares of associated companies	12,790,111	12,790,111	1,368,153	1,368,153
3 Other long-term investments	9,051,842	9,051,842	18,022,025	18,022,025
4 Other long-term loans granted	2,563,997	2,567,541	7,083,438	7,088,057
B. CURRENT ASSETS	13,118,087	13,355,468	9,203,691	9,447,049
I Inventories	0	1,610	6,778	9,537
II Operating receivables	4,634,273	4,836,345	4,076,913	4,230,557
A Long-term operating receivables	2,609	2,609	71,189	71,189
1 Long-term operating receivables from others	2,609	2,609	71,189	71,189
B Short-term operating receivables	4,631,664	4,833,736	4,005,724	4,159,368
1 Short-term operating receivables from group companies	4,910	0	77,694	0
2 Short-term operating receivables from others	4,626,754	4,833,736	3,928,030	4,159,368
III Short-term investments	8,253,206	8,253,206	5,029,250	5,028,449
1 Short-term investments in shares of group companies	0	0	818	0
2 Short-term investments in shares of associated companies	0	0	670,358	670,358
3 Other short-term investments	8,253,206	8,253,206	4,358,074	4,358,091
IV Cash at bank	230,608	264,307	90,751	178,506
C. DEFERRED EXPENSES AND ACCRUED REVENUES	20,759	27,187	12,571	16,559
D. OFF-BALANCE SHEET ASSETS	3,440,541	4,198,384	4,217,710	5,031,990

(In thousands of SIT)	Parent company 31 Dec 2004	Group 31 Dec 2004	Parent company 31 Dec 2003	Group 31 Dec 2003
EQUITY AND LIABILITIES	74,164,428	75,155,078	68,857,281	69,908,004
A. CAPITAL	60,604,558	60,811,978	57,610,289	57,722,280
I Called-up capital	14,000,000	14,000,000	14,000,000	14,000,000
1 Share capital	14,000,000	14,000,000	14,000,000	14,000,000
II Capital surplus	0	0	0	0
III Revenue reserves	20,274,496	20,296,584	18,584,796	18,589,072
1 Legal reserves	4,496,872	4,518,961	4,496,872	4,501,149
2 Reserves for treasury shares	0	0	0	0
3 Statutory reserves	0	0	0	0
4 Other revenue reserves	15,777,624	15,777,624	14,087,924	14,087,924
IV Net profit or loss from previous years	1,494,761	1,494,761	1,352,037	1,352,037
V Net profit or loss for the current year	2,090,796	2,090,796	1,942,724	1,942,724
VII Equity revaluation reserve	22,744,504	22,722,416	21,730,733	21,726,455
1 General equity revaluation reserve	21,462,806	21,462,806	21,462,806	21,462,806
2 Specific equity revaluation reserve	1,281,698	1,259,610	267,927	263,650
VIII Capital – minority shareholders		207,420		112,597
Share capital		12,968		13,098
Capital surplus		188		188
Revenue reserves		50,107		31,324
Net profit or loss from previous years		42,687		18,285
Net profit or loss for the current year		95,462		43,733
Equity revaluation reserve		6,008		5,969
B. PROVISIONS	320,532	1,330,019	275,752	1,165,078
1 Long-term provisions	320,532	1,330,019	275,752	1,165,078
C. FINANCIAL AND OPERATING LIABILITIES	13,006,985	12,780,726	10,751,180	10,800,585
A Long-term financial and operating liabilities	3,577,692	3,969,102	774,194	1,320,963
1 Long-term financial liabilities to banks	3,557,223	3,944,349	512,731	1,042,493
2 Long-term financial and operating liabilities to others	20,469	24,753	261,464	278,470
B Short-term financial and operating liabilities	9,429,293	8,811,624	9,976,986	9,479,622
1 Short-term financial liabilities to banks	3,909,451	4,028,206	5,871,275	6,010,426
2 Short-term operating liabilities to suppliers	1,878,442	2,156,727	2,543,687	2,648,927
3 Short-term operating liabilities for advances	261,015	262,958	17,676	30,684
4 Short-term financial and operating liabilities to group companies	1,094,820	0	860,375	0
5 Short-term financial and operating liabilities to associated companies	268,895	248,355	0	0
6 Short-term financial and operating liabilities to others	2,016,670	2,115,378	683,973	789,585
D. ACCRUED EXPENSES AND DEFERRED REVENUES	232,354	232,355	220,060	220,060
E. OFF-BALANCE SHEET LIABILITIES	3,440,541	4,198,384	4,217,710	5,031,990

Cash Flow Statement

(In thousands of SIT)	Parent company 2004	Group 2004	Parent company 2003	Group 2003
A. Cash flows from operating activities				
a) Inflows from operating activities	16,354,500	17,394,496	14,412,854	15,824,026
Operating revenues	16,759,502	17,605,932	14,307,129	15,482,919
Extraordinary operating revenues	89,095	122,369	181,344	311,456
Opening less closing operating receivables	-485,909	-323,177	-74,317	32,070
Opening less closing deferred expenses/accrued revenues	-8,188	-10,628	-1,302	-2,419
b) Outflows for operating activities	11,945,453	12,845,195	9,493,041	10,311,874
Operating expenses excluding depreciation and long-term provisions	12,020,081	13,148,071	10,195,465	11,066,544
Extraordinary operating expenses	107,900	113,365	39,293	49,579
Income taxes and other taxes not included in operating expenses	679,238	688,717	184,075	211,851
Closing less opening inventory	-6,778	-7,927	0	696
Opening less closing operating liabilities	-842,694	-1,084,736	-786,231	-877,334
Opening less closing accrued expenses/deferred revenues	-12,294	-12,295	-139,561	-139,462
c) Surplus of net operating inflows (a minus b) or net operating outflows (b minus a)	4,409,047	4,549,301	4,919,813	5,512,152
B. Cash flows from investing activities				
a) Inflows from investing activities	7,000,052	6,872,444	5,597,367	5,626,123
Financial revenues related to investing (excluding revaluations)	3,691,402	4,458,306	2,757,646	2,807,474
Offset decrease of long-term investments (excluding revaluations)	3,308,650	2,414,138	0	0
Offset decrease of short-term investments (excluding revaluations)	0	0	2,839,721	2,818,649

(In thousands of SIT)	Parent company 2004	Group 2004	Parent company 2003	Group 2003
b) Outflows for investing activities	9,497,491	9,768,559	12,008,361	12,166,575
Financial expenses related to investing (excluding revaluations)			38,719	38,719
Offset increase of intangible long-term assets (excluding revaluations)	223,448	285,877	161,062	134,596
Offset increase of tangible fixed assets (excluding revaluations and contributions-in-kind as an increase of equity)	6,050,087	6,257,925	4,501,744	4,636,487
Offset increase of short-term financial investments (excluding revaluations)	3,223,956	3,224,757	0	0
Offset increase of long-term financial investments (excluding revaluations)	0		7,306,836	7,356,773
c) Surplus of net investing inflows (a minus b) or net investing outflows (b minus a)	-2,497,439	-2,896,115	-6,410,994	-6,540,452
C. Cash flows from financing activities				
a) Inflows from financing activities	2,808,895	2,776,019	4,457,483	4,095,741
Offset increase of long-term provisions (excluding revaluations)		152,633	0	0
Offset increase of long-term financial liabilities (excluding revaluations)	2,808,895	2,623,386	4,457,483	4,095,741
b) Outflows for financing activities	4,580,647	4,343,404	3,188,957	3,256,448
Financial expenses related to financing (excluding revaluations)	780,402	412,247	437,858	497,546
Decrease of equity (without net loss for the financial year)	2,201,096	2,201,096	1,997,477	1,997,477
Offset decrease of long-term provisions (excluding revaluations)	71,520		163,003	34,442
Offset decrease of short-term financial liabilities (excluding revaluations)	1,527,629		590,619	726,983
c) Surplus of net financing inflows (a minus b) or net financing outflows (b minus a)	-1,771,752	-1,567,385	1,268,526	839,293
Č. Closing balance of cash and cash equivalents	230,607	264,307	90,751	178,506
x) Net funds flow for the period (sum of surpluses Ac, Bc and Cc)	139,856	85,801	-222,655	-189,007
y) Opening balance of cash and cash equivalents	90,751	178,506	313,406	367,513

Statement of Changes in Equity

Statement of Changes in Equity for the Parent Company - 2004

Changes in equity	Share capital	Capital surplus	Legal reserves	Other revenue reserves	Net profit from previous years	Net profit for the year	General equity revaluation reserves	Specific equity revaluation reserves	Total Equity
	I/1	II/1	III/1	III/4	IV/1	V/1	VI/1	VI/2	
For the period from 1 st January to 31 December 2004	14,000,000	0	4,496,872	14,087,923	1,352,037	16,354,500	17,394,496	14,412,854	57,610,288
Balance as at 1 st January 2004	0	0	0	0	0	4,181,593	0	1,013,772	5,195,365
Transfers to equity						4,181,593			4,181,593
Net profit or loss for the year						4,181,593			0
Increase of general equity revaluation reserve									0
Increase of specific equity revaluation reserve								1,013,772	1,013,772
Transfers within equity									0
Transfers within equity									0
Allocation of net profit by resolution of the Management and Supervisory Boards									0
Allocation of net profit to additional reserves by resolution of the General Meeting									0
Other allocations of equity items									0
Transfers from equity									-2,201,096
Dividend distribution									-2,201,096
Distributions to members of the Management and Supervisory Boards									0
Distribution to employees									0
Balance as at 31 December 2004	14,000,000	0	4,496,872	15,777,624	1,494,761	2,090,797	21,462,806	1,281,698	60,604,558
DISTRIBUTABLE PROFIT				2,201,096	1,494,761	2,090,797			5,786,653

Statement of Changes in Equity for the Group - 2004

STATEMENT OF CHANGES IN EQUITY – MAJORITY OWNER For the period from 1 st January to 31 December 2004	Share capital I/1	Capital surplus II/1	Legal reserves III/1	Other revenue Reserves III/4	Net profit from Previous years IV/1	Net loss from previous years IV/2	Net profit for the year V/1	General equity revaluation reserves VI/1	Specific equity revaluation reserves VI/2	Total equity
Balance as at 1 st January 2004	14,000,000	0	4,501,149	14,087,923	1,352,036	0	1,942,724	21,462,806	263,649	57,610,289
Transfers to equity	0	0	0	0	0	0	4,304,450	0	800,916	5,195,366
Net profit or loss for the year										0
Increase of general equity revaluation reserve							4,304,450			4,394,450
Increase of specific equity revaluation reserve										0
Entry of the amount of special equity revaluations									800,916	800,916
Transfers within equity	0	0	17,812	3,890,796	142,725	0	-4,246,378	0	195,045	0
Allocation of net profit by resolution of the Management and Supervisory Boards			847	2,090,796			-2,091,643			0
Allocation of net profit to additional reserves by resolution of the General Meeting			16,965	1,800,000	-1,352,036		-447,964		-16,965	0
Other allocation of equity items					1,494,761		-1,706,771		212,010	0
Transfers from equity	0	0	0	-2,201,096	0		0	0	0	-2,201,096
Dividend distribution				-2,201,096						-2,201,096
Distributions to members of the Management and Supervisory Boards										0
Distribution to employees										0
Transfer of specific equity revaluation reserve										0
Balance as at 31 December 2004	14,000,000	0	4,518,961	15,777,623	1,494,761		2,090,796	21,462,806	1,259,610	60,604,559
EQUITY – MINORITY OWNERS										
Balance as at 31 December 2004	12,968	188	1,193	48,914	42,687		95,462	6,008	0	207,420
TOTAL EQUITY										
Balance as at 31 December 2004	14,012,968	188	4,520,154	15,826,537	1,537,448	0	2,186,258	21,468,814	1,259,610	60,811,979

Statement of Changes in Equity for the Parent Company - 2003

For the period from 1 st January to 31 December 2003 (In thousands of SIT)	Share capital I/1	Capital surplus II/1	Legal reserves III/1	Other revenue reserves III/4	Net profit from previous years IV/1	Net profit for the year V/1	General equity revaluation reserves VI/1	Specific equity revaluation reserves VI/2	Total Equity
Balance as at 1 st January 2003	14,000,000	0	4,496,872	13,148,649	2,346,064	0	21,462,806	181,806	55,636,197
Transfer to equity	0	0	0	0	0	3,885,448	0	86,121	3,971,568
Net profit or loss for the year						3,885,448			3,885,448
Increase of general equity revaluation reserve									0
Increase of specific equity revaluation reserve								86,121	86,121
Transfers within equity	0	0	0	2,936,751	-994,027	-1,942,728	0	0	0
Allocation of net profit by resolution of the Management and Supervisory Boards				1,942,724		-1,942,728			0
Allocation of net profit to additional reserves by resolution of the General Meeting				994,027	-994,027				0
Other allocations of equity items									0
Transfers from equity	0	0	0	-1,997,477	0	0	0	0	-1,997,477
Dividend distribution				-1,997,477					-1,997,477
Distributions to members of the Management and Supervisory Boards									0
Distribution to employees									0
Balance as at 31 December 2004	14,000,000	0	4,496,872	14,087,924	1,352,036	1,942,724	21,462,806	267,926	57,610,288
DISTRIBUTABLE PROFIT				2,201,096	1,352,036	1,942,724			5,495,856

Statement of Changes in Equity for the Group - 2003

STATEMENT OF CHANGES IN EQUITY - MAJORITY OWNER For the period from 1 st January to 31 December 2003 (In thousands of SIT)	Share capital I/1	Capital surplus II/1	Legal reserves III/1	Other revenue Reserves III/4	Net profit from Previous years IV/1	Net loss from previous years IV/2	Net profit for the year V/1	General equity revaluation reserves VI/1	Specific equity revaluation reserves VI/2	Total equity
Balance as at 1 st January 2003	14,000,000	0	4,500,510	13,149,860	2,346,064	0	0	21,462,806	176,957	55,636,197
Transfers to equity	0	0	0	0	0	0	3,964,496	0	12,173	3,976,669
Additional equity payments							3,964,496			0
Net profit or loss for the year							3,964,496			3,964,496
Increase of general equity revaluation reserve										0
Increase of specific equity revaluation reserve									12,173	12,173
Transfers within equity	0	0	639	2,935,541	-994,028	0	-2,021,772	0	74,519	-5,101
Allocation of net profit by resolution of the Management and Supervisory Boards			639	1,942,724			-1,942,724		-639	0
Allocation of net profit to additional re- serves by resolution of the General Meeting				994,028	-994,028				1,211	1,211
Other allocation of equity items				-1,211			-79,048		73,947	-6,312
Transfers from equity	0	0	0	-1,997,477	0		0	0	0	-1,997,477
Dividend distribution				-1,997,477						-1,997,477
Distributions to members of the Management and Supervisory Boards										0
Distribution to employees										0
Transfer of specific equity revaluation reserve										0
Balance as at 31 December 2003	14,000,000	0	4,501,149	14,087,924	1,352,036		1,942,724	21,462,806	263,649	57,610,288
EQUITY - MINORITY OWNERS										
Balance as at 31 December 2003	13,098	188	1,193	30,131	19,273	-988	43,128	5,969	0	111,992
TOTAL EQUITY										
Balance as at 31 December 2003	14,013,098	188	4,502,342	14,118,055	1,371,309	-988	1,985,852	21,468,775	263,649	57,722,280

Financial Statements with Notes

The Financial Statements with notes and disclosures of the most important categories of Luka Koper, d.d. and its subsidiaries:

- Luka Koper Pristan, d.o.o. (100% ownership share),
- Luka Koper Inpo, d.o.o. (100% ownership share),
- Logistic Service, d.o.o. (100% ownership share) – dormant,
- Luka Kopar Beograd, d.o.o. (90% ownership share) – dormant, and
- Adria Tow, d.o.o. (50% ownership share),

(hereinafter: “the Group”) have been prepared in accordance with the Commercial Companies Act and the accounting and reporting requirements of Slovenian Accounting Standards, which are the prescribed accounting guidelines for professional application. These standards are therefore professional rules which define in detail and explain the legally prescribed fundamental accounting rules and requirements, and prescribe the methods of their application. They are based on the Commercial Companies Act and on the national Code of Accounting Principles.

The financial statements and notes give a true and fair view of the operations of operating companies in the years 2003 and 2004, which recognized business events at the time of their occurrence and not at the time of their payment. We have attempted to present users with comprehensible, essential, reliable and comparable information serving as a sound basis for further decision-making.

The Luka Koper Group is presented in the group financial statements as a single company. The group financial statements were prepared on the basis of original financial statements of companies in the group, together with appropriate consolidation adjustments which were not booked in their corresponding financial statements. At the end of 2004, Luka Koper, d.d. also had capital invested in associated companies in which it has a significant influence and which are disclosed in the financial statements of the parent company and the Group according to the equity method. These associated companies are:

- Intereuropa, d.d., Koper (23.2% ownership share),
- Avtoservis, d.o.o., Koper (49% ownership share),
- Adriaфин, d.o.o., Koper (39.45% ownership share),
- Actual I.T., d.o.o., Koper (26% ownership share),
- Kopinvest Netherlands B.V. (25% ownership share),
- Golf Istra (20% ownership share).

T.I.C.T., S.p.a., Trieste, ownership share (70%) sold in October 2004.

Explanation:

Luka Koper was awarded a 30-year concession for the management of the container terminal in Trieste through its participation in an international competition at the beginning of 2001. For various economic as well as political reasons, the Company entered Trieste's Pier VII in association with Italian partners via the T.I.C.T., S.p.a. company, which was established for this purpose.

T.I.C.T., S.p.a. faced continuous, major difficulties in its operation both in relations with trade unions, the Autonomous Port Authority (APT), some of its shareholders, and also government authorities, which led the company to operate with losses.

Alongside its efforts to resolve numerous problems related to ongoing operations, the Management Board of Luka Koper, d.d. strove to find long-term solutions. After completing the company's financial rehabilitation and the injection of additional capital in the company at the beginning of 2004, Luka Koper, d.d. became the sole owner of T.I.C.T., S.p.a. and subsequently entered into a strategic partnership agreement with the T.O. Delta company from Livorno. However, this new partnership also proved to be unsuccessful. The new management team, expected to bring the company the anticipated know-how of a container logistics specialist, was unable to effectively manage the operational and cost aspects of the company's operations.

In the existing circumstances, co-existence with the new shareholder proved to be impossible and even detrimental for Luka Koper, d.d.. The most suitable solution appeared to be the sale of Luka Koper's entire equity participation in the T.I.C.T. company, which was finalised on 14 October 2004 after several months of negotiations.

Adria Distripark, S.r.l., Trieste, ownership share (50%) sold in October 2004.

Explanation:

In the search for new business deals and opportunities, Luka Koper, d.d. began to participate in a “distripark” project in the Port of Trieste soon after it began to manage, through the T.I.C.T. company, the container terminal at Pier VII jointly with the Auto Marocchi, S.p.a. company. The goal of this project was to satisfy the needs of particularly large importers of high-value consumer goods arriving at the Port of Trieste in containers, which need to be unloaded, warehoused and distributed to small retail companies in Italy as well as other markets of the European Union. The basic idea was to combine knowledge in the areas of distribution centre management and logistics management on the Italian market with the warehouse capacities of T.I.C.T..

Accounting Policies and Disclosures

The company Adria Distripark, Srl, in which Luka Koper acquired a 50% equity stake, began to warehouse and distribute entertainment electronics products in October 2001. The company operated with small losses or on the brink of profitability every year. The reasons for its poor financial performance were, in the first year, the anticipated start-up costs and, in subsequent years, the beginning of rigorous implementation of European directives by Italian customs authorities, which prolonged shipping times and increased costs due to additional administration, thus driving away potential buyers. The withdrawal of Luka Koper, d.d. from the T.I.C.T company logically led to the sale of Luka Koper's equity stake in Adria Distripark. Therefore, on the same day when the sale of T.I.C.T. shares was finalised, Luka Koper's equity stake in Adria Distripark, Srl was sold to the above-mentioned company.

The Company presents itself to the public through four individual and consolidated financial statements, i.e. the balance sheet, income statement, statement of cash flows and the statement of changes in equity for the business years ended on 31 December. All the fundamental statements complement one another.

Luka Koper, d.d. is a large company whose securities are traded on the organized stock exchange and is thus subject to an audit. We disclose individual categories in accordance with relevant standards and the Commercial Companies Act. Disclosures are prescribed for all material issues, while the nature and level of importance is defined in the Company's Accounting Policies.

For effective consolidation, we have ensured the following:

- uniform accounting standards have been applied to similar business events in the original financial statements of all considered companies;
- the items in the original financial statements of all considered companies are valued using the same methods;
- the items are presented in the same formal manner;
- the statements relate to the business year which ended on the same day, i.e. 31 December 2004;
- the method of conversion from the foreign currency in which separate financial statements of subsidiaries are presented to the reporting currency of the parent company has been determined; the middle exchange rate of the Bank of Slovenia was used for assets, liabilities and equity, whereas for revenues and expenses, the exchange rates applicable at the time of their occurrence were used;
- the provisions relating to disclosures in individual financial statements also meaningfully apply, to the same extent, for consolidated financial statements.

Balance Sheet

The balance sheet discloses the assets and ownership structure on the liabilities and equity side of the balance sheet by presenting data relating to the end of the accounting period, i.e. the last day of the year. Disclosed assets and liabilities are reconciled to their values determined via inventory.

Fixed Assets

Intangible fixed assets, which appear in the form of rights and co-create operating capacities, are disclosed at cost and depreciated on the basis of their useful life using the straight-line depreciation method.

The Company discloses data on those categories of intangible fixed assets that are accounted for in three-digit sub-accounts of the Company's Chart of Accounts. A material asset is that asset whose value exceeds 10 percent of the total value of all intangible long-term assets on the balance sheet date.

Tangible fixed assets owned by the Company for the purpose of performing its activities are disclosed in the balance sheet at their net book value, which is the difference between cost value and accumulated depreciation and is considered to be their carrying value. The cost of a fixed asset comprises those purchase costs which can be directly attributed to such asset.

The accumulated allowance or depreciation of tangible fixed assets is calculated on a single-item basis. Accumulated depreciation is calculated on a group basis only for small tools item. The Company uses the straight-line depreciation method for the gradual transfer of asset value to products and services.

Average depreciation rates of the Luka Koper Group:

Intangible fixed assets:

- Project documents, software, research 10%

Construction facilities:

- Operative quays 2%
 - open areas 3.3% to 5%
 - roofs 2.5% to 5%
 - warehouses 1.5% to 5%
 - reservoirs 2.5% to 4%
 - grain silos 3%
 - railway lines 4%
 - infrastructure 2% to 5%
 - residential containers 4%
 - office buildings 1.5% to 5%
 - restaurant premises 1% to 1.8%
 - holiday facilities 1.8%

Equipment

- computer equipment 12.5 to 33.3%
 - reloading equipment 12.5% to 25%
 - boats, dredgers 6.6% to 25%
 - transport means 12.5%
 - machinery maintenance equipment 9% to 16.6%
 - cooling equipment 20%
 - wood processing equipment 9% to 14.3%
 - instruments and appliances 10% to 25%
 - fire extinguishing equipment 12.5% to 14.3%
 - restaurant equipment 12.5% to 14.3%
 - small tools 11% to 25%
 - cleaning, airing and heating equipment 12.5% to 20%
 - furniture and other office equipment 12.5% to 25%

Note: After the adoption of amendments to the Corporate Income Tax Act, as of 1st January 2003 we lowered the depreciation rate for equipment and machinery from 33.3% to 25% and for cars for personal use to 12.5%, which is also the highest rate permitted by tax regulations. The rates for all assets which began to be depreciated before the implementation of amendments to the above-mentioned law were not modified and will remain unchanged until the end of the depreciation process. As of 1st January 2004, the depreciation rates for certain groups of construction facilities were decreased to 5% due

to their faster deterioration. The maximum rates permitted by tax regulations were not exceeded.

Long-term Investments

Long-term investments represent the assets held by the Company for the purpose of realizing returns derived from these assets and thus increasing the Company's financial revenues in the long run.

The following long-term investments are disclosed separately:

- participating interests and shares in the Group,
- other interests and shares,
- investments in precious metals, artworks,
- long-term loans granted to others.

Initially, long-term investments are recognized as the amount of cash or other equivalent means paid on the day of each investment. An investment disclosed in foreign currency is revalued according to the middle exchange rate of the Bank of Slovenia applicable on the last day of the business year.

Long-term investments in subsidiaries and associated companies, valued using the equity method, are adjusted for an individual company's operating result on the basis of the Company's ownership interests. These investments increase in value annually for that portion of the net profit of subsidiaries and associated companies which belongs to the parent company and is credited to a special equity revaluation reserve. If a single subsidiary or associated company discloses a net loss for the business year, the investment is decreased and financial expenses recognized, but only if the amount exhibited in the equity revaluation reserve account associated with long-term investments does not suffice to cover such loss.

The value of investments in shares quoted on the stock exchange is adjusted to their market price, if their market value is lower than their carrying value on the last day of the year. If the market price of the shares is higher than their carrying value, the shares remain valued at their carrying value.

Long-term loans granted are recognized at their outstanding amounts. Interest is calculated in accordance with underlying agreements.

Inventories

Material inventories are recorded at their purchase prices. Inventories of raw materials, spare parts and small tools are recorded separately. Small tools are fully written-off when transferred to use. The value of spare part inventories deemed unusable is recognized for impairment and charged against the operating result. The value of inventories is adjusted to the last purchase price on the balance sheet date.

Inventory consumption is recorded using the LIFO method.

Operating Receivables

Long-term and short-term receivables from customers, the State and employees are kept separately in our accounting records. Interest receivables from the previously mentioned receivables are also disclosed under operating receivables. Long-term and short-term operating receivables are initially recognized in amounts derived from related agreements or relevant bookkeeping documents. Operating receivables in foreign currencies are converted into domestic currency using the middle exchange rate of the Bank of Slovenia applicable on the last day of the business year.

Interest calculated on operating receivables increases the financial revenues.

The appropriateness of the disclosed amount of a single receivable is assessed at the end of the accounting period on the basis of substantiated evidence concerning the collectability of such receivables. We make allowances for bad and doubtful debts or write them off entirely. The amount of allowances made in the current year is charged against operating revaluatory expenses for the entire amount of such receivables.

Short-term Investments

Short-term investments in securities, short-term loans granted and other investments are kept separately in accounting records. Short-term investments are initially recognised at cost, increased by costs directly attributable to investments. Short-term investments in granted short-term loans are initially recognised according to paid amounts, which represent a principal portion of a loan. Accrued interest is added to the principal amount based on loan agreements.

The adequacy of the value of each short-term investment is assessed at the end of each financial year. If a short-term investment is decreasing in value, its carrying value is correspondingly decreased and financial revaluatory expenses are recognized. We do not perform the strengthening of short-term investments.

Only those short-term investments whose value exceeds 10 percent of the total value of all short-term investments are disclosed, if such investments are equal to at least 10 percent of the total value of assets on the balance sheet date.

Cash and Cash Equivalents, Deferred Expenses and Accrued Revenues

Cash and cash equivalents include balances on tolar and foreign currency bank accounts. Balances of cash in foreign currencies are converted into local currency according to the middle exchange rate of the Bank of Slovenia applicable on the last day of the financial year.

Deferred expenses and accrued revenues include paid-up subscription fees, rent and insurance premiums paid, which will be recognized in the income statement in the upcoming financial year. Such expenditures are not recognized as an expense in the current financial year.

Equity

Equity represents a liability to owners which does not mature for payment until the dissolution of a company.

The Company's equity is composed of: called-up capital, capital surplus, revenue reserves, net profit or loss for the financial year, and equity revaluation reserve. The Company's share capital comprises preference and ordinary shares in the parent company and equity interests in subsidiaries.

The Company discloses equity items and their movements in the Statement of Changes in Equity.

Long-term Provisions

Long-term provisions formed in previous years are reduced in proportion to their planned use.

An estimate of unused long-term provisions is made at the end of the year, and if there is no further need to maintain these provisions at the same level, the excess amount is transferred to extraordinary revenues. A new schedule for required provisions is prepared and recorded under the current year's operating costs.

An issue or a long-term provision is considered to be material when it exceeds 10% of the total value of long-term provisions made, if such provisions represent at least 1 percent of the value of all liabilities on the balance sheet date.

Long-term Financial Liabilities

Long-term financial liabilities include received long-term loans. They are disclosed according to the outstanding amounts of loans received, increased by accrued, unpaid interest. Long-term liabilities whose value is lower than their fair value on the balance sheet date are revalued. Impairment of financial liabilities is neither assessed nor recognized.

Long-term Operating Liabilities

Long-term operating liabilities include received security deposits for leased business premises. Received security deposits are valued on the basis of underlying agreements and are revalued using the official consumer price index or according to the middle exchange rate applicable for the currency in which the deposits were stated on the last day of the business year.

Short-term Operating Liabilities

Liabilities to suppliers, the State and employees are disclosed separately. Operating liabilities also include interest liabilities and liabilities for participation in profit distribution.

Operating liabilities expressed in foreign currencies are converted into domestic currency according to the middle exchange rate of the Bank of Slovenia applicable on the last day of the financial year.

Short-term financial liabilities are strengthened if their carrying values are lower than their fair values. Impairment of short-term liabilities is neither assessed nor recognized.

Material short-term liabilities whose value exceeds 10 percent of the total value of all short-term financial liabilities are disclosed if such liabilities exceed at least five percent of the total liabilities on the balance sheet date.

Short-term financial liabilities are disclosed for the following groups: members of the Management Board, members of the Supervisory Board and internal shareholders.

Short-term Deferred and Accrued Items

Accrued expenses/deferred revenues include accrued expenses which reduce the operating result of the current financial year. Payment liability is expected in the upcoming accounting period. The current year's result already includes the effects of obligations undertaken.

Taxes

Income tax is calculated in accordance with the Corporate Income Tax Act. The basis for the calculation of income tax is gross profit, increased by non-deductible costs and decreased by permitted tax relief. Income tax liability is then calculated from such taxable base. The income tax liability for the accounting period decreases the gross profit disclosed in the income statement for the current accounting period.

Disclosure of Items in the Income Statement

The income statement is a fundamental financial statement which discloses the amount of revenues and expenses realized by the Company in one year and the net profit or loss that corresponds to such operating performance. The income statement was compiled according to version 1, in which the business result is determined gradually. Costs are disclosed in accordance with their function.

The Company shall calculate the effects of the general revaluation of equity on the operating result regardless of whether such general revaluation of equity is actually performed or not. All items in the income statement are disclosed within the three-digit accounts of the Company's Chart of Accounts.

Additional information that is not required in the income statement, but deemed necessary for fair representation of the Company's operations, is disclosed in the Company's Business Report.

Disclosure of Cash Flow Statement

A cash flow statement provides users with information concerning the Company's acquisition of cash and cash equivalents, their use, as well as their balance at the beginning and end of the accounting period.

The items in the cash flow statement disclose the actual version used in compiling the statement.

Notes to the Financial Statements

Notes to the Income Statement

Operating revenues

The Company separately discloses, within the framework of operating revenues, revenues from domestic and foreign markets, revenues from basic activity, lease revenues, revenues from rents (time saving) and revaluatory operating revenues. A more detailed explanation of realized revenues in relation to planned revenues and revenues from the past period is presented in the Company's Business Report.

(In thousands of SIT)	Parent Company 2004	Group 2004	Parent Company 2003	Group 2003
OPERATING REVENUES	16,732,937	18,004,936	14,505,505	15,617,085
Revenues from services sold on the domestic market	2,255,897	2,480,326	2,088,919	2,293,214
Revenues from services sold on foreign markets	13,695,329	14,722,813	11,618,461	12,511,353
Revenues from goods and materials sold on domestic market	643	644	294	394
Revenues from goods and materials sold on foreign markets	1,182	3,421	0	0
Revenues from the use and cancellation of long-term provisions	36,339	36,339	52,321	52,321
Revenues from rents	566,489	578,677	579,992	594,027
Other revenues related to products and services – dispatch	168,408	173,842	101,260	101,260
Revaluatory operating revenues	8,650	8,650	64,215	64,286
Capitalised own products	0	224	43	230

Operating Costs

Since the income statement has been prepared according to Version I, the operating costs are disclosed in accordance with their function within the three-digit account. More detailed explanations of costs in comparison to planned figures, as well as costs from the past period, are given in the Business Report, where costs are presented according to their functional groups.

Costs of Goods and Materials

In thousands of SIT	Parent company 2004	Group 2004	Parent company 2003	Group 2003
COSTS OF MATERIALS	872,188	972,946	756,309	855,906
Costs of materials	0	6,310	0	7,252
Costs of auxiliary materials	153,688	178,300	141,140	167,111
Energy costs	605,714	667,366	520,628	575,624
Costs of spare parts for fixed assets and maintenance materials	0	0	0	1,412
Inventory count adjustment for materials	0	0	0	31
Costs of office supplies and professional literature	28,033	32,050	30,471	34,996
Other costs of materials	84,753	88,920	64,070	69,480
COSTS OF GOODS	794	3,461	366	2,761
Cost of goods and material sold	794	3,461	366	2,761

Costs of Services

In thousands of SIT	Parent company 2004	Group 2004	Parent company 2003	Group 2003
COSTS OF SERVICES	5,577,637	5,408,452	4,254,434	4,112,326
Costs of physical services	1,479,541	1,360,411	1,186,036	1,070,790
Costs of transportation services	601,115	606,531	387,563	393,392
Costs of maintenance of fixed assets	1,769,606	1,629,226	1,335,484	1,230,041
Rents	315,856	322,892	302,935	302,478
Reimbursements of work-related costs to employees	69,465	77,494	85,366	89,335
Payment processing costs and insurance premiums	81,001	107,511	68,633	91,941
Costs of professional and personal services	78,922	93,903	105,009	118,123
Fairs, advertising and entertainment costs	149,944	151,803	114,106	116,122
Services performed by individuals based on service contracts	189,907	207,259	149,485	160,533
Costs of other services	842,280	851,422	519,817	539,571

Allowances

In 2004, the depreciation cost of the parent company increased by SIT 811,289 thousand versus 2003. Such an increase is the reflection of increased depreciation rates for construction facilities and also larger investments made in 2004. The effect of increased depreciation rates is evident in higher depreciation costs (by approx. SIT 540,000 thousand).

In thousands of SIT	Parent company 2004	Group 2004	Parent company 2003	Group 2003
ALLOWANCES	3,038,987	3,268,177	2,222,655	2,466,295
Depreciation	2,982,480	3,206,803	2,171,191	2,412,967
Revaluatory operating expenses for intangible fixed assets	2,448	2,493	4,210	4,285
Provision expenses for doubtful receivables	54,059	58,881	47,254	49,043

Labour Costs

The number of employees within the Group was 917 on 31 December 2004 and 918 at the end of 2003. On 31 December 2004, the parent company had 650 employees compared to 637 employees working in the parent company at the end of 2003.

In the parent company, the total amount of salaries received for 2004 by employees working in accordance with individual employment contracts amounted to SIT 575,190 thousand (the number of positions filled by employees with individual employment contracts was 36) and SIT 514,765 thousand at the end of 2003. In subsidiaries, these payments amounted to SIT 43,475 thousand in 2004 and SIT 38,928 thousand in 2003.

The fixed portion of the gross salary of the member of the Management Board of the parent company amounted to SIT 31,475 thousand in 2004, which translates to a net payout in the amount of SIT 12,954 thousand, while the variable part of the gross salary amounted to SIT 7,648 thousand, while the net amount equalled SIT 3,301 thousand. The gross salary paid to the member of the Management Board in 2003 was SIT 30,761 thousand. The member of the Management Board also received a holiday allowance in the amount of SIT 180 thousand in 2004.

Costs paid out to the members of the Supervisory Board amounted to SIT 5,629 thousand in 2004, whereas in 2003 these costs amounted to SIT 12,000 thousand.

In 2004, a total gross amount of SIT 117,168 thousand in holiday allowances was paid out by the parent company, compared to SIT 111,519 in 2003. Holiday allowances paid by subsidiaries amounted to SIT 45,607 thousand in 2004 and SIT 43,293 thousand in 2003, which is in accordance with the Decree on Holiday Allowances issued by the Government of the Republic of Slovenia. In December 2004, employees received a 13th salary which in total amounted to the gross amount of SIT 225,909 thousand, while the 13th salary at the end of 2003 amounted to SIT 219,271 thousand. SIT 42,256 thousand was paid out for the same purpose in subsidiaries (100% owned) in 2004 and SIT 40,269 thousand in 2003.

In 2002, the parent company joined the supplementary pension insurance program and allocated SIT 107,198 thousand for this purpose, while the total funds allocated for supplementary pension insurance in 2003 amounted to SIT 112,104 thousand and SIT 120,019 thousand in 2004. At the same time, the subsidiaries Luka Koper INPO, d.o.o. and Luka Koper Pristan, d.o.o. signed up for the pension program and allocated for this purpose SIT 25,308 thousand in 2004 and SIT 23,102 thousand in 2003.

In thousands of SIT	Parent company 2004	Group 2004	Parent company 2003	Group 2003
LABOUR COSTS	4,521,296	5,485,569	4,290,421	5,182,560
Salaries	2,818,464	3,387,504	2,615,646	3,134,504
Salary compensations	416,635	523,332	441,621	546,565
Supplementary pension insurance for employees paid	126,889	154,757	128,367	154,398
Holiday allowance, reimbursements and other costs	418,084	564,030	388,684	523,075
Employer's contributions on salaries, wages and expenses	518,090	627,892	500,893	604,204
Other employer's contributions on employee remunerations	223,134	228,054	215,210	219,814

Other Costs

In thousands of SIT	Parent company 2004	Group 2004	Parent company 2003	Group 2003
OTHER COSTS	1,149,060	1,156,378	1,000,238	1,019,316
Costs not related to labour and other types of costs	1,077,095	1,083,205	903,175	926,179
Expenditure for environmental protection	25,329	25,407	31,515	25,516
Awards to students on internship	50	50	34	36
Scholarships	4,477	4,575	1,265	1,389
Other costs	42,109	43,141	64,250	66,196

A cost item – building land use fee – significantly increased in 2004 in comparison to 2003. In 2004 the Municipality of Koper issued two decrees to Luka Koper, d.d. relating to the payment of this fee in the total amount of SIT 1,135,847 thousand. The Company filed complaints against both decisions and was awarded postponement of the execution of both decrees.

The Municipality of Koper and Luka Koper, d.d. reached an agreement at the end of the year to form an expert group authorized to reconcile data on the size of land and determine the availability of

public utility connections on such land. After the final reconciliation and resolution of issues relating to land which represents public commercial infrastructure, the conditions will be fulfilled for the issue of a final decree regarding the fee payable for the use of building land for 2004. Since negotiations with the Municipality of Koper are not yet completed, a liability for the building land use fee has been included in the balance for the financial year 2004 in accordance with the prudence principle. This liability was disclosed in the amount of SIT 978,296 thousand.

Duties from the tax decree for sales tax and VAT from previous years amounted to SIT 455,199 thousand in 2003.

Financial Revenues and Expenses

In thousands of SIT	Parent company 2004	Group 2004	Parent company 2003	Group 2003
FINANCIAL REVENUES	4,293,396	4,461,545	3,105,920	3,155,743
Interest revenues	647,058	649,038	1,110,875	1,112,672
Revenues from dividends and share in profits of associated companies	768,807	768,806	557,469	557,469
Revenues from revaluations of receivables	291,131	354,015	717,617	764,878
Revenues from loans granted	3,239	3,239	6,123	6,123
Decrease of long-term provisions	0	103,060	0	0
Gains on sale of investments	2,513,322	2,513,322	655,635	655,635
Other financial revenues	26,465	26,691	24,108	24,872
Revaluatory financial revenues due to strengthening	43,374	43,374	34,094	34,094
FINANCIAL EXPENSES	870,435	870,952	1,159,531	1,175,463
Interest expenses	420,170	390,882	192,189	168,044
Expenses from revaluation of debts	221,877	251,627	386,299	426,375
Expenses from sale of investments	0	0	0	0
Other financial expenses	21,365	21,365	38,716	38,716
Revaluatory financial expenses from impairment	207,023	207,078	542,328	542,328
PROFIT FROM FINANCING	3,422,961	3,590,593	1,946,389	1,980,280

Extraordinary Items

In thousands of SIT	Parent company 2004	Group 2004	Parent company 2003	Group 2003
EXTRAORDINARY REVENUES	89,095	122,369	181,344	311,456
Subsidies and grants	9,873	40,593	10,088	44,482
Bad debts recovered	51,413	51,824	14,187	14,436
Received compensations	17,347	17,476	138,218	149,970
Other extraordinary items	10,462	12,476	18,851	102,568
EXTRAORDINARY EXPENSES	107,900	113,365	39,293	49,579
Monetary penalties	0	0	300	300
Compensations	107,844	113,303	38,988	49,269
Other extraordinary items	56	62	5	10

Income Tax

The Corporate Income Tax Act and several articles of the Economic Zones Act, which became effective as of 1 May 2004, were applied for the calculation of income tax.

In 2004 we duly filed for the parent company an application for the acknowledgment of tax relief in accordance with the Economic Zones Act. The Special Tax Office of the Slovene Tax Administration issued a negative interim decision. Luka Koper, d.d. filed an appeal against the negative decision and is still awaiting a reply.

In the beginning of 2005, the Company presented to the Special Tax Office all required documents supporting the Company's entitlement to tax reliefs, as it operates in an economic zone. Since the Company has not yet received a final decision, we calculated income tax only

on the basis of the Corporate Income Tax Act and certain articles of the new Corporate Income Tax Act which came into effect on 1st May 2004.

Likewise, the subsidiary company Adria-Tow, d.o.o. applied for tax relief in accordance with the Economic Zones Act due to investing, and also received a negative decision. We were therefore not yet able to apply for any tax reliefs in the calculation of this company's income tax. The company shall file an appeal against the decision within the legally prescribed period.

Calculation of Corporate Income Tax for the Parent Company

no. in form	CALCULATION OF CORPORATE INCOME TAX	2004	2003
1.	Revenues	21,115,427	17,730,574
2.	Decrease of revenues by amount of revenues generated through profit sharing in other companies	0	557,469
3.	Total revenues	21,115,427	17,173,105
4.	Expenses	15,928,435	12,766,575
5.	Tax base I	5,186,992	4,406,531
7.	Revenues generated through profit sharing in other companies, together with paid taxes	1,580	22,595
10.	Unused investment reserves and realised tax relief from investments in case of sale or disposal of assets and allocation of profit for profit sharing	16,875	205,462
11.	Increase of tax base – total (sequence no. 7+8+9+10)	18,455	228,057
14.	Unused already taxed long-term provisions for costs		0
15.	Decrease of tax base – total (sequence no. 12+13+14)		0
16.	Tax base II	5,205,447	4,634,587
19.	Amount invested in tangible fixed assets investment (except personal motor vehicles) and intangible fixed assets	1,818,061	1,727,689
19.a	Tax benefit for investment start-ups in Economic Zone – investments in fixed assets	-	453,956
20.	Investment reserve	520,545	463,458
22.	Tax relief for newly employed workers		8,299
23.	Tax relief for employed disabled persons	29,870	28,327
25 a	Tax relief for employer financed pension plan	120,019	112,103
26.	Tax base III	2,716,952	1,840,753
27.	Tax 25% (previous year 10%)	679,238	184,075
	ADDITIONAL DATA		
40.	Expenses not included under expenses in accordance with Article 12 of the Corporate Income Tax Act	157,928	611,933
41.	Monetary penalties	0	300
42.	Default interest on taxes and contributions not duly paid	77	48,962
45.	Allowances for bad receivables made and write-offs of claims towards employees, owners or associated companies	125,332	211,281
48.	Decrease in expenses as a result of the difference between transfer prices and average prices	17,915	0
49.	Interest on loans received from owners or associated parties above the average weighted interbank annual interest rate	0	0
51.	Repayment of costs to employees exceeding the compensation specified in the Decree	13,785	5,753
52.	30% of long-term provisions for costs	0	0
56.	30% of hospitality costs and costs of the Management and Supervisory Boards	11,124	10,908
63.	Additional data - total	326,162	889,138

Net Profit for the Year

The Company's net profit in 2004 amounted to SIT 4,181,593 thousand, while in 2003 the net profit equalled SIT 3,885,448 thousand. In accordance with Article 228 of the Commercial Companies Act, the Management Board allocated half of the net profit in the amount of SIT 2,090,796 thousand to the increase of other revenue reserves. Thus, the remaining amount of SIT 2,090,796 thousand was allocated to distributable profit for 2004.

Notes to the Balance Sheet

Fixed Assets

Fixed assets include:

In thousands of SIT	Parent company 31 Dec 2004	Group 31 Dec 2004	Parent company 31 Dec 2003	Group 31 Dec 2003
A. FIXED ASSETS	61,025,583	61,772,423	59,641,622	60,444,396
I. INTANGIBLE FIXED ASSETS	610,630	748,988	707,822	752,118
II. TANGIBLE FIXED ASSETS	34,638,392	36,613,941	31,300,578	33,214,043
1. LAND AND BUILDINGS	26,976,007	27,619,400	25,411,253	26,064,377
A. Land	425,739	425,739	73,946	73,946
B. Buildings	26,550,268	27,193,661	25,337,308	25,990,431
2. EQUIPMENT AND MACHINERY	5,209,306	6,262,498	4,695,751	5,879,372
3. FIXED ASSETS IN ACQUISITION	2,453,079	2,732,043	1,193,573	1,270,294
III. LONG-TERM INVESTMENTS	25,778,560	24,409,494	27,632,617	26,478,235

Intangible fixed assets and tangible fixed assets

The following tables show the changes in the values of tangible fixed assets and intangible fixed assets in 2004 in comparison to 2003 for the parent company and the Group.

Review of the movement of intangible and tangible fixed assets for the group - 2004

	Land	Buildings	Production equipment and small tools	Current investments	Total tangible fixed assets	Intangible fixed assets	Investment in foreign fixed assets	Intangible fixed assets under acquisition	Total intangible fixed assets
For the year 2004 In thousands of SIT									
Purchase value									
Balance as at 1 st January 2004	73,946	48,428,930	30,059,728	1,270,294	79,832,898	2,850,164	197,762	12,525	3,060,451
Increases	351,793	2,914,321	1,601,427	5,484,358	10,351,899	31,360	208,282	128,709	368,351
Decreases		-14,813	-629,833	-4,022,609	-4,667,255	-67,315		-52,655	-119,970
Revaluation due to:									
Impairment									
Strengthening									
Abolition of impairment									
Balance as at 31 December 2004	425,739	51,328,438	31,031,322	2,732,043	85,517,542	2,814,209	406,044	88,579	3,308,832
Allowance									
Balance as at 1 st January 2004		22,438,499	24,181,231		46,619,730	2,181,755	126,653		2,308,408
Depreciation c.y.		1,711,004	1,209,285		2,920,289	238,422	48,093		286,515
Decreases		-14,726	-621,692		-636,418	-35,079			-35,079
Revaluation due to:									
Strengthening									
Impairment									
Balance as at 31 December 2004		24,134,777	24,768,824		48,903,601	2,385,098	174,746		2,559,844
Carrying value									
Balance as at 1 st January 2004	73,946	25,990,431	5,878,497	1,270,294	33,213,168	668,409	71,109	12,525	752,043
Balance as at 31 December 2004	425,739	27,193,661	6,262,498	2,732,043	36,613,941	429,111	231,298	88,579	748,988

Review of the movement of intangible and tangible fixed assets for the group - 2003

	Land	Buildings	Production equipment and small tools	Current investments	Total tangible fixed assets	Intangible fixed assets	Intangible fixed assets under acquisition	Total intangible fixed assets
For the year 2004 In thousands of SIT								
Purchase value								
Balance as at 1 st January 2003	73,946	45,736,826	29,152,883	1,093,157	76,056,812	2,830,929	154,262	2,985,191
Increases		2,771,232	1,915,278	4,156,370	8,842,880	362,854	72,441	435,295
Decreases		-79,128	-1,008,433	-3,979,233	-5,066,794	-145,857	-214,178	-360,035
Revaluation due to:								
Impairment								
Strengthening								
Abolition of impairment								
Balance as at 31 December 2003	73,946	48,428,930	30,059,728	1,270,294	79,832,898	3,047,926	12,525	3,060,451
Allowance								
Balance as at 1 st January 2003		21,443,814	23,778,738		45,222,552	2,138,348		2,138,348
Depreciation c.y.		1,048,037	1,092,833		2,140,870	270,141		270,141
Decreases		-53,352	-690,340		-743,692	-100,081		-100,081
Revaluation due to:								
Strengthening								
Impairment								
Balance as at 31 December 2003		22,438,499	24,181,231		46,619,730	2,308,408		2,308,408
Carrying value								
Balance as at 1 st January 2003	73,946	24,293,012	5,374,145	1,093,157	30,834,260	692,581	154,262	846,843
Balance as at 31 December 2003	73,946	25,990,431	5,878,497	1,270,294	33,213,168	739,518	12,525	752,043

Review of the movement of tangible and intangible fixed assets
for Luka Koper, d.d. - 2004

For the year 2004 In thousands of SIT	Land	Buildings	Production equipment and small tools	Tangible fixed assets under acquisition	Total tangible fixed assets	Intangible fixed assets	Investment in foreign fixed assets	Intangible fixed assets under acquisition	Total intangible fixed assets
Purchase value									
Balance as at 1 st January 2004	73,946	47,720,897	28,168,813	1,193,573	77,157,229	2,840,560	130,064	12,525	2,983,149
Increases	351,793	2,909,243	1,543,933	5,135,012	9,939,981	31,307	85,106	128,709	245,122
Decreases		-14,813	-629,643	-3,875,506	-4,519,962	-58,184		-52,655	-110,839
Revaluation due to: Impairment Strengthening Abolition of impairment									
Balance as at 31 December 2004	425,739	50,615,327	29,083,103	2,453,079	82,577,248	2,813,683	215,170	88,579	3,117,432
Allowance									
Balance as at 1 st January 2004		22,383,589	23,473,062		45,856,651	2,180,816	94,511		2,275,327
Depreciation c.y.		1,696,196	1,022,280		2,718,476	236,653	27,351		264,004
Decreases		-14,726	-621,545		-636,271	-32,529			-32,529
Revaluation due to: Strengthening Impairment									
Balance as at 31 December 2004		24,065,059	23,873,797		47,938,856	2,384,940	121,862		2,506,802
Carrying value									
Balance as at 1 st January 2004	73,946	25,337,308	4,695,751	1,193,573	31,300,578	659,744	35,553	12,525	707,822
Balance as at 31 December 2004	425,739	26,550,268	5,209,306	2,453,079	34,638,392	428,743	93,308	88,579	610,630

Review of the movement of intangible and tangible fixed assets for Luka Koper, d.d. - 2003

For the year 2003 In thousands of SIT	Land	Buildings	Production equipment and small tools	Current investments	Total tangible fixed assets	Intangible fixed assets	Intangible fixed assets under acquisition	Total intangible fixed assets
Purchase value								
Balance as at 1 st January 2003	73,946	45,028,847	27,046,185	1,085,197	73,234,175	2,768,631	153,538	2,922,169
Increases		2,771,178	1,890,686	4,078,256	8,740,120	347,850	68,019	415,869
Decreases		-79,128	-768,058	-3,969,880	-4,817,066	-145,857	-209,032	-354,889
Revaluation due to: Impairment Strengthening Abolition of impairment								
Balance as at 31 December 2003	73,946	47,720,897	28,168,813	1,193,573	77,157,229	2,970,624	12,525	2,983,149
Allowance								
Balance as at 1 st January 2003		21,403,625	23,257,675		44,661,300	2,118,906		2,118,906
Depreciation c.y.		1,033,316	881,372		1,914,688	256,502		256,502
Decreases		-53,352	-665,985		-719,337	-100,081		-100,081
Revaluation due to: Strengthening Impairment								
Balance as at 31 December 2003		22,383,589	23,473,062		45,856,651	2,275,327		2,275,327
Carrying value								
Balance as at 1 st January 2003	73,946	23,625,222	3,788,510	1,085,197	28,572,875	649,725	153,538	803,263
Balance as at 31 December 2003	73,946	25,337,308	4,695,751	1,193,573	31,300,578	695,297	12,525	707,822

Long-term Investments

Long-term investments in the equity of other companies increased due to an additional investment in an equity participation in Intereuropa, d.d. in the amount of SIT 3,859,787 thousand. This has increased the parent company's share to 23.201 percent in 2004. Since Intereuropa has become an associated company, the Company's participations in other companies decreased by the amount of the investment in Intereuropa (SIT 6,762,072 thousand) and were transferred to investments in associated companies.

Investments in associated companies were also increased by an investment in the capital of Golf Istra, d.o.o. and Kopinvest in the amount of SIT 33 million.

The decrease of investments in associated companies was due to the sale of equity participations in T.I.C.T and Adria Distripark.

Other investments in shares and participations decreased by SIT 10 billion due to the transfer of the investment in Intereuropa, d.d. to participations in associated companies. In 2004 the parent company sold shares of Petrol, d.d. and the funds NFD 1 Delniški investicijski sklad, d.d., Infond ID, d.d., Infond PID, d.d. in a total amount of SIT 2.2 billion. Except for the above-mentioned, no other material purchases or sales of shares and equity participations occurred in 2004. The majority portion of other investments in shares and equity participations comprises shares listed on the stock exchange (the total value as at 31 December 2004 amounted to SIT 2 billion):

- Gorenje, d.d.
- Krka, d.d.
- Probanka, d.d. – preference shares,
- Petrol, d.d.

Shares not listed on the stock exchange represent the remaining portion of the investments in shares and equity participations item (the total value as at 31 December 2004 amounted to SIT 5 billion):

- Banka Koper, d.d.
- Factor banka, d.d.

The Company records allowances for financial investments in shares listed on the official market if their market value or the officially published book value on the last day of the financial year is lower than the carrying value in the accounting records. If the market price or officially published book value of shares is higher than the carrying value in the Company's records, the shares are disclosed in accounting records according to their carrying value.

The total amount of long-term loans granted through bond repurchases from others was equal to SIT 1.4 billion as at 31 December 2004, and includes the following bonds:

- Abanke-AB04 bond,
- BTC2 bonds,
- FB06 bond,
- FB07 bond,
- BK4 bond,
- PBS3 and PBS4 bonds,
- PRB6 and PRB7 bonds,
- SOS2 bond,
- VIP 5 bond,
- BCE 4 bond.

(In thousands of SIT)	Parent company 31 Dec 2004	Group 31 Dec 2004	Parent company 31 Dec 2003	Group 31 Dec 2003
III. LONG-TERM INVESTMENTS	25,776,560	24,409,494	27,632,617	26,478,235
Investments in shares of Group companies	1,381,102	0	1,168,095	0
Allowance made	-10,492	0	-9,095	0
Investments in associated companies	12,797,908	12,797,908	1,388,931	1,388,931
Allowance made	-7,797	-7,797	-20,778	-20,778
Other investments in stocks and shares	9,175,404	9,175,404	18,052,734	18,052,734
Allowance made	-123,562	-123,562	-30,709	-30,709
Other long-term investments	135,567	135,567	135,818	135,818
Investments in precious metals, paintings and precious stones	1,000	1,000	1,000	1,000
Granted long-term housing loans	386,680	390,224	426,752	430,630
Allowance made	-20,293	-20,293	-23,932	-23,932
Long-term loans granted to others	49,694	49,694	341,018	341,758
Long-term loans granted through bond purchases from others	1,379,027	1,379,027	1,320,895	1,320,895
Other long-term investments – certificates of deposit	632,322	632,322	636,282	636,282
Long-term deposits held	0	0	4,245,606	4,245,606

The Company holds a put option for the shares of Banka Koper, d.d. which may be executed on 30 June 2006. The carrying amount of shares in our accounting records is higher than the book value of the bank's shares on the last day of the financial year, but lower than the value stated in the option contract as at 31 December 2004; these shares were therefore not impaired.

In accordance with item 2.14 of SAS – Long-term Investments, we disclosed all long-term deposits maturing in the upcoming year under short-term deposits as at the balance sheet date.

The investment in Intereuropa d.d. is the predominant entry among investments in associated companies. These shares are booked according to their purchase value, which is higher than the carrying value and lower than the market value of a share listed on the stock exchange as at 31 December 2004.

Current Assets

Inventory

Inventory amounted to SIT 6.778 thousand in 2003, whereas in 2004 no inventory was disclosed in the parent company on the balance sheet date.

Operating Receivables

In thousands of SIT	Parent Company 31 Dec 2004	Group 31 Dec 2004	Parent Company 31 Dec 2003	Group 31 Dec 2003
II. OPERATING RECEIVABLES	4,634,273	4,836,345	4,076,912	4,230,557
a. LONG-TERM OPERATING RECEIVABLES	2,609	2,609	71,189	71,189
Long-term domestic commodity credit	0	0	69,245	69,245
Long-term guarantees granted	2,411	2,411	1,658	1,658
Other long-term operating receivables	198	198	286	286
b. SHORT-TERM OPERATING RECEIVABLES	4,631,664	4,833,736	4,005,723	4,159,368
Short-term accounts receivable-domestic	441,812	495,082	450,632	490,471
Allowance for doubtful receivables	-57,202	-62,037	-43,861	-47,879
Short-term accounts receivable-foreign	1,173,578	1,196,461	864,767	880,169
Short-term domestic commodity credit	89,250	89,250	216,911	216,911
Advances given for operating current assets	751,293	751,331	199,382	199,582
Short-term receivables from exporters	1,324,020	1,415,883	1,251,981	1,321,744
Allowance for doubtful receivables	-39,822	-39,822	-14,450	-14,605
Short-term receivables from interest	17,932	19,282	80,281	82,721
Allowance for interest	-1,091	-1,374	-1,213	-1,703
Receivables from input VAT	45,040	48,497	38,122	41,304
Other short-term receivables	317,663	344,772	338,051	353,345
Receivables from taxes and excise taxes	569,191	576,411	625,120	637,308

For the majority of trade receivables, Luka Koper, d.d. has the right to enforce a legal lien over the pledged goods in its possession in accordance with Article 167 of the Property Act.

Luka Koper has no outstanding open claims towards the members of the Management and Supervisory Boards.

In most cases, the parent company recorded allowances for receivables overdue over 361 days already in the past; i.e. in case of doubtful receivables (bankruptcy, composition, etc.).

Receivables of the parent company according to maturity:

In thousands of SIT	Total receivables	Total due receivables	Overdue up to 30 days	Overdue 31-60 days	Overdue 61-90 days	Overdue 91-180 days	Overdue 181-360 days	Overdue more than 361 days
31 Dec.2004	2,957,343	2,438,619	263,431	42,446	58,071	25,533	14,319	114,921
%	100	83	9	1	2	1	0	4

Short-term Investments

In thousands of SIT	Parent company 31 Dec 2004	Group 31 Dec 2004	Parent company 31 Dec 2003	Group 31 Dec 2003
III. SHORT-TERM INVESTMENTS	8,253,206	8,253,206	5,029,250	5,028,449
Other shares bought for resale	1,445,642	1,445,642	13,272	13,272
Other securities bought for resale	503,740	503,740	737,474	737,474
Allowance	0	0	0	0
Short-term loans granted	6,394,316	6,394,316	4,528,618	4,527,817
Allowance for doubtful loans	-90,492	-90,492	-250,114	-250,114

Short-term investments amounted to SIT 8,253,206 thousand as at 31 December 2004 and increased by SIT 3,224,757 thousand in comparison with 2003. This is mostly due to the transfer of long-term investments maturing in 2005 to short-term investments, which also includes shares of the company Autocommerce, d.d., which are foreseen for sale in 2005. The average interest rate charged on granted short-term loans was 6.19 percent at the end of 2004.

Cash at Bank

In thousands of SIT	Parent company 31 Dec 2004	Group 31 Dec 2004	Parent company 31 Dec 2003	Group 31 Dec 2003
IV. CASH AT BANK	230,608	264,307	90,751	178,506
Tolar funds on accounts	3,603	5,474	1,001	10,739
Foreign currency funds on accounts	227,005	258,833	89,750	167,767

Deferred expenses and accrued revenues

In thousands of SIT	Parent company 31 Dec 2004	Group 31 Dec 2004	Parent company 31 Dec 2003	Group 31 Dec 2003
C. DEFERRED EXPENSES AND ACCRUED REVENUES	20,759	27,187	12,571	16,559
Insurance premiums	11,950	12,788	11,543	15,163
Short-term deferred other expenses	8,809	14,399	1,028	1,396

Off-balance sheet items

Contingent liabilities are disclosed under off-balance sheet items. A balance in the amount of SIT 3,440,541 thousand was disclosed on 31 December 2004 (the balance on 31 December 2003 amounted to SIT 4,217,710 thousand). Contingent liabilities include:

- issued guarantees for loans received by Luka Koper, d.d. and guarantees issued to others for loans received by associated companies in the amount of SIT 405,860 thousand,
- guarantees issued to others – SIT 765,491 thousand SIT (Ministry of Finance, Termoelektrarna/toplarna Ljubljana),
- short-term deposits pledged for a loan received from Banka Koper in the amount of SIT 2,070,000 thousand SIT,
- statute-barred receivables from Centroprom Beograd in the amount of SIT 199,190 thousand.

In thousands of SIT	Parent company 31 Dec 2004	Group 31 Dec 2004	Parent company 31 Dec 2003	Group 31 Dec 2003
D. OFF-BALANCE SHEET ASSETS	3,440,541	4,198,384	4,217,710	5,028,449

Equity

In thousands of SIT	Parent company 31 Dec 2004	Group 31 Dec 2004	Parent company 31 Dec 2003	Group 31 Dec 2003
A. EQUITY	60,604,558	60,811,978	57,610,289	57,722,280
EQUITY MAJORITY OWNER		60,604,558		57,610,288
I. CALLED-UP CAPITAL	14,000,000	14,000,000	14,000,000	14,000,000
A. Share capital	14,000,000	14,000,000	14,000,000	14,000,000
II. CAPITAL SURPLUS	0	0	0	0
III. REVENUES RESERVES	20,274,496	20,296,584	18,584,795	18,589,073
A. Legal reserves	4,496,872	4,518,961	4,496,872	4,501,149
B. Reserves for treasury shares	0	0	0	
C. Statutory reserves	0	0	0	
D. Other revenue reserves	15,777,624	15,777,624	14,087,923	14,087,924
IV. NET PROFIT OR LOSS FROM PRIOR YEAR	1,494,761	1,494,761	1,352,037	1,352,036
V. NET PROFIT OR LOSS FOR THE CURRENT YEAR	2,090,796	2,090,796	1,942,724	1,942,724
VII. EQUITY REVALUATION RESERVE	22,744,504	22,722,416	21,730,733	21,726,456
A. General equity revaluation reserve	21,462,806	21,462,806	21,462,806	21,462,806
B. Special equity revaluation reserve	1,281,698	1,259,610	267,927	263,650
VIII. EQUITY – MINORITY OWNERS		207,420		111,992
Share capital		12,968		13,098
Capital surplus		188		188
Revenues reserves		50,107		31,324
Net profit or loss from prior years		42,687		18,285
Net profit or loss for the current year		95,462		43,128
Equity revaluation reserve		6,008		5,969

The net profit for the financial year amounted to SIT 4,181,593 thousand. As in 2003, the general revaluation of equity in 2004 was not carried out because the Euro appreciated against the Slovene tolar by less than 5.5 percent. In accordance with Slovene Accounting Standards (8.40), the Company performed the calculation on the basis of a general revaluation in order to preserve the equity purchasing power in Euros (1.3%), and determined that the achieved net profit would be reduced by SIT 748,934 thousand and would amount to SIT 3,432,659 thousand. Considering the growth of consumer prices (3.26%) the net profit would be reduced by SIT 1,843,529 thousand and would amount to SIT 2,338,064 thousand SIT.

Long-term Provisions

In thousands of SIT	Parent company 31 Dec 2004	Group 31 Dec 2004	Parent company 31 Dec 2003	Group 31 Dec 2003
B. PROVISIONS	320,532	1,330,019	275,752	1,165,078
Provisions for general repairs of fixed assets	19,346	19,346	74,740	74,740
Risk provisions	204,343	204,343	88,068	88,068
Long-term provisions for received donations	96,843	96,910	112,944	112,944
Long-term provisions for transferred funds	0	1,009,420	0	889,326

The parent company disclosed SIT 19,346 thousand in unused long-term provisions recorded before 2001 for general repairs of fixed assets.

Among risk provisions, the parent company formed SIT 204,343 thousand in provisions for potential claims for damaged goods (court proceedings not yet completed) in the amount of SIT 88,068 thousand and SIT 116,275 thousand for undertaking insurance guarantees and potential tax liabilities of the company T.I.C.T., S.p.a., Trieste.

Among long-term provisions, the parent company disclosed fixed assets acquired free of cost in the amount of SIT 96,843 thousand, depreciated by the calculated depreciation. This resulted in an increase of revenues from the use and cancellation of long-term provisions for received donations.

Long-term provisions for assigned funds in the amount of SIT 1,009,420 thousand were established in the associated company Luka Koper INPO, d.o.o. (company for disabled persons) as funds withheld from public financing (salary contributions). The Company is obliged to use such funds for the purposes prescribed by a special law.

Long-term Financial Liabilities

Long-term financial liabilities include a long-term loan extended by the Environmental Development Fund of the Republic of Slovenia which matured on 31 January 2005, a long-term US dollar loan granted by SKB Banka which matures on 30 June 2009, and a long-term Euro loan granted by Banka Koper which matures on 30 June 2006. The average interest rate on long-term loans is 2.7 percent. On 31 December 2004, the Company transferred SIT 49,585 thousand and USD 615,353 from long-term liabilities to short-term liabilities.

In thousands of SIT	Parent company 31 Dec 2004	Group 31 Dec 2004	Parent company 31 Dec 2003	Group 31 Dec 2003
LONG-TERM FINANCIAL LIABILITIES	3,557,223	3,944,349	748,328	1,290,763
Long-term loans received from domestic banks	3,557,223	3,944,349	512,731	1,055,166
Other long-term loans received from others	0	0	235,597	235,597

Long-term Operating Liabilities

Long-term operating liabilities include long-term collaterals received for rented business premises in the amount of SIT 20,469 thousand.

Short-term Operating Liabilities

In thousands of SIT	Parent company 31 Dec 2004	Group 31 Dec 2004	Parent company 31 Dec 2003	Group 31 Dec 2003
SHORT-TERM OPERATING LIABILITIES	4,220,721	4,531,259	3,240,785	3,464,645
Short-term operating liabilities to domestic suppliers	1,720,801	1,718,309	1,522,761	1,605,391
Short-term liabilities to foreign suppliers	226,039	438,417	1,020,926	1,043,536
Advances received	261,015	262,958	17,676	30,684
Liabilities for salaries accrued	208,871	230,666	132,683	144,537
Liabilities for net salaries	120,234	147,981	112,720	137,147
Liabilities for net salary compensations	22,766	31,416	28,452	37,975
Liabilities for salary contributions	51,173	53,196	52,127	53,510
Liabilities for taxes on salaries	35,739	41,438	40,420	46,646
Other short-term liabilities to employees	49,303	67,320	44,901	60,458
Liabilities for taxes from other receipts	83	83	3,534	3,786
Short-term liabilities to State and other institutions	2,648	2,945	335	1,554
Liabilities for tax on salaries paid	13,884	14,400	14,263	14,760
Corporate income tax	506,485	509,555	0	28,047
Other short-term liabilities to State and other institutions	44,303	52,296	42,932	48,598
Short-term liabilities associated with allocation of profit	18,136	18,136	21,228	21,228
Other short-term liabilities	939,241	942,143	185,827	186,788

Short-term liabilities to foreign suppliers increased by SIT 748,800 thousand due to the purchase of a crane from abroad, which on the balance sheet date had not yet been paid.

Other short-term liabilities also increased in comparison to the previous year, mainly due to the increased fees for the use of building land in 2004.

Short-term Financial Liabilities

Short-term loans decreased by 23 percent in 2004 in comparison to 2003, which is mainly due to repayments. The majority of loans represent bank loans from Banka Koper, d.d. in the amount of SIT 3.9 billion and loans from Group companies in the amount of SIT 1.3 billion. The average interest rate on these loans is 3.88 percent.

In thousands of SIT	Parent company 31 Dec 2004	Group 31 Dec 2004	Parent company 31 Dec 2003	Group 31 Dec 2003
SHORT-TERM FINANCIAL LIABILITIES	5,208,572	4,280,365	6,736,201	6,014,977
Short-term loans received from domestic companies	1,299,121	252,159	864,926	4,551
Short-term loans received from banks	3,909,451	4,028,206	5,871,275	6,010,426

Accrued Expenses and Deferred Revenues

In thousands of SIT	Parent company 31 Dec 2004	Group 31 Dec 2004	Parent company 31 Dec 2003	Group 31 Dec 2003
D. ACCRUED EXPENSES AND DEFERRED REVENUES	232,354	232,355	220,060	220,060
Demurrage	14,099	14,099	0	0
Foreign commercial discounts	67,311	67,311	45,950	45,950
Accrued expenses	150,944	150,945	174,110	174,110
Short-term deferred revenues	0	0	0	0

Parent Company's Relations with Subsidiary Companies and Relations between Subsidiary Companies

Parent company's relations with subsidiary companies and relations between subsidiary companies	31 Dec 2004 (In thousands of SIT)	31 Dec 2003 (In thousands of SIT)
LONG-TERM INVESTMENTS	1,370,610	1,158,259
RECEIVABLES	64,651	77,694
Short-term account receivables	64,651	77,677
Short-term receivables from interest	0	17
SHORT-TERM INVESTMENTS	1,046,961	861,175
LIABILITIES	1,111,612	938,869
Short-term operating liabilities	64,651	77,694
Short-term financial liabilities	1,046,961	861,175
REVENUES	530,771	483,160
Operating revenues	488,893	436,265
Financing revenues	41,878	46,895
COSTS AND EXPENSES	530,771	483,160
Costs of material	19,718	19,502
Costs of services	452,774	397,154
Labour costs	13,543	13,504
Other costs	2,858	6,082
Financing expenses	41,878	46,918

Offset of Long-term Investments of the Parent Company with the Capital of Subsidiary Companies

The equity method is used for consolidation of the parent company's investments and the equity of subsidiary companies.

The parent company's investments in Group companies were offset in the amount of SIT 1,370,610 thousand with the equity of each subsidiary company in the same total amount.

Offset of Receivables and Liabilities

Receivables and liabilities between the parent company and subsidiary companies and between subsidiary companies themselves have been offset in the consolidated balance sheet as follows:

- short-term operating receivables (collectively SIT 64,561 thousand) and short-term operating liabilities (collectively SIT 64,561 thousand) on both sides.
- short-term investments (collectively SIT 1,046,961 thousand) and short-term financial liabilities (collectively SIT 1,046,961 thousand) on both sides.

Equity

After the executed offset between the long-term investments of the parent company and the equity of subsidiary companies in proportion to the parent company's share in these companies, the summed-up equity of the Group equals the sum of the majority owner's equity and the equities of minority owners in the companies Adria-tow d.o.o. and Luka Kopar Beograd d.o.o. In total, the equity in the Group amounts to SIT 60,811,978 thousand.

The equity is thus composed of the following items:

- | | |
|-------------------|-------------------------|
| 1. Majority owner | SIT 60,604,558 thousand |
| 2. Minority owner | SIT 207,420 thousand |

Offset of Revenues and Expenses

All revenues and expenses between the subsidiary companies and between the subsidiary companies and the parent company are offset in the consolidated income statement.

Offset operating revenues amounted to SIT 488,893 thousand and offset operating expenses amounted to SIT 488,893 thousand.

Offset financial revenues amounted to SIT 41,878 thousand and offset financial expenses amounted to SIT 41,878 thousand.

Report on Relations with Associated Companies

In 2004, numerous legal transactions were carried out with associated companies in the Luka Koper Group, in which the parent company performed the role of buyer, supplier, lessor, lender, etc. Serving as a legal basis for such transactions were various contracts, orders, offers, etc.. Individual legal transactions are disclosed in the bookkeeping records, while the sizes of transactions are disclosed in the attached tables and descriptions.

Luka Koper, d.d. did not exhibit any controlling party influence to force any of the subsidiary companies to execute detrimental legal transactions on its behalf or to do or abandon anything to its own detriment.

Contractual Relationship with the Republic of Slovenia and the Management of Port Infrastructure

The contractual relationship with the Republic of Slovenia remains regulated by a lease agreement for operative quays and land owned by the Republic of Slovenia in the port of Koper, which was concluded in 2000. In accordance with this agreement, lease costs amounted to SIT 210,935 thousand in 2004 and SIT 184,691 thousand in 2003 (SIT 20 per ton of handled goods, excluding handled oil and petroleum products). The Company allocated SIT 1,032 million for investments in port infrastructure in 2004, and SIT 1,245 million in 2003.

Since a concession agreement for the management, development and regular maintenance of port infrastructure in the freight port of Koper has not yet been concluded, Luka Koper still uses the operative quays and land in the port of Koper which is owned by the Republic of Slovenia on the basis of a lease agreement concluded in 2000.

We established a Port Infrastructure Department and thus adapted our internal organisation to the foreseen changes. The department manages port infrastructure assets that are owned by the parent company and also performs regular maintenance of facilities providing services related to safe navigation and safe mooring as well as the undisturbed performance of port activities (buildings and other goods in the public domain owned by the State).

The established organisational structure and accounting system will allow the Company to prepare, on the basis of the concession agreement, financial statements and reporting in accordance with the provisions of SAS 35.

Operating statement for the port infrastructure management activity in the parent company:

In thousands of SIT	2004	2003
OPERATING REVENUES FROM PORT DUES	1,054,028	1,036,406
OPERATING COSTS	1,200,438	1,146,312
Costs of material	16,866	12,267
Costs of services	601,540	592,101
Allowances	537,249	494,712
Labour costs	44,347	44,967
Other costs	435	2,265
OPERATING INCOME/LOSS	-146,410	-109,906

The Company invested SIT 123,513 thousand in 2004 and SIT 146,066 thousand in 2003 for the maintenance of operational shores and land owned by the Republic of Slovenia.

Distributable Profit of the Parent Company

In 2004, the parent company Luka Koper, d.d. realized a net profit of SIT 4,181,592,724.71. 50% of the net profit from 2004 in the amount of SIT 2,090,796,362.35 was allocated by the Management and Supervisory Boards to the increase of other revenue reserves. The remaining portion of the net profit for 2004 was allocated to distributable profit. The distributable profit has been further increased by the profit brought forward from 2003 in the amount of SIT 1,494,760,743.23. In addition, a portion of other revenue reserves from previous years (1999 and 2000) in the amount of SIT 2,201,096,151.14 was also allocated to distributable profit.

The total distributable profit for the year 2004 thus amounts to SIT 5,786,653,256.73.

In thousands of SIT	2004	2003
TOTAL DISTRIBUTABLE PROFIT	5,786,653,256.73	5,495,856,894.37
Other revenue reserves	2,201,096,151.14	2,201,096,151.14
Net profit for the current year	2,090,796,362.36	1,942,724,011.49
Net profit brought forward (2003, 2002)	1,494,760,743.23	1,352,036,731.74

The General Meeting of Shareholders shall decide on the distribution of profit for the year 2004 in the amount of SIT 5,786,653,256.73, as proposed by the Management and Supervisory Boards.

The Management Board shall propose the following resolutions to the General Meeting of Shareholders:

- the amount of SIT 2,201,096,151.14 shall be allocated to shareholders from other revenue reserves established on the basis of equity items from previous years;
- a portion of the distributable profit in the amount of SIT 2,000,000,000.00 shall be allocated to other revenue reserves, namely, the net profit brought forward from 2003 in the amount of SIT 1,494,760,743.23 and the net profit from the financial year 2004 in the amount of SIT 505,239,256.77;
- profit in the amount of SIT 1,585,557,105.59 shall be decided in upcoming business years.

The General Meeting of Shareholders held on 14 July 2004 adopted resolutions concerning the proposal of the Management and Supervisory Boards for the allocation of distributable profit in the amount of SIT 5,495,856,894.37 for 2003.

Based on the resolutions of the General Meeting,

- a portion of the distributable profit in the amount of SIT 2,201,096,151.14 (formed from other reserves from the years 1998 and 1999) shall be allocated to shareholders, of which:
- SIT 173,767,750.44 for fixed dividends pertaining to preference shares;
- SIT 1,749,300,000.00 for dividends pertaining to ordinary shares;

- SIT 278,028,400.70 for the variable part of dividends pertaining to preference shares.
- the gross dividend per ordinary share amounted to SIT 245.00. Dividends were paid out to shareholders on 15 September 2004.
- a portion of the distributable profit in the amount of SIT 1,800,000,000.00 was allocated to other revenue reserves according to the resolution adopted by the General Meeting of Shareholders; i.e. profit brought forward from 2002 in the amount of SIT 1,352,036,731.74 and SIT 447,963,268.26 of net profit from the financial year 2003.
- The General Meeting adopted a resolution specifying that the allocation of the remaining portion of distributable profit (the net profit from 2003) in the amount of SIT 1,494,760,743.23 would be decided in upcoming business years.

Post-balance Sheet Events

Sale of Logistic Service, d.o.o.

On 21 January 2005 the Management Board prepared a proposal for the sale of the company Logistic Service, d.o.o.. Logistic Service, d.o.o., which has been dormant for the past five years, was kept by Luka Koper with the intention of using it as a legal framework for some of its business projects. Since the Company has no concrete need in the near future to activate Logistic Service, d.o.o. and since procedures for the establishment of a company are today much quicker and the management of a dormant company involves certain costs, the Management Board of Luka Koper, d.d. decided to sell the company.

The capital of the company amounted to slightly over SIT 3 million as at 31 December 2004 (of which the share capital was equal to SIT 2.2 million, and the difference represents the net profit brought forward from previous years and the equity revaluation reserve). The company holds the same amount of financial assets on the asset side of the balance sheet.

The Supervisory Board of Luka Koper, d.d. has adopted a resolution on the sale of the company Logistics Service, d.o.o., which is 100% owned by Luka Koper, d.d., for the amount of SIT 5,000 thousand at the end of February.

Establishment of Adria Transport, d.o.o.

On 18 January 2005, Luka Koper, d.d. and Graz-Köflacher Bahn und Busbetrieb, GmbH concluded a Shareholders Agreement for the establishment of Adria Transport, d.o.o..

The signing of this agreement was executed on the basis of a resolution of the Supervisory Board of Luka Koper, d.d. stating that a company is to be established for the purpose of organizing and conducting rail transport activities. The company's registered office shall be at Vojkovo nabrežje 38 in Koper, and its share capital shall amount to SIT 24,000,000.00, in which each of the shareholders shall have a 50% share. By signing the Shareholders' Agreement, the two companies outlined their business and capital foundations for their effective joint performance on target markets.

On 15 February 2005, the Competition Protection Office of the Republic of Slovenia issued a decision stating that it does not object to the applied establishment of the fully operational company Adria Transport, d.o.o. and the organization and performance of railway transport, which represents

a concentration under the provisions of the Competition Prevention Act. The concentration is therefore in conformity with competition rules.

The following activities are yet to be performed prior to the commencement of the company's operation:

- execution of an agreement on the establishment of Adria transport, d.o.o.,
- registration of the company with the District Court of Koper,
- acquisition of a license for railway transport services,
- acquisition of a safety certificate,
- acquisition of railway lines (routes).

Transition to International Financial Reporting Standards

EU regulations prescribe uniform rules for the preparation of financial statements of certain companies, and instruct corporate entities from European Union States which are listed on its organised securities markets to prepare their consolidated financial statements in accordance with the International Financial Reporting Standards from 2005. Parallel to this requirement, numerous other requirements and guidelines were adopted or are being prepared in the European Union in the field of accounting, reporting and auditing.

A project team from the Slovene Audit Institute is responsible for the preparation and execution of activities related to the introduction of International Financial Reporting Standards.

As a company listed on the Ljubljana Stock Exchange, Luka Koper, d.d. is obligated to prepare consolidated financial statements. Therefore, the Company will be obliged to report according to IFRS for the first time for the financial year starting on 1st January 2005.

Since the Slovene Accounting Standards are to a large extent reconciled with IFRS applicable at the time of their preparation or adoption, the Company does not anticipate any major difficulties in the transition to IFRS.

The Company performed various activities in 2004 which were aimed at ensuring the timely execution of required changes and adjustments. We participated in seminars on IFRS and regularly reviewed all notices sent by the Slovene Audit Institute regarding the course of planned activities and recommendations concerning the activities of companies in this field. The Company organized these activities in the form of a project scheme and prepared the foundations for recording business events according to IFRS. The Company also prepared an opening balance sheet as at 1st January 2004 for the Luka Koper Group in accordance with IFRS, which reflects the differences from previous years in the opening balance of equity. On the basis of such differences, the Company continued to translate all business events in accordance with IFRS throughout 2004, concluding with differences that are reflected in the current income statements according to IFRS. At the same time the Company also prepared all its financial statements in accordance with SAS and on the basis thereof considered the applicable tax legislation.

IT support has not yet been fully adapted to the new requirements. We intend to adjust our IT applications in 2005 on the basis of an estimate of required investments in adjustments and during the course of solving any unresolved issues. We intend to provide data or differences between SAS and IFRS in auxiliary records in the beginning of the transition year 2005.

The Company has also been preparing for the new requirements related to the contents of annual reports. Our previous reports already include components that are particularly exposed in IFRS, such as: risks and uncertainties possibly facing the Company, non-accounting information, information on the environmental and social aspects of operations, and endeavours for sustainable development.

Bruno Korelič,
Chief Executive Officer

Marjan Babič
Economics and Finance Director

Neda Ritoša
Head of Accounting Department

Statement of Responsibility of the Management

Koper, 28 February 2005

The Management Board hereby approves the financial statements of Luka Koper, d.d. and the Luka Koper group for the year ended 31 December 2004 and the applied accounting guidelines and notes to the financial statements.

The Management Board confirms that the financial statements were compiled on the basis of relevant accounting guidelines, that the accounting estimates were prepared according to the concept of prudence and good management, and that the annual report provides a true and fair picture of the assets of the Company and the group and the results of its business operation in 2004.

The Management is also responsible for the proper execution of accounting and the adoption of appropriate measures for protecting the Company's property and other assets, and hereby confirms that the financial statements with notes have been compiled on the basis of the going concern principle for the Company and the group, and in conformity with applicable law and Slovene Accounting Standards.

Bruno Korelič,
Chief Executive Officer



"When a ship comes to the moorage, the piers are brought to life. The forklifts buzz, the cranes come closer, and we are all at our positions. We drive the machines, we load, unload and control. The mechanism is working in a skilled, coordinated and rapid way even with the most demanding tasks."



Certified Auditors' Report

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INDEPENDENT AUDITORS' REPORT to the shareholders of

LUKA KOPER, d.d.

We have audited the balance sheet of Luka Koper d.d., as of 31 December 2004, the related income statement, statement of changes in equity, statement of changes in financial position, for the year ended 31 December 2004. We reviewed also the company's business report of as of the same date. These financial statements and the business report of are the responsibility of the company's management. Our responsibility is to express an opinion on financial statements based on our audit and report on the consistence of the information included in the business report with the information in the audited financial statements.

We conducted our audits in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements of Luka Koper d.d., present fairly, in all material respects, the financial position of Luka Koper d.d. as of 31 December 2004, and the results of their operations and statement of changes in financial position for the year then ended in accordance with Slovene Accounting Standards. The information in the company's business report is consistent with the information in the audited financial statements.

Without qualifying our opinion we draw your attention to footnote 9 in accounting report, where company is describing that concession agreement for operating, managing, developing and regular maintenance of port infrastructure in freight port of Koper, has not been signed yet. Until the agreement has been signed, the contractual relationship with the Republic of Slovenia remains regulated by a lease agreement for operative quays and land owned by the Republic of Slovenia in the freight port of Koper, which was concluded in 2000.

Deloitte & Touche revizija d.o.o.

Lidija Jezernik
Licensed Auditor
Member of the Board

**Deloitte
& Touche**
revizija d.o.o.

February 18th, 2005
Ljubljana, Slovenia

Audit. Tax. Consulting. Financial Advisory.

Družba je članica
Deloitte Touche Tohmatsu

Unofficial translation of Slovene audit report

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INDEPENDENT AUDITORS' REPORT to the shareholders of

LUKA KOPER's group of companies

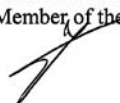
We have audited consolidated balance sheet of Luka Koper's group of companies, as of 31 December 2004, the related consolidated income statement, consolidated statement of changes in equity, consolidated statement of changes in financial position, for the year ended 31 December 2004. We reviewed also the company's business report of as of the same date. These financial statements and the business report of are the responsibility of the company's management. Our responsibility is to express an opinion on financial statements based on our audit and report on the consistence of the information included in the business report with the information in the audited financial statements.

We conducted our audits in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements of Luka Koper's group of companies, present fairly, in all material respects, the financial position of Luka Koper's group of companies as of 31 December 2004, and the results of their operations and statement of changes in financial position for the year then ended in accordance with Slovene Accounting Standards. The information in the company's business report is consistent with the information in the audited financial statements.

Deloitte & Touche revizija d.o.o.

Lidija Jezernik
Licensed Auditor
Member of the Board



**Deloitte
& Touche**
revizija d.o.o.

February 18th, 2005
Ljubljana, Slovenia

Audit. Tax. Consulting. Financial Advisory.

Družba je članica
Deloitte Touche Tohmatsu

Unofficial translation of Slovene audit report

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On the Way Through Luka Koper

The goods pass many different procedures on their way through Luka Koper. The procedures are managed, directed and carried out by well-connected groups of people. The photographs used in our Annual Report record the individual moments of the comprehensive procedures that require skills and experience.

Good management and execution of existing services is the basis for developing new ones. It shows in the execution of complete logistics services for an increasing amount of freight travelling through our port. We are also becoming an increasingly strong distribution centre.

The expansion of the European Union has opened for Luka Koper new doors to European markets. The free flow of goods across European borders is opening up new opportunities.

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The 2004 Annual Report of Luka Koper, d.d.
is also available on the website www.luka-kp.si.

