



LUKA KOPER

Luka Koper, d.d.
2003 Annual Report



Our advantageous location at the crossroads of important European routes allows us to connect cargo flows in the Mediterranean, Central, Western and Southeastern Europe with all parts of the globe.

We are rapidly entering the sphere of logistic services and functioning as an integrated port and logistic system.

Through our work we are implementing business excellence in our company Luka Koper. We are the first port operator in Europe to have introduced quality standards in our entire operations.

Our status of EU port has increased our competitiveness and opened new opportunities for acquiring cargoes and access to new markets.



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Dragomir Matič

Director, PC General Cargoes

"I began working at the terminal which I now manage several years ago as a stevedore of bags. I am completely familiar with our services and am convinced we can fulfill whatever I advise a customer. I believe in open and honest business relations."





Selected Performance Indicators of Luka Koper d.d.

	1999	2000	2001	2002	2003
Operating revenues (millions of SIT)	12,043*	12,739*	12,851*	12,967	14,505
Cargo (millions of tons)	8.34	9.32	9.35	9.43	11.03
Net profit (millions of SIT)	2,682	2,900	3,638	4,494	3,885
Equity (millions of SIT)	41,783	47,151	52,666	55,636	57,610
EPS (SIT)*	191.6	207.2	259.9	321	191.6
Return on equity (%)	6.8	6.5	7.29	8.3	6.86
Added value per employee (thousands of SIT)	12,494	13,679	13,121	12,449	13,029
Number of employees on 31 December 2003	631	632	633	630	647

* Revenue figures from year 1999 to 2001 differ from data published in the financial statements for those periods. Figures were adjusted to assure comparability with data prepared according to Slovene Accounting Standards valid in 2001. These standards foresaw changes in the chart of accounts, which caused the transfer of extraordinary revenues from profit on sale of fixed assets to revaluatory operating revenues item.

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

Company Profile

Name:
Luka Koper, Port and Logistics System, Stock Company

Abbreviated name:
Luka Koper, d.d.

Principal place of business:
Vojkovo nabrežje 38, Koper
Telephone: +386 5 66 56 100
Facsimile: +386 5 63 95 020
E-mail: PortKoper@luka-kp.si
Internet: www.luka-kp.si

Entry in court register:
District Court of Koper, entry number 066/10032200

Registration number:
5144353

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 right

Nominal value of shares of both classes
SIT 1,000

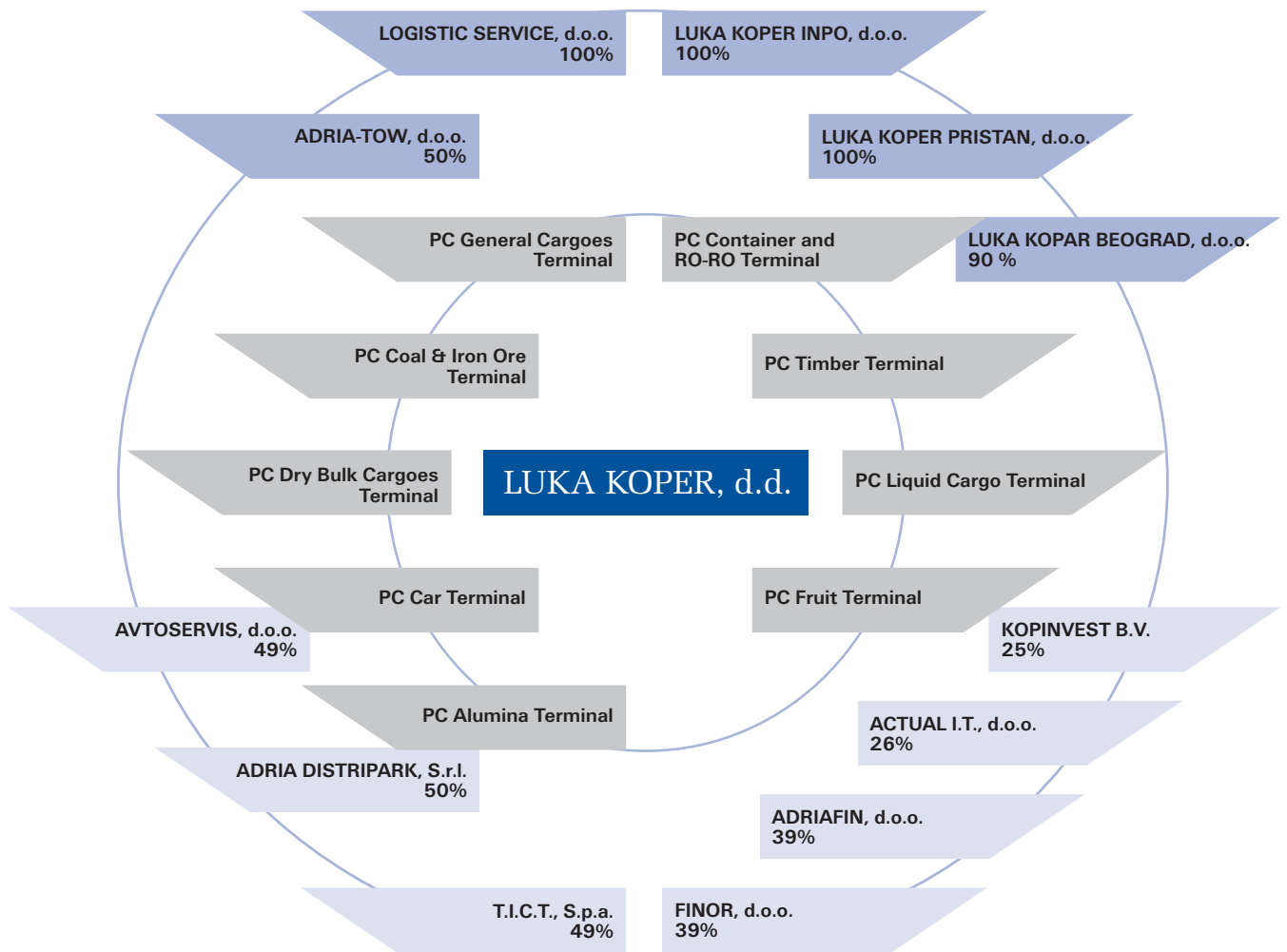
Quotation of shares
Ljubljana Stock Exchange, quotation of ordinary shares on the stock exchange

Share symbol
LKPG

Management Board:
Bruno Korelič, B.S.Econ., Chief Executive Officer

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

Organizational Structure of the Luka Koper Group



- Parent Company
- Profit Centres
- Subsidiary Companies
- Associated Companies

New Status: A Port and Logistics System and a European Port



Luka Koper, d.d. operates within the scope of the Port of Koper, which in 2003 was still 12 kilometres away from the southern border of the European Union. This is both a short and a very long distance. Geopolitical position is by all means a decisive factor in the competitiveness of port systems. To this day, Luka Koper, d.d. is the first port services company in Europe to have introduced quality standards in its entire operations. But we shall only acquire the status of a European port this spring, when Slovenia becomes a full member of the European Union. This new position will undoubtedly improve our competitiveness, as it will bring new opportunities for acquiring certain important cargo segments and at the same time provide access to new markets. Of course it will not be easy to make use of all the advantages arising from our new position. The positive effects will be gradual, yet we are firmly convinced they will more than replace our potentially smaller presence on the markets of southeastern Europe.

Above Expectations

How did the Company operate in a year when twelve kilometres still represented a relatively long distance? The results attained in 2003 are good. Once again, we achieved record results and exceeded the planned cargo volumes. The planned gross profit was fully attained. Productivity increased and a high, 12-percent growth of income was achieved. This proves that we have been successful in acquiring new business and expanding our offer of services. Of equal importance is the fact that we continued to develop the quality of our business processes and registered the growing satisfaction of our customers, as confirmed by the results of regular comparative analyses. Despite the losses generated in the management of the container terminal at Pier VII in the neighbouring Port of Trieste, the past year may be assessed as a step towards improving the existing conditions. We managed to acquire a controlling equity share and a strategic partner, both of which will considerably improve our operations already in this year.

Milestone: Marketing of Logistic Services

Besides improving our business results, we have also reached a milestone in the fulfillment of our strategic development goals. Luka Koper, d.d. is entering the year 2004 not only as a port system, but as a port and logistics system. This is not merely a declarative statement. We have completed our first and successful year of marketing logistic services. Our offer of logistic services confirms the Company's distinctly market- and customer-oriented business policy. We understand our logistic activities as the ability to organize our own and other links in the logistics chain. Our ultimate goal is to fully satisfy from a single location all our customers' needs relating to the transport of goods to a specific destination.

A Development Strategy ensuring a place among major south European ports

The Company's strong orientation towards the customer, coupled by the quality of our business processes, is today the source of our market opportunities. The attained results are therefore not accidental, but the result of the effective implementation of our development strategy in two key directions. Luka Koper, d.d. is thus developing into a port which operates as a distribution center, where customers select and purchase goods, and an organizer of logistic services qualified to deliver goods to their destination with advanced logistic support. The latter in particular calls for the strong interconnectedness of the entire logistics chain presently being developed by the Slovene Transport and Logistics Cluster. The connectedness and integration of all performers in the Cluster brings added value, which in turn has multiple influences on other economic branches.

The outlook is therefore promising, and the same may be said of global movements. The role of overseas traffic is increasing in trade flows between Europe and the Near and Far East. In stable political conditions we can expect the growing importance of the North Adriatic transport route, in which we play an active part. Following the modernization of infrastructural connections, we expect that the Company will also be more interesting for trade flows traveling to Central Europe via north European ports. The first estimates of foreign analysts, who predict great opportunities for the Company's inclusion among the leading south European ports, have strengthened our confidence.

Imperative: Advancement in the expansion of infrastructural facilities and links

The path to the full utilization of development opportunities leads through the modernization of infrastructural facilities and new external infrastructural links with Central European markets. This naturally calls for the elimination of certain bottlenecks. As regards the development of port infrastructure, our activities in the past year were focused on the construction of new facilities at Pier II. Awaiting us is the preparation of the third multimodal pier. Again this year we will allocate a significant portion of our investments, i.e. more than one tenth, to environmental solutions.

The initial relief brought by the decision to include the second railway track on the list of priority infrastructural links in 2003 is still not a sufficient cause for satisfaction. Investments in the expansion of railway facilities need to be accelerated, in particular preparatory works for the construction of the second railway track on the Koper-Divača line.

The year 2004: Growth of operating revenues

Awaiting us is yet another challenging year in which our most important goals include the growth of operating revenues and efficient cost control. In terms of operating revenues, we will attain a 15.6 percent share of profit from operations. The volume of cargo handled will remain on the attained record level. In the structure of goods, we shall move to a higher quality level of cargoes and increase the handling of containers and vehicles.

We are convinced that Luka Koper, d.d. will fulfill all the strategic goals embodied in its medium-term business plan for 2001-2005, and enter the next development period with the élan brought by new infrastructural connections.

The local environment: cooperating in development and seeking dialogue

Like all other port and logistic systems, Luka Koper, d.d. has a significant impact on the natural and social environment. We have always understood the responsibilities linked to this position as a search for balancing common interests. Such is our attitude towards the Company's move from the old town center, which we are prepared for, and our great support for the establishment and operation of the University of Primorska. In 2003, we participated in projects for the development of tourist infrastructure and the planning of a business zone in Koper. We are convinced that in our dialogues with the Municipality of Koper and the State, we can expect solutions that will bring "victory" to all parties involved.

The Stock market: high level of trust of investors

We share the confidence of our owners and investors in the long-term stability of Luka Koper, d.d.. In 2003 the LKPG share attained the highest growth value on the Ljubljana Stock Exchange. We believe this to be the consequence of transferring our capital to the stock market, and at the same time confirms the strong trust in the ability of Luka Koper, d.d. to take advantage of its growth opportunities in the new European market.

The attained business results will enable us to continue implementing the planned dividend policy and strengthening the assets of our owners. I thank our shareholders for their support, and commend my close co-workers and all employees of the Luka Koper Business Group and its partner companies for their successful work.



*Bruno Korelič
Chief Executive Officer*

Report of the Supervisory Board

In the 2003 business year, the Supervisory Board of Luka Koper, d.d. carried out the tasks set forth by applicable law and the Articles of Association of the Company. Its composition remained unchanged, and its activities were conducted in accordance with the Rules of Procedure for the Work of the Supervisory Board. The Municipal Council of the Municipality of Koper adopted a resolution on the replacement of the Municipality's representative in the Supervisory Board, Dino Pucer, by the Mayor of the Municipality of Koper, Boris Popovič. The Supervisory Board duly noted the proposal, which shall be decided by the General Meeting of Shareholders of the Company at a regular meeting scheduled in 2004.

On the basis of expert written materials and oral reports of the management team, the Supervisory Board of Luka Koper, d.d. was regularly and duly informed on the business performance of the Company and its subsidiaries. By means of comparative analyses of business and financial items, the Supervisory Board regularly monitored the implementation of the 2003 business plan adopted at its last regular meeting held at the end of 2002. Throughout the year, the Management Board regularly informed the Supervisory Board on issues involving the settlement of relations with the Republic of Slovenia and Municipality of the City of Koper, as well as the port's railway links with the mainland. The Supervisory Board assesses its cooperation with the Management Board as good and constructive.

At eight meetings convened in the 2003 business year, the Supervisory Board discussed and adopted several resolutions on the business operations of the Company, capital investments, the convening of General Meetings, and strategic links.

- At the end of February 2003 the Supervisory Board discussed and adopted the Company's Annual Report for the year 2002, which was reviewed by the independent auditors Deloitte & Touche revizija, d.o.o., and approved the proposed distribution of profit. The shareholders discussed the distribution of profit at a General Meeting held on 30 June 2003, and adopted the proposed distribution of profit for dividends, reserves and profit brought forward. On the basis of a counterproposal given by a shareholder - the Republic of Slovenia -, the General Meeting rejected the payment of remunerations to the members of the Supervisory Board. The General Meeting approved the work of the Management and the supervisory Board in the 2002 business year. The shareholders also adopted the amendments to the Articles of Association, which were brought in line with the provisions of the Commercial Companies Act, and decided to entrust the auditing of the 2003 Annual Report of Luka Koper, d.d. to the same auditors as in the year 2002.

- The Supervisory Board closely monitored activities in the areas of financial investments and investments in the Company's basic activities. The Supervisory Board approved the Company's strategic integration with the companies Autocommerce d.d. and

Intereuropa d.d. through the purchase of ownership shares, and assessed the operation of these companies to be consistent with the Company's development strategy and its implementation in the direction of expanding operations and developing logistic activities. The Supervisory Board also supported the decision on the transfer of information technology support to the IT company Actual I.T., d.o.o. and the purchase of a shareholding in this company.

The Supervisory Board approved the increase of the Company's capital investment in the company IEDC Poslovna šola Bled, d.o.o. and the Company's role as co-founder in a new company - Golf Istra, d.o.o..

- The Supervisory Board closely followed reports on the operations of T.I.C.T. S.p.a., which manages the container terminal in Trieste and in which Luka Koper, d.d. holds a 49-percent interest. The Supervisory Board expressed its support for the Management Board's endeavours for entering into new strategic partnerships enabling the development of business operations and the stable growth of the Company. It also supported the agreement with the Italian company T.O. Delta S.p.a., and beforehand gave its consent to the purchase of shares held by the remaining two shareholders in T.I.C.T. S.p.a., to the entry of a new partner in the Company, and to the sale of the Company's 30-percent shareholding to T.O. Delta S.p.a..

- In the area of investments in basic activities, the Supervisory Board discussed and approved two large projects. It supported the modernization and final (also external) arrangement of the Coal & Iron Ore Terminal and the construction of an intermodal terminal at Pier III, for which the Company is yet to acquire a concession from the State.

- The 2004 business plan was discussed at the Supervisory Board's last meeting in 2003. The Supervisory Board is aware of the facts relating to Slovenia's accession to EU, which will open new development opportunities for the Company and at the same time bring strong competitive pressures from EU ports. For this reason, the plans set for 2004 do not foresee any immediate, major changes in the Company's operations, but have preserved the volume of operations recorded in 2003 and foresee an improved cargo structure.

The Supervisory Board discussed the audited unconsolidated and consolidated Annual Report for the year 2003 at a regular meeting held on 26 th February 2004. It established that the Annual Report had been compiled in accordance with applicable legal regulations, that it presents the actual state of assets and financial position of the Company, and adequately explains all relevant business events affecting the Company's operation. The Supervisory Board assesses the business operation of Luka Koper, d.d. in 2003 as successful. On the basis of a resolution adopted by the General Meeting, the Company's business

operation was reviewed by the auditors of Deloitte & Touche revizija, d.o.o., who expressed a positive opinion on the Annual Report. The Supervisory Board discussed the Independent Auditor's Report and approved it without comment. The Supervisory Board approved the 2003 Annual Report of Luka Koper, d.d. without any reservations.

The Supervisory Board approved the Management Board's proposal for the allocation of distributable net profit for the 2003 financial year in the amount of SIT 5,495,856,894.37. The Supervisory Board proposes to the General Meeting that SIT 2,201,096,151.14 be allocated to the shareholders and SIT 1,800,000,000.00 to other reserves, while the allocation of SIT 1,494,760,743.23 shall be decided in subsequent business years. The Supervisory Board also supported the proposal that the gross dividend per ordinary share for 2003 amount to SIT 245.

The Supervisory Board has unanimously established that the Management Board successfully managed the Company's business operations in the year 2003, and commends the Management Board on its achievements. The Management Board fulfilled the set goals

and realized the interests of the Company and its shareholders. The Supervisory Board also extends its commendations to all employees, who contributed to the Company's successful operation through their work, knowledge, experience and loyalty. The Supervisory Board has no doubt that Luka Koper, d.d. and its Management will respond favourably to the challenges that the status of an EU port will bring to our port. We are convinced that Luka Koper, d.d. will know how to take advantage of the opportunities being opened by this status for the successful operation and development of the Company.



Miha Kozinc
Chairman of the Supervisory Board

Corporate Governance

Luka Koper, d.d. is managed in accordance with the Commercial Companies Act as the fundamental legal act regulating this field in the Republic of Slovenia, and in accordance with the Articles of Association of Luka Koper, d.d.

The Company has a proper system for the management of the business group, allowing us to realize our development orientations, business policy and goals. All activities of the business group are included in the system. The principles of management of the business group are embodied in the Quality Manual. The Management Board of the Company regularly reviews the effectiveness of the management system on the basis of periodical reports presented at meetings of the Quality Assurance Council. It compares the planned and achieved goals and determines the necessary measures for improving the system, processes and services. The review of the system includes the business plan objectives, strategy implementation, human resources development, partnerships and sources, and the improvement of processes.

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, its 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.

Other Senior Management of the Company

- Deputy Chief Executive Officer

In the Chief Executive Officer's absence, the Company is represented by his Deputy. The Deputy Chief Executive Officer is proposed by the Chief Executive Officer and approved by the Supervisory Board. **Vitomir Mavrič**, B.S.C.E. was appointed Deputy Chief Executive Officer in 2001.

Mr. Mavrič is responsible for the fields of investments and purchasing, technical control, electronics, port infrastructure, health and environmental protection.

- Assistants to the Chief Executive Officer
The Chief Executive Officer selects and appoints his Management team, who are employees with special authorizations and responsibilities in the Company.

Management team of the Chief Executive Officer:

Marjan Babič, M.S.Econ., Economics and finance

Gordan Ban, B.S.Econ., Container logistics

Ernest Gortan, B.S.E.E., Marketing and Logistics

Metka Sušec Praček, M.Org.S., Human resources development, organization and quality.

- Directors of Profit Centres

The Directors of Profit Centres (PC) manage the business operations of individual terminals and are appointed by the Chief Executive Officer.

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.T.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 Cargoes Terminal

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

Bojan Tomišič, B.S.Tr., Director of PC Liquid Cargoes Terminal

Branko Vodopija, Mech.Eng., Director of PC Coal & Iron Ore Terminal

- **Branko Mahne**, B.S., Member, Representative of the Republic of Slovenia

- **Aldo Babič**, B.S.Econ., Member, Representative of the Republic of Slovenia

- **Tomaž Može**, B.S.Econ., Member, Representative of the Republic of Slovenia

- **Dino Pucer**, B.S.Econ., Member, Representative of the Municipality of the City of Koper

- **Karmen Dietner**, B.S.Econ., Member, Representative of the Funds of the Republic of Slovenia

- **Robert Jerman**, B.S.Mar.Tr., Member, Representative of employees

- **Alverino Pavletič**, B.S.Tr., Member, Representative of employees.

In accordance with Article 21 of the Articles of Association of the Company, the Supervisory Board has a quorum if at least half of its members are present during decision-making. A resolution of the Supervisory Board is validly adopted with a majority of votes cast. In the event of a tied vote, the vote of the Chairman is decisive.

In addition to the powers granted to the Supervisory Board by the Commercial Companies Act, Article 22 of the Company's Articles of Association grants the Supervisory Board the power to approve those transactions concluded by the Management Board whose value exceeds 5% 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.

The Supervisory Board regulates its work in the Rules of Procedure for the Work of the Supervisory Board of Luka Koper, d.d., adopted in 1996.

The Supervisory Board

The Supervisory Board of Luka Koper, d.d. is comprised of 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 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. The current Supervisory Board was elected at the 5th General Meeting held on 3rd July 2000 and its term of office expires on 26 July 2004.

The Supervisory Board of Luka Koper, d.d. has the following members:

- **Miha Kozinc**, LL.B., Chairman, Representative of small shareholders
- **Tatjana Jazbec**, B.S.Econ., Deputy Chairman, Representative of employees

General Meeting of Shareholders

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

The holders of all classes of shares and their representatives as well as the members of the Supervisory and Management Boards are entitled to attend 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 specified in the Articles of Association of the Company.



Ernest Gortan
Marketing and
Logistics

Vitimir Mavrič
Deputy Chief
Executive Officer

Bruno Korelič
Chief Executive
Officer

Gordan Ban
Container
Logistics

Marjan Babič
Economics and
Finance

Metka Sušec Praček
Human Resources
Development, Organization
and Quality

The Company's History

Luka Koper, d.d. is a joint stock company. It was established in 1957, upon the establishment of the Port of Koper on 23rd May. A year and a half later, the first transoceanic ship was moored on the first 135 metres of operational shore.

This was followed by the construction of new moorings as well as infrastructure and warehouses in the mainland area.

Operations increased rapidly from year to year, and the Company's activities expanded outside local and state borders. The share of services performed for partners from transit markets increased. Luka Koper, d.d. received its present name in 1960.

In 1967 we completed the construction of a railway line to Kozina, in which the Company was an investor, thus linking the port with the European railway network. This opened up new development opportunities and cargo operations increased, surpassing a million tons in 1968.

This was followed by a period of intensive investments resulting in the construction of Piers I and II, new warehouses, and the purchase

of new equipment and modern technology. In 1989 more than 5 million tons of goods were loaded onto and unloaded from vessels. This was followed by a period of political and economic changes. Slovenia attained its independence. The previous operations with former Yugoslav republics were gradually replaced by Central European markets.

After completing the ownership transformation process in 1996, the Company was entered in the court register as a joint stock company. In the same year, the Company's share bearing the LKPG symbol was included in the official listing of the Ljubljana Stock Exchange.

On its 40th anniversary, the Company was awarded the ISO9001 quality certificate in recognition of the high quality of rendered services, which was followed three years later by the ISO 14001 environmental certificate. In 2003, the total volume of cargo handled by the Company exceeded the number of 11 million tons.

Significant Events in 2003

JANUARY

- Awards were granted by the Company to the best suppliers in 2002.
- A Polish delegation headed by Deputy Prime Minister, Marek Pol, visited the Company.

FEBRUARY

- The South Korean shipping company, Hanjin Shipping, included Luka Koper, d.d. in its regular container service line to the port of Gioia Tauro and from there to the U.S. and the Middle and Far East.
- The Company opened a correspondent representative office in Tel Aviv.
- The joint management of Container Terminals in Koper and Trieste was introduced.
- The project for the reorganization of the Coal & Iron Ore Terminal was presented to the local public.
- The Company acquired a 9.49 percent ownership share in the Autocommerce, d.d. company.
- At the Portorož symposium on the modernization of railways in

Central Europe, the Chief Executive Officer's presentation enhanced the revival of activities by the Slovene authorities for the implementation of the project involving the construction of the second railway track on the Koper-Divača line.

MARCH

- The temporary shutdown of the single-track railway line near Rižana due to urgent maintenance works caused operational problems, which were made known to the public.
- A Dutch delegation visited the Company to discuss the strategic possibilities of cooperation with the Port of Rotterdam.

APRIL

- The Company attended a business conference in Belgrade together with six members of GIZ TLG (Transport and Logistic Cluster).
- Luka Koper, d.d. became a member of the European Sea Port Organisation (ESPO).
- The Company signed an agreement on the financing of the University of Primorska.
- The Company acquired a new bridge crane for coal & iron ore.

- A Ukraine delegation of government officials and economists visited the Company.

MAY

- A new shipping line for the transport of general cargoes to Syria began to operate.
- A business meeting was held with Austrian partners in Vienna.
- The Company presented its activities at the transport-logistics fair in Munich within the scope of GIZ TLG (Business Association of Interest Transport and Logistics Cluster).
- Luka Koper, d.d.'s internal newspaper, "Luški glasnik" (Port Bulletin) was awarded the Golden Quill by the Working Group of Journalists in Companies and Institutions.

JUNE

- The Company was visited by a group of economists from Indonesia and Lower Austria.

JULY

- The construction of a new group of railway tracks at Pier II was completed.
- The construction of a new shore at the Coal & Iron Ore Terminal was begun.
- The Company was visited by the participants of the meeting of the Managing Committee of Corridor X, the British Traffic Minister and the Minister of Transportation from Montenegro.
- The Company acquired a 26-percent ownership stake in the information technology company, Actual I.T., d.o.o. .
- A study on the Koper-Trieste railway link was presented to the public.

SEPTEMBER

- An initiative for the project entitled "Development of the Koper Business Zone" was presented to the Ministry of Economic Affairs.
- The Company was visited by the Governor General of the Austrian federal state of Salzburg.
- The Israeli shipping company ZIM reestablished a weekly container line to the Far East.
- The Company's representatives attended the logistics fair in Brno together with other members of GIZ TLG.
- The Company's representatives attended a local problem conference on spatial planning and environmental issues.
- The Company's Port Bulletin was named the 4th best internal newspaper, and the 2002 Annual Report of Luka Koper, d.d. was ranked in 5th place by the European Association of Editors and Journalists of Internal Newspapers.

OCTOBER

- The company AdriaFin, d.o.o., in which Luka Koper, d.d. has a 39-percent shareholding, was registered.
- Representatives of the Company attended a meeting of the

International Association of Coal & Iron Ore Terminals in Cork.


- The Government of the Republic of Slovenia adopted a decree on the sale of its 26-percent shareholding in Luka Koper, d.d. in the next two years.
- Representatives of the Company attended a business conference in Egypt within the scope of GIZ TLG (Transport and Logistics Cluster) and the Coaltrans 2003 fair in Vienna, where they presented our Coal & Iron Ore Terminal.
- The Company was visited by the Albanian Deputy Minister of Transport and a group of economists from Tanzania.
- The Company's representatives attended the first environmental conference ECOPORTS in Barcelona.

NOVEMBER

- The Company became a member of the Hungarian Logistics Association (HLA).
- The shipping companies Lloyd Triestino, Evergreen and CMA-CMG established in Koper a direct container service on the Adriatic
- Asia - Adriatic route.

DECEMBER

- The second railway track was included in the list of EU infrastructural links within the scope of the sea motorways project.
- Together with the Municipality of Koper, the Chamber of Economics and the Istrabenz company, the Company established a consortium for a marine passenger terminal.
- On December 4th, the LKPG share attained its highest value with the uniform price of SIT 7,703.57.
- The Company acquired a 13.63-percent equity stake in the company Intereuropa, d.d., Koper.
- On the last day of the year, the Company's cargo volume exceeded for the first time the figure of 11 million tons.



Bojan Cerovac,
Warehouse Supervisor, PC General Cargoes

"If you receive the right instructions from the Shift Manager and convey them properly to workers handling cargo, each task is easily performed. Because we get along well and have good relations with forwarders, our work runs smoothly."



KA KUPEI
OF KOR

BUSINESS REPORT



Development Strategy

Mission, Vision, Values

To adapt to the needs of customers, Luka Koper, d.d. expanded its activities in 2003 to include port and logistic services. The first includes the handling and warehousing of goods, which is complemented by a number of related services. Within the scope of our logistics system, we provide our customers with integrated logistic services, as well as commercial and financial support. We develop and maintain port infrastructure and manage the economic zone and our associated companies.

Our Mission

Being situated on the shortest route to the heart of Europe and providing integrated logistic services, we offer our partners from Slovenia and our hinterland countries the easiest way to establish overseas business connections and trade flows.

Our Vision

Luka Koper will become the main logistics and distribution centre for the countries of Central Europe.

Our Values

The future development and orientations of the Company are based on the following key values:

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

It is on these values that we are building our corporate culture, which is a guide for each employee. These values also guide the Company in the selection of new staff, and represent a starting point for training the successors of the Management and officers of the Company.

Goals of the Development Strategy

"The Development Strategy of Luka Koper, d.d. up to the Year 2010" is a long-term strategic document orienting the Company's development towards the following goals:

- recognition of the Luka Koper Group as a well known and valuable supplier of integrated logistic services,
- developing the Port of Koper into a modern port system and distribution centre,
- establishing strategic links with European partners and merging with Slovene companies,
- ensuring the long-term stability and profitability of operations,
- establishing effective logistic and information connections with our business partners.

The Year 2003: Two key directions

The Company is currently implementing its business strategy in two key directions:

- we are developing into a modern port system, and
- a goods distribution and logistics centre.

In 2003, we implemented the planned business strategy through the following key business moves:

- We increased the volume of handled cargo and revenues and attained record growth.
- We began to market logistic services.
- We further developed one of the basic advantages of the Port of Koper, i.e. the possibilities of spatial expansion. We invested intensively in the expansion and modernization of facilities at Pier II.
- We began to manage jointly the Container Terminals in Koper and Trieste, and acquired a strategic development partner - T.O. Delta, S.p.a..
- We transferred our information activities to a company specializing in information technology, Actual I.T., d.o.o., and became its co-owner.

The Year 2004: In the family of European ports

Slovenia's full membership in the European Union represents a turning point in the development of our port and our activities, as the status of a European port will increase our competitiveness and place us on an equal footing with EU ports.

The EU transport policy foresees the strengthening of the role of ports in the development of a clean, safe and efficient European transportation system. This calls for the enlargement of capacities, the efficiency of ports and port services, and intermodal connections with land transport networks. The constant growth in quality and productivity is also dictated by trends towards the reduction of transport costs in the total price of goods.

We expect that the position of our port will strengthen with the gradual development of new or improved infrastructural connections with the hinterland, particularly after the construction of a second railway track on the Koper-Divača line, whose completion is scheduled in 2012.

Plans for 2004:

- We will gradually increase the cargo volume and the scope of port and logistic services.
- The cargo volume will exceed 11 million tons.
- We will attain a major shift in the cargo structure by increasing the share of containers and vehicles.
- We shall invest approximately SIT 4.1 billion in the modernization and enlargement of port capacities.
- We will begin the construction of a multimodal terminal at Pier III, whose completion is scheduled in 2008.
- We shall implement the principles of business excellence in all areas.
- By further developing our existing activities and acquiring new businesses transactions, we shall increase operating revenues to SIT 15.75 billion, which will represent an 8.6 percent increase in comparison with 2003.
- We shall attain SIT 23.1 of net profit per 100 units of operating revenues.
- Profit from regular activities will represent a 15.65 % share of sales revenues.
- The added value per employee will reach SIT 14.95 million.
- We shall generate a total profit of SIT 4 billion.
- Return on assets will amount to 5.5 percent and return on equity to 6.5 percent.
- We will continue to intensively develop an integral offer of logistic services for our business partners.
- We shall make the necessary adjustments and take the best advantage of all opportunities offered by Slovenia's accession to the European Union.

We shall contribute to the fulfillment of our goals through the systematic management of financial resources as well as financial and other business risks. We shall verify the attainment of set goals according to the European model of business excellence.

Macroeconomic Environment

The European Union: Awaiting Change

In 2003, economic movements in Europe were marked by weaker economic activity than expected. In the opinion of analysts, this was primarily due to the slowdown of economic activities in the Euro area and the delayed change in the conjunctural cycle of the most developed world economies.

European forecasters have predicted that more dynamic conjunctural shifts cannot be expected until the second half of 2004. According to the forecasts of IMF and other international institutions, an increasing number of factors point in favour of the recovery of the European economy, as risks in the global environment are lower, the trust of consumers is growing, and monetary and fiscal frameworks are adapting to the current economic situation. In the upcoming year, economic growth is also expected to rise by 2% in Austria and Italy, which are our largest foreign markets.

Despite unfavourable economic movements in 2003, we managed to increase the volume of handled cargo for our most important markets in existing and future EU member states, which is why we can expect positive results in our activities given the forecasted revitalization of the European economy in 2004.

Forecasts on the Revitalization of the World Economy

In the autumn of 2003, the international economic environment took an upward turn in response to the forecasted revitalization of the American economy. IMF predicts a 5.5 percent growth of international trade in real terms, and 4.1 percent economic growth in real terms. In line with forecasts, economic growth strengthened in the U.S. after the end of the war in Iraq, primarily on account of increased spendings and increased demand on the domestic market. In the opinion of analysts, the recovery of the American economy will continue in 2004. High growth rates ranging from 4 to around 7 percent are expected on Asian markets, primarily due to the dynamic development in China, as well as the strengthening of India's economy. The long-awaited recovery of the Japanese economy was even slightly above expectations in 2003, and experts predict a 2-percent growth in 2004.

Conjunctural trends around the world, particularly livelier trade flows, are expected to increase demand for transport and logistic services, which may strengthen business operations at Luka Koper, d.d..

More Dynamic Import and Export Trade Flows in Slovenia

Based on estimates of trends in demand and economic growth in

Slovenia in 2003 and 2004, analysts predict stable economic growth in the future. According to UMAR, Slovenia's economic growth in 2003 reached 2.6 percent, and is expected to attain 3.6 percent in 2004. The sluggish economic growth in EU countries in 2003 also affected the slowdown in exports. Due to the renewed economic growth of Slovenia's most important trade partners, forecasters predict major shifts upwards in the import and export of goods and services in 2004.

Owing to its sound anti-inflation policy and coordinated action with the Bank of Slovenia in 2003, the Government of the Republic of Slovenia managed to reduce inflation to 4.6 percent, resulting in a decrease of interest rates. This trend is expected to continue in 2004, and a 3.6 percent inflation rate is predicted. According to expectations, domestic demand will again be boosted by investments.

In our opinion, the forecasted economic trends will have a favourable effect on the Company's activities.

Analysis of Business Performance

Results of Luka Koper, d.d.

Net profit in 2003 amounted to SIT 3.88 million, which represents a 13.5 percent decrease from the same period last year, when the achieved amount of net profit was conditioned mainly by the sale of an ownership stake in Bank Koper d.d.. No material disposals of investments were recorded in 2003. The Company managed to increase its operating profit, which amounted to SIT 1.98 billion, due the increase in sales revenues as well as the fact that the operating loss from the prior year was the consequence of impairment of fixed assets.

Revenue and Expense Structure

In 2003, Luka Koper's operating revenues amounted to SIT 14.5 billion, which is 2 percent more than the planned figure and 11.9 percent more than the amount realised in 2002.

Growth in revenues was mainly affected by an increase in revenues from the sale of services on foreign and domestic markets. The Company recorded a 10 percent increase in revenues on foreign markets, where we realized four fifths of the total revenue amount. Revenues on the domestic market increased by 7 percent.

The operating results were also affected by movements in the foreign exchange rates of the US dollar and the Euro. More than 82 percent of the Company's revenues are realized in these two currencies. The Company successfully followed movements in exchange rates, and the structure of operating revenues was successfully adapted towards an increased share in revenues denominated in Euros. During the past year, European currency appreciated by 2.8 percent versus the tolar, while the value of the US dollar decreased by 13.7 percent against the tolar.

Total financial revenues amounted to less than one third of the amount realised in 2002 mainly with the sale of equity shares. One third of the total revenues represents interest revenues, while the highest increase was recorded in revenues from dividends and other shares. Financial expenses remained at the previous year's level. The highest

share is represented by the revaluatory financial expense item. Financial revenues and expenses are presented in detail in continuation, under subsection Financing activity and extraordinary items.

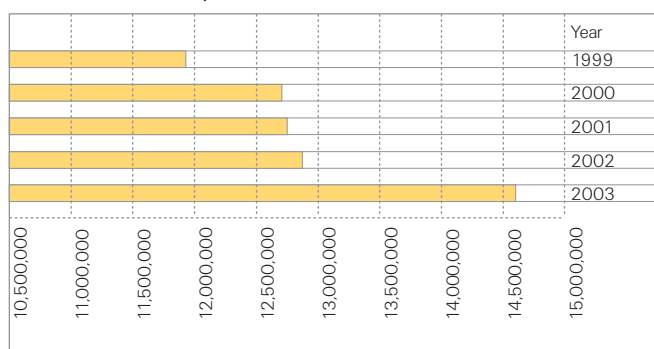
Operating Costs

Operating costs decreased by 32 percent in comparison with 2002. However, significantly higher costs in 2002 were also the consequence of revaluatory operating expenses of tangible fixed assets. If we exclude this item, then operating costs increased by 7.9 percent in 2003.

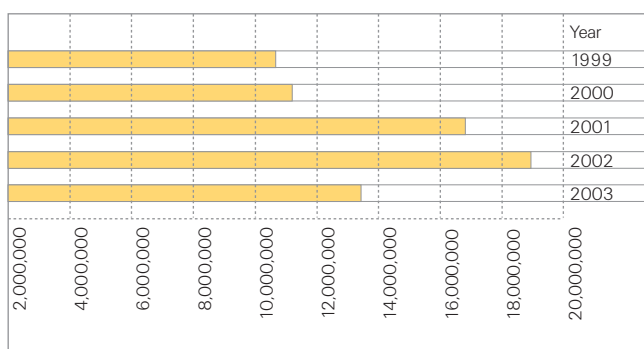
Already mentioned increase in expenses was caused by poorer performance in some of the profit centers in 2002, which consequently caused poorer utilization of fixed assets. Their carrying value was significantly higher than their value in use or their recoverable value. As a result, the Company revalued these assets in accordance with the Slovene Accounting Standards. The Company lowered asset procurement values and allowances in the balance sheet by SIT 6.9 billion and at the same time increased revaluatory operating expenses of tangible fixed assets in the income statement.

In 2001 the Company increased the depreciation expense by SIT 5.3 billion due to the reconciliation of the current (carrying) value of warehouses for general cargo, conditioned warehouses for fruits, reservoirs, silos and railway infrastructure to their estimated fair values.

Growth of operating revenues in the period from 1999-2003, in thousands of SIT



Operating costs for the period from 1999 to 2003, in thousands of SIT



Operating costs for the period from 1999 to 2003, in thousands of SIT

	1999	2000	2001	2002	2003	INDEX 2003/02
OPERATING COSTS	9,654,918	10,098,415	16,264,742	18,491,520	12,524,421	68
COSTS OF GOODS AND MATERIALS SOLD	24,635	16,242	1,590	398	366	92
COSTS OF MATERIAL	601,300	639,653	670,126	716,735	756,308	106
COSTS OF SERVICES	3,628,255	3,550,437	3,803,393	3,917,804	4,254,434	109
ALLOWANCES	2,340,471	2,703,286	7,944,041	9,529,795	2,222,654	23
DEPRECIATION	2,217,997	2,503,589	7,895,388	2,603,703	2,171,191	83
REVALUATORY OPERATING EXPENSES	122,474	199,697	48,653	6,926,092	51,464	1
LONG-TERM PROVISIONS	100,000		200,000			
LABOUR COSTS	2,683,368	2,969,133	3,323,939	3,837,083	4,290,421	112
OTHER COSTS	276,890	219,663	321,653	489,705	1,000,238	204

Costs of Material

Costs of material increased by 6 percent in comparison with previous year. They represent a 6 percent share in the overall operating costs structure. Electricity costs increased by 6 percent in comparison to 2002 and reflect a 15% increase in the consumption of electricity, mainly due to the larger scope of operations.

The fuel consumption cost amounted to SIT 234 million and is 17 percent higher in comparison to the previous year. This increase was caused by the 16 percent increase in fuel consumption (1.84 million litres) versus 2002. The higher fuel consumption coincides with the increase in the physical volume of handled cargo, which recorded a 17 percent growth in the past year. Returned excise fuel tax amounted to SIT 24 million in 2003.

In 2003, the Company consumed 131.4 thousand cubic meters of water (5 percent increase compared to the previous year). One half of the water consumed was sold to ships and other users in the commercial zone.

Costs of Services

Costs of services increased by 9 percent in comparison to 2002 and amounted to SIT 4.25 billion. Labour costs of contractors and mechanic services increased by 32 percent in 2003, which is the consequence of increased volumes of handled cargo and the Company's policy to effect a decrease in the overtime work of employees by hiring external workers.

In 2003, the Company paid SIT 184 million in rent costs in accordance with the lease agreement for operational shores and land owned by the Republic of Slovenia in the Port of Koper (SIT 20 per ton of handled cargo without petroleum products).

Training costs amounted to SIT 56.5 million, which represents a 9.5 percent decrease from the year before.

The Company allocated SIT 67.7 million for sponsorships in 2003, which is 2 percent less than the previous year.

As of 1st August 2003, Luka Koper transferred the entire development and maintenance of IT support to the Company Actual I.T., d.o.o., which also hired all the employees from its IT department and purchased most of its IT fixed assets. As of August 2003, all IT support costs are recorded under Costs of other services.

Depreciation and Revaluatory Operating Expenses

The disclosed depreciation amounted to SIT 2.17 billion, which represents a 17 percent decline in comparison to 2002. Lower depreciation in 2003 is the consequence of the revaluation of fixed assets in 2002.

Labour Costs

Labour costs increased by 12 percent in 2003 and amounted to SIT 4.29 billion. The value of a point increased by 5.26 percent in 2003. The total number of employees increased from 630 to 647. The increased labour demand in 2003 called for the employment of specific operational workers for the performance of port activities.

The planned employment and engagement of employees in part-time studies contributed to the increased educational level of human resources in 2003.

The average gross salary in Luka Koper amounted to SIT 386 thousand or 12 percent more in comparison to 2002. The average gross salary of Luka Koper for the period from January to December 2003 was 46 percent higher than the average gross salary in the Republic of Slovenia. The Company paid SIT 128 million for supplementary pension insurance.

Other Costs

Other costs amounted to SIT 1 billion in 2003 and are 104 percent higher than in 2002. The compensation paid for the use of building land amounted to SIT 377.7 million, which represents a 41 percent increase versus 2002. The other part of increase was caused by the payment of turnover tax based on the tax audit for the years 1996 and 1997 and the difference in the VAT payment according to the Decree issued for the year 1999 (SIT 465 million).

The Company allocated SIT 18.4 in donations (43 percent less than in 2002). In 2003, the Company's environmental protection expenses increased by 32 percent and equaled SIT 31.5 million. Environmental protection expenses include water compensations and water consumption fees (SIT 19.6 million), and cleaning of the technological shaft of the purifying plant and oil catcher in the Liquid Cargoes Terminal, etc.

Financing Activity and Extraordinary Items

The fundamental goals of the financial policy in 2003 were oriented towards rational management of financial assets, assurance of the most favourable payment capability and, most of all, the assurance of optimal liquidity, profitability and security of investments.

Financing activities in the past year had no material effects on the increase of profit as in 2002, since revenues from financing activities decreased from SIT 10.1 billion to SIT 1.9 billion. The effects of the sale of equity shares in Banka Koper, d.d. and Lek, d.d. are included in the calculation for the year 2002.

Total financial revenues amounted to SIT 3.1 billion in 2003. The highest share of the total financial revenues was contributed to the interest revenues item. Interest revenues decreased in 2003 due to the declining nominal interest rates on the market and due to the change in the structure of investments, characterised by the decrease in funds invested in deposits and loans.

Revenues from dividends and other shares amounted to SIT 557 million in 2003 and have increased 3.6 times in comparison to 2002. The increase is mainly the consequence of revenues from dividends and revenues from ownership shares in Banka Koper and the Finor company. In comparison to 2002, revenues from the revaluation of liabilities and receivables for value preservation increased 2.7 times,

Operating revenues and costs according to their functional groups (in thousands of SIT)

	2002	2003	STR. IN %	INDEX 03/02
OPERATING REVENUES	12,533,348	13,707,674	100	109
COSTS OF GOODS AND MATERIALS SOLD	-398	-366	-0	92
PRODUCTION COSTS	-6,929,207	-7,409,716	-54	107
Costs of material	-526,294	-554,756	-4	105
Costs of services	-2,283,185	-2,826,232	-21	124
Depreciation	-1,691,485	-1,255,087	-9	74
Labour costs	-2,428,243	-2,773,641	-20	114
GROSS PROFIT FROM SALES	5,603,742	6,297,592	46	112
COSTS OF SALES	-493,792	-442,543	-3	90
Costs of material	-5,736	-5,569	-0	97
Costs of services	-291,095	-235,084	-2	81
Depreciation	-11,203	-11,196	-0	100
Labour costs	-121,273	-128,715	-1	106
Other costs	-64,485	-61,980	-0	96
GENERAL AND ADMINISTRATIVE SERVICES COSTS	-11,068,123	-4,671,797	-34	42
Costs of material	-184,705	-195,983	-1	106
Costs of services	-1,343,524	-1,193,118	-9	89
Allowances	-7,827,106	-956,371	-7	12
Depreciation	-901,014	-904,908	-7	100
Revaluatory operating expenses	-6,884,476	-4,210	-0	0
Revaluatory operating expenses of operating current assets	-41,616	-47,254	-0	114
Labour costs	-1,287,567	-1,388,065	-10	108
Other costs	-425,220	-938,258	-7	221
OTHER OPERATING REVENUES	434,096	797,831	6	184
OPERATING PROFIT	-5,524,077	1,981,083	14	-

since the value of liabilities denominated in US dollars decreased. Financial expenses increased by 1 percent and were equal to SIT 1.16 billion at the end of 2003. The largest portion of financial expenses represented revaluatory financial expense items (in the amount of SIT 542 million), which are the consequence of the revaluation of long-term and short-term investments due to impairment. Among other financial expenses, the largest portion was realised with bonuses paid for portfolio and asset management. Interest expenses decreased in comparison with 2002 due to lower nominal interest rates.

Review of financial items in 2003 in thousands of SIT

	2002	2003	STR. IN %	INDEX 03/02
FINANCIAL REVENUES	11,321,462	3,105,920	160	27
INTEREST REVENUES	1,965,381	1,110,875	57	57
REVENUES FROM DIVIDENDS AND SHARES IN PROFITS OF ASSOCIATED COMPANIES	153,182	557,469	29	364
REVENUES FROM REVALUATIONS OF RECEIVABLES FOR PRESERVING VALUE	260,633	717,617	37	275
REVENUES FROM LOANS GRANTED	9,191	6,123	0	67
GAINS ON SALES OF INVESTMENTS	8,909,558	655,635	34	7
OTHER FINANCIAL REVENUES	23,517	24,108	1	103
REVALUATORY FINANCIAL REVENUES FROM REVALUATION	0	34,094	2	0
FINANCIAL EXPENSES	1,146,847	1,159,531	60	101
INTEREST EXPENSES	206,056	192,189	10	93
EXPENSES FROM REVALUATION OF DEBTS FOR VALUE PRESERVATION	360,311	386,299	20	107
OTHER FINANCIAL EXPENSES	102,697	38,716	2	38
REVALUATORY FINANCIAL EXPENSES FROM IMPAIRMENT	477,783	542,328	28	114
PROFIT FROM FINANCING	10,174,615	1,946,389	100	19

Extraordinary expenses amounted to SIT 39 million in 2003, and mainly included damages paid to various clients.

Extraordinary revenues in the amount of SIT 181 million decreased by 19 percent in comparison to the previous year. The most important items under extraordinary expenses are damages received for warehouse maintenance and the crane on the Coal & Iron Ore Terminal in the total amount of SIT 137 million.

Review of extraordinary items in 2003 in thousands of SIT

	2002	2003	STR. IN %	INDEX 03/02
EXTRAORDINARY REVENUES	224,311	181,344	128	81
SUBSIDIES AND GRANTS AND SIMILAR REVENUES	6,553	10,088	7	154
BAD DEBTS RECOVERED	76,969	14,187	10	18
RECEIVED COMPENSATIONS	85,376	138,218	97	162
OTHER EXTRAORDINARY ITEMS	55,414	18,851	13	34
EXTRAORDINARY EXPENSES	48,491	39,293	28	81
MONETARY PENALTIES	220	300	0	136
COMPENSATIONS	48,249	38,988	27	81
OTHER EXTRAORDINARY ITEMS	21	5	0	22
EXTRAORDINARY PROFIT OR LOSS	175,821	142,051	100	81

Asset and Liability Structure

The majority of assets represent fixed assets and long-term investments. Asset composition exhibits their mostly long-term nature, which is also confirmed with the two ratios, long-term financing ratio and fixed assets to total assets ratio. The latter exhibits the share of fixed assets in total assets; its lower value in the past three years is the consequence of depreciation of fixed assets.

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 a 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. Short-term solvency ratios exhibit 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	1999	2000	2001	2002	2003	INDEX 2003/02
Equity financing rate	0.91	0.91	0.86	0.90	0.84	93
Long-term financing rate	0.93	0.93	0.88	0.93	0.85	92
Operating fixed assets to assets rate	0.75	0.73	0.58	0.46	0.45	99
Long-term assets rate	0.82	0.83	0.75	0.80	0.86	108
Equity to operating fixed assets	1.21	1.25	1.49	1.95	1.84	95
Acid test ratio	1.36	1.21	1.56	1.83	0.51	28
Quick ratio	2.21	2.23	1.93	2.63	0.91	35
Current ratio	2.23	2.25	1.93	2.63	0.92	35

Basic Operating Ratios

Revenue Profitability

The net profit margin (net profit/operating revenues) shows that per every SIT 100 of sales, the Company realised SIT 26.8 of net profit. The Company recorded a 23 percent decrease in operating revenues in comparison with 2002. The main reasons for such decrease are lower financial revenues in comparison with the previous year, when the sales of equity shares in Banka Koper, d.d. and Lek, d.d. were realized.

A significant increase was recorded in the net profit to total revenues ratio (net profit/total revenues). The ratio was equal to 21.8 and represents a 19 percent increase compared to 2002. Such an improvement is mainly the consequence of the growth of operating revenues in 2003 and the significantly higher revaluation expenses recorded in 2002.

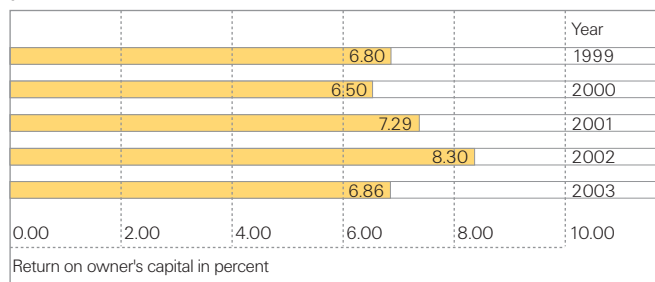
Return on Equity

The net return on equity ratio and the return on owner's capital ratio disclose lower values than in the previous two years. The main reason for such decrease are the lower financial revenues recorded in 2003 in comparison with 2002 and 2001. Return on owner's capital (net profit/average balance of owner's capital) amounted to 6.9 percent in 2003.

Change of revenues profitability and return on equity

Ratio/Year	1999	2000	2001	2002	2003	INDEX 2003/02
Net profit margin (in%)	22.3	22.8	28.3	34.7	26.8	77
Net profit to total revenues (in%)	19.7	19.2	16.8	18.3	21.8	119
Net return on equity	0.058	0.067	0.076	0.087	0.071	82
Dividend to basic equity capital	0.084	0.094	0.199	0.121	0.143	118
Return of owner's capital (in%)	6.8	6.5	7.3	8.3	6.9	83

Movements in return on owner's capital in the period from 1999 to 2003



Operating Efficiency

The operating efficiency ratio (operating revenues/operating expenses) was equal to 1.16 in 2003, which represents a 4-percent increase over the 2002 figure. The total efficiency ratio (revenues/costs) was 1.3, which also represents a 4-percent increase in comparison with the previous year. Operating efficiency improved in 2003 as the result of increased revenues and efforts directed towards improving cost controls. In 2003, the Company realised 13.029 million SIT of added value per employee, which represents a 5 percent increase in comparison with 2002.

Efficiency and added value per employee

Ratio/Year	1999	2000	2001	2002	2003	INDEX 2003/02
Operating efficiency	1.25	1.28	1.18	1.12	1.16	104
Total efficiency ratio	1.25	1.27	1.23	1.25	1.30	104
Added value per employee (in thousands of SIT)	12,494	13,679	13,121	12,449	13,029	105

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

Risk Management

In conducting its business operations, the Company is exposed to various business and financial risks, which we are effectively controlling with an active and integral approach.

Business Risks

Although our activities strongly depend on macroeconomic, institutional and infrastructural factors, we have assessed that our 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:

- **Slovenia's accession to EU**, which will make our Company an equal competitor to other European ports and enable us to make easier use of the competitive advantages offered by our geographic position.
- Our new activity - **offering integrated logistic solutions**, which will allow us to manage an increasingly larger part of the logistic chain. This will prevent high dependence on other members of the chain.
- **Increased competitiveness of land transport providers**, which will give our customers greater possibilities for selecting a transporter. This element will gain importance after the opening of the railway operator market and the arrival of foreign service providers.
- **Our presence at both container terminals in Koper and Trieste**, which ensures undisturbed operation of this most rapidly growing terminal activity.
- **Development of partner relations with our customers**, which will increase their loyalty and ensure the continuation of existing business.
- The structure of cargoes according to markets and types reveals a satisfactory **geographic diversification of markets and a diversity of cargoes**, which reduces the risks related to economic and political conditions in individual markets.
- **The quality of services** strongly affects the acquisition and preservation of customers. Quality is improved by encouraging innovative activities and project collaboration with other providers in the chain, research-analytical monitoring, and measuring the level of services.
- **State investments in infrastructure**, such as the 2004

construction of motorways with direct links to the port and the final confirmation of the construction of a second railway track between Koper and Divača, will bring positive results.

Financial Risks

The main risks encountered in the area of financial risks are liquidity, currency and credit risks.

- **Liquidity risks** are managed by the regular monitoring of cash flows and by managing liabilities and receivable maturities. The absence of liquidity problems is confirmed in the credit rating report of the I, d.o.o. credit rating company, which operates by authorization of the Dun & Bradstreet company. For its payment discipline, Luka Koper was awarded the highest possible mark by the above-mentioned credit rating company - the Payment Key 80.
- The exposure of cash flow to **currency risks** is reduced primarily by the use of internal security techniques, which have proven to be most adequate. The negative effects of changing values of foreign currency receivables are managed by establishing liabilities in the same underlying currencies. This allows us to protect the fair value of balance sheet items. We continued our systematic switch to the Euro, which significantly reduced our exposure to currency risks.
- **Changes in interest rates** do not represent a risk factor, as both the structure of our sources of funds and the credit rating of our Company enable us to obtain funding under the most favourable terms.
- **Credit risk** is managed through an active approach to the conclusion of financial agreements and adequate instruments for credit security.
- **The risk of nonfulfilment by contracting parties** is reduced by actively monitoring the credit rating reports of our customers. One of our practices includes executions of our business transactions through agents, so that the Company has very few direct contacts with buyers around the world.

Investment Policy

On the last day of 2003, long-term financial investments continued to be predominant in the structure of financial investments, representing 40 percent of all assets. In comparison with the previous year, long-term financial investments increased by 33 percent, primarily due to the purchase of shareholdings in Banka Koper, d.d., Intereuropa, d.d., and in Autocommerce, d.d..

On 31 December 2003, long-term deposits amounted to SIT 4.2 billion and were SIT 4 billion below the 2002 figure.

Short-term financial investments amounted to SIT 5 billion and were SIT 2.8 billion below the 2002 figure. VAT returns amounted to SIT 1.030 billion in 2003, which is 17 percent above the previous year's figure.

In 2003, the Company continued to implement an intensive and development-oriented investment policy aimed at technological modernization in all areas of business. In the past year, SIT 4.932 billion was allocated for the renovation of existing capacities and the modernization of equipment and devices for the handling and warehousing of goods.

The most extensive investments were made at the Dry Bulk Cargoes Terminal. A new gantry worth SIT 1.23 billion was put into operation, and construction was begun on the extension of the shore, for which SIT 557 million was allocated.

A significant part of investments included the construction of additional handling and warehouse capacities as well as road and railway links at Pier II. We completed the construction of a road bridge across the Rižana River, a new group of railway tracks, as well as water supply, electric power and telecommunications infrastructure.

Our major investments in 2003 were:

- SIT 1.154 billion for the purchase of equipment for the handling and transport of goods,
- SIT 532 million for other construction facilities,
- SIT 652 million for other equipment and improvements in working conditions,
- SIT 459 million for the construction of additional infrastructure at Pier II.

Plans

In 2004, the funds intended for investment activities will be increased by almost 10%. SIT 4.145 billion will primarily be employed for the additional construction and completion of handling and warehouse capacities at terminals. SIT 464 million or 11 percent of this amount will be used for environment-related investments, which is one percent more than in 2003.

The structure of investments will be as follows:

- 55 percent will be used for devices for the handling and transport of goods,
- 29 percent will be employed for construction facilities,
- 16 percent will be used for equipment for the Company's core activities, and other investments.

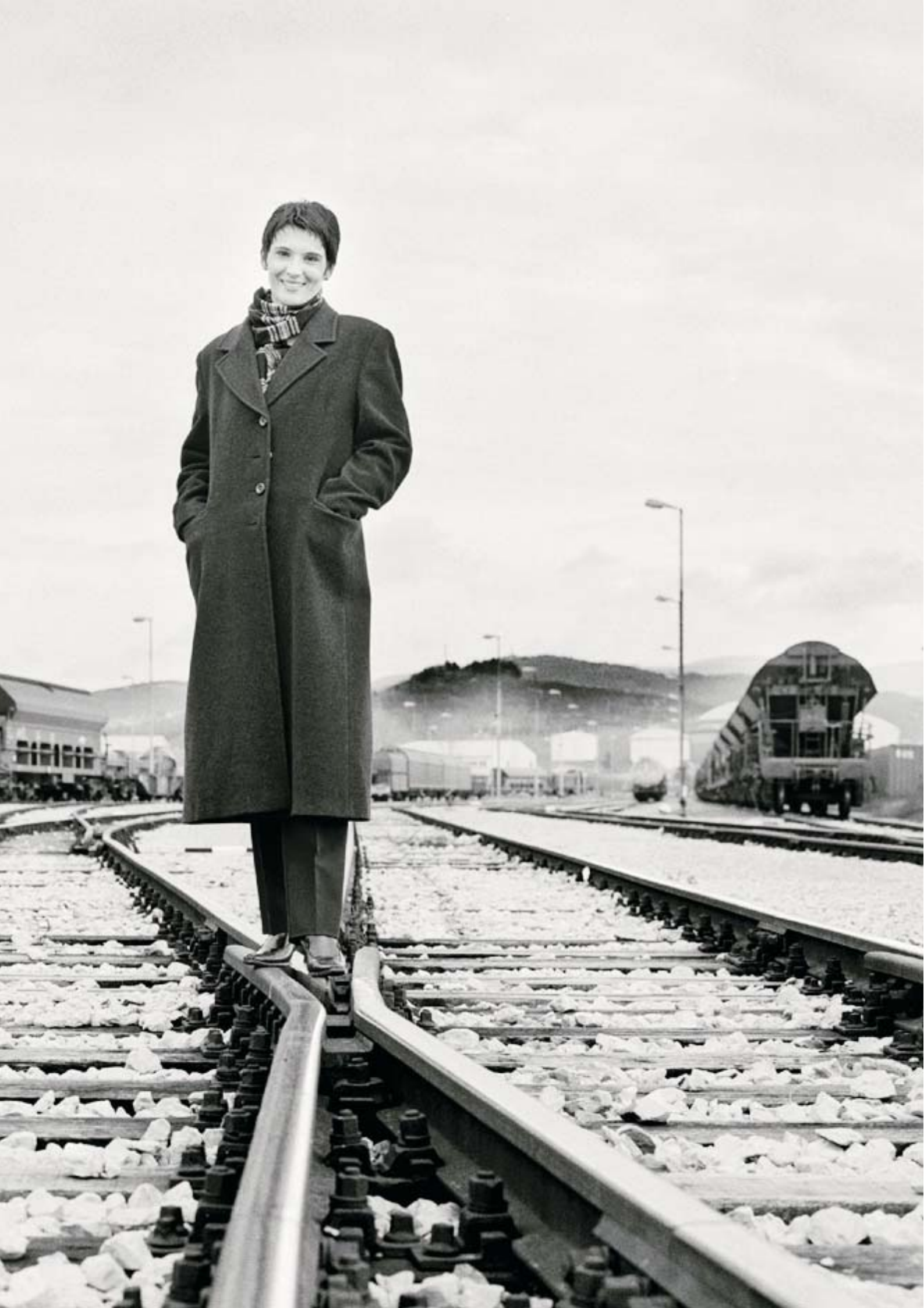
Additional investments in the value of SIT 2.109 billion (from other financing sources) are also foreseen in 2004. These include:

- SIT 710 million for the construction of substitute facilities due to the construction of the northern bypass,
- SIT 590 million for the purchase of land plots from the Municipality of Koper,
- SIT 589 million for the first phase of construction of Pier III,
- SIT 160 million for other infrastructure of Luka Koper,
- SIT 60 million for infrastructure on long-term lease.



Karin Kleva,
Sales Executive

"I advise customers on how to find the right shipping lines, how to organize cargo transports and who to contact at our port. It's not enough to be friendly, one has to know how to listen to partners."



Marketing and Customers

Marketing Strategy

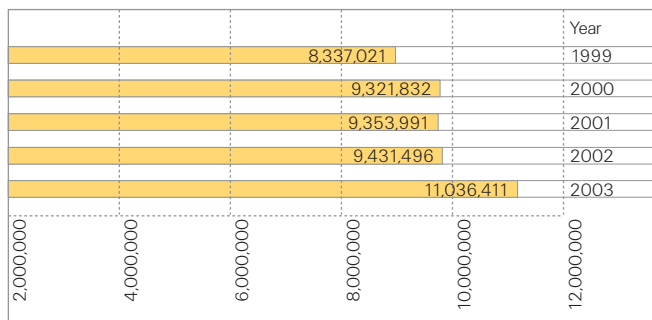
Our marketing strategy is based on the belief that successful sales depend directly on the satisfaction of our customers. We bear this in mind during each evaluation of our business decisions, and strive to develop professional relations with our business partners. The needs of our users are regularly verified in market surveys, which are then taken into account in creating our offer. In line with our business strategy, we are complementing our basic port services with auxiliary services and establishing an effective logistic system.

Slovenia's entry in the EU will accelerate the implementation of our marketing strategy, and further growth will be ensured by improving our cargo structure, strengthening our offer of services, and by selling integral logistic services.

Steady Growth of the Maritime Throughput

Owing to the increasing effectiveness of our market activities, the

Growth of ship cargoes in the period from 1999-2003 (in tons)



volume of our maritime throughput has been growing steadily over the years. In 2003, we achieved a record volume of 11 million tons, surpassing the planned cargo volume by 10 percent. The largest contributions to the record cargo volume were made by the Coal & Iron Ore Terminal (42 percent share), the Dry Bulk Cargoes Terminal (almost 12 percent share), and the General Cargoes Terminal (8 percent share).

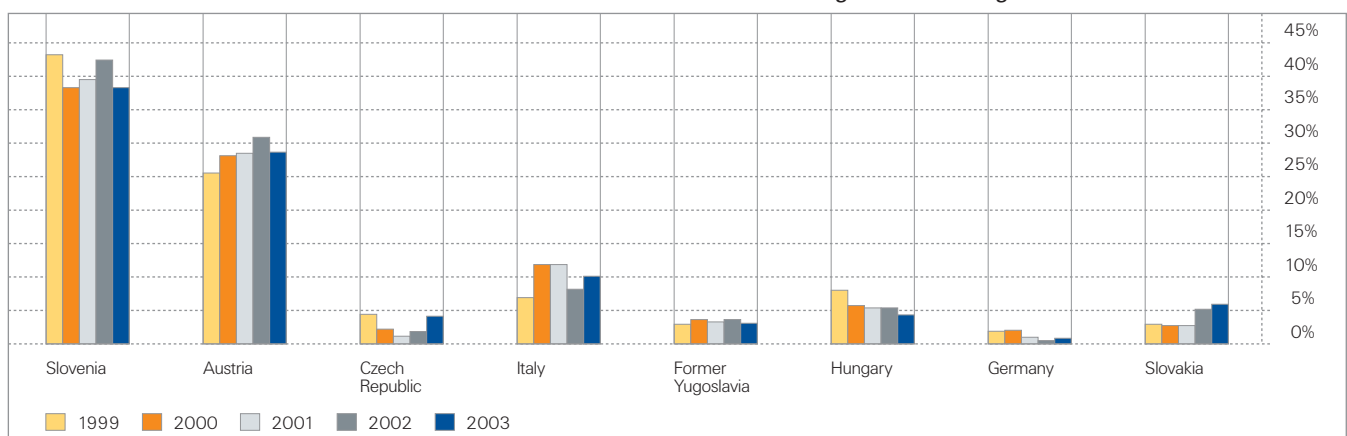
In 2003, Luka Koper handled 17 percent more goods than in the previous year and registered the highest growth of cargo volumes in the past five years. The planned cargo volumes were surpassed in all areas in 2003. The highest increase (27%) was registered in the group of general cargoes, followed by liquid cargoes (21 percent), vehicles (28 percent), alumina (10 percent) and bulk cargoes (11 percent).

Maritime Throughput by Types and Markets

The shares of individual types of cargoes are similar to those of previous periods: dry bulk cargoes account for slightly more than half, liquid cargoes account for approximately one fifth, followed by containers and general cargoes with slightly over ten percent. In the past five years the shares of general cargoes and containers have been on the rise, primarily as the consequence of world trends in transport and logistics.

A good third of the cargo handled in the past year was performed for the domestic market. In first place among foreign markets is Austria with approx. a 25% share, followed by Italy with almost a 10% share. The share of cargoes bound for the Czech and Slovak markets has been growing from year to year, and a significant share is represented by the handling of goods arriving at and leaving the port by ship (transshipment). In future, we expect a decrease in cargoes for the Slovene market and an increase in the share of goods in transit. In the past year, Luka Koper, d.d. managed to significantly increase

Share of cargoes according to markets



its cargo volumes on most markets, and forecasts for the upcoming period are even more favourable. This may largely be attributed to the new opportunities being brought by the expansion of the EU and the potentials of markets in the former Yugoslavia, whose development so far has been minimal.

Scope of Business Operation with respect to Means of Transport

The intensity of the Company's operations and market activities are also measured by the quantity of transport means on which the goods arrive at or depart from the port. Ships transport on average more cargo each year, and this trend is growing rapidly. We loaded and unloaded 1,814 ships, which is almost 5 percent more than in 2002. More handled cargo also means more trucks or wagons. Approximately 65 percent of the goods is being transported by rail, which indicates a favourable structure of transport means. This figure strongly exceeds the EU average, which is approx. 15 percent, in spite of endeavours to redirect goods from roads to more environment-friendly forms of transport.

In the past year, 13.7 percent more wagons travelled through our port than in the previous year. Around 60 percent of the wagons are loaded, which is the consequence of the growing volume of imported goods. The ratio between loaded and unloaded wagons has remained relatively constant over the years.

Containers

In the area of container handling, Luka Koper is keeping pace with, or even surpassing, world trends. In the past year, more than 126,000 TEUs were handled in Koper, which represents a 10 percent increase over the previous year, while the world average is from 6 to 8 percent. At the end of the year, the Company cooperated with more than thirty container shipping companies, with which we are developing quality relations. This is because the high quality level of their services contributes to our increased competitiveness. Ordinary, refrigerated, open/top and other special containers travel through our port. The Company's most important acquisitions in 2003 include the establishment of a direct weekly shipping line for the Far East, the circular lines of three shipping companies with a weekly connection between the Northern Adriatic and the Far East, an increased number of small shipowners through a broad network of feeder connections, and the continued growth of container cargoes in cargo operations with Hungary, the Czech Republic, Slovakia, Croatia, Bosnia & Herzegovina, and Serbia & Montenegro.

General Cargoes

The Company continued to increase the volume of general cargoes, which comprise all types of itemized goods handled at timber, fruit, livestock and general cargoes terminals. The volume of general cargoes in 2003 increased by 10 percent, exceeding the planned figure by more than ten percent.

Increased volumes have been recorded by most groups of goods. The highest increase (20 percent) was registered with general cargoes. We transported steel products, rails, pipes, sections and cellulose, exceeding the planned volume by more than 25 percent. Vegetable and fruit cargoes also increased and amounted to 50,000 tons, which represents a 5 percent increase. Due to administrative restrictions, the livestock terminal is not operating at full pace. Although we managed to attain a 6-percent increase, 1,600 tons of handled livestock is still a low figure. A 10-percent decrease was registered in timber cargoes, whose volume amounted to slightly over 350,000 tons. This was due primarily to the declining rate of the dollar in relation to the euro, which has affected the sales of timber merchants.

Vehicles

The volume of cars handled in the past year increased by as much as 58 percent in comparison with 2002. More than 190,000 vehicles were transported through our port. Following a three-year period of decreasing volumes, the evident revival of traffic has been boosted primarily by increasing car cargoes, while Ro-Ro operations have remained practically on the same level. Luka Koper increased its existing business for Daewoo, Kia, Hyundai, the Volkswagen Group, Mitsubishi and Toyota, and entered into new deals with Ford, Toyota, Suzuki and Fiat.

Slovenia's entry into EU will facilitate business operations in this segment, which represents an important strategic advantage for our Company. A 10% increase in vehicle cargoes is planned in 2004.

Liquid Cargoes

In past years, the volumes of liquid cargoes, which comprise chemicals, oils and petroleum products, have remained on the same level. This is due primarily to the handling of petroleum products, which are generally intended for the Slovene market and arrive at our port in the same annual quantities.

The cargoes handled at the remaining specialized terminals primarily include chemicals, phosphoric acid and vegetable oil. Due to the nature of these cargoes and the changing conditions in this sector, such operations often bring a high degree of risk in ensuring their continuity. In 2003, operations with the above-mentioned liquid cargoes increased by 20 percent in comparison with the previous

year. This growth was influenced by the acquisition of a new partner trading in fuel oil, and promises significant volumes and reliable cooperation in future as well.

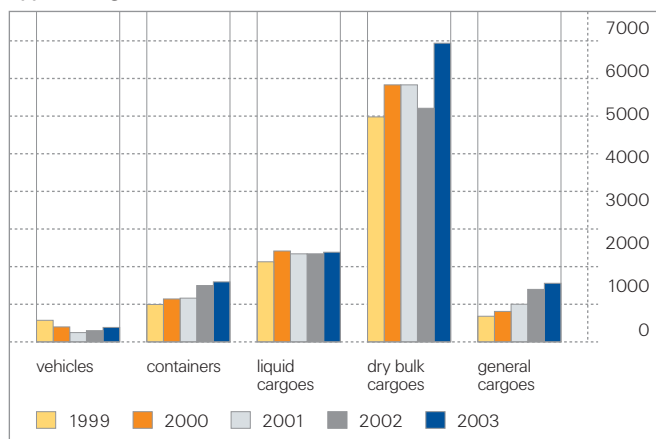
Dry Bulk Cargoes

The cargo volumes in this group, which comprises coal, iron ore, alumina, various minerals, cereals, feeds and similar goods, were high above expectations, exceeding initial plans by 13 percent and the previous year's figure by 27 percent.

Despite the forecasted poorer harvest, the handled cereal volumes contributed the most to the high growth, both as regards imports and exports. Significant additional volumes were registered for soybeans, scrap iron and clinker. Operations in the cereal silo increased by more than 150 percent in comparison with 2002, which is almost 40 percent more than planned. The handled alumina volume was also ten percent above the plan.

The volumes of handled iron ore and coal exceeded those of the previous year by almost 25 percent, and were 11 percent above the plan. The overall volumes of handled dry bulk cargoes thus rose to 4.5 million tons. These increases may be attributed to poor navigability of the Danube River due to low water levels, which is why certain iron ore traffics were redirected to the Port of Koper.

Total Structure of the Maritime Throughput per types of goods (in thousands of tons)



Business Excellence

At Luka Koper, d.d. we operate according to the system of integral management, which serves as a tool for attaining the business excellence of the Company. We are continuously improving our business processes and the quality of our services, and adapting to the needs of business partners. We are committed to ensuring the satisfaction of shareholders, buyers, employees and the local community. We aim at fully mastering business processes by employing highly qualified and motivated workers.

Two years ago, Luka Koper, d.d. received the Business Excellence Award of the Republic of Slovenia, which further binds us to develop new approaches and implement good operating practices. We regularly monitor and assess the implementation of set goals and the development of integral management. The results prove we are successfully fulfilling the set plans.

ISO 9001:2000 Quality Certificate for the Parent Company and Subsidiaries

In June, the Slovene Quality Institute conducted, on the level of the parent company, a certification audit of the quality management system according to the requirements of the ISO 9001:2000 standard. The results of the audit show that our operations are fully in line with this international standard. Efficiency and performance indicators are reviewed on a monthly basis by quality teams, and strategic indicators are additionally reviewed by the Quality Council.

In 2003, the subsidiary Luka Koper Pristan, d.o.o. acquired its first ISO 9001:2000 quality certificate for its performance in the provision of hotel and accommodation services. Another subsidiary, Luka Koper INPO, d.o.o., successfully passed an external quality audit last year after receiving a quality certificate the year before.

Integration of Management System

By integrating various management systems in our subsidiary companies and within the scope of individual business areas, we have established a uniform and efficient management system based on the ISO 9001, ISO 14001, HACCP and ISO 17799 standards. Easier expansion of positive practices, more integral support of the management system for business goals, optimisation of human resources responsible for system management, and the implementation of good operating practices are only some of the advantages of this approach. The specific features of our subsidiary companies are preserved within the group system, allowing for its recognizability in each job position and ensuring the inclusion of all employees in our joint endeavours.

HACCP Food Control System

For the purpose of additionally improving the quality of our services in the handling and warehousing of foodstuffs and complying with

legal provisions, the Company established in the past year a HACCP internal control system for the Luka Koper Group and integrated it into the existing management system.

This is a comprehensive system enabling control of the entire process of handling and warehousing a specific food product and establishing constant supervision in those areas of food sales where health risks may arise. The HACCP system provides for the timely detection and elimination of defects in the process and ensures the greater safety of foodstuffs for consumers.

Plans

- The greatest challenge for the Management of Luke Koper, d.d. is to adapt its operations to the European model of business excellence applicable for large companies. Convinced that our place is among the best companies in Europe, we intend to compete for the European Business Excellence Award.
- In 2004, we shall continue with the certification of subsidiary companies.
- We shall verify the conformity of implemented elements of the health and safety at work assurance system with the requirements of the OHSAS 18001 standard.
- Good operating practices will continue to be introduced both within and outside the Company.

A Buyer-oriented Approach

Research and Development of New Services

We are developing new services while observing the strategic and development orientations of the Company and identifying the needs of customers, cargoes and markets. We respond quickly and adapt to changes in demand, which is a rare quality among large infrastructural systems. In 2003, activities related to the development of services for the market were mostly conducted in the form of projects, which may be divided into two groups.

The first group comprises projects focused on responding to current market opportunities and upgrading existing operations.

We developed a new service at the liquid cargoes terminal involving significant quantities of fuel oil for the Austrian market, acquired new business deals involving cereal cargoes, defined our development possibilities for fruit cargo operations, and examined the possibilities of reviving activities at the livestock terminal, where increased competition is expected upon Slovenia's accession to EU. One of the most important results of acquiring new container and conventional links is the introduction of new feeders.

In 2004, we intend to strengthen Ro-Ro operations with the introduction of a new maritime connection to Turkey, and to continue stimulating regular, reliable and cost-effective land connections, particularly railway connections. Attention will intensively be focused

on markets, which currently have the greatest potential for cooperation, such as Turkey, former Yugoslavia, Italy, Indonesia, China and Egypt.

The second group is represented by projects based on outlined development orientations and modern business trends. In the past year, the Company focused intensively on integrated logistics and control of the transportation chain, and presented its new activities to customers. We examined the possibilities of cost and logistic improvements in railway operations in the port area and devoted our attention to the further development of distribution and related activities. Our orientations are also supported by the project involving the joint management, development and marketing of container terminals in Koper and Trieste, with which we are establishing a strong competitive container system in the northern Adriatic. In 2004, the Company will continue preparations for entry in the EU and complete the construction of infrastructure required for BIP (Border Inspection Point) status.

Marketing and Promotional Activities

Luka Koper, d.d. places considerable emphasis on its recognizability and regularly ensures the adequate flow of information to customers. Although one third of our operations are performed on the domestic market, we give priority to promotional activities abroad. This is because the Company faces fierce competition on foreign markets. So far, the most effective promotional tools have proven to be direct presentations on target markets. In addition to independent visits to existing and potential business partners, we attended specialized fairs and symposiums, and presented our Company at transport and logistic fairs together with our partners in GIZ TLG (Transport and Logistic Cluster). We organized meetings with our business partners in Vienna and Budapest, as well as an annual informal meeting with business partners in Koper, which on this occasion took place amidst the sailing atmosphere of the Barcolana. We hosted numerous political and economic delegations and presented our capacities, services and plans, and discussed the possibilities of strengthening cooperation. Various promotional materials are all the more frequently provided in electronic form, which offers a quicker and more reliable path to target customers. Our website www.luka-kp.si is regularly updated, enabling customers all over the world quick and easy access to useful information. Last year, a Sailing List (ship schedule) and a pricelist of services were added to the existing information. Also accessible on our website is the "Notice" newspaper, which is sent by electronic mail to the addresses of more than eight hundred business partners. Our current promotional activities will be continued in 2004. Luka Koper, d.d. is co-organizer of a symposium of the International Association of Container Terminals and Shipping Companies to be held in April in Koper. The principal goal of the Association is to spread and simplify standards for the electronic exchange of information between terminals and shipping agents.

Operating as a Port and Logistic System

In 2003, the Company was reorganized into a port and logistic system in order to respond to the demands of the market. Customer inquiries about integral logistic support are increasingly more frequent. We have established a special logistic service. In addition to cargo handling and warehousing of goods, we operate as a supporting link in the organization of transports of specific cargoes, preparation of documents, customs clearance and other activities facilitating the transport of customers' goods through our port and saving them time and money.

Customer Satisfaction

The Company builds long-term partner relations with customers on the systematic verification of their satisfaction. In 2003, we conducted a survey among the owners of goods, local agents and forwarders, and shipping companies. The participants assessed their overall cooperation with the Company with the mark "very good", thus confirming the Company's high ratings in previous years. More than half of those questioned indicated that the main reason for selecting Luka Koper, d.d. as their business partner was, in first place, the quality of services, followed by the adequacy of warehouse capacities. They also attributed considerable importance to the Company's reliable and quick performance and its competitive prices.

Our successful endeavours for the high quality of services is also evident in the share of complaints per number of issued invoices, which amounted to 0.28 percent and was 25% below the anticipated figure. The same applies for the share of paid damages per total cargo volume, which remained within the planned limits throughout the year.

Evaluation of Suppliers

In relations with suppliers, the Company strives to develop partner relations, which enhance the transfer of knowledge among participants in the supply chain. In the long term we wish to cooperate with the most qualified suppliers ensuring the highest quality of products and services. For this reason they are regularly evaluated by the Company with respect to the fulfilment of our demands and criteria.

On this occasion, 63 strategically significant suppliers of products, technical services, port services and suppliers for investments were evaluated. Suppliers' marks have been growing since our first evaluation in 1997. Suppliers were informed in writing on the results of the evaluation, and in this way received feedback information on their work and possibilities for improvement. A survey was also conducted among suppliers, allowing the Company to acquire their opinions, proposals and comments. The survey will be analysed in the current year.

The best suppliers in 2003 were: Merkur Kranj, d. d. - for products and investments, Varmig Koper, d.o.o. - for technical services, and M.D. SKIP Koper, d.o.o. for port services.

A Growing Number of Innovations

In 2003, we introduced a new scheme for stimulating, collecting and rewarding proposals for improvements. Independent work groups were formed in all organizational units for the purpose of enhancing innovations. These work groups examine individual proposals for improvements and then approve or reject them. This has enabled us to introduce improvements more efficiently and shorten the reward-granting procedure. The Innovations Committee examines only those proposals in which economic added value is calculated.

In the past year, employees submitted a total of 213 improvement proposals, which represents 3 proposals per 10 employees. The number of proposals was 12 percent higher than in 2002.

In 2003, the improvements introduced in the plant for the binding and cutting of wood packages helped to reduce labour costs, improvements in ship manipulations with tracks helped to increase safety and productivity, and improvements in the handling of pipes in bindings ensured greater safety during the loading of pipes onto ships and a higher quality of services. These are only some of the most important acquisitions.

In 2004, we expect to record at least 4 improvements per 10 employees.

Information Support

Information technology plays an important role in the strategic development orientations of the Company. It ensures the development and rationalization of business processes and provides high-quality, timely information to all levels of employees. By introducing and using optimal IT solutions, we enable the efficient operations of the entire group from the aspect of rationalizing costs, investments and maintenance.

An External Partner for Integral IT Support

In 2003, the Company entrusted the performance of integral IT support services for Luka Koper, d.d. and its subsidiaries to the company Actual I.T., d.o.o. from Koper. The Management of the Company based this decision on the fact that only those companies capable of establishing information links with users of services and offering a comprehensive range of Internet and other services as well as turnkey information and logistic solutions will be successful in our sector in future. An analysis of the possibilities of organizing information support in the entire Luka Koper Group has shown the advantages of such a solution. The key areas of cooperation include the planning and

performance of development activities, support for existing solutions, the safety of information and other information means, cooperation with users, insurance against business risks and method of supervision.

Increasing Use of IT in Operations

In 2003, we introduced the SAP system in the areas of personnel records and salaries. This has allowed us to simplify work procedures, reduce the time needed for calculating salaries, and ensure better data connections with other information solutions. We established a renewed electronic data exchange system between Luka Koper, d.d. and its business partners, thus enabling more flexible and easier connections.

The COSMOS software application used at the Trieste terminal is also being introduced at the Container Terminal in Koper. By unifying these two information systems, we hope to achieve 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. Authorizations and protocols for accessing data, documents and information systems were set out.

The satisfaction of users is periodically recorded and assessed according to the guidelines of the ISO 9126 software quality standard. Corrective measures are being implemented on the basis of results collected. We are ensuring an increasingly higher level of safety and reliability of data, upgrading equipment and optimising operations, providing advanced IT training, and introducing other improvements.

Plans

Our main activities in 2004 will include:

- the final transfer of the COSMOS application in order to ensure the effective support of operating procedures at the Container Terminal,
- the introduction of renewed information support in the areas of marketing and operations up to the testing phase,
- the standardization and unification of IT infrastructure,
- the implementation of a quality assurance and data integrity system for SAP,
- the introduction of balance sheets according to individual profit centres,
- the renewal of computer hardware at the Car Terminal.

Human Resources Management

The mission and goal of the Company's human resources and organizational activities is "to employ and develop the best staff and motivate them to realize the business vision of the Company". In 2003, we continued to work towards these goals by intensively implementing

activities and introducing improvements. In addition to considering the needs of employees and the demands of the external environment, our human resources and organizational activities were focused primarily on the following:

- harmonizing human resources and organizational activities and procedures with the new legislation,
- ensuring the rational and flexible organization of work and working hours of employees,
- improving the overview of employee qualifications and organizing the required education and training programmes for employees on all levels,
- recruitment and rotation of staff in order to satisfy work requirements on the corporate level,
- ensuring integral IT support for effective management and decision-making,
- improving work discipline and observing the agreed rules during work performance,
- improving the performance of activities related to human resources management in the subsidiary companies of Luka Koper, d.d..

Staff Recruitment

At the end of 2003, Luka Koper, d.d. employed 647 workers, which is almost three percent more than in 2002. With the objective of ensuring an optimal staff structure, we hired 21 more new workers than in the previous year. Employment agreements were terminated with 45 employees, mostly for objective reasons - transfer of IT activities and retirement.

Increased operation in 2003 called for the recruitment of workers qualified

for the performance of port activities. Of the 62 new employees, 76 percent were employed in operational jobs, 19% in managerial positions, and 5 percent in professional positions.

The most important criteria in the selection of staff 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 the demands of the work process.

The education structure has improved. In 2003 there were 3 percent more employees with the sixth, seventh and eighth level of education, while the number of unqualified and semi-qualified workers fell by 7 percent in comparison with the previous year.

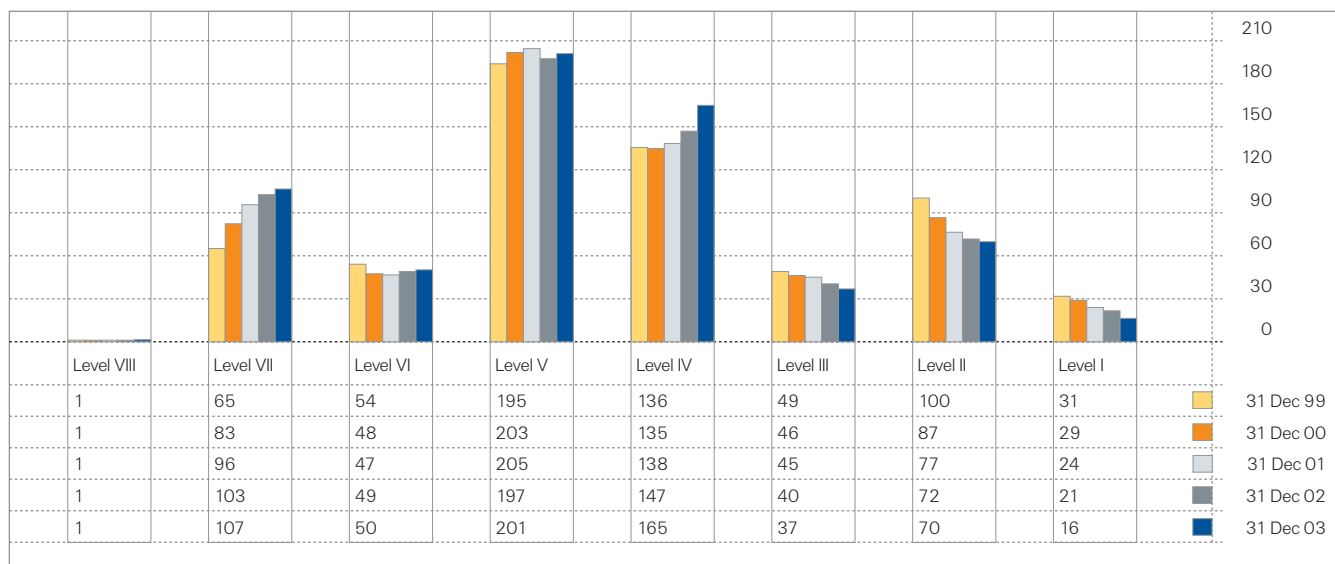
In comparison with the previous year, the average age and length of service decreased by one year. The average age of employees in 2003 was 41.5 years, while the average length of service was 19.8 years. By employing young, even inexperienced workers, we are attempting to slow down the natural aging process of the Company and provide for the inflow of new ideas and energy.

Organization of Work

Organization is the starting point of all human resources activities and is based on the rational and effective flow of the work process on all levels. To improve the Company's organization, we have introduced several changes and created new jobs in 9 organizational units of the Company. Two units have been closed down and IT activities entrusted to external service providers.

The activities performed by the Company call for the flexible organization of working hours. In 2003, we made some important shifts towards

Education structure of employees in the period from 1999 to 2003



achieving even greater flexibility while simultaneously observing the new legal provisions regulating working hours and employee rights to breaks and resting periods.

We have prepared instruction for rescheduling of working hours, ordering rests and shift work, overtime work, and for granting awards in the event of premature termination of work. We created new schedules for operational works, regularly monitored the shares of subcontracting agreements, compensational and total hours, overtime work, and annual leave, reported to the Management Board of the Company and proposed adequate measures. The amendments of the Employment Relations Act and the need for maximum flexibility of work led us to conclude new employment contracts with all operational staff at the beginning of 2003. Considerable efforts were devoted to discussing the implemented changes with our employees.

Staff Development: Training and Career Development of Employees

The planning and execution of staff development is conducted in line with the annual and long-term plans and objectives of the Company. The purpose of staff development is to ensure the required types and quality of staff. This is realized through education and training programmes, the acquisition of work experience and skills, and the motivation of employees.

- Each employee has his/her own development plan, which is created on the basis of annual interviews with managerial staff, as well as during the process of identifying and developing staff members who will take up managerial positions in the Company. No such employees were proposed in 2003, which was to be expected, since 35 employees had been identified as high-potential employees in the previous year.
- Each employee participates in development activities, which are realized through the education and training of employees, employee rotations to the same or similar jobs in other organizational units, and horizontal and vertical promotions of employees. In 2003, each employee participated in at least one form of education, and underwent on average 35 hours of functional training.

Although this is 5 percent less than in the previous year, the Company's approach to employee education was on a higher quality level and primarily involved active forms of educating small target groups of employees, training programmes and internal workshops. The most frequently used form of education was internal training. The employees of subsidiaries and suppliers of port services were also included in the Company's employee training programmes.

The satisfaction of employees with the education process continues to be above average, as is evident in the results of our annual survey and the average mark of 4.08. The effects of employee

training are visible in the high level of customer satisfaction, the small number of complaints, and the reduced number of work injuries.

Within the scope of career development, which includes rotations and vertical advancement of employees, we are increasing the mobility of our staff through oriented development activities. Staff mobility in 2003 was 42 percent higher than in the same period in the previous year. 18 employees were transferred to the same or similar jobs in other organizational units, and 42 employees concluded employment contracts for other, more demanding jobs.

Monitoring Work Performance and Remunerating Employees

Luka Koper, d.d. has established motivational elements for attaining good work results and the satisfaction of employees, and for stimulating the implementation of the Company's values. In addition to monitoring and granting awards for individual and collective work achievements, we are stimulating the acquisition and utilization of skills on the job through the horizontal promotion system (on-the-job advancement).

In 2003, 113 employees advanced to a higher level in their job position. We attribute this rapid rise in employee advancements to the increased awareness of unit managers, who realize that staff development is an important element of management and a precondition for the successful operation of a unit.

For several years now, the Company has rewarded exemplary workers. Upon the Company's anniversary in 2003, the Chief Executive Officer granted awards to and publicly commended the best manager, five model employees, the best innovator, and the best quality team.

Each Employee Contributes to the Company's Development

The Company's present business results and its future are created by all members of the Company. We are aware that we can only be successful if each employee devotes his best efforts.

"We are Luka Koper" is the title of a booklet prepared in its entirety by our employees and published in 2003. The booklet presents the development of our Company and our plans for the future, defines our values and explains how we strive to realize them on a daily basis. We take special pride in our presentation of services and profit centres, in which we have introduced ourselves to one another in an original, at times mischievous and occasionally serious way.

The preparation and publication of the booklet symbolizes the methods of work employed in the Company. Our line of work calls for mutually

connected and interconnected individuals and teams. Employees contribute to the development of the Company by participating in numerous projects, cooperating with quality teams, proposing improvements and innovations, and by attending various problem workshops where they search for and propose solutions to current problems.

Internal Communication and Management

We have established and are nurturing numerous paths and forms of informing and communication allowing us to keep our employees informed and to encourage open dialogue: our internal newspaper "Luški glasnik", brief news, notice boards, E-mail and Internet, brochures and pamphlets issued by the Company.

In first place, we emphasize management based on open dialogue. The members of our managerial staff serve as models to our employees. They have regular weekly working meetings with employees, conduct annual interviews, present the business results of their respective units and their plans for the upcoming year at annual informative workshops, and implement the open-door policy on a daily basis. In 2003, the Chief Executive Officer made regular annual rounds of our organizational units; he visited and talked to employees in the workplace.

The managerial staff is provided with detailed feedback information on their work by subordinate and superior workers and customers. At the beginning of the year we prepared and presented proposals for modification of the entire procedure of evaluation of managerial staff aimed at ensuring more detailed feedback information to managers.

SAP/HR Human Resources and Payment System

In 2003, we introduced the SAP information system for the management of staff processes, time management, and the calculation of salaries and other earnings. The system enables more rational work, provides more detailed information and enables high-quality, quicker decision-making in the above-mentioned areas.

Satisfaction of Employees

We have noted the increased satisfaction of employees with the organization of work, working conditions, training programmes, internal communications and management, career development and granting of awards. Employees have also demonstrated a strong allegiance to and identification with the Company (allegiance mark: 4.20). This trend of growing satisfaction is continuing. Yet the business results attained by Luka Koper, d.d. are the best indication of the effectiveness of our activities in the area of human resources management.

In 2003, we analysed, for the first time, the habits and satisfaction of employees with regard to meals in the canteens of Luka Koper, d.d..

Most of our employees do not have housing problems, greatly owing to the Company's intensive endeavours in past years to solve housing-related issues. In 2003, the Company helped to improve the housing conditions of 7 employees.

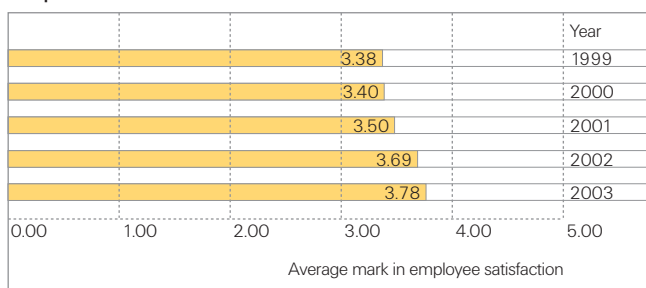
The Company also helped to improve the living conditions of employees on extended sick leave, and granted social assistance to 8 employees and 3 retirees.

Increasing Work Safety Culture

We are introducing a new view on work safety, which connects retention of operational capability with work satisfaction.

The Company pays increased attention to work safety related issues. We are finding out that our employees are becoming increasingly aware of the importance of safety at work. In the past year, we have achieved that our employees use personal safety equipment, which is regularly maintained, on a regular basis. We organised several lectures on work safety topic for our employees, which consequently caused an increase in work safety culture. We also strived for quality and safe work performance of our subcontractors, by enrolling their employees in our workshops and courses. Year after year, we are continuously decreasing the number of injuries. 10 injuries occurred last year, which is 10 percent less in comparison to 2002.

Average mark in employee satisfaction on the corporate level



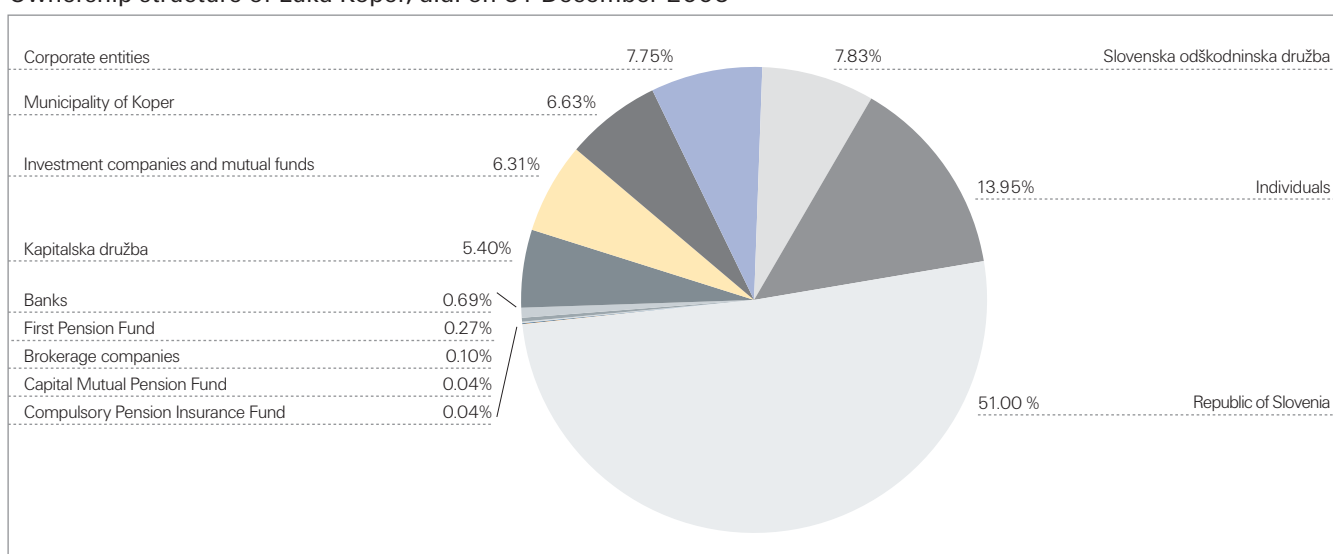
Satisfaction of Shareholders

Ownership Structure

The share capital of Luka Koper, d.d., is divided into 14,000,000 shares, of which 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 nominal value of preference and ordinary shares is 1,000 SIT each. The share of Luka Koper, d.d. was first listed on the Ljubljana Stock Exchange on 20 November 1996 under the LKPG symbol.

Ownership structure of Luka Koper, d.d. on 31 December 2003



Ten largest shareholders as at 31 December 2003

	No. of shares	Stake
Republic of Slovenia	7,140,000	51.00%
Slovenska odškodninska družba	1,096,319	7.83%
Municipality of Koper	928,480	6.63%
Kapitalaska družba	755,339	5.40%
Infond ID d.d.	333,831	2.38%
ID Krmečka Družba d.d.	172,858	1.23%
KD Investments Galileo MF	162,708	1.16%
Triglav steber I PID d.d.	128,525	0.92%
Zavarovalnica Triglav d.d.	105,311	0.75%
KD Investments Rastko MF	87,281	0.62%
10 largest shareholders - total	10,910,652	77.93%

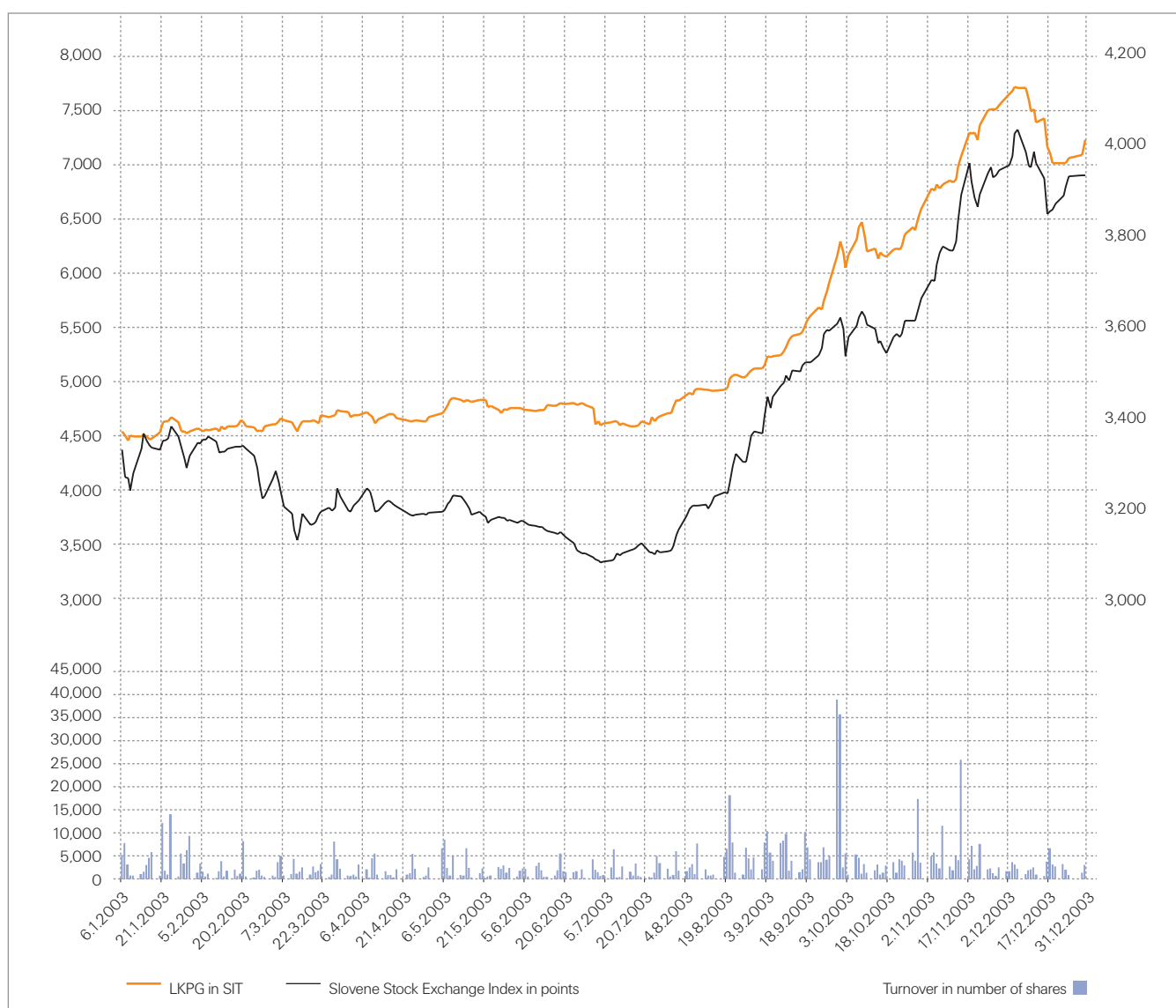
The ownership structure of Luka Koper, d.d. did not change substantially in 2003. The Republic of Slovenia remains the largest owner with a 51-percent share, while Slovenska odškodninska družba holds 7.83 percent of shares. The Municipality of Koper, Kapitalaska družba and ID Infond are among the major individual shareholders. The number of shareholders has been growing in past years. At the end of 2003, the Company had 8,505 shareholders, i.e. 8 percent more than in 2002.

On 31 December 2003, the Company's CEO, Bruno Korelič, owned 14,763 shares of Luka Koper, d.d.

The members of the Supervisory Board held the following numbers of shares:

Miha Kozinc 197, Tatjana Jazbec 1,435, Robert Jerman 704, Alverino Pavletič 3,167. Other members of the Supervisory Board have no shares in Luka Koper, d.d.

Price and trading volumes of LKPG share compared to the Slovene Stock Exchange Index in 2003.



LKPG Trading

In the past year, a total of 4,425 transactions were carried out with the LKPG share. In these transactions, the owners of 808,840 shares, i.e. 11 percent of all ordinary shares listed, changed. The year 2003 was a very positive year for the LKPG share, whose value rose 60.25 percent from the beginning of the year and placing it among the top regular shares traded on the Ljubljana Stock Exchange in terms of return on investment. Its uniform price on the first day of trading in 2003 was SIT

4,503.91, and on the last day of trading SIT 7,217.57. Transactions were carried out primarily by investment companies, mutual funds and individuals. The share's average price in 2003 amounted to SIT 5,290.79 and increased 24 percent over 2002, when it was SIT 4,267.84. The peak price achieved in transactions was SIT 7,745.00, while the bottom price was SIT 4,400.00. The trading volume amounted to SIT 4.465 billion and fell by 23 percent in comparison with 2002.

Selected data on the LKPG share in the past five years

	1999	2000	2001	2002	2003
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	3,110.19	3,001.70	3,245.90	4,594.11	7,217.57
Average book value of a share	2,728.00	3,088.00	3,477.00	3,867.96	3,899.45
Net earnings per share (EPS)	191.60	207.20	259.90	321.00	277.53
Price-earnings ratio per share (P/E)	16.80	14.40	11.70	13.30	19.06
Price-book value ratio per share	1.18	0.96	0.86	1.10	1.36
Weighted average market price	3,223.00	2,979.00	3,005.80	4,267.84	5,290.79
Dividend yield (percent)	3.72%	4.43%	4.99%	4.45%	4.25%
Total trading with the share (000 SIT)	5,350,054	2,869,612	3,240,877	5,781,739	4,465,161
Dividend per share paid out in the previous year	120	132	150	190	225

*In calculating the price-earnings ratio per share and the price-book value ratio per share, the weighted average price of the LKPG share in 2002 and the average book value of the share calculated from monthly averages.

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 8th General Meeting held on 30th June 2003, the shareholders decided that a portion of the distributable net profit in the amount of SIT 1,997,477,438.49 would be distributed among the shareholders as follows: SIT 1,606,500,000.00 for dividends for ordinary shares, SIT 173,767,750.44 for the payment of fixed dividends for preference shares, and SIT 217,209,688.05 for the variable part of dividends for preference shares. The gross dividend per ordinary share for 2002 was SIT 225. The planned gross dividend per ordinary share for 2003 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. The growth of dividends in real terms will be proportional to the Company's performance. In 2003, Luka Koper, d.d. did not hold any treasury shares.

2004 Financial Calendar

29 February	Final deadline for publication of unconsolidated financial statements.
31 March	Final deadline for publication of consolidated accounting statements.
31 May	Final deadline for publication of summary of audited, unconsolidated and consolidated annual report, which is to be published within 30 days after receipt of auditor's report. Final deadline for publication of interim report for the first quarter.
End of June/ beginning of July	General Meeting of Shareholders. Dividend belongs to those owners entered in the share register of Luka Koper, d.d. on the next day following the General Meeting.
31 August	Final deadline for publication of summary of half-year report, which is to be presented as soon as possible.
September	Payment of dividends.
30 November	Final deadline for publication of interim report for 9-month period.

Dividend per ordinary and preference shares

Year	Ordinary shares	Preference shares
1999	132.00	35.86
2000	150.00	46.16
2001	190.00	49.83
2002	225.00	56.99
2003	245.00	65.86

Marko Babič,
Director, PC Fruit Terminal

"As the new Director of the terminal, I had to form my own quality team. Having previously been member of a well-organized team at General Cargoes, this was not difficult. A good team stimulates you to closely follow operations, measure and improve them."





Satisfaction of our Local Community: Sustainable Development

Supporting the Principles of Sustainable Development

The Company's development policy strives to ensure a continuous balance between business interests and the interests of the local environment. In outlining and planning its development, the Company gives consideration to possible impacts on the natural environment gives heed to even the smallest negative consequences. We understand our role to be much broader than merely controlling risk factors in the natural environment. As one of the most important generators of economic development in the local and broader environments, we are actively participating in projects, which stimulate broader development that is beneficial to society.

An Active Role in Projects of Common Interest

Luka Koper, d.d. functions as a significant development partner in the local environment, particularly in projects aimed at improving infrastructural connections and tourist infrastructure. The Company is co-signatory of a Letter of Intent regarding the development of the Portorož Airport and the investment of additional capital in Aerodrom Portorož. We are a cofounder of Golf Istra, d.o.o., as well as the principal investor in the Koper Business Zone project, for which we have submitted an application, together with our partners, for funds from European structural funds.

Changes in Spatial Planning

We are intensively preparing all that is necessary for vacating part of our premises, on which a pier for passenger ships and a bypass road will be constructed, and are awaiting the conclusion of an agreement with the Municipality of Koper. The foreseen project involving the erection of a passenger terminal in the city of Koper will soon be realized. In December, the Company established a consortium for the passenger terminal in Koper together with Istrabenz, d. d., the Municipality of Koper, and the regional office of the Slovene Chamber of Economics.

The quality of life in the City of Koper will undoubtedly improve after the main entrance to the port is transferred from the city centre to a connection with the northern bypass and motorway, and heavy trucks will no longer congest traffic in the city centre. This project is nearing its realization as well.

Growing with Knowledge

As one of the initiators of the establishment of the University of Primorska, we take pride in the fact that this idea has finally borne fruit. In 2003, the Company allocated substantial funds for its initialisation. In April 2003, the Company signed, together with six leading companies of the Primorska region, an agreement on the

financing of this University. We participate in lectures within the scope of certain study programmes, act as co-mentors to students preparing graduation theses, and enable them to undergo their compulsory practical training in our Company. We realize that our further successful operations and development strongly rely on the growth of human resources potential in our own environment, and that investment in knowledge is the most advantageous investment in the long term. Alongside the University of Primorska, we also support individual research organizations, society and specific projects through sponsorships and donations.

We cooperate regularly with many secondary and higher schools and enable their students to undergo practical training in our Company, where they are acquainted with the functioning of the port and logistic system. In 2003, the students of the Commercial High School in Völkermarkt (Velikovec) in Austria were given the opportunity to prepare for their graduation examination in our Company.

Promoting Slovenia and our Community

We are the main sponsor of the Koper Volleyball Club and take pride in its achievements. The Company also offers substantial support to the Slovene Olympic Committee, as the contributions made by our top athletes to the promotion of Slovenia in the international environment indirectly contributes to the recognizability of our port. Within the range of our possibilities, we sponsor numerous sports societies and clubs in our immediate surrounding and elsewhere in Slovenia. Our sponsorships have enabled the organization of numerous sports events.

In addition to sports, Luka Koper, d.d. supports the development of cultural activities. We are an important sponsor of the Koper Brass Band, whose high-quality playing is successfully promoting the name of Koper throughout Slovenia and abroad. Last year, the Company made a special donation enabling the Orchestra to obtain its own quarters. Through our contributions and donations we have enabled the functioning of and organization of events to numerous cultural societies and other organized cultural groups. Special attention was devoted to cultural activities in some of the more isolated local communities of Slovene Istria.

Supporting Health Care and Humanitarian Activities

In 2003, the Company contributed to the functioning of volunteer fire brigades and the furnishing of the regional hospital in Izola. We made financial contributions to many humanitarian campaigns. Our support was offered to several societies responsible for the health of specific population groups and those engaged in humanitarian and similar nonprofit activities.

Informing the Slovene and Foreign Public

The public is regularly informed on events in our stock company and on our operations through intensive media-related activities. We are proud to report that our Company took fifth place in the category of annual reports at the evaluation of the European federation FEIEA.

Regularly updated and detailed information on our operations, activities and plans are provided on our web pages.

The Management of the Company is aware of the port's significance for the entire Slovene economy, which is why it is open to the media and cooperates readily when its members are informing the public on events at Luka Koper, d.d., as well as on broader topics relating to our activities, such as transport infrastructure, European integration, and similar.

We are closely following and cooperating with the Croatian, Italian and other EU media, which regularly publish articles on the Company's operations, development and strategic management, our collaboration with other organizations, and other information linked to the Company. The adequacy of our attitude towards public informing is evident in the fact that the information published on our Company is generally comprehensive and objective.

Environmental Report

Owing to its size and scope of activities as well as the sensitivity of the natural environment, Luka Koper, d.d. bears a special responsibility. For this reason our business policy reflects a strong commitment to the responsible treatment of the environment. Our environmental management system has been established in accordance with the ISO 14001: 1996 standard. We are constantly adapting to legal environmental requirements, and improving the attained results with systematic investments in environment-friendly projects and advanced technological equipment. Our key environmental goals are incorporated in annual business plans. The implementation of these goals is monitored throughout the year by the Management of the Company, which examined and approved the Annual Environmental Report.

The Company regularly informs the broader and internal public on environmental topics and the performance of environmental activities.

Our goals have been achieved

In 2003, the Company was focused on the following environmental goals, which have remained its priority goals in 2004 as well. Alongside these goals we shall also prepare measures for the reduction of wastes.

- Dust emissions will remain within legally permitted limits.
- Noise emission will be kept at the allowed level.
 - The planned measurements indicate that the prescribed values have been observed. The results of measurements performed on Rožnik hill at the request of local inhabitants are within the allowed limits.
- Sea pollution is being prevented.
 - The results of measurements of bathing water are in conformity with regulations. An oil catcher was installed in the car parking areas across from the petrol station.
- The port's appearance will be adapted to the surroundings.
 - A line of trees in a length of approx. 200 metres has been planted at the Coal & Iron Ore Terminal.
- The uncontrolled dumping of wastes is prevented by regular inspections.
- Public opinion on the impact of our activities on the environment is being monitored.
 - Public opinion remained on the 2002 level with an average mark of 3 on a 5-level scale. Our goal is to attain the average mark of 4.
- The share of unseparated wastes is kept below 30 %.
 - The share of unseparated wastes amounted to 27 % and was below the prescribed limit.

To monitor our set goals, we conduct measurements of key risk factors, performed by expert institutions authorized by the Ministry of the Environment, and compile an Analysis of Improvement Programme Activities in all terminals.

Improvements have been Implemented

Alongside the presented plans for achievement of our goals, we implemented noise protection related improvements on feed hoppers at the Dry Bulk Cargoes Terminal and prepared a project for the construction of silo facilities for the so called "dust-producing" cargoes. Two filling pipes for acids were installed at the Liquid Cargoes Terminal. We examined the adequacy of all diesel-driven machines at the Container and Ro-Ro Terminal, the route of the old soaking device at the Timber Terminal, and began to use a pump with a closed paint-mixing system.

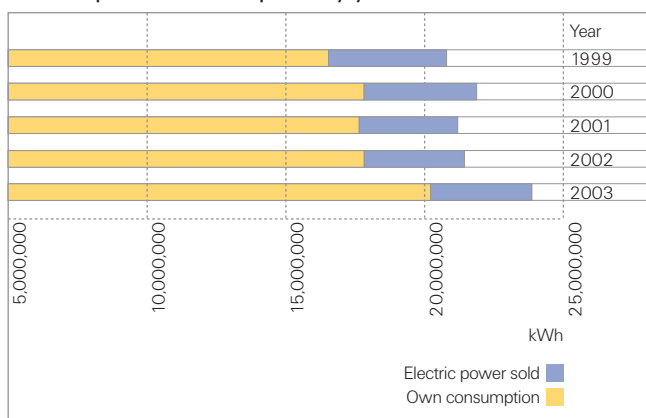
Economical Use of Natural Resources

A system for the constant control of water consumption and energy was installed and total energy consumption is being reduced.

The Company is systematically replacing old electrical bulbs with special electricity saving bulbs, modernising heating devices, replacing petroleum forklifts with electric ones and implementing other energy saving measures. Year after year, the Company has managed to maintain almost the same ratio between the consumption of electrical energy and fuel and the scope of operations. Quantitative consumption of both energy components increased almost by the same percentage in 2003 as the scope of operations (cargo handled). Increase was recorded mainly in the share of cargoes, which require higher specific energy consumption, such as fruits, which are stored in cooled warehouses.

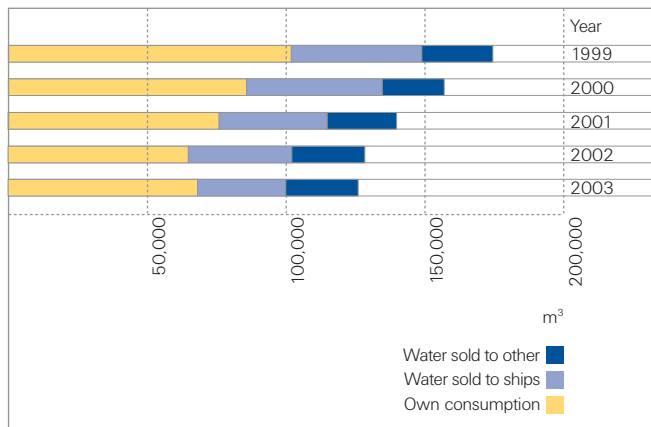
The energy consumption in individual organisational units is monitored on a monthly basis, which provides grounds for immediate action in case energy consumption exceeds planned levels.

Electric power consumption by years



Each year, water consumption is decreasing in spite of increased volumes of handled cargo. Control-safety system helps us to effectively control consumption, it records any deviations, and assists us in pinpointing locations, where certain errors occur. Old deteriorated water installations are being replaced by more durable pvc water pipes.

Water consumption by years



Training and Professional Conferences

Continuous advancement in realizing the majority of our environmental goals is being attained by keeping our employees well-informed, in particular the directors of organizational units and business processes. The directors and caretakers of individual profit centres were trained at a workshop entitled Upgrading of the Environmental Management System ISO 14001.

We participated in the first ECOPORTS conference within the scope of the Association of EU ports, and at the symposium entitled "Environmental Technologies" organized by the Slovene Environmental Cluster.

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

Environmental Manager following the Model of EU Ports

We implemented the first phase of environmental management upgrading following the model of EU ports by introducing the

"Environmental Manager" function. The purpose of this novelty is to spread good operating practices while establishing synergies between business, logistic, cost and other functions.

The first phase foresees continuous supervision of the performance of port services in profit centres monitoring the daily operational work plan in the loading/unloading of ships, filling/discharging of wagons, and in internal transport. It also foresees the implementation of measures in the Ist and IInd shifts and, if necessary, in the IIIrd shift, and reporting to the Management.

Biological Wastes are processed into Compost

The separate collection of wastes was begun at the port in 1996, and two years later the Waste Collection Centre was fully operational. The establishment of an environmental protection system gave us the possibility of creating additional value through the processing of biological wastes in the compost plant. Of a total of 23,000 cubic metres of various wastes, we process around 3,000 cubic metres of biological wastes annually. This provides around 400 cubic metres of natural fertilizer - compost, the majority of which is sold to wholesalers. We are also creating added value with the acceptance and removal of waste-waters from ships and the sale of wastes as secondary raw materials.

Survey in the Local Community

Since 1999 the Company has been conducting public surveys in the local community. In the first year, participants evaluated the Company's impact on the surroundings as a large factor, and in the next two years as a medium large factor. In 2003, the Company's impact was again assessed as medium large, while participants from Koper evaluated our impact as large. The evaluation of the Company's attitude towards environmental protection rose slightly in the period from 2000 to 2003, and in 2003 remained at the mark of 3. Our goal is to attain an average mark of 4.

On the Path to the First Sustainability Report According to EU Directives

The presented annual environmental goals have been complemented by a strategic goal, represented by the upgrading of the environmental protection system with the environmental management function following the guidelines of EU ports. In 2004, we plan to compile the first report on sustainable development, which will contain all elements of an environmental report and will be consistent with EU Directives.

Operations of Subsidiaries

Luka Koper Pristan, d.o.o.

Koper Pristan, d.o.o. is engaged in the provision of hotel, hospitality and accommodation services. It was established in 1995 and is fully (100%) owned by Luka Koper, d.d.. The company manages Hotel Garni Pristan and Dom Prisoje in Koper, which in 2003 represented two separate organizational and business units. It is managed by Mojca Bergoč, B.S.Econ. On the last day of 2003, the company had 7 employees.

In 2003, Koper Pristan, d.o.o. generated SIT 151.3 million in operating revenues, and concluded the 2003 business year with SIT 12.8 million in net profit. The ratio of net profit to total revenues amounted to 7.9 percent, and the net return on owner's capital was 1.9 percent. The Company received the ISO 9001:2000 quality certificate in 2003 and implemented the HACCP food safety assurance system.

Luka Koper INPO, d.o.o.

Luka Koper INPO, d.o.o. was established in 1995, and has operated with the status of a disablement company since 27 November 1996. It is fully (100%) owned by Luka Koper, d.d.. On 31 December 2003, the company had 244 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: maintenance unit, production & services unit, service unit for Luka Koper, d.d., and in the maritime and communal Unit.

In 2003, INPO, d.o.o. generated SIT 902.3 million in operating revenues, and concluded the business year with SIT 26.4 million in net profit. The company's net profit to total revenues amounted to 2.5 percent, and the net return on owner's capital was 7.3 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 supplies, rescue and assistance to vessels at sea. The company was established in 1992 and is managed by Robert Gerk, B.S.E.E.. Luke Koper, d.d. has a 50 percent ownership share in the company. In 2003, Adria-Tow, d.o.o. generated SIT 490.6 million in operating revenues, and concluded the business year with a net profit of SIT 87.2 million. The ratio of net profit to total revenues amounted to 16 percent, and the net return on owner's capital was 48 percent.

Logistic Service, d.o.o.

The company is dormant and did not carry out any operations in 2003. It is fully (100%) owned by Luka Koper, d.d., and was established in 1996 for transporting containers.

Luka Kopar Beograd, d.o.o.

The company is dormant and did not carry out any operations in 2003. It was established in 2002 with intention to strengthen market position of Luka Koper, d.d. in Serbia and Montenegro. The reason for the transfer of the company to dormant status was weak economic activity and unattained planned business results. Luka Koper, d.d. owes 90 percent of the company.

Business Report





Rado Sandić,
Foreman, PC General Cargoes

"Handling of goods by using a crane to load or unload a vessel requires a good deal of experience, self-initiative and self-confidence from all of us working here. I monitor this process every day and I know very well how important it is for us to get along with one another."

FINANCIAL STATEMENTS WITH NOTES

The background features a complex geometric design. A solid blue shape occupies the top right and bottom portions. A white shape, resembling a stylized arrow or a folded piece of paper, points from the top right towards the center. A grey shape, also resembling a stylized arrow or a folded piece of paper, points from the center towards the bottom left. The overall composition is clean and modern.

Income Statement

(in thousands of SIT)	Parent company	Group	Parent company	Group
	2003	2003	2002	2002
REVENUES FROM SERVICES SOLD IN THE DOMESTIC MARKET	2,088,919	2,293,214	1,954,437	2,313,602
REVENUES FROM SERVICES SOLD IN FOREIGN MARKETS	11,618,461	12,511,353	10,576,032	11,494,943
REVENUES FROM SALES OF GOODS AND MATERIALS - DOMESTIC AND FOREIGN MARKETS	294	394	2,879	17,336
REVENUES FROM USE AND CANCELLATION OF LONG-TERM PROVISIONS	52,321	52,321	16,129	16,130
REVENUES FROM RENTS	579,992	594,027	316,295	317,481
OTHER REVENUES RELATED TO PRODUCTS AND SERVICES-DISPATCH	101,260	101,260	78,421	78,421
REVALUATORY OPERATING REVENUES	64,215	64,286	23,198	45,651
CAPITALISED OWN PRODUCTS	43	230	53	1,926
OPERATING REVENUES	14,505,505	15,617,085	12,967,444	14,285,490
OPERATING COSTS	12,524,422	13,639,164	18,491,520	19,841,819
COSTS OF MATERIALS	756,309	855,906	716,735	922,807
COSTS OF SERVICES	4,254,434	4,112,326	3,917,804	3,873,148
DEPRECIATION	2,222,655	2,466,295	9,529,795	9,782,372
LONG-TERM PROVISIONS	0	0	0	0
LABOUR COSTS	4,290,421	5,182,560	3,837,083	4,746,555
OTHER EXPENSES	1,000,238	1,019,316	489,705	496,421
COSTS OF GOODS AND MATERIAL SOLD	366	2,761	398	20,516
OPERATING PROFIT OR LOSS	1,981,083	1,977,921	-5,524,076	-5,556,329
FINANCIAL REVENUES	3,105,920	3,155,743	11,321,462	11,362,234
FINANCIAL EXPENSES	1,159,531	1,175,463	1,146,847	1,185,459
PROFIT FROM ORDINARY OPERATIONS	3,927,472	3,958,201	4,650,539	4,620,446
EXTRAORDINARY REVENUES	181,344	311,456	224,311	334,267
EXTRAORDINARY EXPENSES	39,293	49,579	48,491	48,622
PROFIT OR LOSS FROM EXTRAORDINARY OPERATIONS	142,051	261,877	175,820	285,645
TOTAL PROFIT	4,069,523	4,220,078	4,826,359	4,906,091
INCOME TAX	184,075	211,851	332,428	333,452
NET PROFIT FOR THE YEAR	3,885,448	4,008,227	4,493,931	4,572,639
NET PROFIT OF MINORITY SHAREHOLDERS		-43,733		-20,437
NET PROFIT FOR THE YEAR	3,885,448	3,964,494	4,493,931	4,552,202

Balance Sheet

(in thousands of SIT)	Parent company	Group	Parent company	Group
	31 Dec 2003	31 Dec 2003	31 Dec 2002	31 Dec 2002
A S S E T S	68,857,885	69,908,004	61,945,964	63,490,752
A. FIXED ASSETS	59,641,622	60,444,396	50,152,002	51,397,802
I INTANGIBLE FIXED ASSETS	707,822	752,118	803,262	887,663
1 LONG-TERM DEFERRED OPERATING COSTS	0	0	0	0
2 LONG-TERM PROPERTY RIGHTS	707,822	752,118	803,262	887,663
II TANGIBLE FIXED ASSETS	31,300,578	33,214,043	28,572,874	30,859,984
1 LAND AND BUILDINGS	25,411,254	26,064,377	23,699,167	24,366,959
A LAND	73,946	73,946	73,946	73,946
B BUILDINGS	25,337,308	25,990,431	23,625,221	24,293,013
2 EQUIPMENT AND MACHINERY	4,695,751	5,879,372	3,788,509	5,399,868
3 FIXED ASSETS IN ACQUISITION	1,193,573	1,270,294	1,085,197	1,093,157
III LONG-TERM INVESTMENTS	27,633,222	26,478,235	20,775,866	19,650,155
1 INVESTMENTS IN SHARES OF GROUP COMPANIES	1,159,606		1,129,921	
2 INVESTMENTS IN SHARES OF ASSOCIATED COMPANIES	1,368,153	1,368,153	1,222,562	1,222,562
3 OTHER LONG-TERM INVESTMENTS	18,022,025	18,022,025	7,647,578	7,647,578
4 OTHER LONG-TERM LOANS GRANTED	7,083,438	7,088,057	10,775,805	10,775,805
B. CURRENT ASSETS	9,203,691	9,447,049	11,782,694	12,078,809
I INVENTORIES	6,778	9,537	6,778	8,840
II OPERATING RECEIVABLES	4,076,913	4,230,557	3,593,539	3,855,358
A LONG-TERM OPERATING RECEIVABLES	71,189	71,189	1,310	1,310
1 LONG-TERM OPERATING RECEIVABLES FROM OTHERS	71,189	71,189	1,310	1,310
B SHORT-TERM OPERATING RECEIVABLES	4,005,724	4,159,368	3,592,229	3,854,048
1 SHORT-TERM OPERATING RECEIVABLES FROM GROUP COMPANIES	77,694		4,445	
2 SHORT-TERM OPERATING RECEIVABLES FROM OTHERS	3,928,030	4,159,368	3,587,784	3,854,048
III SHORT-TERM INVESTMENTS	5,029,250	5,028,449	7,868,971	7,847,098
1 SHORT-TERM INVESTMENTS IN SHARES OF GROUP COMPANIES	818		21,923	
2 SHORT-TERM INVESTMENTS IN SHARES OF ASSOCIATED COMPANIES	670,358	670,358		
3 OTHER SHORT-TERM INVESTMENTS	4,358,074	4,358,091	7,847,048	
IV CASH AT BANK	90,751	178,506	313,406	367,513
C. DEFERRED EXPENSES AND ACCRUED REVENUES	12,571	16,559	11,269	14,140
D. OFF-BALANCE SHEET ASSETS	4,217,710	5,031,990	4,293,370	5,243,974

Financial Statements with Notes

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(in thousands of SIT)	Parent company	Group	Parent company	Group
	31.12.2003	31.12.2003	31.12.2002	31.12.2002
EQUITY AND LIABILITIES	68,857,885	69,908,004	61,945,964	63,490,752
A. CAPITAL	57,610,289	57,723,490	55,636,197	55,748,960
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				
III REVENUE RESERVES	18,584,796	18,589,072	17,645,521	17,650,370
1 LEGAL RESERVES	4,496,872	4,501,149	4,496,872	4,500,510
2 RESERVES FOR OWN SHARES				
3 STATUTORY RESERVES				
4 OTHER REVENUE RESERVES	14,087,924	14,087,924	13,148,649	13,149,860
IV NET PROFIT OR LOSS FROM PRIOR YEARS	1,352,037	1,352,037	0	0
V NET PROFIT OR LOSS FOR THE CURRENT YEAR	1,942,724	1,942,724	2,346,064	2,346,064
VII EQUITY REVALUATION RESERVE	21,730,733	21,727,060	21,644,612	21,639,764
1 GENERAL EQUITY REVALUATION RESERVE	21,462,806	21,462,806	21,462,806	21,462,806
2 SPECIFIC EQUITY REVALUATION RESERVE	268,530	264,254	181,806	176,958
VIII CAPITAL - MINORITY SHAREHOLDERS		112,597		112,763
SHARE CAPITAL		13,098		63,181
CAPITAL SURPLUS		188		188
REVENUE RESERVES		31,324		0
NET PROFIT OR LOSS FROM PRIOR YEARS		18,285		11,089
NET PROFIT OR LOSS FOR THE CURRENT YEAR		43,733		19,273
EQUITY REVALUATION RESERVE		5,969		19,032
B. PROVISIONS	275,752	1,165,078	378,109	1,138,874
1 LONG-TERM PROVISIONS	275,752	1,165,078	378,109	1,138,874
C. FINANCIAL AND OPERATING LIABILITIES	10,751,180	10,799,376	5,851,159	6,522,319
A LONG-TERM FINANCIAL AND OPERATING LIABILITIES	774,194	1,320,963	1,369,760	2,267,489
1 LONG-TERM FINANCIAL LIABILITIES TO BANKS	512,731	1,042,493	940,298	1,799,830
2 LONG-TERM FINANCIAL AND OPERATING LIABILITIES TO OTHERS	261,464	278,470	429,462	467,659
B SHORT-TERM FINANCIAL AND OPERATING LIABILITIES	9,976,986	9,478,413	4,481,399	4,453,027
1 SHORT-TERM FINANCIAL LIABILITIES TO BANKS	5,871,275	6,010,426	1,671,069	1,849,272
2 SHORT-TERM OPERATING LIABILITIES TO SUPPLIERS	2,543,687	2,648,927	1,424,054	1,566,327
3 SHORT-TERM OPERATING LIABILITIES FOR ADVANCES	17,676	30,684	0	0
4 SHORT-TERM FINANCIAL AND OPERATING LIABILITIES TO GROUP COMPANIES	860,375		619,872	0
5 SHORT-TERM FINANCIAL AND OPERATING LIABILITIES TO ASSOCIATED COMPANIES				0
6 SHORT-TERM FINANCIAL AND OPERATING LIABILITIES TO OTHERS	683,973	814,509	766,404	838,925
D. ACCRUED EXPENSES AND DEFERRED REVENUES	220,060	220,060	80,499	80,599
E. OFF-BALANCE SHEET LIABILITIES	4,217,710	5,031,990	4,293,370	5,243,974

Funds Flow Statement

(in thousands of SIT)	Parent company		Group	
	31 Dec 2003	31 Dec 2003	31 Dec 2002	31 Dec 2002
A. Fund flows from operating activities				
a) Inflows from operating activities	14,412,854	15,824,026	12,321,876	13,681,874
Operating revenues	14,307,129	15,482,919	12,967,444	14,285,490
Extraordinary operating revenues	181,344	311,456	224,311	334,267
Opening less closing operating receivables	-74,317	32,070	-873,428	-945,700
Opening less closing deferred expenses/accrued revenues	-1,302	-2,419	3,549	7,817
b) Outflows from operating activities	9,493,041	10,311,874	11,714,250	12,880,325
Operating expenses excluding depreciation and long-term provisions	10,195,465	11,066,544	9,003,342	10,106,658
Extraordinary operating expenses	39,293	49,579	48,491	48,622
Income taxes and other taxes not included in operating expenses	184,075	211,851	332,428	333,452
Closing less opening inventory	0	696	0	-8,131
Opening less closing operating liabilities	-786,231	-877,334	2,332,607	2,401,175
Opening less closing accrued expenses/deferred revenues	-139,561	-139,462	-2,618	-1,451
c) Surplus of net operating inflows (a minus b) or net operating outflows (b minus a)	4,919,813	5,512,152	607,626	801,549
B. Fund flows from investing activities				
a) Inflows from investing activities	5,597,367	5,626,123	14,840,163	14,637,469
Financial revenues related to investing (excluding revaluations and impairments)	2,757,646	2,807,474	11,321,462	11,362,234
Extraordinary revenues related to investing	0	0	0	0
Offset decrease of short-term investments (excluding revaluations and impairments)	2,839,721	2,818,649	3,518,701	3,275,235
b) Outflows from investing activities	12,008,361	12,166,575	12,751,774	13,897,932
Financial expenses related to investing (excluding revaluations and impairments)	38,719	38,719		
Offset increase of intangible long-term assets (excluding revaluations and impairments)	161,062	134,596	282,031	321,013
Offset increase of tangible fixed assets (excluding revaluations and contributions-in-kind as an increase of equity)	4,501,744	4,636,487	2,423,793	3,277,921
Offset increase of long-term financial investments (excluding revaluations and impairments)	7,306,836	7,356,773	10,045,950	10,298,998
c) Surplus of net investing inflows (a minus b) or net investing outflows (b minus a)	-6,410,994	-6,540,452	2,088,389	739,537
C. Fund flows from financing activities				
a) Inflows from financing activities	4,457,483	4,095,741	864,054	1,511,013
Offset increase of long-term provisions (excluding impairments)	0	0	23,450	135,211
Offset increase of long-term financial liabilities (excluding impairments)	4,457,483	4,095,741	840,604	1,375,802
b) Outflows from financing activities	3,188,957	3,256,448	3,481,717	2,973,269
Financial expenses related to financing (excluding revaluations)	437,858	497,546	1,146,847	707,676
Decrease of equity (without net loss for the year)	1,997,477	1,997,477	1,706,188	1,706,188
Offset decrease of long-term provisions (excluding revaluations)	163,003	34,442		
Offset decrease of short-term financial liabilities (excluding revaluations)	590,619	726,983	628,682	559,405
c) Surplus of net financing inflows (a minus b) or net financing outflows (b minus a)	1,268,526	839,293	-2,617,663	-1,462,256
D. Closing balance of cash and cash equivalents	90,751	178,506	313,406	367,513
x) Net fund flow for the period (sum of surpluses Ac, Bc and Cc)	-222,655	-189,007	78,352	78,830
y) Opening balance of cash and cash equivalents	313,406	367,513	235,054	288,683

Statement of Changes in Equity

STATEMENT OF CHANGES IN EQUITY FOR THE PARENT COMPANY - 2002									
STATEMENT OF CHANGES IN EQUITY FOR LUKA KOPER, THE PARENT COMPANY - 2002									
For the period from 1st January to 31 December 2002									
(in thousands of SIT)									
	Share capital	Capital surplus	Legal reserves	Other revenue reserves	Net profit from prior years	Net profit for the year	General equity revaluation reserves	Specific equity revaluation reserves	Total capital
	I/1	II/1	III/1	III/4	IV/1	V/1	VI/1	VI/2	
A. Balance as at 1st January 2002	14,000,000	0	4,496,872	9,068,452	3,638,519	0	21,462,806	0	52,666,649
B. Transfers to equity	0	0	0	0	0	4,493,931	0	181,806	4,675,737
Net profit or loss for the year						4,493,931			4,493,931
Increase of general equity revaluation reserve									0
Increase of specific equity revaluation reserve								181,806	181,806
C. Transfers within equity	0	0	0	5,786,385	-3,638,519	-2,147,867	0	0	0
Allocation of net profit by resolution of the Management and Supervisory Boards				3,967,125	-1,819,259	-2,147,867			0
Allocation of net profit to additional reserves by resolution of the General Meeting				1,819,260	-1,819,260				0
D. Transfers from equity	0	0	0	-1,706,188	0	0	0	0	-1,706,188
Dividend distribution				-1,695,448					-1,695,448
Distributions to members of the Management and Supervisory Boards				-10,740					-10,740
Distribution to employees									0
D. Balance as at 31 December 2002	14,000,000	0	4,496,872	13,148,649	0	2,346,064	21,462,806	181,806	55,636,197
DISTRIBUTABLE PROFIT FOR 2002				2,015,000		2,346,064			4,361,063

STATEMENT OF CHANGES IN EQUITY FOR THE GROUP - 2002										
STATEMENT OF CHANGES IN EQUITY - MAJORITY OWNER	Share capital	Capital surplus	Legal reserves	Other revenue Reserves	Net profit from prior years	Net loss from previous years	Net profit for the year	General equity revaluation reserves	Specific equity revaluation reserves	Total capital
For the period from 1st January to 31 December 2002	I/1	II/1	III/1	III/4	IV/1	IV/2	V/1	VI/1	VI/2	
(in thousands of SIT)										
A. Balance as at 1st January 2002	14,000,000	0	4,496,872	9,068,452	3,638,519	0	0	21,462,806	0	52,666,649
B. Transfers to equity	0	0	0	0	0	0	4,552,202	0	123,535	4,675,737
Net profit or loss for the year							4,552,202			4,552,202
Increase of general equity revaluation reserve										0
Increase of specific equity revaluation reserve									123,535	123,535
C. Transfers within equity	0	0	3,638	5,787,596	-3,638,519	0	-2,206,138	0	53,422	-1
Allocation of net profit by resolution of the Management and Supervisory Boards			3,638	3,968,336	-1,819,259		-2,147,867		-4,849	-1
Allocation of net profit to additional reserves by resolution of the General Meeting				1,819,260	1,819,260					0
Other allocation of equity items							-58,271		58,271	0
D. Transfers from equity	0	0	0	-1,706,188	0	0	0	0	0	-1,706,188
Dividend distribution				-1,695,448						-1,695,448
Distributions to members of the Management and Supervisory Boards				-10,740						-10,740
E. Balance as at 31 December 2002	14,000,000	0	4,500,510	13,149,860	0	0	2,346,064	21,462,806	176,957	55,636,197
EQUITY - MINORITY SHAREHOLDERS										
E. Balance as at 31 December 2002	63,181	188	0	0	33,696	-22,607	19,273	19,032	0	112,763
TOTAL EQUITY										
E. Balance as at 31 December 2002	14,063,181	188	4,500,510	13,149,860	33,696	-22,607	2,365,337	21,481,838	176,957	55,748,960

STATEMENT OF CHANGES IN EQUITY FOR THE PARENT COMPANY - 2003									
STATEMENT OF CHANGES IN EQUITY FOR LUKA KOPER, d.d. For the period from 1st January to 31 December 2003 (in thousands of SIT)	Share capital	Capital surplus	Legal reserves	Other revenue reserves	Net profit from prior years	Net profit for the year	General equity revaluation reserves	Specific equity revaluation reserves	Total capital
	I/1	II/1	III/1	III/4	IV/1	V/1	VI/1	VI/2	
A. Balance as at 1st January 2003	14,000,000	0	4,496,872	13,148,649	2,346,064	0	21,462,806	181,806	55,636,197
B. Transfer to equity	0	0	0	0	0	3,885,448	0	86,725	3,972,173
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								86,725	86,725
C. 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
Č. 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
D. Balance as at 31 December 2003	14,000,000	0	4,496,872	14,087,923	1,352,037	1,942,724	21,462,806	268,530	57,610,893
DISTRIBUTABLE PROFIT				2,201,096	1,352,037	1,942,724			5,495,856

Financial Statements with Notes

STATEMENT OF CHANGES IN EQUITY FOR THE GROUP - 2003										
(in thousands in SIT)	Share capital	Capital surplus	Legal reserves	Other revenue reserves	Net profit from previous years	Net loss from prior years	Net profit for the year	General equity revaluation reserves	Specific equity revaluation reserves	Total capital
	I/1	II/1	III/1	III/4	IV/1	IV/2	V/1	V/1	VI/2	
For the period from 1st January to 31 December 2003										
A. Balance as at 1st January 2002	14,000,000	0	4,500,510	13,149,860	2,346,064	0	0	21,462,806	176,957	55,636,197
B. 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
Increase of general equity revaluation reserve										0
Increase of specific equity revaluation reserve									12,173	12,173
C. Transfers within equity	0	0	639	2,935,541	-994,028	0	-2,021,772	0	75,124	-4,496
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 reserves by resolution of the General Meeting				994,028	-994,028				1,211	1,211
Other allocations of equity items				-1,211			-79,048		74,552	-5,707
Č. Transfers from equity	0	0	0	-1,997,477	0	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 revaluations reserves										0
D. Balance as at 31 December 2003	14,000,000	188	4,501,149	14,087,924	1,352,036	1,942,724	1,942,724	21,462,806	264,254	57,610,288
EQUITY - MINORITY SHAREHOLDERS										
D. 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										
D. 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:

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

(hereinafter: "the Group") have been prepared in accordance with the Commercial Companies Act and the accounting and reporting requirements of the Slovene Accounting Standards, which are the prescribed the 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 for the years 2002 and 2003, which recognized business events at the time of their occurrence and not at the time of their payment. We attempted to present users with comprehensible, essential, reliable and comparable information serving as a good 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 separate financial statements of companies in the Group, together with appropriate consolidation adjustments.

At the end of 2003, the capital of Luka Koper, d.d. was invested in the following 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 capital method.

T.I.C.T, S.p.a., Trieste (49 percent ownership share),

Adria Distripark, S.r.l., Trieste (50 percent ownership share),

Avtoservis, d.o.o., Koper (49 percent ownership share),

Finor, d.o.o., Koper (39 percent ownership share),

Adriafin, d.o.o., Koper (39 percent ownership share from 1st October 2003),

W.E.S., d.o.o., Koper (33.33 percent ownership share),

Actual I.T., d.o.o., Koper (26 percent ownership share from 30 July 2003),

Kopinvest Netherlands B.V. (25 percent ownership share from 4 August 2003).

Accounting Policies and Disclosures

The Company is presented to the public through four individual and consolidated financial statements, i.e. the balance sheet, income statement, statement of changes in financial position and statement of changes in equity for the business years ended 31 December 2002 and 2003.

Luka Koper is a large company whose securities are traded on the organized stock exchange and is thus subject to 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 ensured that uniform accounting standards were applied to similar business events in separate financial statements;
- the items in the separate 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 years ending on the same day, i.e. 31 December 2003;
- 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; for assets, liabilities and equity, the middle exchange rate of the Bank of Slovenia was used, whereas for revenues and expenses, the exchange rates applicable at the time of their occurrence were used;
- the provisions concerning disclosures in individual financial statements also reasonably apply, to the same extent, for consolidated financial statements;
- the same standards apply for companies abroad.

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 inventory values.

Fixed Assets

Intangible long-term assets, which appear in the form of rights which have future benefit 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 long-

term assets that are accounted for in three-digit subaccounts 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 and accumulated depreciation and is considered to be their carrying value. The cost of fixed asset is comprised of those purchase costs that can be directly attributed to such asset.

Depreciation of tangible fixed assets is calculated on a single item basis; except for small tools which are calculated on a group basis. The Company uses the straight-line depreciation method to allocate the cost of assets proportionately over their useful life.

Average depreciation rates:

Intangible long-term assets:

- Project documentation, software, research 20%

Buildings:

- Operating piers 2%
- Open areas 3.3%
- roofs 2.5%
- warehouses 1.5%
- reservoirs 2.5% to 4%
- railway tracks 4%
- infrastructure 2% to 8.3%
- container premises 4%
- office buildings 1.5%
- restaurants and bars 1.8%
- holiday premises 1.8%

Equipment

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

Note: After the adoption of amendments to the Corporate Income Tax Act, 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 tax rate permitted. We did not modify the

rates for any of the assets that we started to depreciate before the introduction of amendments to the law; these will remain unchanged until the end of the respective assets life. The effect of lowered depreciation rates for new purchases is reflected in the lower depreciation expense of 0.5 million SIT in 2003.

Long-term Investments

Long-term investments represent assets held by the Company to realize returns derived from these assets and thus increase its financial revenues in the long term.

The following long-term investments are disclosed separately:

- participating interests and shares in the Group,
- other interests and shares in the Group,
- 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 cost paid on the date of purchase. An investment valued in foreign currency is converted 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 interest. These investments increase in value annually for that portion of the subsidiaries' and associated companies' net profit that 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, such corresponding investment is decreased and financial expenses recognized, but only if the amount exhibited in the equity revaluation reserve account associated with the 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 at the year end, if the market value is lower. If the market price of the shares is higher than cost, the shares remain valued at cost.

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 that are 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 are also disclosed under operating receivables. Long-term and short-term operating receivables are initially recognized in amounts derived from related agreements or relevant accounting 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.

Receivables are evaluated individually at the end of the accounting period, and where evidence exists that they may not be fully collectable appropriate provisions are made to reduce the receivable to its realisable value.

The amount of provisions made in the current year is included in operating impairment 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.

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 impairment expenses are recognized. Short-term investments are not revalued.

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 in SIT 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 termination 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 is comprised of preferred 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 the prior years are reduced in proportion to their planned use, for which they were established. 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. These are disclosed according to the original principal amount, less repayments to date, 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 dividends.

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 revalued if their carrying values are lower than the fair values of assets. 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 decrease 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 and the Economic Zones 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 on the 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 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 and disclose the effects of the general revaluation of equity on the operating result regardless of whether or not such general revaluation of equity is actually booked in the accounts.

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

The 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 Funds Flow Statement disclose the actual version used in compiling this Statement.

Notes to the Financial Statements

Notes to the Statement of Income

Operating revenues

Revenues from basic activities in domestic and foreign markets, revenues from rentals, dispatching (time savings) and revalued

operating revenues are all separately disclosed among operating revenues. A more detailed explanation of realized revenues in relation to planned revenues and revenues from the past period is presented in the Business Report.

(in thousands of SIT)	Parent company	Group	Parent company	Group
	2003	2003	2002	2002
OPERATING REVENUES	14,505,505	15,617,085	12,967,444	14,285,490
REVENUES FROM SERVICES SOLD ON DOMESTIC MARKET	2,088,919	2,293,214	1,954,437	2,313,602
REVENUES FROM SERVICES SOLD ON FOREIGN MARKETS	11,618,461	12,511,353	10,576,032	11,494,943
REVENUES FROM GOODS AND MATERIALS SOLD ON DOMESTIC MARKET	294	394	1,885	16,342
REVENUES FROM GOODS AND MATERIALS SOLD ON FOREIGN MARKET	0	0	994	994
REVENUES FROM LONG-TERM PROVISIONS	52,321	52,321	16,129	16,130
REVENUES FROM RENTS	579,992	594,027	316,295	317,481
OTHER REVENUES RELATED TO PRODUCTS AND SERVICES - DISPATCH	101,260	101,260	78,421	78,421
REVALUATORY OPERATING REVENUES	64,215	64,286	23,198	45,651
CAPITALISED OWN PRODUCTS	43	230	53	1,926

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	Group	Parent Company	Group
	2003	2003	2002	2002
COSTS OF MATERIALS	756,309	855,906	716,735	922,807
COSTS OF MATERIALS	0	7,252	0	101,530
COSTS OF AUXILIARY MATERIALS	141,140	167,111	156,940	197,671
ENERGY COSTS	520,628	575,624	470,229	521,810
COSTS OF SPARE PARTS FOR FIXED ASSETS AND MAINTENANCE MATERIALS	0	1,412	0	44
SMALL TOOLS WRITE-OFF	0	0	0	0
INVENTORY COUNT ADJUSTMENT FOR MATERIALS	0	31	0	18
COSTS OF OFFICE SUPPLIES AND PROFESSIONAL LITERATURE	30,471	34,996	32,160	37,418
OTHER COSTS OF MATERIALS	64,070	69,480	57,406	64,316
COSTS OF GOODS	366	2,761	398	21,516
COSTS OF GOODS AND MATERIALS SOLD	366	2,761	398	20,516

Costs of Services

	Parent Company	Group	Parent Company	Group
(in thousands of SIT)	2003	2003	2002	2002
COSTS OF SERVICES	4,254,434	4,112,326	3,917,804	3,873,146
COSTS OF PHYSICAL SERVICES	1,186,036	1,070,790	899,986	805,567
COSTS OF TRANSPORTATION SERVICES	387,563	393,392	245,507	228,732
COSTS OF MAINTENANCE OF FIXED ASSETS	1,335,484	1,230,041	1,616,345	1,459,880
RENTS	302,935	302,478	335,840	415,607
REIMBURSEMENTS OF WORK-RELATED COSTS TO EMPLOYEES	85,366	89,335	107,701	119,416
PAYMENT PROCESSING COSTS AND INSURANCE PREMIUMS	68,633	91,941	66,881	89,210
COSTS OF PROFESSIONAL AND PERSONAL SERVICES	105,009	118,123	101,559	153,256
FAIRS, ADVERTISING AND ENTERTAINMENT COSTS	114,106	116,122	131,094	125,369
SERVICES PERFORMED BY INDIVIDUALS BASED ON SERVICE CONTRACTS	149,485	160,533	182,343	192,802
COSTS OF OTHER SERVICES	519,817	539,571	230,548	283,307

Allowances

In 2003, the allowances of the parent company decreased by SIT 7.3 billion in comparison to 2002. In accordance with the prudence principle, impairment of fixed assets was recognized in some cash-generating units in 2002, as their carrying value exceeded their replacement value. The assets' replacement value was determined according to the future free cash flows method and according to the estimated net realizable asset value method. Based on the prepared expert report, fixed assets were impaired on 31 December 2002 and the effect recorded under revaluatory operating expenses.

This effect was exhibited in 2003 in the lower amount of depreciation of fixed assets, which amounted to SIT 2.1 billion.

Other allowances for doubtful claims did not change significantly and amounted to SIT 47 billion. Due to the introduction of forced composition against the buyer I.C.R. d.o.o. Koper, the Company recorded an allowance for bad and doubtful claims in the amount of SIT 40 million.

	Parent Company	Group	Parent Company	Group
(in thousands of SIT)	2003	2003	2002	2002
ALLOWANCES	2,222,655	2,466,295	9,529,795	9,782,372
DEPRECIATION	2,171,191	2,412,967	2,603,703	2,850,135
REVALUATORY OPERATING EXPENSES FOR INTANGIBLE FIXED ASSETS	4,210	4,285	6,884,476	6,885,026
PROVISION EXPENSES FOR DOUBTFUL RECEIVABLES	47,254	49,043	41,616	47,211

Labour Costs

There were 918 employees within the Group as at 31 December 2003. On average 638 employees worked for the parent company in 2003, while on the last day of the year the parent company had 647 employees. There were 630 employees working in the parent Company on 31 December 2002. 37 employees were recruited by the parent company on the basis of individual employment contracts; this figure did not change in comparison with 2002.

Subsidiary companies engaged three employees under individual

employment contracts. The total payments made by the parent company on the basis of individual employment contracts amounted to SIT 514,765,410 in 2003 and SIT 450,759,686 in 2002. In subsidiaries, these payments amounted to SIT 38,928,557.09.

Labour costs paid to members of the Management Board amounted to SIT 30,761,214 in 2003 and SIT 29,115,109 in 2002.

Remunerations paid to the members of the Supervisory Board amounted to SIT 11.979 million in 2003, whereas in the previous year the members of the Supervisory Board received SIT 6.62 million.

In 2003, a total of SIT 111,518,912 in holiday allowances was paid out by the parent company, compared to SIT 101,123,809 in 2002. Holiday allowances paid in subsidiaries amounted to SIT 43,293,367 in 2003, which is in accordance with the Decree on Holiday Allowance issued by the Government of the Republic of Slovenia.

In December 2003, employees received a 13th salary in the total amount of SIT 219,271,538, while the 13th salary at the end of 2002 amounted to SIT 154,479,253. SIT 40,269,832 was paid out for the same purpose in subsidiaries in 2003.

In 2002, the parent company joined the supplementary pension insurance program and allocated for these purposes SIT 107,198 million, while the total funds allocated for supplementary pension insurance in 2003 amounted to SIT 112,104 million. 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 SIT 23,101,687 for these purposes in 2003.

(in thousands of SIT)	Parent Company	Group	Parent Company	Group
	2003	2003	2002	2002
LABOUR COSTS	4,290,421	5,182,560	3,837,083	4,746,555
SALARIES	2,615,646	3,134,504	2,331,268	2,853,732
SALARY COMPENSATIONS	441,621	546,565	411,873	524,275
SUPPLEMENTARY PENSION INSURANCE FOR EMPLOYEES PAID	128,367	154,398	107,198	134,001
HOLIDAY ALLOWANCE, REIMBURSEMENTS AND OTHER EXPENSES	388,684	523,075	360,715	497,830
EMPLOYER'S CONTRIBUTIONS ON SALARIES, WAGES AND EXPENSES	500,893	604,204	440,413	543,757
OTHER EMPLOYER'S CONTRIBUTIONS ON SALARIES	215,210	219,814	185,616	192,960

Other Costs

(in thousands of SIT)	Matična družba	Group	Parent Company	Group
	2003	2003	2002	2002
OTHER COSTS	1,000,238	1,019,316	489,705	496,422
COSTS NOT RELATED TO LABOUR AND OTHER TYPES OF COSTS	903,175	926,179	433,918	440,181
EXPENDITURE FOR ENVIRONMENTAL PROTECTION	31,515	25,516	23,892	23,904
AWARDS TO STUDENTS ON INTERNSHIP	34	36	572	702
SCHOLARSHIPS	1,265	1,389	1,847	2,000
OTHER COSTS	64,250	66,196	29,476	29,635

Financial Revenues and Expenses

(in thousands of SIT)	Parent Company	Group	Parent Company	Group
	2003	2003	2002	2002
* IV. FINANCIAL REVENUES	3,105,920	3,155,743	11,321,462	11,362,234
INTEREST REVENUES	1,110,875	1,112,672	1,965,381	1,959,670
REVENUES FROM DIVIDENDS AND SHARE IN PROFITS OF ASSOCIATED COMPANIES	557,469	557,469	153,182	153,182
REVENUES FROM REVALUATIONS OF RECEIVABLES	717,617	764,878	260,633	306,954
REVENUES FROM LOANS GRANTED	6,123	6,123	9,191	9,191
GAINS ON SALE OF INVESTMENTS	655,635	655,635	8,909,558	8,909,558
OTHER FINANCIAL REVENUES	24,108	24,872	23,517	23,679
REVALUATORY FINANCIAL REVENUES	34,094	34,094	-0	0
* V. FINANCIAL EXPENSES	1,159,531	1,175,463	1,146,847	1,185,459
INTEREST EXPENSES	192,189	168,044	206,056	185,742
EXPENSES FROM REVALUATION OF DEBTS	386,299	426,375	360,311	419,237
EXPENSES FROM SALE OF INVESTMENTS	0	0	0	0
OTHER FINANCIAL EXPENSES	38,716	38,716	102,697	102,697
REVALUATORY FINANCIAL EXPENSES FROM IMPAIRMENT	542,328	542,328	477,783	477,783
PROFIT FROM FINANCING	1,946,389	1,980,280	10,174,615	10,176,775

Extraordinary items

Extraordinary revenues and expenses include:

(in thousands of SIT)	Parent Company	Group	Parent Company	Group
	2003	2003	2002	2002
EXTRAORDINARY REVENUES	181,344	311,456	224,311	334,268
SUBSIDIES AND GRANTS	10,088	44,482	6,552	39,316
BAD DEBTS RECOVERED	14,187	14,436	76,969	77,090
RECEIVED COMPENSATIONS	138,218	149,970	85,376	86,226
OTHER EXTRAORDINARY ITEMS	18,851	102,568	55,414	131,636
EXTRAORDINARY EXPENSES	39,293	49,579	48,491	48,622
MONETARY PENALTIES	300	300	220	223
COMPENSATIONS	38,988	49,269	48,250	48,297
OTHER EXTRAORDINARY ITEMS	5	10	21	102

Income Tax

The Corporate Income Tax Act and the Economic Zones Act were applied for the calculation of income tax.

The following table displays the calculation of income tax (in thousands of SIT) for Luka Koper, d.d..

CALCULATION OF CORPORATE INCOME TAX FOR THE PARENT COMPANY

In thousands of SIT

no. in form	CALCULATION OF CORPORATE INCOME TAX	2003	2002
1.	Revenues	17,730,574	24,463,846
2.	Decrease of revenues for amount of revenues realised with profit sharing in other companies	557,469	153,182
3.	Total revenues	17,173,105	24,310,664
4.	Expenses	12,766,575	19,045,025
5.	Tax base I	4,406,531	5,265,639
7.	Revenues realised with profit sharing in other companies	22,595	890
10.	Unused investment reserves and realised tax relieves from investments in case of sale or disposal of assets and allocation of profit for profit sharing	205,462	3,581
11.	Increase of tax base - total (sequence no. 7+8+9+10)	228,057	4,471
14.	Unused already taxed long-term provisions of costs	0	0
15.	Decrease of tax base - total (sequence no. 12+13+14)	0	0
16.	Tax base II	4,634,587	5,270,110
19.	Amount invested in tangible fixed assets investment (except personal motor vehicles) and intangible fixed assets	1,727,689	1,029,196
19.a	Tax benefit for investment start-ups in Economic zone - investments in fixed assets	453,956	257,299
20	Investment reserve	463,458	527,011
22	Tax relief for newly employed workers	8,299	2,633
23.	Tax relief for employed disabled persons	28,327	31,606
25 a	Tax relief for employer financing pension plan	112,103	98,087
26	Tax base III	1,840,753	3,324,278
27.	Tax 10%	184,075	332,428
	ADDITIONAL DATA		
40	Expenses not included under expenses in accordance with Article 12 of the Corporate Income Tax Act	611,933	223,921
41	Monetary penalties	300	220
42	Default interest on taxes and contributions not duly paid	48,962	20,047
45	Allowances for bad receivables made and write-offs of claims towards employees, owners or associated companies	211,281	260,688
46	Calculated depreciation exceeding the depreciation calculated on the basis of depreciation rates prescribed by law	0	0
49	Interest on loans received from owners or associated parties above the average weighted interbank annual interest rate	0	24,261
51	Repayment of costs to employees exceeding the compensation specified in the Decree	5,753	8,389
52	30% of long-term provisions for costs	0	0
56.	30% of hospitality costs and costs of the Management and Supervisory Boards	10,908	9,911
63	Additional data - total	889,138	547,438

Net Profit for the Year

The Company's net profit in 2003 amounted to SIT 3,885,448 thousand, while in 2002 the net profit equalled SIT 4,493,931 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 1,942,724 thousand to the increase of other revenue reserves. Thus, the remaining amount of SIT 1,942,724 thousand was allocated to distributable profit for 2003.

Notes to the Balance Sheet of Luka Koper, d.d.

Fixed Assets

Fixed assets include:

(in thousands of SIT)	Parent Company	Group	Parent Company	Group
	31 Dec 2003	31 Dec 2003	31 Dec 2002	31 Dec 2002
A. FIXED ASSETS	59,641,622	60,444,396	50,152,002	51,397,802
I. INTANGIBLE LONG-TERM ASSETS	707,822	752,118	803,262	887,663
II. TANGIBLE FIXED ASSETS	31,300,578	33,214,043	28,572,873	30,859,984
1. LAND AND BUILDINGS	25,411,253	26,064,377	23,699,167	24,366,959
a. LAND	73,946	73,946	73,946	73,946
b. BUILDINGS	25,337,308	25,990,431	23,625,222	24,293,013
2. EQUIPMENT AND MACHINERY	4,695,751	5,879,372	3,788,509	5,399,868
3. FIXED ASSETS IN ACQUISITION	1,193,573	1,270,294	1,085,197	1,093,157
III. LONG-TERM INVESTMENTS	27,633,222	26,478,235	20,775,866	19,650,155

As the operating results in 2002 were below the planned levels, the Company noted that fixed assets in some of the independent cash-generating units of Luka Koper, d.d. were overvalued. The material difference was determined between the lower value-in-use or the replacement value and the higher carrying value was in accounting records. For this reason, the impairment adjustment had to be recognized for these fixed assets in accordance with Slovene Accounting Standards. The value-in-use was calculated using the future free cash flows method and the estimated net realizable asset value method.

Based on the described methodology and management estimates, the Company performed the following impairments of assets on 31 December 2002, as disclosed in the table below:

CASH GENERATING UNITS	PURCHASE VALUE	IMPAIRMENT	CARRYING VALUE
General cargo	5,755,316,409,77	3,043,011,900,67	2,712,304,509,10
Livestock terminal	812,471,963,13	174,573,101,07	637,898,862,06
Car terminal	1,412,100,067,11	243,105,173,60	1,168,994,893,51
Liquid cargo	3,387,403,113,47	1,901,905,993,18	1,485,497,120,29
Dry bulk cargo	2,409,035,565,19	1,541,988,610,61	867,046,954,58
TOTAL	13,776,327,118,67	6,904,584,779,13	6,871,742,339,54

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 2003 in comparison with 2002.

REVIEW OF TANGIBLE AND INTANGIBLE FIXED ASSETS - PARENT COMPANY 2002

Purchase value (in thousands of SIT)	Land	Buildings	Production equipment and small tools	Current investments	Total tangible fixed assets	Intangible fixed assets
Balance as at 1st January 2002	73,946	52,835,401	30,011,617	2,145,613	85,066,577	2,650,646
Increase-new purchases		56,039	694,025	1,797,651	2,547,715	312,094
Increase-transfer from investments		2,317,752	392,173	0	2,709,925	0
Decrease		-4,277	-491,943	-2,858,067	-3,354,287	0
Impairment		-10,176,068	-3,559,687	0	-13,735,755	-40,572
Balance as at 31 December 2002	73,946	45,028,847	27,046,185	1,085,197	73,234,175	2,922,168
Allowance						
Balance as at 1st January 2002		24,236,227	25,405,746		49,641,973	1,916,759
Depreciation		1,211,637	1,179,410		2,391,047	212,655
Increase		2,224	0		2,224	
Decrease		-4,003	-475,865		-479,868	0
Impairment		-4,042,460	-2,851,616		-6,894,076	-10,509
Balance as at 31 December 2002		21,403,625	23,257,675		44,661,300	
Carrying value						
Balance as at 1st January 2002	73,946	28,599,174	4,605,871	2,145,613	35,424,604	733,887
Balance as at 31 December 2002	73,946	23,625,222	3,788,510	1,085,197	28,572,875	803,263

REVIEW OF TANGIBLE AND INTANGIBLE FIXED ASSETS -
GROUP 2002

Purchase value (in thousands of SIT)	Land	Buildings	Other equipment	Current investments	Total tangible fixed assets	Intangible fixed assets
Balance as at 1st January 2002	73,946	53,477,355	31,551,699	2,186,480	87,289,480	2,760,355
Increase-new purchases		122,064	1,563,243	1,867,878	3,553,185	354,886
Increase-transfer from investments		2,317,752	392,173	0	2,709,925	0
Decrease		-4,277	-658,931	-2,961,201	-3,624,409	-3,900
Impairment		-10,176,068	-3,559,687	0	-13,735,755	-40,572
Balance as at 31 December 2002	73,946	45,736,826	29,288,497	1,093,157	76,192,426	3,070,769
Allowance						
Balance as at 1st January 2002		24,264,503	25,940,098		50,204,601	1,961,360
Depreciation		1,223,550	1,393,786		2,617,336	232,344
Increase		2,224	0		2,224	0
Decrease		-4,003	-588,689		-592,692	0
Impairment		-4,042,460	-2,851,616		-6,894,076	-10,509
Balance as at 31 December 2002		21,443,814	23,893,579		45,337,393	2,183,195
Carrying value						
Balance as at 1st January 2002	73,946	29,212,852	5,611,601	2,186,480	37,084,879	798,995
Balance as at 31 December 2002	73,946	24,293,012	5,394,918	1,093,157	30,855,033	887,574

REVIEW OF THE MOVEMENT OF INTANGIBLE AND TANGIBLE FIXED ASSETS FOR THE GROUP FOR THE YEAR 2003									
(in thousands of SIT)	Land	Buildings	Manufacturing equipment and small tools	Current investments	Total tangible fixed assets	Intangible fixed assets	Intangible fixed assets acquired	Total intangible fixed assets	
Purchase value									
Balance as at 1st 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	
Revaluations due to:									
Impairment									
Strengthening									
Cancellation 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 1st 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	
Revaluations 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 1st 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	

Note: Data on the opening balances of fixed assets differ for 2003 versus 2002 due to the parent company's withdrawal from the associated company Atnet d.o.o., which was a member of the Group in 2002.

REVIEW OF MOVEMENTS OF INTANGIBLE AND TANGIBLE FIXED ASSETS FOR LUKA KOPER, d.d. FOR THE YEAR 2003									
(in thousands of SIT) Purchase value	Land	Buildings	Manufacturing equipment and small tools	Current investments	Total tangible fixed assets	Intangible fixed assets	Intangible fixed assets acquired	Total intangible fixed assets	
Balance as at 1st 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	
Revaluations due to: Impairment Strengthening Cancellation 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 1st 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	
Revaluations 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 1st 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 associated companies increased in the parent company due to the purchase of a 26 percent ownership share in Actual, I.T., d.o.o. on 30 July 2003. The purchase value of the investment amounted to SIT 143 million and is higher than the book value of the associated company's share capital. The investment was not impaired, since the valuation of the associated company exceeded the carrying value of its share capital.

The amount of investments was also affected by impairments in the associated companies in accordance with the equity valuation method. Other investments in stocks and shares increased significantly due to the purchase of Intereuropa shares in the amount of SIT 6 billion, the purchase of Automcommerce shares in the amount of SIT 1.3 billion, and the purchase of Banka Koper shares in the amount of SIT 2.9 billion. In 2003, the parent company sold its Pivovarna Laško shares for the total amount of SIT 990 million. Except for the above mentioned investments, no other material purchases of shares and interests were made in 2003. The majority of other investments in shares and interests represent shares listed on the stock exchange (total value as at 31 December 2003 equals SIT 10.2 billion):

- Gorenje, d.d.
- Infond ID, d.d.
- Infond PID, d.d.
- Krka, d.d.
- NFD 1 ID, d.d.
- Intereuropa, d.d.
- Petrol, d.d.

Shares not listed on the stock exchange represent the remaining portion of the investments in shares and interests item (total value as at 31 December 2003 amounted to SIT 7.8 billion):

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

A portion of the shares not listed on the stock exchange has been pledged as collateral for the loan granted by the Environmental Development Fund of the Republic of Slovenia.

If the market price or the officially published book value of shares on the last day of the financial year is lower than the carrying value in the Company's accounting records, an allowance for such shares is recorded. 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 sale of Banka Koper's 4th bond issue in the amount of SIT 296 million and the purchases of SOS2 bonds, Probanka's 6th bond issue, Poteza Investment's 1st bond issue and Probanka's 7th bond issue in the total amount of SIT 299 million were recorded under long-term loans granted through bond purchases from other items:

- Abanke-ABO4 bond, FB07 bond
- BTC2 bonds, BK4 bond
- FBO6 bond, PBS3 and PBS4 bond

(in thousands of SIT)	Parent Company	Group	Parent Company	Group
	31 Dec 2003	31 Dec 2003	31 Dec 2002	31 Dec 2002
III. LONG-TERM INVESTMENTS	27,633,222	26,478,235	20,775,866	19,650,155
Investments in shares of Group companies	1,168,701	0	1,160,052	0
Allowance made	-9,095	0	-30,131	0
Investments in associated companies	1,388,931	1,388,931	1,325,694	1,325,694
Allowance made	-20,778	-20,778	-103,132	-103,132
Other investments in stocks and shares	18,052,734	18,052,734	7,724,807	7,729,017
Allowance made	-30,709	-30,709	-77,229	-77,229
Other long-term investments	135,818	135,818	136,013	136,013
Investments in precious metals, paintings and precious stones	1,000	1,000	0	0
Granted long-term housing loans	426,752	430,630	466,736	466,736
Allowance made	-23,932	-23,932	-28,547	-28,547
Long-term loans granted to others	341,018	341,758	67,697	67,697
Long-term loans granted through bond purchases from others	1,320,895	1,320,895	1,327,113	1,327,113
Other long-term investments - certificates of deposit	636,282	636,282	576,862	576,862
Long-term deposits held	4,245,606	4,245,606	8,229,931	8,229,931

The table below shows the Company's long-term deposits as at 31 December 2003. The total amount equals SIT 4.2 billion, which is only half of the long-term deposits in the same period in 2002.

All long-term deposits maturing in the upcoming year are disclosed on the balance sheet in accordance with point 2.14 of the Slovene Accounting Standards -Long-term investments.

	(in thousands of SIT)
Deposit with Banka Koper, d.d.	2,450,418
Deposit with Probanka, d.d. Maribor	1,054,591
Deposit with Nova LB, d.d. Ljubljana	740,596

Current Assets

Inventory

Inventory amounted to SIT 6.778 thousand in 2002, and the same amount was also disclosed on the balance sheet date for 2003. No surpluses or shortages of inventory were found in the inventory listing.

Operating receivables

Operating receivables include:

(in thousands of SIT)	Parent Company	Group	Parent Company	Group
	31 Dec 2003	31 Dec 2003	31 Dec 2002	31 Dec 2002
II. OPERATING RECEIVABLES	4,076,912	4,230,557	3,593,539	3,855,358
a. LONG-TERM OPERATING RECEIVABLES	71,189	71,189	1,310	1,310
Long-term domestic commodity credit	69,245	69,245	0	0
Long-term guarantees granted	1,658	1,658	937	937
Other long-term operating receivables	286	286	373	373
b. SHORT-TERM OPERATING RECEIVABLES	4,005,723	4,159,368	3,592,229	3,854,048
Short-term accounts receivable-domestic	450,632	490,471	247,893	392,511
Allowance for doubtful receivables	-43,861	-47,879		-4,273
Short-term accounts receivable-foreign	864,767	880,169	492,902	492,992
Long-term domestic commodity credit	216,911	216,911	0	0
Advances given for operating current assets	199,382	199,582	1,058,869	1,058,927
Short-term receivables from exporters	1,251,981	1,321,744	1,427,968	1,520,297
Allowance for doubtful receivables	-14,450	-14,605	-17,710	-17,865
Short-term receivables from interest	80,281	82,721	39,925	42,054
Allowance for interest	-1,213	-1,703	-1,280	-1,904
Receivables from input VAT	38,122	41,304	36,294	7,186
Other short-term receivables	338,051	353,345	14,836	364,784
Allowances for other receivables	0	0	0	-676
Receivables for tax and excise tax	625,120	637,308	292,531	15

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.

All outstanding receivables are presented in the table below. Those outstanding receivables that have matured for payment according to their maturity dates are disclosed separately.

A receivable in the amount of SIT 156,576 thousand from the company Centroprom Beograd is disclosed among outstanding receivables of the parent company, while at the same time a liability towards the same company in the same amount is disclosed. Both the receivable and the liability have been reported to the Bank of Slovenia. As soon as appropriate legal options are available, the Company intends to sign the set-off statement and close this issue in its records.

Receivables of the Parent Company according to Maturity

(in thousands of SIT)	Total receivables	Total due receivables	Up to 30 days	31-60 days	61-90 days	91-180 days	181-360 days	More than 361 days
31 December 2002	2,194,436	491,498	186,451	43,587	13,418	55,574	26,049	166,417,445
%		100%	38%	9%	3%	11%	5%	34%
31 December 2003	2,629,135	707,840	305,113	64,735	7,627	35,401	39,322	255,639,171
%		100%	43%	9%	1%	5%	6%	36%

Short-term investments

Short-term investments include:

(in thousands of SIT)	Parent Company 31 Dec 2003	Group 31 Dec 2003	Parent Company 31 Dec 2002	Group 31 Dec 2002
III. SHORT-TERM INVESTMENTS	5,029,250	5,028,449	7,868,971	7,847,098
Other shares bought for resale	13,272	13,272	50,802	50,802
Other securities bought for resale	737,474	737,474	1,903,857	1,903,857
Allowance	0	0	-3,399	-3,399
Short-term loans granted	4,528,618	4,527,817	6,121,730	6,099,857
Allowance for doubtful loans	-250,114	-250,114	-204,019	-204,019

Short-term loans granted by the parent company in a total amount of SIT 4.5 billion include SIT 3.2 billion in deposits with banks and SIT 1.3 billion in loans granted to other legal entities. Interest on short-term loans granted is calculated according to the nominal interest rate ranging from 5.9% to 10.5%, and according to TOM (+ 2.1% to + 2.9%).

In 2003, the Company recorded an allowance for doubtful loans in connection with a loan granted to our associated company T.I.C.T.S.p.a. Trieste in the amount of SIT 187 million, and a 75 percent allowance

for doubtful loans to the company Industrijaimport d.o.o. in the amount of SIT 63 million, due to the high probability of non-payment of receivables from the bankruptcy estate and due to the foreseen law suit against joint and several debtors.

Cash at bank

Cash at bank includes:

(in thousands of SIT)	Parent Company	Group	Parent Company	Group
	31 Dec 2003	31 Dec 2003	31 Dec 2002	31 Dec 2002
IV. Cash at bank	90,751	178,506	313,406	367,513
Tolar funds on accounts	1,001	10,739	67,185	88,630
Foreign currency funds on accounts	89,750	167,767	246,221	278,883

Deferred expenses and accrued revenues

(in thousands of SIT)	Parent Company	Group	Parent Company	Group
	31 Dec 2003	31 Dec 2003	31 Dec 2002	31 Dec 2002
C. DEFERRED EXPENSES AND ACCRUED REVENUES	12,571	16,559	11,269	14,140
Insurance premiums	11,543	15,163	7,113	9,260
Short-term deferred other expenses	1,028	1,396	4,156	4,880

Off-balance sheet items

Contingent liabilities are disclosed under the off-balance sheet records. A balance in the amount of SIT 4,217,710,122.94 is disclosed as at 31 December 2003 (the balance as at 31 December 2002 amounted to SIT 4,293,369,729). 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 3,290,079,817.94 (SIT 3,411,826,918 on 31 December 2002),
- securities pledged for the loan received by Luka Koper, d.d. from the Environmental Development fund in the amount of SIT 927,630,305.00, (on 31 Decembers 2002 this amount equalled SIT 927,630,305.00).

(in thousands of SIT)	Parent Company	Group	Parent Company	Group
	31 Dec 2003	31 Dec 2003	31 Dec 2002	31 Dec 2002
D. OFF-BALANCE SHEET ASSETS	4,217,710	5,028,449	4,293,370	5,243,974

Equity

The following table exhibits the equity balance in comparison to the year 2002.

(in thousands of SIT)	Parent Company		Group	
	31 Dec 2003	31 Dec 2003	31 Dec 2002	31 Dec 2002
A. EQUITY	57,610,289	57,723,490	55,636,197	55,748,960
EQUITY MAJORITY OWNER		57,610,893		55,636,197
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	18,584,796	18,589,072	17,645,521	17,650,370
a. LEGAL RESERVES	4,496,872	4,501,149	4,496,872	4,500,510
b. RESERVES FOR OWN SHARES	0	0	0	0
c. STATUTORY RESERVES	0	0	0	0
d. OTHER REVENUES RESERVES	14,087,924	14,087,924	13,148,649	13,149,860
IV. NET PROFIT OR LOSS FROM PRIOR YEAR	1,352,037	1,352,037	0	0
V. NET PROFIT OR LOSS FOR THE CURRENT YEAR	1,942,724	1,942,724	2,346,064	2,346,063
VII. EQUITY REVALUATION RESERVE	21,731,336	21,727,060	21,644,612	21,639,764
a. GENERAL EQUITY REVALUATION RESERVE	21,462,806	21,462,806	21,462,806	21,462,806
b. SPECIAL EQUITY REVALUATION RESERVE	268,530	264,254	181,806	176,958
VIII. EQUITY - MINORITY OWNERS		112,597		112,763
SHARE CAPITAL		13,098		63,181
CAPITAL SURPLUS		188		188
REVENUES RESERVES		31,324		0
NET PROFIT OR LOSS FROM PRIOR YEARS		18,285		11,089
NET PROFIT OR LOSS FOR THE CURRENT YEAR		43,733		19,273
EQUITY REVALUATION RESERVE		5,969		19,032

Net profit for the business year amounted to SIT 4,493,931 thousand. As in 2002, the general revaluation of equity in 2003 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 a calculation on the basis of the general revaluation in order to preserve the equity purchasing power in Euros (2.8%), and determined that the achieved net profit would be reduced by SIT 1.575.199 thousand and would amount to SIT 1,297,621 thousand.

Long-term Provisions

The following table exhibits the balances as at 31 December 2003 and 31 December 2002.

(in thousands of SIT)	Parent Company		Group	
	31 Dec 2003	31 Dec 2003	31 Dec 2002	31 Dec 2002
B. Provisions	275,752	1,165,078	378,109	1,138,874
Provisions for general repairs of fixed assets	74,740	74,740	225,401	225,401
Risk provisions	88,068	88,068	88,068	88,068
Long-term provisions for received donations	112,944	112,944	64,640	65,640
Long-term provisions for transferred funds	0	889,326	0	760,765

The parent company disclosed SIT 74,740 thousand in unused long-term provisions formed before 2001 for general repairs of fixed assets. Among risk provisions, the parent company formed SIT 88,086 thousand in provisions for potential claims for damaged goods (court proceedings not yet completed).

Among long-term provisions, the parent company disclosed fixed assets acquired free of cost in the amount of SIT 112,944 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 transferred funds in the amount of SIT 889,326 thousand were established in the associated company Luka Koper INPO, d.o.o. (disability company) 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 the long-term loan extended by the Environmental Development Fund of the Republic of Slovenia in the amount of SIT 235,596 thousand (interest rate: TOM (base interest rate) +2%), which matures on 31 January 2005, and a long-term loan granted by SKB banka in the amount of SIT 512,621 thousand at an interest rate of LIBOR (3 months) + 0,7% and maturing on 30 June 2009. The Company pledged shares listed on the stock exchange as security for the loan granted by the Environmental Development Fund.

On 31 December 2003, long-term liabilities in the amount of SIT 157,456 thousand were transferred to short-term liabilities.

(in thousands of SIT)	Parent Company		Group	
	31 Dec 2003	31 Dec 2003	31 Dec 2002	31 Dec 2002
LONG-TERM FINANCIAL LIABILITIES	748,328	1,290,763	1,338,518	2,232,453
Long-term loans received from domestic banks	512,731	1,055,166	940,298	1,834,133
Other long-term loans received from others	235,597	235,597	398,220	398,220

Long-term Operating Liabilities

Long-term operating liabilities include long-term collaterals received for rented business premises in the amount of SIT 25.867 million.

Short-term Liabilities

(in thousands of SIT)	Parent Company	Group	Parent Company	Group
	31 Dec 2003	31 Dec 2003	31 Dec 2002	31 Dec 2002
SHORT-TERM OPERATING LIABILITIES	3,240,785	3,463,436	2,202,681	2,335,594
Short-term operating liabilities to domestic suppliers	1,522,761	1,605,39131	1,246,976	1,206,586
Short-term liabilities to foreign suppliers	1,020,926	1,043,536	260,814	332,007
Advances received	17,676	30,684	26,198	27,734
Liabilities from salaries accrued	132,683	144,537	128,920	145,725
Liabilities from net salaries	112,720	137,147	144,162	168,370
Liabilities from net salary compensations	28,452	37,975	25,135	34,934
Liabilities from salary contributions	52,127	53,510	66,036	67,892
Liabilities from taxes on salaries	40,420	46,646	62,097	68,699
Other short-term liabilities to employees	44,901	60,458	37,865	51,689
Liabilities for taxes from other receipts	3,534	3,786	3,088	3,336
Short-term liabilities to state and other institutions	335	1,554	189	17,911
Liabilities for tax on salaries paid	14,263	14,760	26,424	26,709
Corporate income tax	0	26,838	-77,625	-76,600
Other short-term liabilities to state and other institutions	42,932	48,598	76,758	79,928
Short-term liabilities associated with allocation of profit	21,228	21,228	20,402	20,402
Other short-term liabilities	185,827	186,788	155,241	160,272

Short-term Financial Liabilities

The table below presents a breakdown of short-term financial liabilities to domestic companies and to banks.

Nominal interest rates for short-term loans received from companies range from 8.7 to 9.1 percent; while the interest rates on short-term SIT loans received from banks range from 6 to 8 percent or are equal EURIBOR (3 month) + 0.7% for foreign currency loans.

At the end of the year, the parent company received a short-term loan from Banka Koper in the amount of SIT 5.3 billion, which matures at the end of 2004.

(in thousands of SIT)	Parent Company	Group	Parent Company	Group
	31 Dec 2003	31 Dec 2003	31 Dec 2002	31 Dec 2002
SHORT-TERM FINANCIAL LIABILITIES	6,736,201	6,876,152	2,278,717	1,919,236
Short-term loans received from domestic companies	864,926	865,726	607,648	69,964
Short-term loans received from banks	5,871,275	6,010,426	1,671,069	1,849,272

Accrued Expenses and Deferred Revenues

(in thousands of SIT)	Parent Company	Group	Parent Company	Group
	31 Dec 2003	31 Dec 2003	31 Dec 2002	31 Dec 2002
D. ACCRUED EXPENSES AND DEFERRED REVENUES	220,060	220,060	80,499	80,599
Ship stallage	0	0	16,309	16,309
Foreign commercial discounts	45,950	45,950	64,190	64,190
Accrued expenses	174,110	174,110	0	0
Short-term deferred revenues	0	0	0	100





Borut Umer,
Sales Executive

"I am happy that, when the goods are at their destination, both sides are satisfied. That's why my first task is to understand the interests of the customer, whom I accompany in all areas. I realize I am first and foremost his partner. A good deal of tact is, in my opinion, essential in our work."

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

THE PARENT COMPANY'S RELATIONS WITH SUBSIDIARY COMPANIES and RELATIONS BETWEEN SUBSIDIARY COMPANIES	31 Dec 2003 (in thousands of SIT)	31 Dec 2002 (in thousands of SIT)
LONG-TERM INVESTMENTS	1,158,864	1,129,921
RECEIVABLES	77,694	88,727
Short-term account receivables	77,677	88,473
Short-term receivables from interest	17	254
SHORT-TERM INVESTMENTS	861,175	558,059
LIABILITIES	938,869	646,532
Short-term operating liabilities	77,694	88,473
Short-term financial liabilities	861,175	558,313
REVENUES	483,160	615,073
Operating revenues	436,265	558,447
Financing revenues	46,895	56,626
COSTS AND EXPENSES	483,160	615,073
Costs of material	19,502	23,680
Costs of services	397,154	515,624
Labour costs	13,504	14,785
Other costs	6,082	4,358
Financing expenses	46,918	56,626

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 capital of subsidiary companies. The parent company's investments in the Group companies were offset in the amount of SIT 1,158,864 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 77,694 thousand) and short-term operating liabilities (collectively SIT 77,694 thousand) on both sides.
- short-term investments (collectively SIT 861,175 thousand) and short-term financial liabilities (collectively SIT 861,175 thousand) on both sides.

Equity

The summed-up equity of the Group equals, 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 sum of the equity of the majority owner 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 57,722,280 thousand.

Equity is thus composed of the following items:

1. Majority owner SIT 57,610,288 thousand
2. Minority owner SIT 112,597 thousand

Offset of Revenues and Expenses

All revenues and expenses between the subsidiary companies and between the subsidiary companies and the parent company are eliminated in the Consolidated Income Statement.

Offset operating revenues amounted to SIT 436,264 thousand and offset operating expenses amounted to SIT 436,264 thousand.

Offset financial revenues amounted to SIT 46,895 thousand and offset financial expenses amounted to SIT 46,895 thousand.

Report on Relations with Associated Companies

Numerous legal transactions were carried out in 2003 with associated companies in the Luka Koper Group in which the parent company performed the role of buyer, supplier, lessor, lender, etc. Various contracts, order forms, offers, ect. represent legal grounds for these transactions. 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

The Maritime Code stipulates that port infrastructure comprises built-up shorelines, aquatoriums, breakwaters, pier accesses, mooring devices, access routes, railway tracks, entrances, fences, sewage and water systems, electrical installations, lighting and other facilities whose purpose is to ensure safe navigation and safe mooring as well as the undisturbed performance of port activities and telecommunication installations.

The port infrastructure is owned by the Republic of Slovenia, the local community and private persons. The Republic of Slovenia, acting through the local community, awards concessions for the management and development of port infrastructure to the port administrator. Access routes, railway tracks, entrances, fences, sewage and water systems, electrical installations, lighting and telecommunication installations in the cargo port of Koper represent an investment of the Republic of Slovenia in the share capital of Luka Koper, d.d..

It is Luka Koper's obligation to maintain the basic function of these facilities as part of the port infrastructure. The port infrastructure is used for the purposes for which it serves and cannot be part of the bankruptcy estate.

The commercial public service for marine activities in the cargo port of Koper port performs the following services:

- regular maintenance of port infrastructure intended for public transport;
- regular collection of waste from ships;
- regular maintenance of facilities ensuring safe navigation and the safety of sea-ways.

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

- by the granting of concessions to private persons;
- in a public company;
- in a general facility.

At the end of 2002, the Slovene Government passed the Decree on the Awarding of Concessions for the Management, Development and Regular Maintenance of Port Infrastructure in the Port of Koper. The Decree specifies that, in terms of purpose and ownership, port infrastructure will be defined in more detail in the concession agreement. Before signing the concession agreement, the grantor and the concessionary will sign an agreement regulating their mutual relations for the period following the ownership transformation of the socially-owned company Luka Koper, p.o., and a special agreement regulating land usage rights, construction rights, and other issues related to the property in the cargo port of Koper which is owned by the Republic of Slovenia.

The Decree therefore requires that, before concluding a concession agreement, the parties enter into two other agreements regulating, on the one side, the question of ownership or lease of state-owned land and, on the other side, the question of shorelines constructed

by Luka Koper, d.d. after 1st January 1993 and which are in its ownership.

Based on agreements with the Ministry of Transport and the Ministry of Finance of the Republic of Slovenia, Luka Koper, d.d. prepared in 2003, in cooperation with external advisors, drafts of all three cited agreements together with relevant annexes.

Following the preparation and presentation of expert materials, no agreement has as yet been reached with the Republic of Slovenia. The Company's contractual relationship with the Republic of Slovenia thus remains regulated by a lease agreement for operational facilities and land owned by the Republic of Slovenia in the Port of Koper, which was concluded in 2000.

In expectation of reaching a permanent settlement of relations with the State, Luka Koper d.d. has established a port infrastructure service, thus adapting its internal organisation to the foreseen changes.

In compliance with the agreement in force, the Company paid rent in the amount of SIT 151,016,320 in 2002 and SIT 184,932,700 in 2003 (SIT 20 per ton of handled goods, excluding petroleum).

In accordance with the provisions of the lease agreement for operational port facilities and land owned by the Republic of Slovenia in the Port of Koper, the Company is entitled to invest in the leased property. In 2003, the Company invested SIT 146,065 thousand for the maintenance of operational shores and land owned by the Republic of Slovenia. An additional SIT 983,407 thousand was allocated for the maintenance and management of port infrastructure in accordance with the Maritime Code and the Decree on the Awarding of Concessions for the Management, Development and Regular Maintenance of Port Infrastructure in the Cargo Port of Koper. In 2003, the Company realised revenues from collected ship charges in the amount of SIT 1,035,565 thousand.

In 2003, the Company began the construction of the coal & iron ore pier, which is not yet completed. The total investment value is SIT 1.2 billion, while the value of works invested in 2003 amounts to SIT 557,697 thousand. An additional SIT 687,642 thousand was invested in the construction of port infrastructure at Pier II, the enlargement of rail capacities, and in other investments in port infrastructure.

Distributable Profit of the Parent Company

In 2003, the parent company Luka Koper, d.d. realized a net profit of SIT 3,885,448,022.98. A portion of the net profit in the amount of SIT 1,942,724,011.49 was allocated by the Management Board to the increase of other revenue reserves. The remaining portion of the

net profit for 2003 was allocated to distributable profit. The distributable profit has been further increased by the profit brought forward from 2002 in the amount of SIT 1,352,036,731.74. In addition, a portion of other revenue reserves from previous years (1997,1998 and 1999) in the amount of SIT 2,201,096,151.14 was also allocated to distributable profit. The total distributable profit for the year 2003 thus amounts to SIT 5,495,856,894.37.

(in thousands of SIT)	2002	2003
TOTAL DISTRIBUTABLE PROFIT	4,361,064,170.23	5,495,856,894.37
OTHER REVENUE RESERVES	2,015,000,000.00	2,201,096,151.14
NET PROFIT FOR THE CURRENT YEAR	2,346,064,170.23	1,942,724,011.49
NET PROFIT BROUGHT FORWARD FROM 2002		1,352,036,731.74

The General Meeting of Shareholders shall decide on the distribution of profit for the year 2003 in the amount of SIT 5,495,856,894.37 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 the previous years;
- a portion of the distributable profit in the amount of SIT 1.8 billion shall be allocated to other revenue reserves, namely, the net profit brought forward from 2002 in the amount of SIT 1,352,036,731.74 and the net profit from 2003 in the amount of SIT 447,963,268.26;
- the allocation of the remaining portion of distributable profit in the amount of SIT 1,494,760,743.23 shall be decided in upcoming business years.

The General Meeting of Shareholders held on 30 June 2003 adopted a decision concerning the proposal of the Management and Supervisory Boards for the allocation of distributable profit in the amount of SIT 4,361,064,170.23 for 2002.

Based on the resolutions of the General Meeting,

- a portion of the distributable profit in the amount of SIT 1,997,477,438.49 (formed from other reserves from the years 1996 and 1997) was allocated to the shareholders, of which:
 - SIT 173,767,750.44 for fixed dividends pertaining to preference shares;
 - SIT 1,606,500,000.00 for dividends pertaining to ordinary shares;
 - SIT 217,209,688.05 for the floating part of dividends pertaining to preference shares.
- the gross dividend per common share amounted to SIT 225.00. Dividends were paid out to shareholders on 15 September 2003.
- a portion of the distributable profit in the amount of SIT

1,011,550,000.00 was allocated to other revenue reserves according to the resolution adopted by the General Meeting of Shareholders.

- The General Meeting adopted a resolution specifying that the allocation of the remaining portion of distributable profit in the amount of SIT 1,352,036,731.74 would be decided in upcoming business years.

Post-balance Sheet Events

Changes in the ownership structure of T.I.C.T., S.p.a..

On 22 January the General Meeting of T.I.C.T., S.p.a. approved an interim balance sheet for 2003 and adopted a resolution on the covering of losses from existing capital and reserves, while the difference of remaining uncovered loss would be covered by Luka Koper, d.d..

The General Meeting also adopted a resolution on the formation of new capital. 700,000 shares in a nominal value of 1 EUR each were issued. The entire issue was subscribed and immediately paid-up by Luka Koper, d.d., while the other two shareholders, Midolini Flli Spa from Udine and Adria Distripark S.r.l. from Trieste, denounced their priority rights to the subscription and payment of new shares and thus to the formation of share capital. At the same meeting, the General Meeting adopted a resolution concerning the issue of an additional 300,000 shares and allowed the company T.O.Delta Spa from Livorno to subscribe and pay for these shares after receiving the approval of the Trieste Port Authority (APT).

The Trieste Port Commission met on 31 January and adopted a resolution allowing T.O.Delta Spa to become a 30 percent owner of T.I.C.T..

Modifications of Audited Financial Statements for 2003

After receiving the Decision of the Ministry of Finance, Tax Administration of the Republic of Slovenia, Koper Tax Office dated 1st March 2004 for the claiming of tax reliefs for the year 2003 in accordance with the Economic Zones Act, we have revised the financial statements of the subsidiary Adria-Tow d.o.o. due to the changed amount of corporate income tax.

On the basis of the Temporary Decision issued by the above-mentioned authority, we duly considered, in calculating the subsidiary's corporate income tax, the tax reliefs specified in the Economic Zones Act. The Principal Decision has annulled the temporary decision dated 2nd June 2003 and thus the right to claim tax reliefs.

The initially calculated corporate income tax, which amounted to 23,972,771.06 SIT, has been increased to 25,181,609.38 SIT. For this reason the corporate income tax of Adria-Tow, d.o.o. has been corrected accordingly. This has brought changes in the said company's income statement, funds flow statement, balance sheet and statement of changes in equity, and consequently in all financial statements of the Luka Group.

All corresponding indicators in the above-mentioned company have also been recalculated.

Transition to International Standards of Financial Reporting

The European Union 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 compile their financial statements in accordance with the International Standards of Financial Reporting as of 2005. Parallel to this requirement, numerous other requirements and guidelines are being prepared in the field of financial 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 responsible, together with its subsidiaries, for the preparation of 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, which were applicable at the time of their preparation or adoption, the Company does not anticipate any major difficulties in the transition to IFRS. The appropriate and timely amendment of the Commercial Companies Act and other legislature is of key importance for facilitating the transition and for accounting in general.

The Company began educating its employees in connection with IFRS in order to ensure the timely implementation of required changes and adjustments; this training will be continued throughout 2004.

The Company regularly reviews 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 a project scheme, enabling us to duly adapt our policy, procedures and methods in the Accounting Manual and other internal instructions and implement the necessary adjustments in our IT support in the SAP environment in accordance with IFRS requirements.

The Company is also preparing for the new requirements relating 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.

Chief Executive Officer

Bruno Korelič

Assistant to Chief Executive Officer
for economics and finance

Marjan Babič

Head of Accounting Department

Neda Ritoša

Certified Auditor's Report

Deloitte

INDEPENDENT AUDITORS' REPORT to the shareholders of

LUKA KOPER, d.d. and LUKA KOPER's group of companies

We have audited the balance sheet of Luka Koper d.d. and consolidated balance sheet of Luka Koper's group of companies, as of 31 December 2003, the related income statement and consolidated income statement, statement of changes in equity and consolidated statement of changes in equity, statement of changes in financial position and consolidated statement of changes in financial position, for the year ended 31 December 2003. 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. and the consolidated financial statements of Luka Koper's group of companies, present fairly, in all material respects, the financial position of Luka Koper d.d. and Luka Koper's group of companies as of 31 December 2003, 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.



Alenka Podbevšek
Certified Auditor

Deloitte & Touche revizija d.o.o.

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

February 20th, 2004
Ljubljana, Slovenia

Unofficial translation of Slovene audit report

Audit. Tax. Consulting. Financial Advisory.

Družba je članica
Deloitte Touche Tohmatsu

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Main Story

State-of-the art technology is merely a pile of iron if there are no people behind and with it. From the outside, a port looks like a huge conglomerate of buildings, metal derricks and smokestacks. But for those who step into our world, everything is different. In these buildings are the people who operate derricks, supervise wheat grains or metal containers, and who disappear into the hull ...

These people are Luka Koper. Day in and day out we make sure this meeting place of various cargoes and languages from all over the world is operating smoothly. We also support dialogue with the local community, the state and the broader social environment. Only people are capable of sensing opportunities and taking advantage of them. We are becoming part of the family of European ports.

Business excellence, to which we at Luka Koper are committed, is also and only made by people.

That is why this year's Annual Report features photographs of our employees. We have selected the members of the quality team from PC General Cargoes, which for the third consecutive year has won the title of best team at Luka Koper.

Teams are the framework on which the daily implementation of principles of business excellence leans. Through them, information continues to flow, goals are set and verified, employee satisfaction is assessed, opinions and proposals are exchanged. Through them runs the dialogue between all employees of Luka Koper.



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The Annual Report of Luka
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at the website www.luka-kp.si.